

REPUBLIC OF KENYA



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REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
AGRICULTURAL FINANCE
CORPORATION**

**FOR THE YEAR ENDED
30 JUNE 2016**



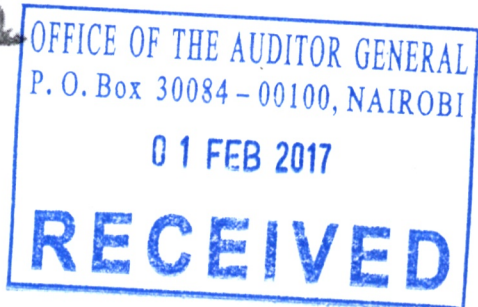
AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

AGRICULTURAL FINANCE CORPORATION

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30th JUNE, 2016**



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

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

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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.

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 representative, 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 three (53) 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.

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BACKGROUND 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.

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BACKGROUND INFORMATION (Continued)

BOARD OF DIRECTORS

APPOINTMENT DATE

The Directors who held office during the period were as follows:-

| | | |
|------------------------|-------------------------|-------------|
| Franklin Bett | Chairman | 09-Mar-2016 |
| Susan Wanjiru Karanja | National Treasury | 02-Oct-2015 |
| Peter Odundo | Ministry of Agriculture | 02-Oct-2015 |
| Lucas Meso, MBS | Managing Director | 12-Mar-2014 |
| David Kiptanui Koros | Member | 02-Oct-2015 |
| Basra Ali | 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

REGISTERED OFFICE

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

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BACKGROUND INFORMATION (Continued)

CORPORATE HEADQUARTERS

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

CORPORATE CONTACTS

Telephone: +254-020-3317199
E-mail: info@agrifinance.org
Website: www.agrifinance.org

MAIN 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.

INDEPENDENT AUDITORS

The Corporation's auditors in accordance with the Public Audit Act, 2003 were:-

Auditor General,
Kenya National Audit Office,
P.O Box 30084 - 00100 GPO
Nairobi.
Kenya.

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BACKGROUND INFORMATION (Continued)

PRINCIPAL LEGAL ADVISERS

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

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THE BOARD OF DIRECTORS



**MR. FRANKLIN
KIPNGETICH BETT
CHAIRMAN – BOARD OF
DIRECTORS**

Nairobi.

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 under-secretary. He has 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) from The University of



**MR. HENRY K. ROTICH
CABINET SECRETARY,
NATIONAL TREASURY**

Nairobi.

Mr. Henry K. Rotich is the Cabinet Secretary for 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,

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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.



**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.

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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 in Agriculture (Hons).



MR. DAVID KIPTANUI
KOROS
BOARD MEMBER

Mr. 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.

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THE BOARD OF DIRECTORS (Continued)



MR. CHERUIYOT ROTICH
BOARD MEMBER

Mr. 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. NAIMS BADHAWI
BOARD MEMBER

Mrs. Badhawi is a banker specializing in Accounting and Finance and 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 is a partner in the Icon Business Consultants. She heads the Naima Badhawi Foundation and the founder member of Juhudi Lulu Sacco. 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.

AGRICULTURAL FINANCE CORPORATION

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THE BOARD OF DIRECTORS (Continued)



**MR. FREDRICK ONYANGO
ODHIAMBO
BOARD MEMBER**

Mr. 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. BASRA ALI BOARD
MEMBER**

Ms. Ali is a technical development advisor/Researcher with 12 years vast experience in Project co-ordination and field research in arid and semi-arid parts of Kenya. She has commitment to communities and grassroots development and has a keen eye for sustainable development. She has worked with reputable organizations as Cordaid/SNV, World Bank, UNDP, AfDB and NEPA. Additionally, she had been appointed to different Ministries by the Kenyan Government including Ministry of Environment, in National Climate Change working group-2009, Ministry of Agriculture in Agriculture Sector Co-ordination unit-

(ASCU), supported by GIZ and Ministry of Northern Kenya at the ASAL secretariat. Ms. Ali holds Bachelor's degree in Education from Moi University, and is currently undertaking a

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THE BOARD OF DIRECTORS (Continued)

Master Degree in Development Studies from the University Nairobi, Project Planning and Management in Leipzig, Germany, and Women and Grassroots Mobilization certificate.

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MANAGEMENT TEAM



**MR. LUCAS MESO, MBS
MANAGING DIRECTOR**

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**

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.

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

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MANAGEMENT TEAM (Continued)

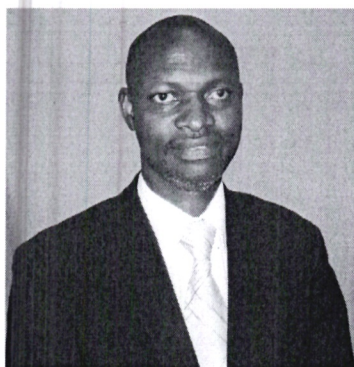
Strategic Management and LLB (Hons) Degrees from the University of Nairobi.



MRS LEAH GACHERU
GENERAL MANAGER -
OPERATIONS

Mrs. Gacheru is the General Manager – Operations. She joined the Corporation in 1982 as a Loan Officer and has risen through the ranks of Branch Manager, Regional Manager and Relationship Manager - Micro Credit.

She holds a Bachelor of Arts Degree in Economics from the University of Nairobi and a Diploma in advanced course in the Economics of Banking from Finafrica Milan (Italy).



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 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

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MANAGEMENT TEAM (Continued)

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.



MR. K. W. C. TALLAM
GENERAL MANAGER
HUMAN RESOURCES

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 Diploma in Business Administration.

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MANAGEMENT TEAM (Continued)



MR. DANIEL O. OLILO
HEAD OF ICT

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

Mr. Daniel 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



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.

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.

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MANAGEMENT TEAM (Continued)



MS. ANASTASIA WACHIRA
HEAD OF LOAN RECOVERIES

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.

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.



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.

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STATEMENT ON CORPORATE GOVERNANCE

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.

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STATEMENT ON CORPORATE GOVERNANCE (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.

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STATEMENT ON CORPORATE GOVERNANCE (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 Corporation's standards, policies and procedures as set by the Board are being complied with.

Conflict of Interest

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

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STATEMENT ON CORPORATE GOVERNANCE (Continued)

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 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.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

CHAIRMAN'S STATEMENT

It gives me great pleasure to present the Corporation's Annual Report and Financial Statements for the year ended 30 June 2016.

ECONOMY AND BUSINESS ENVIRONMENT

During the year under review, the Kenyan economy grew modestly by 5.9% compared to 5.6% in 2015. The growth was mainly supported by a stable microeconomic environment and improvement in the key sectors of agriculture, construction, finance and insurance as well as real estate. Agriculture, Forestry and Fishing sectors continued to be major contributors to the GDP, growing by 4.8%.

The Kenya shilling appreciated against major global currencies and by close of June 2016, it had strengthened by 0.3% against the US Dollar, 2.8% against the Euro and 7.6% against the Pound Sterling. Headline inflation decreased from 7.03% in June 2015 to 5.8 % in June 2016 mainly on account of lower food and fuel prices. However inflation is likely to come under pressure from the implementation of the fuel levy and the expected impact of recovery on global oil prices.

FINANCIAL PERFORMANCE

The Corporation recorded a profit before tax of KES 249.6 million for the year ended 30 June 2016, representing an increase of 21% from the KES 206.3 million registered the previous year. Total operating income increased by 15% from KES.1.090 billion to KES.1.253 billion in the current year. The operating expenses increased from KES.883 million to KES.1.004 billion mainly due to recruitment of senior managers and implementation of the Collective Bargaining Agreement.

