

REPUBLIC OF KENYA

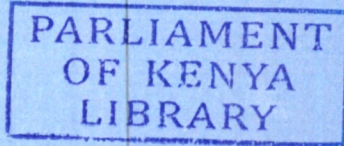


*Paper Laid by the
Hon. Aida Duale
mpf
Tuesday 20.6.2018*

OFFICE OF THE AUDITOR-GENERAL



REPORT



OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
AGRICULTURAL FINANCE CORPORATION**

**FOR THE YEAR
ENDED 30 JUNE 2017**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100 NAIROBI

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AGRICULTURAL FINANCE CORPORATION

REPORTS AND FINANCIAL STATEMENTS

**FOR THE FINANCIAL YEAR ENDED
30TH JUNE, 2017**



**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, 2017

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I. KEY ENTITY INFORMATION

BACKGROUND INFORMATION

The Agricultural Finance Corporation (AFC), a wholly owned Government Development Finance Institution (DFI), was established in 1963 initially as a subsidiary of the Land and Agricultural Bank. In 1969, it was incorporated as a full – fledged financial institution under the Agricultural Finance Corporation Act, Cap 323 of the laws of Kenya. It was then tasked in assisting in the effective and peaceful transfer of land to indigenous farmers, as well as injecting new capital to farm owners to spur development. After successful implementation of this task, AFC was further reconstituted in 1969 to assume a wider mandate by taking over the functions of the Land and Agricultural Bank of Kenya.

Today we remain the leading Government Credit institution mandated to provide credit for the sole purpose of developing agriculture. This role is crucial given that Agriculture is the mainstay of the Kenyan economy where 80% of the Kenyan population which is rural based relies on agriculture as their main support system. The Corporation is domiciled in Kenya and has 46 numbers of branches in 31 counties.

INSTITUTIONAL MANDATE

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

PRINCIPAL ACTIVITIES

The Corporation is primarily charged with the responsibility of providing credit facilities for the sole purpose of developing agriculture. The Corporation has for the last fifty five (55) years been able to discharge this responsibility through an expansive branch network, offering

KEY ENTITY INFORMATION (Continued)

quality, affordable, accessible financial products and services tailored to meet diverse and exclusive needs of Kenyan farmers.

Vision

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

Mission

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

Core Values

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

KEY ENTITY INFORMATION (Continued)

BOARD OF DIRECTORS

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

Name		Appointment date
Franklin Bett	Chairman	09-Mar-2016
Susan Wanjiru Karanja	Alternate to the Cabinet Secretary The National Treasury	02-Oct-2015
Momata Gichana	Alternate to the Cabinet Secretary Ministry of Agriculture	02-Oct-2015
Lucas Meso, MBS	Managing Director	12-Mar-2017
David Kiptanui Koros	Member	02-Oct-2015
Basra Ali	Member	Left on 27-Jun-2017
Edwin Cheruiyot Rotich	Member	02-Oct-2015
David Njoroge	Member	02-Oct-2015
Fredrick Onyango	Member	02-Oct-2015
Naima Badhawi	Member	02-Oct-2015

CORPORATION SECRETARY

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

KEY ENTITY INFORMATION (Continued)

REGISTERED OFFICE

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

CORPORATE 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

CORPORATE BANKERS

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

Co-operative Bank of Kenya Limited,
Co-op House Branch,
P.O Box 67881 – 00200 City Square
Nairobi.
Kenya.

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

KEY ENTITY INFORMATION (Continued)

INDEPENDENT AUDITORS

The Corporation's auditors in accordance with the Public Audit Act, 2015 were:-

Auditor General,

Kenya National Audit Office,

P.O Box 30084 - 00100 GPO

Nairobi.

Kenya.

PRINCIPAL LEGAL ADVISERS

The Attorney General,

State Law Office,

Harambee Avenue,

P.O. Box 40112 – 00200 City Square

Nairobi, Kenya.

II. THE BOARD OF DIRECTORS



Mr. Franklin Kipngetich Bett
Chairman – Board of Directors

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



Mr. Henry K. Rotich
Cabinet Secretary,
National Treasury

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

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

THE BOARD OF DIRECTORS (Continued)

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

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



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

Mr. Lucas Meso is the Managing Director of the Agricultural Finance Corporation. Mr. Meso's experience spans over 20 years in senior management positions in the banking sector. He previously worked for the Central Bank of Kenya, East African Development Bank, Commercial Bank of Africa and the Co-operative Bank of Kenya. In recognition of his role in the development of Agri-business, Mr. Meso was honoured with a Presidential National Decoration Award, Moran of the Order of the Burning Spear (MBS).

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

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

THE BOARD OF DIRECTORS (Continued)



Mr. David Njoroge
Board Member

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



**Mr. David Kiptanui
Koros**
Board Member

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

THE BOARD OF DIRECTORS (Continued)



Mr. Cheruiyot Rotich
Board Member

Mr. Cheruiyot Rotich is a Finance executive with over fourteen (14) years' experience in leading strategic organizational aspects of financial and operations system development. Mr. Rotich previously worked with reputable international organizations including World Vision International/Kenya, ICCO Netherlands/East & Central Africa Region,

Royal Paedro Limited/Kenya, War Child Holland/South Sudan and Relief International /Somalia. Mr. Rotich holds a Master Degree in Business Administration (MBA) from the University of Manchester, United Kingdom, Bachelor of Commerce degree (Accounting Option) from Kenyatta University with a First Class Honours award, is a Certified Public Accountant CPA (K) and Financial Systems specialist.



Mrs. Naima Badhawi
Board Member

Mrs. Naima Badhawi is a 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 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 and Al Wataniya Insurance Agency Ltd. She is currently the Secretary General of Mombasa County Council of Elders and Co-opted Member of Answar Muslim Sister's Education Wing.

THE BOARD OF DIRECTORS (Continued)



**Mr. Fredrick Onyango
Odhiambo**
Board Member

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



Ms. Basra Ali
Board Member

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

THE BOARD OF DIRECTORS (Continued)



Mrs. Susan Wanjiru
Karanja
Alternate Board
Member

Mrs. Susan Wanjiru is a multi-talented investment and financial specialist with over thirty years' experience gained primarily in the public service.

Susan has extensive directorship experience having served as an Alternate Director for the National Treasury in a number of state corporations' board.

She is a member of the Institute of Directors (Kenya), Rotary International and Ruiru Sports Club.

She attained her Bachelor of Commerce (Finance & Accounting Major) in Nagpur University, India (1983), Masters in Business Administration (ESAMI/MSM) 2007 and a Post Graduate Diploma in Corporate Governance - KCA University (2012).



Mr. Julius Momata
Gichana
Alternate Board

Mr. Julius Momata has a wealth of experience spanning 30 years in Civil Service in matter of Public Financial Management. He has served in various Ministries in the Government as Head of Finance.

He has also served in the Board of Ken-Gen as an Alternate Director to the Principal Secretary, Energy.

He has attended and been awarded certificates in Corporate Governance, Strategic Management, Leadership and Integrity, Change Management, Succession Management.

Currently he is serving as a Senior Chief Finance Officer in the State Department of Agriculture.

THE BOARD OF DIRECTORS (Continued)



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

of Nairobi.

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

private with a focus on litigation, commercial and conveyance law.