The Corporation's total assets stood at KES. 9.6 billion, with the biggest proportion being the net loan portfolio amounting to KES. 6.8 billion.

EMPLOYEES AND VALUES

As at 30 June 2016 the Corporation had a staff compliment of 499 persons. During the year the senior management team was strengthened by recruitment of Head of

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
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CHAIRMAN'S STATEMENT (Continued)

Procurement, Head of Loan Recoveries and Corporate Communications Manager. The Corporation continued to develop capacity of the employees through internal, local and overseas training to enable them perform their duties efficiently and effectively. All employees are on performance contracts which has improved their productivity tremendously.

CORPORATE GOVERNANCE

A new Board was appointed in October 2015 for a term of three years. Good corporate governance is essential for sustainable business performance and the Corporation is committed to adhering to the highest standards of corporate governance. The Board held their meetings as scheduled in their calendar, and conducted their business in accordance with best practice, high ethical standards, as well as in compliance with the laws and guidelines that are issued by government bodies that regulate its business operation. The Board has also fully embraced *Mwongozo* - the Code of Governance for State Corporations.

The Corporation's governance structures and processes are set out in greater detail in the corporate governance section of this report.

APPRECIATION

The Board's appreciation goes out to the Government of Kenya, all customers, partners and stakeholders who were instrumental in enabling the Corporation fulfill its mandate.

I urge the management and staff of AFC to continue working with diligence and commitment to ensure that our valued customers and stakeholders receive the best possible service from the Corporation.

AGRICULTURAL FINANCE CORPORATION

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CHAIRMAN'S STATEMENT (Continued)

In conclusion, I wish to thank my colleagues on the Board who have consistently given themselves fully to the tasks assigned to them both at the committees and board level. Their invaluable support played a key role in the good performance of the Corporation.



Franklin Bett
CHAIRMAN

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
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MANAGING DIRECTOR'S STATEMENT

The Corporation registered commendable financial results for the year ended 30th June 2016. During the year under review, the Corporation posted a pre-tax profit of KES. 249.6 million compared to KES.206.3 million reported in the previous year, representing a growth of 21%. The net interest income increased by 10.9% from KES. 672.7 million in 2015, to KES. 746.6 million in 2016. This was mainly attributed to the growth in the loan portfolio during the report year.

Non-interest income rose substantially from KES.341.5 million in the previous year to KES.503.8 million, representing a growth of 47.5%. This was occasioned by the write back of provisions for staff rationalization costs and gains realized from disposal of assets. Collections from non-performing loans declined from KES.100.4 million in the previous year to KES.60.8 million, a decrease of 39.4%.

The operating expenses increased by 13.5% from KES.883.4 million to KES.1,003.5 million in the report year. The Corporation's asset base decreased slightly to KES 9.6 billion compared to the previous year. The net loans and advances increased from KES.6.6 billion in 2015 to KES.6.8 billion in the current year representing an increase of 3%.

In the short to medium term, we will continue to develop new strategies, demand-driven products and services that will satisfy our clientele's expectations and financial needs. In this regard, we have invested in a new robust core banking system to improve our efficiency on service delivery. The new platform will also provide opportunity for innovation of new product offering that is responsive to our customers' needs.

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.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

MANAGING DIRECTOR'S STATEMENT (Continued)

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 Sustainable Development Goals (SDGs) alongside the Vision 2030.

In conclusion, I would like to appreciate the effort and commitment of all the staff that enabled AFC achieve this good performance in year 2016. 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.

God bless you.



LUCAS MESO, MBS

MANAGING DIRECTOR

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2016 (KES'000)

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility strategies and programs in the Corporation continued with a lot of initiatives as well as a lot of progress from year to year as guided by one of the core values. It relates to our social performance and economic impact in society that help the Corporation improve lives.

During the 2015/2016 FY, the Corporation continued to give back to the community with a better understanding of identifying areas that made significant progress.

Corporate Social Responsibility strategy focuses on people, society and prioritizes issues most important to the corporation's business and areas where we can make the greatest impact.

The Corporation took part in ten CSR activities as prescribed below during the year.

| S.NO | EVENT | AMOUNT |
|-------------|---|---------------|
| 1. | Chemusus Dam half marathon | 100,000.00 |
| 2. | Visit by Pope Francis to Kenya | 100,000.00 |
| 3. | Africa Hope Mission | 100,000.00 |
| 4. | A.I.C Kappchesewes Children's home | 80,000.00 |
| 5. | Msambweni Leprosy Rescue Center (Coast) | 80,000.00 |
| 6. | A.I.C Litein Children's Home (Central Rift) | 80,000.00 |
| 7. | Kako Special Unit for mentally challenged children (Makueni County) | 80,000.00 |
| 8. | Gideons Children's Home (Nyanza/Western) | 80,000.00 |
| 9. | Huruma Children's Home (Mt. Kenya) | 80,000.00 |

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
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CORPORATE SOCIAL RESPONSIBILITY (Continued)

| | | |
|-----|--------------------------|-------------------|
| 10. | Freedom From Hunger Walk | 72,860.00 |
| | Total | 952,860.00 |

Out of the total amount of Kshs 1.5 million allocated to Corporate Social Responsibility, the Corporation spent Kshs. 952,860.00 thus making a saving of Kshs. 547,140.00.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

REPORT OF THE DIRECTORS

The Directors submitted their report together with the audited financial statements for the year ended June 30, 2016 which show the state of the entity's affairs.

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, 2016 are set out from page 32 to page 51.

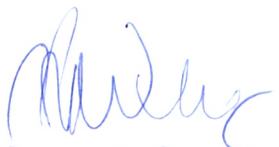
Directors

The members of the Board of Directors who served during the year are shown on page 6. 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 ... 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



Corporate Secretary

Nairobi

Date: 18th August 2016



David Kiptanui Koros

Chair – Finance Committee

Board Member

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

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/period and the operating results of the Corporation for that year/period. 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 are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial period ended on June 30th, 2016. This responsibility includes:

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

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

STATEMENT OF DIRECTOR'S RESPONSIBILITIES (Continued)

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act and the State Corporations Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30th, 2016, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Corporation's financial statements were approved by the Board on August 18, 2016 and signed on its behalf by:



FRANKLIN BETT
CHAIRMAN



LUCAS MESO, MBS
MANAGING DIRECTOR

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

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 shareholder, 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

FINANCIAL RISK MANAGEMENT (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.

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 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

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

FINANCIAL RISK MANAGEMENT (Continued)

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.

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Agricultural Finance Corporation set out on pages 34 to 68, which comprise the statement of financial position as at 30 June 2016, and the statement of comprehensive income, statement of changes in equity and 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 35 of the Public Audit Act, 2015.

Management's Responsibility for 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 presentation of financial statements that are free from material misstatement, whether due to fraud or error.

The 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.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report 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. The audit was conducted in accordance with International Standards of Supreme Audit Institutions. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

Report of the Auditor-General on the Financial Statements of Agricultural Finance Corporation for the year ended 30 June 2016

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.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, I am not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

1. Property and Equipment

(i) Land and Buildings

As previously reported in 2014/2015, the property and equipment balance of Kshs.1,139,856,000 as at 30 June 2016 includes twenty nine (29) developed plots measuring 5.3324 hectares valued at Kshs.191,627,798 and seven (7) undeveloped plots measuring 1.5383 hectares valued at Kshs.914,255, with no ownership documents. In addition, the value of land and buildings with a net book value of Kshs.972,245,000 as disclosed in Note 8 (a) to the financial statements excludes various non-valued parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute. In the circumstances, it has not been possible to confirm whether the property and equipment balance of Kshs.1,139,856,000 reflected in the statement of financial position as at 30 June 2016 is fairly stated.

(ii) Additions to Property and Equipment

Note 8 (a) to the financial statements reflects an addition to furniture and equipment of Kshs.11,967,000 during the year. However, included in the additions figure is an expenditure of Kshs.3,447,335 that was incurred on renovations of buildings in Eldama Ravine and Kerugoya branches. Although the management has explained that the renovations were of a capital nature which increased the economic value of the respective branch buildings, the rationale for debiting the amount to furniture and equipment instead of land and buildings has not been clarified. Further, the Corporation does not have a capitalization policy.

(iii) Work-In-Progress

Note 8 (a) to the financial statements also reflects additions of Kshs.67,320,000 to work-in-progress out of which an amount of Kshs.6,223,000 has not been supported with any documentary evidence. In addition, included under work-in-progress is an amount of Kshs.6,565,000 which is indicated as transfers. However, the amount has also not been supported with any documentary evidence. Consequently, the validity of

additions to work-in-progress transactions totalling Kshs.12,788,000 indicated cannot be confirmed.

2. Loss of Cash

As previously reported in 2014/2015 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 provision for the loss and disclosures that would have been necessary in relation to this uncertainty have not been incorporated in these financial statements.

3. Net Loans to Customers

- (i) Note (j), to the financial statements on provisions for doubtful debts indicates that loans have been classified into five categories as follows: normal, watch, sub-standard, doubtful and loss, which was adopted from the Central Bank of Kenya prudential guidelines with modifications to reflect the risks and uncertainties specific to the agricultural sector. However, a review of the Corporation's records did not reveal actual classification of the loans as indicated in the Note.
- (ii) As reported in the previous years and as disclosed in Note 12 to the financial statements, loans to customers balance of Kshs.4,294,811,000 as at 30 June 2016 includes an amount of Kshs.22,661,100 advanced to thirteen (13) farmers in Kapsabet. Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds which appeared fraudulent. In the circumstances, the recoverability of the Kshs.22,661,000 is doubtful.
- (iii) Similarly and as previously reported, included in the loans to customers balance are loans to staff totalling Kshs.286,496,000 relating to personal advances, house and car loans. Although the Corporation has made a provision of Kshs.20,387,000 similar to 2014/2015, the provision is inadequate as available information reflects non-performing accounts that have not been provided for. In addition, management has not provided an analysis of the loan balance showing the portions that relates to staff and directors separately.
- (iv) Included under Note 9(b) to the financial statements in relation to accumulated specific provisions are adjustments and write back figures of Kshs.122,984,000 and Kshs.60,845,000. These amounts are however, not supported with documentary evidence.

4. Trade and Other Receivables

The statement of financial position's trade and other receivables balance of Kshs.61,611,000 is net of a provision of Kshs.22,527,000 for bad debts. A review of available records revealed that the provision for bad debts remained constant at Kshs.22,527,000 like in the year 2014/2015. However, trade and other receivables changed significantly during the year from the gross amount of Kshs.129,797,000 as at 1 July 2015 to Kshs.84,138,000 as at 30 June 2016. No explanation has been provided for this anomaly.

5. Payables

The statement of financial position reflects a balance of Kshs.389,221,000 under payables. The payables relates to amounts owing to customers in form of credit balances, unprocessed loan receipts and loan deposits as at 30 June 2016. A review of records revealed that an amount of Kshs.32,219,000 relating to unprocessed loan receipts although received through the bank had not been credited to the respective customers' as at that date because the customers were yet to be identified. In addition, customers' loans deposits amounting to Kshs.107,040,000, which were indicated to belong to various savings groups and dormant accounts cannot be verified due to lack of documentation.

Under the circumstance, the validity, completeness and accuracy of the payables balance of Kshs.389,221,000 cannot be confirmed.

6. Trade and Other Payables

The statement of financial position reflects a balance of Kshs.185,918,000 under trade and other payables. As disclosed in note 21 (6) to the financial statements, included in trade and other payables is an amount of Kshs.113,340,000 described as other payables. A review of records available revealed that the other payables balance was arrived at after netting-off other creditors in debit balances amounting to Kshs.5,359,902,176. No supporting documentation has been provided for the debit balances in creditors or explanation given for the net-off. Consequently, the validity of the figure of Kshs.185,918,000 on trade and other payables cannot be confirmed.

7. Current Tax Payable

The statement of financial position also reflects current tax payable of Kshs.109,014,000, which is an increase of Kshs.38,532,000 over the previous year's balance of Kshs.70,482,000. However, no tax computations have been provided to show how the corporation tax for the year of Kshs.38,532,000 was arrived at. Consequently, the accuracy of the corporate tax payable of Kshs.109,014,000 cannot be confirmed.

8. Income from Operating Activities

The statement of comprehensive income reflects other operating income amounting to Kshs.277,852,000 during the year, an increase of Kshs.163,353,000 or 143% from the previous year income of Kshs.114,499,000. The increase has been attributed to profit on disposal of assets of Kshs.62,374,000 and sundries income of Kshs.142,770,000. Out of the sundries income, an amount of Kshs.133,878,000 is shown as miscellaneous income. The nature and description of the miscellaneous income has however not been explained. As a result the validity, completeness and accuracy of the operating income of Kshs.277,852,000 cannot be ascertained.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.



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

Nairobi

28 March 2017

AGRICULTURAL FINANCE CORPORATION
 Reports and Financial Statements
 for the year ended 30th June, 2016 (KES'000)

STATEMENT OF COMPREHENSIVE INCOME

| | | 2016 | 2015 |
|---------------------------------|--------------|--------------------|------------------|
| REVENUES: | NOTES | KES'000 | KES'000 |
| Interest Income: | | | |
| Interest on Loans | 2 (a) | 682,010 | 602,672 |
| Interest on Short Term Deposits | 2 (b) | 108,374 | 113,438 |
| Total interest income | | 790,384 | 716,110 |
| Less: Interest expenses | | | |
| Interest on Redeemable Loans | 3 | 39,486 | 40,251 |
| Rebate Interest | 4 | 4,339 | 3,154 |
| | | 43,825 | 43,405 |
| Net interest income | | 746,559 | 672,705 |
| Other Operating Income | 5 (a) | 277,852 | 114,499 |
| Fee Income | 5 (b) | 225,952 | 226,991 |
| Income from doubtful debts | 6 | 60,845 | 100,392 |
| TOTAL REVENUES | | 1,311,208 | 1,114,587 |
| OPERATING EXPENSES | | | |
| Staff Cost | 7 (a) | (698,098) | (587,097) |
| Board Expenses | 7 (b) | (12,053) | (15,920) |
| Administration Costs | 7 (c) | (221,077) | (212,296) |
| Depreciation & Amortization | 8 (a & b) | (72,283) | (68,133) |
| Charge for Doubtful Debts | 9 (a) | (58,083) | (24,836) |
| TOTAL EXPENSES | | (1,061,594) | (908,282) |
| PROFIT BEFORE TAX | | 249,614 | 206,305 |
| Tax for the Year | 21(c) | (67,933) | (39,156) |
| PROFIT AFTER TAX | | 181,681 | 167,149 |

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2016 (KES'000)