She is a holder of a Master in Business Administration Degree in Strategic Management and LLB (Hons) Degrees from the University

III. MANAGEMENT TEAM



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

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

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

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



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

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

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

MANAGEMENT TEAM (Continued)

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



Mrs. Millicent Omukaga
Head of Operations

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

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

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

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



CPA Tom O. Akeno
General Manager – Finance

CPA Akeno is an accomplished finance professional with extensive public service experience spanning over 25 years having previously worked for the Ministry of Agriculture and the Kenya Tea Development Authority (KTDA). He has vast experience in financial accounting and management, corporate finance, financial systems implementation and Co-operative's management. Since joining the Corporation as an Accountant in 1995, he has risen through the

MANAGEMENT TEAM (Continued)

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

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



Mr. Simon M. Maitha
General Manager
Business Development

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

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

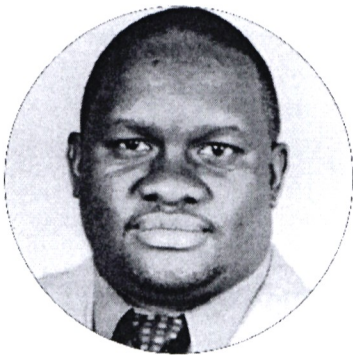
MANAGEMENT TEAM (Continued)



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

Diploma in Business Administration.

Mr. Tallam is the General Manager Human Resources and Administration. He is a career Human Resource Professional having worked in the Human Resource Department of the Corporation for 20 years rising from the position of Personnel officer, Senior Personnel Officer, Principal Personnel Officer and Human Resources Manager. He is also a Trustee of the AFC Staff Pension Scheme. He holds a B.Sc (Business Administration) Degree from the United States International University (USIU) and a



Mr. Daniel O. Olilo
Head of Information Communication Technology

applications and systems integration.

Mr. Olilo is an accomplished IT Specialist with over 14 years of experience in the field of ICT. He has previously worked at The Regional Centre for Mapping of Resources where he was able to implement various applications that are currently being used to serve RCMRD's member countries. Daniel is a holder of a Bachelor of Science in Computer Studies, University of Sunderland. He is currently pursuing a Master of Business Administration from Jomo Kenyatta University of Agriculture and Technology (JKUAT). Daniel's areas of interest include Systems development, open source applications, social organization

MANAGEMENT TEAM (Continued)



Mr. Jackson Opati Echoka
Head of Risk Unit

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.

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



Ms. Anastasia Wachira
Head of Loan Recoveries

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

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

MANAGEMENT TEAM (Continued)



Ms. Pauline Kathambana
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.



Mr. Charles M. Karani
Head of Procurement

Mr. Karani is an accomplished Procurement Specialist with an experience of more than 12 years in the supply chain function. He previously worked for the Ministry of Education, Tourism Finance Corporation and Postbank. He holds a Master Degree in Procurement and Logistics from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and a Bachelor of Arts Degree in Economics and Sociology from the University of Nairobi. Further he holds a Professional Diploma in Purchasing and Supplies Management from Chartered Institute of Purchasing and Supplies, U.K.

He is a member of the Chartered Institute of Purchasing and Supplies (C.I.P.S) UK and Kenya Institute of Supplies Management (K.I.S.M)

MANAGEMENT TEAM (Continued)



Mrs. Betty Chemutai Suge
Head of Internal Audit

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

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

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

IV. CHAIRMAN'S STATEMENT

I am pleased to present the AFC Annual Report and Financial Statements for the year ended 30th June, 2017. Despite the challenging and subdued business environment, the Corporation has remained resilient. In line with its Strategy, the Corporation has been able to return a solid performance, especially in the key focus segments of Agricultural Financing.

Kenya's GDP grew at 5.8% in 2016. This growth is attributed to lower oil prices, supportive monetary policy, a rebound in the tourism sector and on-going infrastructure projects. The Kenyan Shilling remained stable over the course of the year, averaging at 101.5 against the dollar largely supported by a narrowing current account deficit, as a result of lower petroleum prices, reduced imports of machinery & equipment and higher diaspora remittances.

Inflation significantly declined to 6.35% in December 2016 from 8.01% in December 2015 on the back of lower food and fuel inflation owing to a stable currency and adequate rains in the March to May long rains Season. However below average rains in the October to December season resulted in upward inflationary pressure in 2017.

Overall, the economy is making good headway in implementing major infrastructural projects. The first phase of the Standard Gauge Railway (SGR) from Mombasa to Nairobi, which should lower the cost of doing business in East Africa is essentially complete with Phase 2 already underway.

The Board is keen to support innovation across the Corporation, and working with management, it shall continue to prioritize technology investments to ensure that the Corporation meets customers' needs and adds value to our farmers' lives.

CHAIRMAN'S STATEMENT (Continued)

FINANCIAL PERFORMANCE

The Corporation posted a pre-tax profit of KES.271.3 million for the period ended 30th June, 2017 compared to KES. 249.6 million registered in the previous year, representing a growth of 8.7%. The net interest income increased by 30% from KES. 746.5 million in 2016 to KES 967.2 million in 2017. The non-interest income increased by 60% from KES.564.6 million in the previous year to KES.903.2 million in the current year, mainly as a result of collections from non-performing loans, loan fees and rent income. The Corporation continued with cost containment initiatives which were reflected by expenditure of KES.995.8 million compared to the budgeted amount of KES. 1,133.0 million yielding a cost savings of 12.1%. The Corporation's asset base increased to KES 10.6 billion compared to KES.9.6 billion recorded the previous year which represents a 10.4% growth.

EMPLOYEES AND VALUES

As at 30th June 2017, the Corporation had a staff compliment of 509 persons. During the year, the senior management team was strengthened by recruitment of Head of Procurement, Head of Internal Audit and Head of operations. 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

CHAIRMAN'S STATEMENT (Continued)

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.

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

V. MANAGING DIRECTOR'S STATEMENT

The Corporation registered commendable financial results for the year ended 30th June 2017. During the year under review, the Corporation posted a pre-tax profit of KES. 271.3 million compared to KES. 249.6 million reported in the previous year, representing a growth of 8.7%. The net interest income increased by 24.9% from KES 746.6 million in 2016, to KES. 967.2 million in 2017.

Non-interest income decreased substantially from KES 503.8 million in the previous year to KES 296.5 million, representing a drop of 41.1%. Income from doubtful loans increased by Kshs 607.4 million compared to 60.8 million realized last year, which is a performance of 899%. This is due to collections from non- performing loans during the year under review.

The operating expenses increased by 10.9% from KES 1,003.5 million to KES 1,113 million in the report year. The Corporation's asset base increased slightly to KES 10.6 billion compared to the previous year. The net loans and advances decreased from KES.6.83 billion in 2016 to KES.6.76 billion in the current year representing a decrease of 1%.

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.

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.

MANAGING DIRECTOR'S STATEMENT (Continued)

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 2017. I also wish to thank our customers, partners and the Government for their continued support during the financial year. We look forward to enhancing relationships with all our stakeholders in the coming year.

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


LUCAS MESO, MBS
MANAGING DIRECTOR

VI. CORPORATE GOVERNANCE STATEMENT

Code of Conduct

It is of major importance to the Corporation that its leaders create a "tone at the top" and a corporate culture that promotes ethical conduct on management and employees. This is facilitated through quality corporate leadership, set by the Board of Directors and senior management. To this effect, the Corporation's resources are only to be used to conduct its business or for purposes authorized by management. Any act by a member of the Board of Directors or Management that involves theft, fraud, unauthorized disclosure, embezzlement, or misappropriation of any property is prohibited. Each member of the Board of Director or Management is responsible for the assets under their control. Each Director must follow security procedures to protect assets and must be alert to situations that could lead to loss or misuse of assets.

Board Responsibilities

The Board of Directors is responsible for providing overall policy and leadership to the Corporation and is accountable to the Government of Kenya. The Board's duties and responsibilities include:

Fiduciary responsibility: The Board of Directors has a fiduciary responsibility to care for the finances and resources of the Corporation. They must act in good faith and with a reasonable degree of care, and they must not have any conflicts of interest. That is, the interests of the Corporation must take precedence over personal interests of individual Board members.

Mission and Vision of the Corporation: the Board of Directors are responsible for setting the mission of the Corporation and ensuring that all actions further that mission. The Board can change the mission, but only after careful deliberation.

CORPORATE GOVERNANCE STATEMENT (Continued)

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

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

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

Board Meetings

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

Board Chairman and Managing Director

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

CORPORATE GOVERNANCE STATEMENT (Continued)

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

Board Performance Evaluation

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

Internal Control

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

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

CORPORATE GOVERNANCE STATEMENT (Continued)

Conflict of Interest

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

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

Board Sub-Committees

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

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

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

VII. MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RISK MANAGEMENT

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

a) Credit Risk

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

The amounts presented in these financial statements are net of impairment allowances based on prudent assessment of clients' abilities to meet their contractual obligations. To facilitate the day to day management of credit risk, there is an independent risk unit based in Head Office charged with responsibility of referencing our clients before advancement of loans to assess their credit worthiness.

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

MANAGEMENT DISCUSSION AND ANALYSIS (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.

VIII. 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 2016/2017 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 thirteen CSR activities as prescribed below during the year.

S.NO	NAME OF ORGANISATION	REGION	BRIEF INFORMATION	AMOUNT (KES'000)
1	Ilula Albino School	North Rift	Help albino children access education by providing them with magnifying glasses, reading stands, protective hats and sun block lotion	100
2	Kibo Slopes Academy	Eastern	Orphaned & vulnerable children in need of desks, chairs and text books	100
3.	Esageri School for the deaf	Central Rift	a) Purchase of and install 5000 litres water tank for rain water harvesting b) Purchase of food for the children	70 30
4.	Shivanga Primary School	Nyanza/Western	Construct three improved ventilated toilets to prevent health hazard to the pupils	100
5.	Msambweni Turtle & Marine Conservation Group St. Luke's AIDS/HIV infected & affected group	Coast	a) Purchase of life jackets, goggles, flippers and install radio calls to ease communication with fishermen in the sea. b) Purchase of chairs and tables for counselling /trainings sessions	50 50

CORPORATE SOCIAL RESPONSIBILITY (Continued)

S.NO	NAME OF ORGANISATION	REGION	BRIEF INFORMATION	AMOUNT (KES'000)
6.	Upendo Children's Home (Murang'a)	Mt. Kenya	Purchase of two sewing machines to be used to train the children and to make uniforms for the surrounding schools at a cost.	30
	Kianjuki Primary School (Chogoria)		Sanitary towels for school going children to keep the girls in school	10
	Kairuni School for the Mentally Handicapped (Chogoria)		Purchase of wooden chairs	10
	Jerusha Mwiraria Hope Children's Home		Purchase of 10,000 litres water tank	50
7	AIC Girls Loitokitok	Eastern	Construction of a dormitory in partnership with AIC Girls school	2,000
8	Kenyatta University	Eastern	Paying of school fees	60
9	Kenya Veterinary Association	Nairobi	Cater for expenses	50
10	St. Aggrey High School	Coast	Paying of school fees	44
11	Meru Marathon	Mt. Kenya	sports	63
12	Ziwa marathon	North Rift	Sports	50
13.	National tree planting	Mt. Kenya	Young Farmers Association	40
	Total			2,807

IX. REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended June 30, 2017, in accordance with the section 194 of the Public Finance Management (PFM) Act, 2012 which disclose the state of affairs of the Corporation.

Principal activities

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

Results

The results of the entity for the year ended June 30, 2017 are set out from page 39 to page 95.

Directors

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

Auditors

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

By Order of the Board



Corporation Secretary

Nairobi

Date: 28th September 2017



David Kiptanui Koros

Chair – Finance & Business

Development Committee

X. STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and The Agricultural Finance Corporation Act Cap 323. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the

STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)


financial year ended June 30, 2017, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

The directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 28th September 2017 and signed on its behalf by:



Franklin Bett
Chairman



Lucas Meso, MBS
Managing Director

XI. REPORT OF THE INDEPENDENT AUDITORS ON AGRICULTURAL FINANCE CORPORATION

We have audited the accompanying (consolidated) financial statements of (name of entity) for the year ended June 30, 2017, which comprise: (i) a statement of comprehensive income; (ii) a statement of financial position as at June 30, 2017; (iii) a statement of cash flows; (iv) a summary of significant accounting policies; and (v) other explanatory notes.

Management's responsibility for the financial statements

The Directors are responsible for the preparation and fair presentation of the financial statements which give a true and fair view of the entity's state of affairs and its operating results in accordance with International Financial Reporting Standards, and for such internal control as the Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit 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 auditors' 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 are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting

REPORT OF THE INDEPENDENT AUDITORS ON AGRICULTURAL FINANCE CORPORATION (Continued)

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

Opinion

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the entity as at June 30, 2017, and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards, the Public Finance Management Act, the State Corporations Act, and the Companies Act.

Auditor General

Date

REPUBLIC OF KENYA

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E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



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 2017

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of Agricultural Finance Corporation set out on pages 39 to 104, which comprise the statement of financial position as at 30 June 2017, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act 2015.

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

In addition, as required by Article 229(6) of the Constitution, I have not been able to obtain sufficient appropriate audit evidence to confirm that public money has been applied lawfully and in an effective way.

Basis for Disclaimer of Opinion

1. Property and Equipment

(i) Land and Buildings

As previously reported in 2015/2016, the property and equipment balance of Kshs.1,079,401,000 as at 30 June 2017 includes twenty-nine developed plots measuring 5.3324 hectares valued at Kshs.191,627,798 and seven undeveloped plots measuring 1.5383 hectares valued at Kshs.927,245,000 with no ownership documents. In addition, the value of land and buildings with a net book value of Kshs.949,666,000 as disclosed in Note 8 (a) to the financial statements, excludes unvalued 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.1,079,401,000 reflected in the statement of financial position as at 30 June 2017 is fairly stated.

(ii) Fixed Assets Transfer Account

Note 8 (a) to the financial statements reflects an amount of Kshs.180,371,000 disclosed as fixed assets transfer account, and which relates to assets transferred during the year. However, the management has not disclosed the nature of this class

Report of the Auditor-General on the Financial Statements of Agricultural Finance Corporation for the year ended 30 June 2017

of property and equipment in these financial statements. In addition, no evidence has been provided to support the transfer and the corresponding entries to the transfer have not been explained. In the circumstances, it has not been possible to confirm the validity and completeness of the amount of Kshs.180,371,000.