STATEMENT OF FINANCIAL POSITION

| ASSETS: | NOTES | 2016 | 2015 |
|-----------------------------------|---------------|------------------|------------------|
| | | KES.'000 | KES.'000 |
| Non-Current Assets | | | |
| Property and Equipment | 8 (a) | 1,139,856 | 1,135,700 |
| Intangible Assets | 8 (b) | 9,969 | 10,191 |
| Deferred Tax Asset | 10 | 632,446 | 700,379 |
| Repossessed Farm Properties | 11 | 137,995 | 169,053 |
| Net Loans to Customers | 12 (a) | 4,294,811 | 4,313,848 |
| | | 6,215,077 | 6,329,171 |
| Current Assets | | | |
| Cash and Bank Balances | 13 (a) | 109,218 | 134,878 |
| Short Term Deposits | 14 | 712,498 | 910,743 |
| Net Short Term Loans to Customers | 12 (c) | 2,538,219 | 2,269,144 |
| Trade and Other Receivables | 15 | 61,611 | 107,269 |
| Inventories | 16 | 1,063 | 1,542 |
| | | 3,422,609 | 3,423,576 |
| Total Assets | | 9,637,686 | 9,752,747 |

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

STATEMENT OF FINANCIAL POSITION (Continued)

EQUITY AND LIABILITIES

Equity and Reserves

| | | | |
|---------------------------|------------|------------------|------------------|
| Grants | 17 | 2,856,476 | 2,856,476 |
| Government Equity Capital | 18 | 2,687,766 | 2,687,766 |
| | 19 | | |
| General Reserve | (a) | 783,671 | 601,934 |
| | 19 | | |
| Revaluation Reserve | (b) | 787,618 | 787,618 |
| | | <u>7,115,531</u> | <u>6,933,794</u> |

Non-Current Liabilities

| | | | |
|--------------------------------------|-----------|------------------|------------------|
| Redeemable Loans & Interest Payables | 20 | <u>1,876,528</u> | <u>1,937,400</u> |
|--------------------------------------|-----------|------------------|------------------|

Current Liabilities

| | | | |
|--------------------------|------------|----------------|----------------|
| | 21 | | |
| Payables | (a) | 389,221 | 567,419 |
| | 21 | | |
| Trade and Other Payables | (b) | 185,918 | 243,643 |
| | 21 | | |
| Current Tax Payable | (c) | 70,482 | 70,482 |
| | 13 | | |
| Current Accounts | (b) | 6 | 9 |
| | | <u>645,627</u> | <u>881,553</u> |

| | | | |
|--------------------------------------|--|-------------------------|-------------------------|
| Total Capital and Liabilities | | <u><u>9,637,686</u></u> | <u><u>9,752,747</u></u> |
|--------------------------------------|--|-------------------------|-------------------------|


FRANKLIN BETT
CHAIRMAN


LUCAS MESO, MBS
MANAGING DIRECTOR

Dated 18/08/2016

Dated 18/08/2016

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

STATEMENT OF CASH FLOW

| | NOTES | 2016 KES.'000 | 2015 KES.'000 |
|--|--------|------------------|------------------|
| CASH FLOW FROM OPERATING ACTIVITIES: | | | |
| Profit/(Loss) Before Taxation | | 249,614 | 206,305 |
| Adjustments for: | | | |
| Interest on Short Term Deposits | 2 (b) | (108,374) | (113,438) |
| Depreciation of Property & Equipment | 8 (a) | 70,329 | 67,165 |
| Amortization of Intangible Assets | 8 (b) | 1,954 | 968 |
| Income Tax Paid | 10 | - | - |
| Profit/loss on Disposal of Assets | 23 (c) | (62,374) | (1,121) |
| Increase in Repossessed Farm Properties | | 31,058 | 4,608 |
| Increase in Loans to Customers | | 19,037 | (893,416) |
| Increase in Inventories | | 479 | (310) |
| Decrease in Trade and Other Receivables | | 45,658 | (13,134) |
| Increase in Short Term Loans to Customers | | (269,075) | (170,769) |
| Decrease in Trade and Other Payables | | (196,438) | 227,136 |
| NET CASH FLOW FROM OPERATING ACTIVITIES | | (218,132) | (686,006) |
| CASH FLOW FROM INVESTING ACTIVITIES: | | | |
| Purchase of Property & Equipment | 8 (a) | (81,081) | (74,301) |
| Purchase of Intangible Assets | 8 (b) | (1,732) | (4,067) |
| Interest on Short Term Deposits | 2 (b) | 108,374 | 113,438 |
| Proceeds from disposal of Property & Equipment | 23 (c) | 59,615 | 1,121 |
| NET CASH FLOW FROM INVESTING ACTIVITIES | | 85,176 | 36,191 |
| CASH FLOW FROM FINANCING ACTIVITIES | | | |
| Restatement in General Reserve | 19 (a) | 56 | 28 |
| GOK Loans | 20 (a) | (18,495) | (20,000) |
| Grants - Food Security | | - | 500,000 |

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2016 (KES'000)

| | | | |
|--|---------------|-----------------|------------------|
| Kenya Sugar Board repayments | 20 (b) | (65,000) | (25,000) |
| ADB Livestock (Pig) | 20 (b) | (7,507) | - |
| National Irrigation Board Receipt | 20 (b) | - | 50,000 |
| NET CASHFLOW FROM FINANCING ACTIVITIES | | (90,946) | 505,028 |
| NET INCREASE IN CASH & CASH EQUIVALENTS | | (223,902) | (144,787) |
| Cash and cash equivalent 1 July | | 1,045,612 | 1,190,399 |
| Cash and cash equivalent 30 June (Note 13 and 14) | | 821,710 | 1,045,612 |

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements

for the year ended 30th June, 2016 (KES'000)

STATEMENT OF CHANGES IN EQUITY

| | Government Equity Capital KES.000 | General Reserve KES.000 | Revaluation Reserve KES.000 | Grants KES.000 | Totals KES.000 |
|---|--|--|--|---------------------------|---------------------------|
| As at 1 July 2014 | 2,687,766 | 434,757 | 787,618 | 2,356,476 | 6,266,617 |
| Profit for the Year | - | 167,149 | - | - | 167,149 |
| Grant - Food Security | | | | 500,000 | 500,000 |
| Reinstatement of Loans write off/Codf transfer | - | 28 | - | - | 28 |
| As at 30 June 2015 | 2,687,766 | 601,934 | 787,618 | 2,856,476 | 6,933,794 |
| As at 1 July 2015 | 2,687,766 | 601,934 | 787,618 | 2,856,476 | 6,933,794 |
| Reinstatement of Loans write off/Codf transfer 19 (a) | | 56 | | | 56 |
| Profit for the Year 19 (a) | - | 181,681 | - | - | 181,681 |
| As at 30 June 2016 | 2,687,766 | 783,671 | 787,618 | 2,856,476 | 7,115,531 |

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT

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.

Significant judgments and sources of estimation uncertainty

The preparation of the Entity's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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 consolidated financial statements were prepared.

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

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

- 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

Provisions

Provisions were raised and management determined an estimate based on the information available.

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

A. 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.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

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).
- **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 preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the 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).

The financial statements have been prepared in accordance with the PFM Act, the State Corporations 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.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

B. Changes in Accounting Policy and Disclosures

A number of amendments to standards arising from the annual improvement to IFRSs became effective for the first time in the financial year commencing 1 January 2015 and have been adopted by the Corporation. None of them has had an effect on the Corporation's financial statements.