(iii) Budgetary Control-Staff Insurance

The statement of comprehensive income reflects an amount of Kshs.737,510,000 under staff costs, which includes an amount of Kshs.61,301,000 paid on staff medical insurance. This payment exceeded the budgeted and approved amount of Kshs.53,000,000 by Kshs.8,301,000. The excess expenditure was more than 15% of the budget on staff medical and insurance during the year 2016/2017 contrary to Section 12 of the State Corporations Act, Cap 446, which states that no State Corporation shall without the prior approval in writing of the Minister and Treasury incur any expenditure for which provision has not been made in annual estimate prepared and approved in accordance with Section 11 of the same Act. The Corporation was therefore in breach of the Law.

2. Trade and Other Receivables

The statement of financial position reflects a balance of Kshs.600,215,000 (2015/2016 - Kshs.61,611,000) under trade and other receivables and as disclosed in Note 15 to the financial statements, which is an increase of Kshs.538,604,000 or 800% over the previous year. Note 1 (f) to the financial statements indicates that trade and other receivables are recognized at fair values less allowances for uncollectible amounts which are assessed for impairment on a continuing basis and an estimate made. However, Note 15 to the financial statements does not show an assessment for impairment loss and neither has management provided documentary evidence showing how the specific provision for bad debts figure of Kshs.23,174,000 in respect to trade and other receivables was determined. Consequently, the accuracy of the trade and other receivables balance and charge for doubtful debts cannot be confirmed.

3. Loss of Cash

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

4. Net Loan to Customers

(i) As reported in the previous year, Note 1 (m) to the financial statements on provision for doubtful debts indicates that loans have been classified into five categories as follows: normal, watch, sub-standard, doubtful and loss, as adopted from the Central Bank of Kenya prudential guidelines with modifications to reflect the risk and uncertainties specific to agriculture sector. However, a review of the

Report of the Auditor-General on the Financial Statements of Agricultural Finance Corporation for the year ended 30 June 2017

Corporation records did not reveal the actual classification of the loans as indicated in the Note.

(ii) As reported in 2015/2016 and in previous years and as disclosed in Note 9 (a) to the financial statements, net loans to customers of Kshs.4,896,537,000 as at 30 June 2017 includes an amount of Kshs.22,661,000 advanced to thirteen farmers in Kapsabet. Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds which appeared fraudulent. In the circumstances, the recoverability of the amount of 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.299,306,000 relating to personal advances, house and car loans. Although the Corporation has made a provision of Kshs.27,369,000 (2016-Kshs.20,387,000), 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) As previously reported, included under Note 12(b) to the financial statements in relation to accumulated provisions for doubtful debts are specific provisions-adjustments and write back figures of Kshs.223,618,000 and Kshs.607,443,000 respectively. Further, the general provisions include a write back of Kshs.80,166,000 described as interest concession-farm loans while the staff loans specific provisions include a write back of Kshs. 4,205,000 described as interest concession-ex staff. The analyses of these figures have however not been provided for audit verification. Consequently, their validity and completeness cannot be confirmed.

5. Current Tax Payables

As previously reported, the statement of financial position reflects current tax payable of Kshs.170,732,000 which is an increase of Kshs.100,250,000 over the previous year's balance of Kshs.70,482,000. However, no tax computations have been provided to show how the current tax payable figure of Kshs.170,732,000 and the corporation tax for the year of Kshs.143,721,000 respectively were determined. Consequently, the accuracy of the current tax payable of Kshs.170,732,000 cannot be confirmed.

6. Income from Doubtful Debts

The statement of comprehensive income reflects an amount of Kshs.607,443,000 (2015/2016 - Kshs.60,845,000) under income from doubtful debts. Note 6 to the financial statements states that all loans prior to January 2003 had been fully provided for as doubtful debts as at 30 June 2005 and interest accruals on such loans suspended and recoveries from the portfolio have been recognized as income. However, no documentary evidence has been produced by management showing the loan portfolio prior to January 2003 and the provision for the same as at 30 June 2005. Under the circumstances, it is not possible to confirm whether income from doubtful debts figure of Kshs.607,443,000 as at 30 June 2017 is fairly stated.

Responsibilities of Management and Those Charged with Governance 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 the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

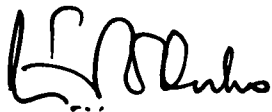
Management is also responsible for submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Agricultural Finance Corporation's financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Disclaimer Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

I am independent of Agricultural Finance Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya.



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

Nairobi

23 May 2018

XII. STATEMENT OF COMPREHENSIVE INCOME

	Notes	2017 KES'000	2016 KES'000
Revenues			
Interest Income:			
Interest on Loans	2 (a)	932,485	682,010
Interest on Short Term Deposits	2 (b)	75,352	108,374
Total interest income		1,007,837	790,384
Less: Interest expenses			
Interest on Redeemable Loans	3	38,562	39,486
Rebate Interest	4	2,069	4,339
		40,631	43,825
Net interest income		967,206	746,559
Non-Interest income			
Other Operating Income	5 (a)	113,912	277,852
Fee Income	5 (b)	182,557	225,952
Income from doubtful debts	6	607,443	60,845
Total Non-Interest income		903,912	564,649
Total Revenues		1,871,118	1,311,208
Operating Expenses			
Staff Cost	7 (a)	(737,510)	(698,098)
Board Expenses	7 (b)	(24,401)	(12,053)
Administration Costs	7 (c)	(233,883)	(221,077)
Depreciation & Amortisation	8 (a & b)	(117,229)	(72,283)
Charge for Doubtful Debts	12 (a)	(486,767)	(58,083)
Total Expenses		(1,599,790)	(1,061,594)
Profit before tax		271,328	249,614
Tax for the Year	25 (a)	(143,721)	(67,933)
Profit for the year		127,607	181,681

XIII. STATEMENT OF FINANCIAL POSITION

	Notes	2017	2016
ASSETS:	NOTES	KES.'000	KES.'000
Non-Current Assets			
Property and Equipment	8 (a)	1,079,401	1,139,856
Intangible Assets	8 (b)	138,902	9,969
Deferred Tax Asset	10	588,975	632,446
Repossessed Farm Properties	11	137,995	137,995
Net Loans to Customers	9 (a)	4,896,792	4,294,811
Total Non- Current Assets		6,842,065	6,215,077
Current Assets			
Cash and Bank Balances	13 (a)	130,833	109,218
Short Term Deposits	14	1,117,576	712,498
Net Short Term Loans to Customers	9 (b)	1,863,232	2,538,219
Trade and Other Receivables	15	600,215	61,611
Inventories	16	1,937	1,063
Total Current Assets		3,713,793	3,422,609
Total Assets		10,555,858	9,637,686
EQUITY AND LIABILITIES			
Equity and Reserves			
Grants	17	3,597,951	2,856,476
Government Equity Capital	18	2,687,766	2,687,766
General Reserve	19 (a)	911,278	783,671
Revaluation Reserve	19 (b)	787,618	787,618
Total Equity and Reserves		7,984,613	7,115,531
Non-Current Liabilities			
Redeemable Government Loans and Interest:	20 (a)	1,003,258	984,825
Agency Funds	20 (b)	831,734	852,218
Total Non-Current Liabilities		1,834,992	1,837,043
Current Liabilities			
Payables	21 (a)	363,918	389,221
Trade and Other Payables	21 (b)	201,603	225,403
Current Tax Payable	21 (c)	170,732	70,482
Current Accounts	13 (b)	-	6
Total Current Liabilities		736,253	685,112
Total Equity and Liabilities		10,555,858	9,637,686