New and revised standards and interpretations not yet adopted

A number of new standards and interpretations have been published that are not mandatory for annual periods commencing 1 January 2015 and have not been yet adopted by the Corporation. The Corporation's assessment of the impact of these new standards and interpretations is as follows:

IFRS 16, 'Leases', will replace the current IAS 17 standard on leases. The new standard requires that for lessees all leases, regardless of whether they are operating or financial in nature, will be on balance sheet and accounted for as "financial leases". IFRS 16 will significant change the way lessees account for leases, however lessor accounting remains largely the same and the classification as a finance lease or operating lease is still a consideration. This means that straight-lining of operating leases will remain for lessors. The effective date is 1 January 2019.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to changes in fair value in OCI without recycling.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there are no changes to the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Corporation is yet to assess the full impact of IFRS 9.

IFRS 15, 'Revenue from contracts with customers', which replaces IAS 11, IAS 18 and their interpretations (SIC 13 and IFRIC 13, 15, and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and markets. It is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing concept of risks and rewards. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

C. Revenue Recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the entity's activities, net of value-added tax (VAT), where applicable, and when specific criteria have been met for each of the entity's activities as described below.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

- 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.

D. 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.

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.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

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.

E. 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 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 | 12.5% | Buildings | 2% |
| Fittings & office equipment | 20% | | |

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

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

F. 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.

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.

G. Amortization and Impairment of Intangible Assets

Amortization is calculated on the straight-line basis over the estimated useful life of computer software of three years.

All computer software is reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

H. 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.

I. Taxation

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted as at the reporting date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

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

J. 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 %

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
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NOTES TO FINANCIAL STATEMENT (Continued)

Sub- Standard 5 %

Doubtful - Specific provision on loan amount less security value

Loss - Specific provision on loan amount less security value.

As at 30th June 2016 the outstanding balances as per the above grading is as indicated below:-

| Category | Risk Grade | Total | Provision |
|----------|----------------|-------------------------|-------------------------|
| 1. | Normal | 4,193,273,000.00 | - |
| 2. | Watch | 875,426,000.00 | 8,754,000.00 |
| 3. | Substandard | 379,594,000.00 | 18,980,000.00 |
| 4. | Bad & Doubtful | 290,334,000.00 | 280,985,000.00 |
| 5. | Loss | 3,156,422,000.00 | 1,686,256,000.00 |
| | Total | 8,895,050,000.00 | 1,994,975,000.00 |

K. 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. An actuarial valuation done as at 30th June 2015 indicated fund has a deficit of KES 204.9 million. The Corporation paid KES 50 million to the scheme to reduce the deficit.

L. 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 the Central Bank of Kenya and at

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

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 cash imprests and advances to authorised public officers and/or institutions which were not surrendered or accounted for at the end of the financial year.

M. 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.

N. Provision for Staff Leave Pay

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

O. 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.

Accumulated provisions are valued at the total of the principal and interest due at the date of foreclosure less subsequent recoveries. The amount outstanding as at 30th June, 2010 was Kshs 171,668,000. However, the Corporation has been unable to realise these properties and is of the opinion that if a forced sale could be effected, material losses would arise. In view of this, the provision of Kshs 85,834,000 against these balances made in the prior years is considered adequate.

| | |
|---|------------------|
| Acquisition value as at 1 st July 2010 | 171,668,000.00 |
| Less Accum Provisions 1 st July 2010 | (105,214,000.00) |
| Provisions write back | 19,380,000.00 |

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

| | |
|--|----------------------|
| Less Write back – Disposal of Itona Ranch 2016 | (27,406,000.00) |
| Balance as at 30th June | 58,428,000.00 |

P. Net Loans to Customers

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

Q. Comparative Figures

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

R. 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.

S. 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

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

financial asset are transferred. A financial liability is derecognised when its contractual obligations are redeemed or otherwise extinguished.

T. 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, 2016.

U. 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 2015/16 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.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

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.

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

i) Nature of related party relationships

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

| Key management remuneration | 2016 | 2015 |
|------------------------------------|-------------|-------------|
| Directors | 12,053 | 12,947 |
| Key management compensation | 49,506 | 29,190 |

V. Contingent Liability

The Entity 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.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

| | 2016 | 2015 |
|---------------------------------|----------------|----------------|
| | KES.'000 | KES.'000 |
| 2 (a). Interest on Loans | | |
| Interest on Medium Term Loans | 462,821 | 426,237 |
| Interest on Short Term Loans | 196,050 | 155,866 |
| Interest on Staff Loans | 23,139 | 20,569 |
| | 682,010 | 602,672 |

2 (b). Interest on Short Term Deposits

Details are as follows:-

| | 2016 | 2015 |
|--------------------------------|----------------|----------------|
| | KES.'000 | KES.'000 |
| Short Term Deposits | 107,674 | 112,631 |
| Bank Accounts | 700 | 807 |
| Balance as at 30th June | 108,374 | 113,438 |

3. INTEREST ON REDEEMABLE LOANS

The interest charge on redeemable loans outstanding as at 30th June 2014 were as follows:

| | 2016 | 2015 |
|--------------------------------|---------------|---------------|
| | KES.'000 | KES.'000 |
| IDA 344 | 98 | 190 |
| IDA 1143 KE | - | 750 |
| RSDP & IBRD 1995 KE | 34,626 | 34,532 |
| A D B (PIGS) | 4,762 | 4,779 |
| Balance as at 30th June | 39,486 | 40,251 |

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.

| | 2016 | 2015 |
|----------------------------|--------------|--------------|
| | KES.'000 | KES.'000 |
| 4. Rebates Interest | 4,339 | 3,154 |

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.

AGRICULTURAL FINANCE CORPORATION

Reports and Financial Statements
for the year ended 30th June, 2016 (KES'000)

NOTES TO FINANCIAL STATEMENT (Continued)

| 5 (a). OTHER INCOMES | 2016 | 2015 |
|--|-----------------------|-----------------------|
| Non Interest Incomes | KES.'000 | KES.'000 |
| Rent income - Note 23 (a). | 67,863 | 70,475 |
| Profit on disposal of assets- Note 23 (c). | 62,374 | 1,121 |
| Agency commission | 4,844 | 14,624 |
| Sundries | 142,771 | 28,279 |
| Write back FPIP provisions | - | - |
| As at 30th June | <u>277,852</u> | <u>114,499</u> |

| 5 (b). FEE INCOME | 2016 | 2015 |
|--------------------------------|-----------------------|-----------------------|
| | KES.'000 | KES.'000 |
| Application & Forms fees | 26,619 | 31,661 |
| Conveyance | 63,180 | 67,867 |
| Loan Commitments Fees | 41,242 | 39,893 |
| Inspection fees | 27 | 70 |
| Other Loan Processing fees | 42,805 | 30,725 |
| Discharge of Securities Fees | 7,599 | 8,432 |
| Loan Waiver Processing Fees | 1,179 | 1,459 |
| Account Maintenance Fee Income | 43,301 | 46,884 |
| Total | <u>225,952</u> | <u>226,991</u> |

6. 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 recognised as income as shown below:-

| | 2015 | 2015 |
|----------------------------|----------------------|-----------------------|
| | KES.'000 | KES.'000 |
| Recoveries from NPL's | 60,845 | 100,392 |
| Write back FPIP provisions | - | - |
| | <u>60,845</u> | <u>100,392</u> |