The financial statements set out on pages 39 to 104 were approved by the Board of Directors on 28th September 2017 and were signed on its behalf by:


Franklin Bett
 Chairman
 Dated 28th September 2017


Lucas Meso, MBS
 Managing Director
 Dated 28th September 2017

Agricultural Finance Corporation
 Reports and Financial Statements
 For the year ended 30th June, 2017

XIV. STATEMENT OF CHANGES IN EQUITY

	Notes	Government Equity Capital	General Reserve	Revaluation Reserve	Grants	Totals
		KES.'000	KES.'000	KES.'000	KES.'000	KES.'000
2015:						
At 1 July 2015 - As previously stated		2,687,766	601,934	787,618	2,856,476	6,933,794
Profit for the Year	19 (a)	-	181,681	-	-	181,681
Reinstatement of Loans write off/Codf	19 (a)	-	56	-	-	56
Balance as at 30 June 2016		2,687,766	783,671	787,618	2,856,476	7,115,531
Balance as at 1 July 2016		2,687,766	783,671	787,618	2,856,476	7,115,531
GOK Project Subsidy Funds 2016	17	-	-	-	550,000	550,000
GOK Risk Sharing Fund Account	17	-	-	-	191,475	191,475
Profit for the Year	19 (a)	-	127,607	-	-	127,607
Balance as at 30 June 2017		2,687,766	911,278	787,618	3,597,951	7,984,613

**STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE
 2017**

	Notes	2017	2016
		KES.'000	KES.'000
Net cash flows generated from operating activities	24 (a)	(250,962)	506
Cash flow from Investing activities:			
Purchase of Property & Equipment		(78,218)	(81,081)
Purchase of Intangible Assets		(110,362)	(1,732)
Interest on Short Term Deposits	2 (b)	75,352	108,374
Proceeds from disposal of Property & Equipment	23 (c)	6,020	59,615
Increase in Repossessed Farm Properties		-	31,058
Decrease in Short Term Loans to Customers		674,987	(269,075)
Increase in Loans to Customers		(601,981)	19,037
Net cash flow used in investing activities		(34,202)	(133,804)
Cash flow from Financing activities:			
Restatement in General Reserve	19 (a)	-	56
Reinstatement of Codf Funds		10,388	
Repayment of long-term borrowings	20 (a)	(40,000)	(90,660)
GOK Project Subsidy Funds 2016	17	550,000	-
GOK Risk Sharing Fund Account	17	191,475	-
Net cash flow used in financing activities		711,863	(90,604)
Net increase in cash and cash equivalent		426,699	(223,902)
Cash and cash equivalent at the beginning of the year		821,710	1,045,612
Cash and cash equivalent at the end of the year	24 (b)	1,248,409	821,710

XV. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2017

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2016-2017 Kshs	2016-2017 Kshs	2016-2017 Kshs	2016-2017 Kshs	2016-2017 Kshs
Revenue					
Interest Income:					
Interest on Loans	870,730	-	870,730	932,485	61,755
Interest on Short Term Deposits	187,500	-	187,500	75,352	(112,148)
Total interest income	1,058,230	-	1,058,230	1,007,837	(50,393)
Non-Interest income					
Fee/Other Operating Income	380,453	-	380,453	296,469	(83,984)
Income from doubtful debts	157,000	-	157,000	607,443	450,443
Total Non-Interest income	537,453	-	537,453	903,912	366,459
Total Revenues	1,595,683	-	1,595,683	1,911,749	316,066
Expenses					
Staff Cost	782,857	(17,500)	765,357	737,510	27,847
Board Expenses	25,000	-	25,000	24,401	599
Administration Costs	368,150	(25,500)	342,650	233,883	108,767
Depreciation & Amortisation	85,600	43,000	128,600	117,229	11,371
Charge for Doubtful Debts	42,000	-	42,000	486,767	(444,767)
Interest on Redeemable Loans	42,280	-	42,280	38,562	3,718
Rebate Interest	8,000	-	8,000	2,069	5,931
Total expenditure	1,353,887	-	1,353,887	1,640,421	(286,534)
Surplus for the period	241,796	-	241,796	271,328	29,532

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2017
(Continued)**

In line with The Public Finance Management Act 2012, expenditures in excess of 10% of the approved budget were submitted to The National Treasury for review and approval. In this regard, upon the analysis of the financial performance of the Corporation for the period ended 31st December 2016, the management reviewed the approved budget for the financial year 2016/2017 to take into account adjustments in funding, revenue and operational expenditures. Pursuant to this requirement, we submitted our reviewed budget items which were re-allocations from other votes. The re-allocations had no effect on the approved budget figure of KES 1,091 million for the year 2016/17FY.

Non-interest income grew by 899% in comparison to the budget. This was as a result of the Government intervention to cushion distressed farm loans in Narok, Kajiado, Busia and Kericho counties. A total of KES 500 million was received during the year. During the year, a specific provision was made amounting to KES 486.8 million in respect to the above distressed loans. This was in conformity with the Government directive.

Staff cost remained relatively high compared to the previous year. This was occasioned by implementation of the Collective Bargaining Agreement for the year 2016/17 for unionisable staff and the effect of annual increments for the management staff.

XVI. NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

i) Basis of measurement

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

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

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

NOTES TO FINANCIAL STATEMENT (Continued)

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

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

The 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, Agricultural Finance Corporation Act, International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) applicable to entities reporting under IFRS.

ii) Use of estimates

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

3. ADOPTION OF NEW AND REVISED STANDARDS

i) Relevant, new standards and amendments to published standards effective for the year ended 30 June 2017

A number of new standards and interpretations have been published that are not mandatory for annual periods commencing 1 January 2017 and have not been yet adopted by the

NOTES TO FINANCIAL STATEMENT (Continued)

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.

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

NOTES TO FINANCIAL STATEMENT (Continued)

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.

ii) Early adoption of standards

The Corporation did not early – adopt any new or amended standards in year 2017.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

a) Revenue Recognition

Revenue is recognised to the extent that it is probable that future economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is recognised at the fair value of consideration received or expected to be received in the ordinary course of the 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.

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.

b) **Property and Equipment**

All categories of property and equipment are initially recorded at cost less accumulated depreciation and impairment losses. Certain categories of property and equipment are subsequently carried at re-valued amounts, being their fair value at the date of re-valuation less any subsequent accumulated depreciation and impairment losses. Where re-measurement at re-valued amounts is desired, all items in an asset category are re-valued through periodic valuations carried out by independent external valuers.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, appropriate, only when it is probable that the future economic benefits associated with item will flow to the entity and the cost of the item can be measured reliably. Repairs and maintenances expenses are charged to profit and loss account in the year to which they are incurred. Increases in the carrying amounts of assets arising from re-valuation are credited to other comprehensive income. Decreases that offset previous increases in the carrying amount

NOTES TO FINANCIAL STATEMENT (Continued)

of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement. During the year, Tyson Limited carried out valuation of the Corporation's Land and building. See appendix 3 for further details of the valuation report dated 30th June 2017.

Gains and losses on disposal of items of property and equipment are determined by comparing the proceeds from the disposal with the net carrying amount of the items, and are recognised in profit or loss in the income statement.

c) Depreciation and Impairment of Property & Equipment

Freehold land and capital work in progress are not depreciated. Capital work in progress relates mainly to the costs of ongoing but incomplete works on buildings and other civil works and installations.