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

| 7. ADMINISTRATION COSTS | 2016 | 2015 |
|---------------------------------------|-----------------------|-----------------------|
| | KES.'000 | KES.'000 |
| (a) Staff Costs | 698,098 | 587,097 |
| (b) Board members' expenses | 12,053 | 15,920 |
| (c) General & Administration expenses | 221,077 | 210,765 |
| Total | <u>931,228</u> | <u>813,782</u> |

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NOTES TO FINANCIAL STATEMENT (Continued)

8. (a) PROPERTY AND EQUIPMENT

| | Land & Buildings | Motor Vehicles | Furniture & Equipment | Computer Hardware | Work in Progress | Totals |
|---------------------------|---------------------|-------------------|-----------------------------|----------------------|---------------------|------------------|
| | KES'000 | KES'000 | KES'000 | KES'000 | KES'000 | KES'000 |
| COSTS: | | | | | | |
| As at 1 July 2015 | 1,096,287 | 230,610 | 249,760 | 141,253 | 6,352 | 1,724,262 |
| Additions | - | - | 11,875 | 1,886 | 67,320 | 81,081 |
| Eliminated on disposal | - | (11,143) | (69) | - | - | (11,212) |
| Transfers | - | - | - | - | (6,565) | (6,565) |
| As at 30 June 2016 | 1,096,287 | 219,467 | 261,566 | 143,139 | 67,107 | 1,787,566 |
| DEPRECIATION: | | | | | | |
| Charge for previous years | 102,924 | 153,939 | 203,017 | 128,682 | - | 588,562 |
| Charge for the year | 21,118 | 30,985 | 11,576 | 6,650 | - | 70,329 |
| Eliminated on disposal | - | (11,143) | (38) | - | - | (11,181) |
| As at 30 June 2016 | 124,042 | 173,781 | 214,555 | 135,332 | - | 647,710 |
| NET BOOK VALUE | | | | | | |
| As at 30 June 2016 | 972,245 | 45,686 | 47,011 | 7,807 | 67,107 | 1,139,856 |
| As at 30 June 2015 | 993,363 | 76,671 | 46,743 | 12,571 | 6,352 | 1,135,700 |

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NOTES TO FINANCIAL STATEMENT (Continued)

8 (a) PROPERTY AND EQUIPMENT (Continued)

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

| | COST | NORMAL |
|-----------------------|----------------|---------------------|
| | | ANNUAL |
| | | DEPRECIATION |
| | | CHARGE |
| | KES'000 | KES'000 |
| Motor Vehicles | 78,203 | 94,148 |
| Equipment & Furniture | 128,457 | 123,117 |
| Computer Hardware | 137,576 | 132,843 |
| Software | 53,489 | 52,579 |
| | <u>397,725</u> | <u>402,687</u> |

8. (b) INTANGIBLE ASSETS

| COSTS: | 2016 | 2015 |
|---------------------------|----------------------------|-----------------------------|
| | KES'000 | KES'000 |
| As at 1 July | 57,746 | 53,679 |
| Additions | 1,732 | 4,067 |
| Disposals | - | - |
| As at 30 June | <u>59,478</u> | <u>57,746</u> |
| AMORTISATION | | |
| As at 1 July | 47,555 | 46,587 |
| Charge for the year | 1,954 | 968 |
| Disposals | - | - |
| As at 30 June | <u>49,509</u> | <u>47,555</u> |
| NET BOOK VALUE | <u><u>9,969</u></u> | <u><u>10,191</u></u> |

NOTES TO FINANCIAL STATEMENT (Continued)

9 (a). PROVISIONS FOR DOUBTFUL DEBTS

The provision for bad and doubtful loans are done in line with the policy in note (J).

The charged amounts are classified as below.

DOUBTFUL DEBTS CHARGES FOR THE YEAR:

| Loans to customers | 2016 | 2015 |
|----------------------------------|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| Specific provision | 58,083 | 2,309 |
| General provision | | |
| Total | 58,083 | 2,309 |
| Staff loans: | | |
| Other debts | | |
| Specific provision | - | 22,527 |
| Total charge for the year | 58,083 | 24,836 |

9 (b). ACCUMULATED PROVISIONS FOR DOUBTFUL DEBTS

The accumulated provisions are analysed as below:

| | 2016 | 2015 |
|------------------------------|------------------|------------------|
| | KES'000 | KES'000 |
| Specific Provisions | | |
| Balance as at 1 July | 1,863,034 | 2,044,478 |
| Charge for the year | 58,083 | 31,809 |
| Write-offs during the year | (122,984) | (112,861) |
| Write back during the year | (60,845) | (100,392) |
| Balance as at 30 June | 1,737,288 | 1,863,034 |
| General Provisions | | |
| Balance as at 1st July | 325,456 | 323,147 |
| Charge for the year | | |
| Specific provision | - | 2,309 |
| Balance as at 30 June | 325,456 | 325,456 |
| Provisions Summary | | |
| Specific Provisions | 1,737,288 | 1,863,034 |
| General Provisions | 325,456 | 325,456 |
| Balance as at 30 June | 2,062,744 | 2,188,490 |
| Classified Under | | |
| Medium Term Loans | 1,974,588 | 2,100,334 |
| Short Term Loans | 67,769 | 67,769 |
| Staff Loans | 20,387 | 20,387 |
| | 2,062,744 | 2,188,490 |

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NOTES TO FINANCIAL STATEMENT (Continued)

| 10. DEFERRED TAX ASSET: | 2016 | 2015 |
|--|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| The net deferred tax asset is arrived at as follows: | | |
| Balance b/f as at 1st July | 700,379 | 700,379 |
| Tax for the year | (67,933) | - |
| Balance as at 30 June | 632,446 | 700,379 |

| 11. REPOSSESSED FARM PROPERTIES: | 2016 | 2015 |
|---|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| Acquisition value as at 1st July | 264,494 | 264,494 |
| Less Accum Provisions 1st July Note (O) | (58,428) | (85,834) |
| Disposals - FPIP | (68,071) | (9,607) |
| Balance as at 30 June | 137,995 | 169,053 |

| 12. LOANS TO CUSTOMERS | 2016 | 2015 |
|--|------------------|------------------|
| | KES.'000 | KES.'000 |
| 12. (a) Medium Term Loans | 5,984,841 | 6,170,933 |
| (b) Staff Loans | 286,496 | 263,636 |
| (c) Directors Loans | 18,449 | - |
| Total Medium Loans to Customer | 6,289,786 | 6,434,569 |
| Less Accumulated Provision as per note 9 (b). | 1,994,975 | 2,120,721 |
| Net loans to Customer | 4,294,811 | 4,313,848 |

| | | |
|--|------------------|------------------|
| (d) Short Term Loans | 2,605,988 | 2,336,913 |
| Less Accumulated Provision as per note 9 (b). | 67,769 | 67,769 |
| Net Short Term Loans to Customers | 2,538,219 | 2,269,144 |

12 (a). These are loans whose maturity period are between twelve months and four years.

12 (c). These are loans to current & past directors

12 (d). These are loans to current staff and ex-staff

12 (b). These are loans whose maturity periods is upto 12 months and instalments for medium term loans that will fall due within the next twelve months.

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NOTES TO FINANCIAL STATEMENT (Continued)

| 13 (a). CASH AND BANK BALANCES | 2016 | 2015 |
|---------------------------------------|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| Current accounts | 18,753 | 84,509 |
| Branch Collection Accounts | 13,252 | 8,027 |
| Branch Imprest Accounts | 4,912 | 5,833 |
| Branch Loan Funds Accounts | 72,301 | 36,509 |
| Balance as at 30th June | 109,218 | 134,878 |

13 (b). CASH AND BANK BALANCES

| | | |
|------------------|------------|------------|
| Current accounts | (6) | (9) |
| | (6) | (9) |

| 14. SHORT TERM DEPOSITS | 2016 | 2015 |
|--------------------------------|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| Co-operative Bank | 400,000 | 200,000 |
| National Bank of Kenya | 201,000 | 1,000 |
| Kenya Commercial Bank | 100,000 | 200,000 |
| Family Bank | - | 500,000 |
| Interest receivable | 11,498 | 9,743 |
| Balance as at 30th June | 712,498 | 910,743 |

The average effective interest rate on the short term deposits as at June 30, 2016 was 10.0% (2015 9.1%).

These are funds held in short term deposits at various banks which mature between one and six months.

The funds are for operations and lending activities.

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NOTES TO FINANCIAL STATEMENT (Continued)

| | 2016 | 2015 |
|--|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| 15. TRADE & OTHER RECEIVABLES | | |
| Rent receivable- Other properties | 40,194 | 49,016 |
| Prepaid expenses | 14,996 | 12,137 |
| Accounts receivable- Others | 28,926 | 68,609 |
| Suspense – inter-branch | 1 | 1 |
| Work in progress | 21 | 34 |
| Balance as at 30th June | 84,138 | 129,797 |
| Specific Provision for Bad Debts | 22,527 | 22,527 |
| Balance as at 30th June | 61,611 | 107,270 |
| At June 30, the ageing analysis of the gross trade receivables was as follows: | | |
| Less than 30 days | 54,640 | 54,640 |
| Between 30 and 60 days | 132 | 132 |
| Between 61 and 90 days | 31,973 | 31,973 |
| Between 91 and 120 days | - | - |
| Over 120 days | 43,051 | 43,051 |
| | 129,796 | 129,796 |

16. INVENTORIES

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

| | 2016 | 2015 |
|----------------------------------|-----------------|-----------------|
| | KES.'000 | KES.'000 |
| Stationery & Office Supplies | 976 | 1,254 |
| Kitchen, Detergents & Toiletries | 10 | 69 |
| Computer Stationery | 77 | 219 |
| | 1,063 | 1,542 |

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NOTES TO FINANCIAL STATEMENT (Continued)

| 17. GRANTS | 2016 | 2015 |
|-----------------------------------|-------------------------|-------------------------|
| | KES'000 | KES'000 |
| Development | 20,611 | 20,611 |
| Rehabilitation | 18,752 | 18,752 |
| I C A | 2,500 | 2,500 |
| Special Emergency Fund | 3,470 | 3,470 |
| Ministry of Finance | 40,000 | 40,000 |
| IDA 105/344 | 2,168 | 2,168 |
| IDA 692 | 3,335 | 3,335 |
| Vihiga | 700 | 700 |
| North Tetu | 149 | 149 |
| IADP | 278 | 278 |
| Narok Agricultural Dev. Project | 760 | 760 |
| World Bank Credit 4 | 21,925 | 21,925 |
| IDA 1143 KE | 14,529 | 14,529 |
| IDA 1995 KE | 1,594 | 1,594 |
| Japanese Grant 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 |
| Balance as at 30th June | <u>2,856,476</u> | <u>2,856,476</u> |

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

18. GOVERNMENT EQUITY

The Government approved the financial restructuring of the Corporation vide Sessional paper No. 1 dated 6th November, 2002. To this effect the Government undertook to inject additional equity to the Corporation amounting to 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.

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NOTES TO FINANCIAL STATEMENT (Continued)

| 19. RESERVES | 2016 | 2015 |
|---|-----------------------|-----------------------|
| (a). General Reserve | KES.'000 | KES.'000 |
| Balance as at 1st July | 601,934 | 434,757 |
| Reinstatement of loan write off/CoDF transfer | 56 | 28 |
| Profit after taxation for the year | <u>181,681</u> | <u>167,149</u> |
| Balance as at 30th June | <u>783,671</u> | <u>601,934</u> |

The General Reserve is the undistributed profit from the operations.

| | 2016 | 2016 |
|--------------------------------|-----------------------|-----------------------|
| (b) Revaluation reserve | KES.'000 | KES.'000 |
| Balance as at 1st July | 787,618 | 787,618 |
| Additions | <u>-</u> | <u>-</u> |
| Balance as at 30th June | <u>787,618</u> | <u>787,618</u> |

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.

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NOTES TO FINANCIAL STATEMENT (Continued)

20. (a) REDEEMABLE GOVERNMENT LOANS AND INTEREST:

| | INT | PRINCIPAL | ACCUM | ACCRUED | PRINCIPAL | INTEREST | PRINCIPAL | ACCUM | TOTAL |
|--|----------------|-------------------|-------------------|-----------------|------------------|--------------|-------------------|-------------------|--------------------|
| | RATES | | INT B/F | INTEREST | REPAYMENTS | REPAYMENT | BALANCE | INT C/F | |
| | % p.a | 30.06.15 | 30.06.15 | 30.06.16 | 30.06.16 | 30.06.16 | 30.06.16 | 30.06.16 | 30.06.16 |
| | | KES.'000 | KES.'000 | KES.'000 | KES.'000 | KES.'000 | KES.'000 | KES.'000 | KES.'000 |
| IDA 344KE SMALL SCALE | 0.010 | 18,153 | 244 | 98 | (18,153) | (342) | - | - | - |
| IDA 1143KE CREDIT 4 | 0.080 | - | 52 | - | - | - | - | 52 | 52 |
| IBRD 1995 KE CREDIT 4 | 0.080 | 258,036 | 247,828 | 20,699 | - | - | 258,036 | 268,527 | 526,563 |
| RSDP1974 KE ADB LIVESTOCK (PIG) | 0.076 0.060 | 182,748 79,650 | 166,742 57,374 | 13,927 4,761 | - (7,507) | - | 182,748 72,143 | 180,669 62,135 | 363,417 134,278 |
| KENYA SUGAR BOARD | - | 817,218 | - | - | (65,000) | - | 752,218 | - | 752,218 |
| COFFEE DEV FUND | - | 9,355 | - | - | (9,355) | - | - | - | - |
| NIB- AHERO RICE REV FUND | - | 100,000 | - | - | - | - | 100,000 | - | 100,000 |
| TOTAL | | 1,465,160 | 472,240 | 39,485 | (100,015) | (342) | 1,365,145 | 511,383 | 1,876,528 |

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NOTES TO FINANCIAL STATEMENT (Continued)

21. PAYABLES AND ACCRUALS

| | 2016 | 2015 |
|--|----------------|----------------|
| | KES.'000 | KES.'000 |
| (a) Payables | | |
| Borrowers credit balances | 249,962 | 365,005 |
| Unprocessed Loan Receipts | 32,219 | 11,762 |
| Loan drafts outstanding | - | 19,999 |
| Customers Loan deposits | 107,040 | 170,653 |
| Balances as at 30th June | 389,221 | 567,419 |
| (b) Other Payables and Accruals | | |
| Sundry creditors general | 8,836 | 8,835 |
| Cash security deposits | 16,104 | 19,878 |
| Insurance receipts | 14,583 | 12,616 |
| External audit fees | 1,531 | 1,346 |
| Gratuity | 12,209 | 3,242 |
| Accrued pension contributions | 12,500 | 3,822 |
| Employees other deductions | 934 | 7,997 |
| Accrued Leave days | 5,881 | 6,399 |
| Other payables | 113,340 | 179,509 |
| Balance as at 30th June | 185,918 | 243,644 |
| (c) Current Tax payable | | |
| Balance as at 1st July | 70,482 | 31,326 |
| Corporation tax for the year | - | 39,156 |
| Balance as at 30th June | 70,482 | 70,482 |