Depreciation on Property and Equipment is recognised in the income statement on a straight-line basis to write down the cost of each asset or the re-valued amount over their estimated useful lives 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

NOTES TO FINANCIAL STATEMENT (Continued)

in circumstances indicate that the carrying amount may not be recoverable. Excess depreciation, representing the additional depreciation based on revalued amounts over depreciation based on historical costs, is transferred annually from revaluation surplus on property to retained earnings, net of deferred tax.

d) Intangible Assets

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

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

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortized over their estimated useful lives which is three.

e) Amortization and Impairment of Intangible Assets

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

NOTES TO FINANCIAL STATEMENT (Continued)

All computer softwares are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

f) Trade and Other Receivables

Trade and other receivables are recognised at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

g) Taxation

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the area where the Corporation operates and generates taxable income. Current income tax relating to items recognized directly in net assets is recognized in net assets and not in the statement of financial performance.

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

NOTES TO FINANCIAL STATEMENT (Continued)

Deferred tax

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

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

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

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

NOTES TO FINANCIAL STATEMENT (Continued)

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

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

h) Inventories

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

i) Borrowings

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

NOTES TO FINANCIAL STATEMENT (Continued)

j) Budget information

The original budget for FY 2016-2017 was approved by the National Assembly on 9th May 2016. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Corporation upon receiving the respective approvals in order to conclude the final budget. Accordingly, the Corporation did not recorded any additional appropriations of the 2016-2017 budget.

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

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

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

NOTES TO FINANCIAL STATEMENT (Continued)

k) Comparative figures

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

l) Retirement Benefit Obligations.

The Corporation previously contributed to a defined benefits retirement scheme which it funded and whose assets are held in a separate Trustees' administered guaranteed fund. With effect from January 2008 the Corporation contributes to a defined contribution pension scheme following the closure of the defined benefits scheme in December 2007. A defined contribution plan is a plan under which the Corporation pays fixed contribution in to a separate scheme and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all the employees the benefit relating to employees in service in the current or prior periods. The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). 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 the fund had a deficit of KES 204.9 million. The Corporation paid KES 50 million to the scheme to reduce the deficit during the year under review.

m) Provision for Doubtful Debts

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 %

NOTES TO FINANCIAL STATEMENT (Continued)

Sub- Standard 5 %

Doubtful - Specific provision on loan amount less security value. The defaulted interest should be waived.

Loss - Specific provision on loan amount less security value and interest waived/suspended.

n) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at the Central Bank of Kenya and at various commercial banks at the end of the financial year. For the purposes of these financial statements, cash and cash equivalents also include short term 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.

o) Trade and Other Payables

Trade and other payables are non-interest bearing and are carried at amortized cost, which is measured at the fair value of contractual value of the consideration to be paid in future in respect of goods and services supplied, whether billed to the entity or not, less any payments made to the suppliers.

p) Provision for Staff Leave Pay

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

NOTES TO FINANCIAL STATEMENT (Continued)

q) Farm Properties in Possession

These are clients farms that failed to attract bidders/buyers at a public auction, hence the Corporation purchased them at the reserved price. The acquired farms will be later disposed off through a competitive bidding or a private treaty.

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.

	KES'000
Acquisition value as at 1 st July 2010	171,668.00
Less Accum Provisions 1 st July 2010	(105,214.00)
Provisions write back	19,380.00
Less Write back – Disposal of Itona Ranch 2016	(27,406.00)
Balance as at 30th June	58,428.00

r) Net Loans to Customers

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

NOTES TO FINANCIAL STATEMENT (Continued)

s) Legal and other claims

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

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

t) Derecognition

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

u) Subsequent Events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2017.

v) Related Parties Disclosures

Government of Kenya

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

NOTES TO FINANCIAL STATEMENT (Continued)

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 2016/17 the Directors submitted their annual declarations of interests which included:

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

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

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.

NOTES TO FINANCIAL STATEMENT (Continued)

Key management remuneration	2017 KES'000	2016 KES'000
Directors	24,402	12,053
Key management compensation	39,447	49,506

w) **Contingent Liability**

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

5. **SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

Estimates and assumptions

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

Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of asset, its susceptibility, adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed

NOTES TO FINANCIAL STATEMENT (Continued)

- 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. Additional disclosure of these estimates of provisions is included in Note 12

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.

NOTES TO FINANCIAL STATEMENT (Continued)

	2017	2016
	KES.'000	KES.'000
2 (a). Interest on Loans		
Interest on Medium Term Loans	789,478	462,821
Interest on Short Term Loans	117,122	196,050
Interest on Staff Loans	25,885	23,139
	932,485	682,010

2 (b). Interest on Short Term Deposits

Details are as follows:-

	2017	2016
	KES.'000	KES.'000
Short Term Deposits	75,352	107,674
Bank Accounts	-	700
Balance as at 30th June	75,352	108,374

3. Interest on Redeemable Loans

The interest charge on redeemable loans outstanding as at 30th June 2017 were as follows:

	2017	2016
	KES.'000	KES.'000
IDA 344	-	98
RSDP & IBRD 1995		
KE	34,531	34,626
A D B (PIGS)	4,031	4,762
Balance as at 30th June	38,562	39,486

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 risk of interest rate fluctuations in the markets as the rates were determined at the time of loan receipt.

	2017	2016
	KES.'000	KES.'000
4. Rebates		
Interest	2,069	4,339
Balance as at 30th June	2,069	4,339

These are rebates paid to clients on their credit balances at the rate of 1 % p.a on loan repayments received in advance before the instalments fall due in compliance with AFC Act Cap 323.

NOTES TO FINANCIAL STATEMENT (Continued)

5 (a). Other

Incomes	2017 KES.'000	2016 KES.'000
Non Interest Incomes		
Rent income - Note 23 (a).	83,279	67,863
Profit on disposal of assets- Note 23 (b).	3,147	62,374
Agency commission	3,316	4,844
Sundries	24,170	142,771
Balance as at 30th June	113,912	277,852

5 (b). Fess Income

	2017 KES.'000	2016 KES.'000
Application & Forms fees	23,042	26,619
Conveyance	49,805	63,180
Loan Commitments Fees	34,449	41,242
Inspection fees	128	27
Other Loan Processing fees	6,848	42,805
Discharge of Securities Fees	5,670	7,599
Loan Waiver Processing Fees	509	1,179
Account Maintenance Fee Income	62,106	43,301
Balance as at 30th June	182,557	225,952

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. During the year as the Corporation received GOK subsidy of Kshs 500M for repayment of these loans as shown below:-

	2017 KES.'000	2015 KES.'000
Recoveries from NPL's	607,443	60,845
Balance as at 30th June	607,443	60,845

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

7. Administration Costs	2017 KES.'000	2016 KES.'000
(a) Staff Costs	737,510	698,098
(b) Board members' expenses	24,401	12,053
(c) General & Administration expenses	233,883	221,077
Balance as at 30th June	995,794	931,228

NOTES TO FINANCIAL STATEMENT (Continued)