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NOTES TO FINANCIAL STATEMENT (Continued)

| 22. (a) Staff Costs | ACTUAL | BUDGET | VARIANCE | ACTUAL | VARIANCE |
|--|----------------------|----------------------|--------------------------------|----------------------|---------------------------------------|
| | 30.06.16 KES.'000 | 30.06.16 KES.'000 | BUDGET 30.06.16 KES.'000 | 30.06.15 KES.'000 | ACTUAL 2015 vs 2016 KES.'000 |
| Salaries | 381,838 | 410,350 | 28,512 | 342,589 | 39,249 |
| Overtime | 2,268 | 2,800 | 532 | 1,700 | 568 |
| House allowance | 97,231 | 104,665 | 7,434 | 78,239 | 18,992 |
| Transport allowance | 42,427 | 52,100 | 9,673 | 34,940 | 7,487 |
| Hardship allowance | 9,136 | 9,500 | 364 | 8,227 | 909 |
| Acting/Duty& Aggregation allowance | 1,150 | 2,580 | 1,430 | 2,438 | (1,288) |
| Leave allowance | 3,270 | 6,500 | 3,230 | 3,234 | 36 |
| Other emoluments | 1,200 | 3,500 | 2,300 | 720 | 480.00 |
| Staff appointments & transfers allowances | 3,820 | 4,500 | 680 | 106 | 3,714 |
| Medical & staff Insurance expenses | 51,020 | 51,200 | 180 | 35,105 | 15,915 |
| Staff Insurance expenses | 3,552 | 9,500 | 5,948 | 6,681 | (3,129) |
| Pension contributions | 33,225 | 45,012 | 11,787 | 31,039 | 2,186 |
| Pension deficit contributions | 50,000 | 50,000 | - | 33,000 | 17,000.00 |
| NSSF employers contribution | 1,213 | 8,200 | 6,987 | 1,194 | 19 |
| Gratuities | 9,249 | 11,000 | 1,751 | 3,583 | 5,666 |
| Welfare & Uniforms | 7,499 | 9,500 | 2,001 | 4,302 | 3,197 |
| Entertainment Allowance | - | 4,100 | - | - | - |
| Total | 698,098 | 785,007 | 82,809 | 587,097 | 111,001 |

22. (b) Board Members' Expenses

| | | | | | |
|--|---------------|---------------|---------------|---------------|----------------|
| | 12,053 | 25,000 | 12,947 | 15,920 | (3,867) |
|--|---------------|---------------|---------------|---------------|----------------|

22. (c) General & Administrative Expenses:

| 22. (c) General & Administrative Expenses: | ACTUAL | BUDGET | VARIANCE | ACTUAL | VARIANCE |
|--|----------------------|----------------------|--------------------------------|----------------------|--------------------------------------|
| | 30.06.16 KES.'000 | 30.06.16 KES.'000 | BUDGET 30.06.16 KES.'000 | 30.06.15 KES.'000 | ACTUAL 2015 v 2016 KES.'000 |
| Bank charges | 3,374 | 5,000 | 1,626 | 2,884 | 490 |
| Corporate Comm & advertisement | 10,059 | 12,500 | 2,441 | 7,998 | 2,061 |
| Publicity/Shows & Field days | 5,477 | 11,000 | 5,523 | 4,229 | 1,248 |
| ISO Certification | 1,617 | 1,500 | (117) | 1,242 | 375 |
| Corporate social responsibility/Donations | 779 | 1,500 | 721 | 320 | 459 |
| General office expenses | 13,733 | 17,900 | 4,167 | 12,708 | 1,025 |
| Insurance of Corporation assets | 1,229 | 2,800 | 1,571 | 2,080 | (851) |
| Insurance of Motor Vehicles | 5,312 | 7,500 | 2,188 | 4,792 | 520 |
| Land rent & rates | 2,568 | 2,500 | (68) | 1,986 | 582 |
| Legal fees | 172 | 15,000 | 14,828 | 7,459 | (7,287) |
| Maintenance of buildings | 6,017 | 7,000 | 983 | 5,759 | 258 |

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NOTES TO FINANCIAL STATEMENT (Continued)

| 22. (c) General & Administrative Expenses: | ACTUAL 30.06.16 KES.'000 | BUDGET 30.06.16 KES.'000 | VARIANCE BUDGET 30.06.16 KES.'000 | ACTUAL 30.06.15 KES.'000 | VARIANCE ACTUAL 2015 v 2016 KES.'000 |
|--|--------------------------------|--------------------------------|--|--------------------------------|--|
| Maintenance of furniture & equipment | 4,147 | 5,500 | 1,353 | 4,798 | (651) |
| Office rentals | 14,119 | 16,500 | 2,381 | 13,865 | 254 |
| Printing & stationery | 6,149 | 11,000 | 4,851 | 7,559 | (1,410) |
| Professional consultants | 6,523 | 15,000 | 8,477 | 5,469 | 1,054 |
| Subscriptions to professional bodies | 1,960 | 2,500 | 540 | 1,589 | 371 |
| Research & development | 474 | 1,000 | 526 | 463 | 11 |
| Security | 22,960 | 25,000 | 2,040 | 20,904 | 2,056 |
| Software licences Taxes & licences | 13,604 | 15,650 | 2,046 | 11,473 | 2,131 |
| Telephone, internet & postage | 25,911 | 25,000 | (911) | 22,915 | 2,996 |
| General hotel & travel | 24,888 | 30,000 | 5,112 | 22,625 | 2,263 |
| Training | 22,606 | 30,000 | 7,394 | 21,287 | 1,319 |
| Vehicle fuel & oil | 10,243 | 13,000 | 2,757 | 11,054 | (811) |
| Vehicle maintenance | 8,456 | 12,500 | 4,044 | 8,260 | 196 |
| Water, electricity & gas | 6,984 | 7,500 | 516 | 7,047 | (63) |
| Transformation expenses | - | 13,000 | 13,000 | - | - |
| Auditors Fees | 1,716 | 1,500 | (216) | 1,531 | 185 |
| Total | 221,077 | 308,850 | 87,773 | 212,296 | 8,781 |
| Total | 931,228 | 1,118,857 | 183,529 | 815,313 | 115,915 |

| | 30.06.16 | 30.06.15 |
|--|------------|------------|
| Average number of employees at the end of the year was: | | |
| Permanent Employees - Management | 223 | 212 |
| Permanent employees - Unionisable | 276 | 281 |
| Total | 499 | 493 |

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NOTES TO FINANCIAL STATEMENT (Continued)

NOTE 23

(a) Rent Income

| | 2016 | 2015 |
|---------------------------------|---------------|---------------|
| | KES.'000 | KES.'000 |
| Details are as follows:- | | |
| Development House Income/(Loss) | 20,772 | 33,569 |
| Other Properties net Income | 47,091 | 36,906 |
| Balance as at 30th June | 67,863 | 70,475 |

(c) Profit/Loss on disposal of assets

| | 2016 | 2015 |
|----------------------------------|---------------|--------------|
| | KES.'000 | KES.'000 |
| The details are as follows:- | | |
| Motor Vehicles | 3,377 | 1,121 |
| Gain on disposal of other assets | 58,997 | - |
| Balance as at 30th June | 62,374 | 1,121 |

(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.