8. (a) Property and Equipment		Land & Building	Motor Vehicles	Furniture & Equipment	Computer Hardware	Fixed Assets Transfer Account	Totals
	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000	KES'000
COSTS:							
As at 1 July 2016	1,096,287	219,467	261,566	143,139	67,107	1,787,566	
Additions	-	45,411	24,943	14,824	113,624	198,802	
Disposal	-	(20,881)	-	-	-	(20,881)	
Transfer	-	-	-	-	(180,731)	(180,731)	
As at 30 June 2017	1,096,287	243,997	286,509	157,963	-	1,784,756	
DEPRECIATION:							
Charge for previous years	124,042	173,781	214,555	135,332	-	647,710	
Charge for the year	22,579	33,157	11,814	8,102	-	75,652	
Disposals	-	(18,007)	-	-	-	(18,007)	
As at 30 June 2017	146,621	188,931	226,369	143,434	-	705,355	
NET BOOK VALUE							
As at 30 June 2017	949,666	55,066	60,140	14,529	-	1,079,401	
As at 30 June 2016	972,245	45,686	47,011	7,807	67,107	1,139,856	

NOTES TO FINANCIAL STATEMENT (Continued)

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

	COST	NORMAL ANNUAL DEPRECIATION CHARGE
	KES'000	KES'000
Motor Vehicles	91,338	22,835
Equipment & Furniture	186,564	23,321
Computer Hardware	126,112	41,995
Software	54,862	18,269
Total as at 30 June	458,876	106,419

8. (b) Intangible Assets

	2017	2016
	KES'000	KES'000
COSTS:		
As at 1 July	59,478	57,746
Additions	170,510	1,732
As at 30 June	229,988	59,478
AMORTISATION		
As at 1 July	49,509	47,555
Charge for the year	41,577	1,954
As at 30 June	91,086	49,509
NET BOOK VALUE	138,902	9,969

NOTES TO FINANCIAL STATEMENT (Continued)

		2017	2016
		KES.'000	KES.'000
9. Loans to Customers			
9. (a) Loans to Customer			
Medium Term Loans		6,372,422	5,984,841
Staff Loans		299,306	286,496
Directors Loans		15,066	18,449
Total Medium Loans to Customer		6,686,794	6,289,786
Less Accumulated Provision	9. (c+e+g)	1,790,257	1,994,975
Net loans to Customer		4,896,537	4,294,811
9. (b) Short Term Loans to Customers		2,174,285	2,605,988
Less Accumulated Provision	9. (d)	310,798	67,769
Net Short Term Loans to Customers		1,863,487	2,538,219
Classified Under			
9. (c) Medium Term Loans		1,761,189	1,994,975
9. (d) Short Term Loans		310,798	67,769
9. (e) Staff Loans		27,369	20,387
9. (f) Other debtors		23,174	22,527
9. (g) Directors		1,699	-
Total		2,124,229	2,105,658
Medium Term Loans: These are loans whose maturity period are between twelve months and four years.			
Staff Loans: These are loans to current staff and ex-staff			
Directors Loans: These are loans to current & past directors			
Short Term Loans: These are loans whose maturity periods is upto 12 months and instalments for medium term loans that will fall due within the next twelve months.			
	Notes	2017	2016
		KES.'000	KES.'000
10. Deferred Tax Asset:			
The net deferred tax asset is arrived at as follows:			
Balance b/f as at 1st July		632,446	700,379
Tax for the year		(43,471)	(67,933)
Balance as at 30 June		588,975	632,446
11. Repossessed Farm Properties:		2017	2016
		KES.'000	KES.'000
Acquisition value as at 1st July		137,995	264,494
Less Accum Provisions 1st July Note (M)		-	(58,428)
Disposals - FPIP		-	(68,071)
Balance as at 30 June		137,995	137,995

NOTES TO FINANCIAL STATEMENT (Continued)

12 (a). Provisions for doubtful debts

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

Doubtful debts charges for the year:

	2017	2016
	KES.'000	KES.'000
Loans to Customers:		
Specific provision	305,887	58,083
General provision	169,046	-
Total	474,933	58,083
Staff Loans:		
Specific provisions	8,456	-
General provisions	2,731	-
Total	11,187	-
Other Debts:		
General provisions	647	-
Total	647	-
Total charge for the year	486,767	58,083

NOTES TO FINANCIAL STATEMENT (Continued)

12 (b). Accumulated provisions for doubtful debts

The accumulated provisions are analysed as below:

	2017 KES'000	2016 KES'000
Specific Provisions		
Balance as at 1 July	1,737,288	1,863,034
Charge for the year	305,887	58,083
Adjustments	223,618	-
Interest Concession - Farm Loans	-	(122,984)
Write-back during the year	(607,443)	(60,845)
Balance as at 30 June	1,659,350	1,737,288
General Provisions		
Balance as at 1st July	325,456	325,456
Charge for the year	169,046	-
Interest Concession - Farm Loans	(80,166)	-
Balance as at 30 June	414,336	325,456
Staff Loans:		
Specific Provisions		
Balance as at 1st July	20,387	20,387
Charge for the year	8,456	-
Interest Concession - Ex Staff	(4,205)	-
Balance as at 30 June	24,638	20,387
General Provisions		
Balance as at 1st July	-	-
Charge for the year	2,731	-
Balance as at 30 June	2,731	-
Other debts:		
Balance as at 1st July	22,527	22,527
Charge for the year	647	-
Balance as at 30 June	23,174	22,527
Provisions Summary	KES'000	KES'000
Specific Provisions - Loans to Customers	1,657,662	1,737,288
General Provisions - Loans to Customers	414,325	325,456
Specific Provisions - Staff Loans	24,638	20,387
General Provisions - Staff Loans	2,731	-
General Provisions - Other Accounts receivable	23,174	22,527
Specific Provisions - Directors Loans	1,688	-
General Provisions - Directors Loans	11	-
Balance as at 30 June	2,124,229	2,105,658

NOTES TO FINANCIAL STATEMENT (Continued)

	2017	2016
13 (a). Cash and Bank Balances	KES.'000	KES.'000
Current accounts	41,161	18,753
Branch Collection Accounts	12,347	13,252
Branch Imprest Accounts	10,884	4,912
Branch Loan Funds Accounts	66,441	72,301
Balance as at 30th June	130,833	109,218

13 (b). Cash and Bank Balances

Current accounts	-	(6)
Balance as at 30th June	-	(6)

	2017	2016
14. Short Term Deposits	KES.'000	KES.'000
Co-operative Bank	350,000	400,000
National Bank of Kenya	550,000	201,000
Kenya Commercial Bank	50,000	100,000
NIC Bank	150,000	-
Interest receivable	17,576	11,498
Balance as at 30th June	1,117,576	712,498

The average effective interest rate on the short term deposits as at June 30, 2017 was 8.0% (2016 10%). 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.

NOTES TO FINANCIAL STATEMENT (Continued)

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

Summarized analysis of the cash and cash equivalents

Financial institution	Account number	2017	2016
		KES.'000	KES.'000
a) Current account			
Kenya Commercial bank	Various	24,513	18,673
Barclay Bank of Kenya	651600952	160	54
Co-operative Bank of Kenya	Various	2,814	7,643
National Bank of Kenya	Various	88,562	70,896
Balance as at 30th June		116,049	97,266
b) On - call deposits			
Kenya Commercial bank	MM1635030200	50,000	-
Balance as at 30th June		50,000	-
c) Fixed deposits account			
Co-operative Bank	Various	300,000	400,000
National Bank of Kenya	Various	550,000	201,000
Kenya Commercial Bank	Various	50,000	100,000
NIC Bank	Various	150,000	-
Interest receivable	Various	17,576	11,498
Balance as at 30th June		1,067,576	712,498
d) Staff car loan/ mortgage			
National bank of Kenya	01001061023900	709	244
Balance as at 30th June		709	244
e) Others(specify)			
Cash in transit	Various	3,707	-
cash in hand	Various	123	89
M-Pesa Phone Float	Various	1,469	1,106
M-Pesa Cash Float	Various	1,830	2,143
M-Banking accounts	Various	2,719	-
Vault Cash	Various	4,227	8,364
Balance as at 30th June		14,075	11,702
Grand total		1,248,409	821,710

For a detailed analysis of the cash and cash equivalents, please refer to appendix 3

NOTES TO FINANCIAL STATEMENT (Continued)

	2017	2016
	KES.'000	KES.'000
15. Trade and other receivables		
Rent receivable- Other properties	50,502	40,194
Prepaid expenses	17,376	14,996
Accounts receivable- Others	538,224	28,926
Work in progress	-	21
Recoverable fees and charges	17,287	-
Suspense – inter-branch	-	1
Balance as at 30th June	623,389	84,138

Specific Provision for Bad Debts	23,174	22,527
Balance as at 30th June	600,215	61,611

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

Less than 30 days	507,374	54,640
Between 30 and 60 days	4,623	132
Between 61 and 90 days	325	31,973
Between 91 and 120 days	1,742	-
Over 120 days	15,266	43,051
Total	529,330	129,796

16. Inventories

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

	2017	2016
	KES.'000	KES.'000
Stationery & Office Supplies	1,320	976
Kitchen, Detergents & Toiletries	39	10
Computer Stationery	578	77
Balance as at 30th June	1,937	1,063

NOTES TO FINANCIAL STATEMENT (Continued)

	2017	2016
	KES'000	KES'000
17. GRANTS		
Development	20,611	20,611
Rehabilitation	18,752	18,752
I C A	2,500	2,500
Special Emergency Fund	3,470	3,470
Ministry of Finance	40,000	40,000
IDA 105/344	2,168	2,168
IDA 692	3,335	3,335
Vihiga	700	700
North Tetu	149	149
IADP	278	278
Narok Agricultural Dev. Project	760	760
World Bank Credit 4	21,925	21,925
IDA 1143 KE	14,529	14,529
IDA 1995 KE	1,594	1,594
Japanese Grant SCC Scheme 42 2004	769,000	769,000
GTZ Grant-2006	6,055	6,055
GOK Grant Livestock Off Take 2006	95,000	95,000
GOK Grant Livestock Off Take 2009	190,000	190,000
GOK Grant Livestock Off Take 2011	405,650	405,650
GOK Grant Livestock Off Take 2012	60,000	60,000
GOK Grant 2013	700,000	700,000
Grants - Food Security	500,000	500,000
GOK Project Subsidy Funds 2016	550,000	-
GOK Risk Sharing Fund Account	191,475	-
Balance as at 30th June	3,597,951	2,856,476

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.

NOTES TO FINANCIAL STATEMENT (Continued)

	2017	2016
	KES.'000	KES.'000
19. Reserves		
(a). General Reserve		
Balance as at 1st July	783,671	601,934
Reinstatement of loan write off/CoDF	-	56
Profit after taxation for the year	127,607	181,681
Balance as at 30th June	911,278	783,671

The General Reserve is the undistributed profit from the operations.

	2017	2016
	KES.'000	KES.'000
(b) Revaluation reserve		
Balance as at 1st July	787,618	787,618
Balance as at 30th June	787,618	787,618

Property and Equipment are stated at cost or as revalued from time to time less accumulated depreciation. The Corporation's policy is to revalue property once every five years. Increases in the carrying amount arising on revaluation are credited to a revaluation reserve. Decreases that offset previous increases of the same assets are charged against the revaluation reserve. All other decreases are charged to the Income Statement.

NOTES TO FINANCIAL STATEMENT (Continued)

20. (a) Redeemable Government Loans and Interest:

	Int Rates %	Principal b/f	Accum Int b/f	Accrued Interest	Principal Payment	Receipts	Interest payment	Principal Balance	Accum Int c/f	Total
		30.06.16	30.06.16	30.06.17	30.06.17	30.06.17	30.06.17	30.06.17	30.06.17	30.06.17
		KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000
	P.a									
IDA 1143KE Credit 4	0.080	-	52	-	-	-	(52)	-	-	-
IBRD 1995 KE Credit 4	0.080	258,036	268,527	20,641	-	-	-	258,036	289,168	547,204
RSDP1974 KE	0.076	182,748	180,669	13,889	-	-	-	182,748	194,558	377,306
ADB Livestock (Pig)	0.060	72,143	62,135	4,031	(10,000)	-	(11,000)	62,143	55,166	117,309
Sub Total		512,927	511,383	38,561	(10,000)	-	(11,052)	502,927	538,892	1,003,258

20. (b) Agency Funds:

	Int Rates %	Principal b/f	Accum Int b/f	Accrued Interest	Principal Payment	Receipts	Interest payment	Principal Balance	Accum Int c/f	Total
		30.06.16	30.06.16	30.06.17	30.06.17	30.06.17	30.06.17	30.06.17	30.06.17	30.06.17
		KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000	KES.'000
Kenya Sugar Board	-	752,218	-	-	(30,000)	-	-	722,218	-	722,218
Coffee Dev Fund	-	9,516	-	-	-	-	-	9,516	-	9,516
NIB- Ahero rice rev fund	-	100,000	-	-	-	-	-	100,000	-	100,000
Sub Total		861,734	-	-	(30,000)	-	-	831,734	-	831,734
Total		1,374,661	511,383	38,561	(40,000)	-	(11,052)	1,334,661	538,892	1,834,992

NOTES TO FINANCIAL STATEMENT (Continued)

	2017 KES.'000	2016 KES.'000
21. Payables and Accruals		
(a) Payables		
Borrowers credit balances	273,091	249,962
Unprocessed Loan Receipts	1,740	32,219
Customers Loan deposits	89,087	107,040
Balances as at 30th June	363,918	389,221
(b) Other Payables and Accruals		
Sundry creditors general	-	8,836
Cash security deposits	14,527	16,104
Insurance receipts	8,609	14,583
External audit fees	1,531	1,531
Gratuity	14,425	12,209
Accrued pension contributions	-	12,500
Employees other deductions	861	934
Accrued Leave days	8,512	5,881
Other payables	114,577	113,340
Interest on redeemable loans	38,561	39,485
Balance as at 30th June	201,603	225,403
(c) Current Tax payable		
Balance as at 1st July	70,482	70,482
Corporate tax for the year	100,250	-
Balance as at 30th June	170,732	70,482

NOTES TO FINANCIAL STATEMENT (Continued)

	22. (a) Staff Costs		Variance Budget	2016 vs 2017	
	Actual	Budget		Actual	Variance Actual
	30.06.17	30.06.17	30.06.17	30.06.16	2016 vs 2017
	KES,'000	KES,'000	KES,'000	KES,'000	KES,'000
Salaries	395,726	399,877	4,151	381,838	13,888
Overtime	2,431	3,200	769	2,268	163
House allowance	101,468	103,200	1,732	97,231	4,237
Transport allowance	45,049	50,000	4,951	42,427	2,622
Hardship allowance	9,207	10,500	1,293	9,136	71
Acting/Duty & Aggregation allowance	1,144	3,000	1,856	1,150	(6)
Leave allowance	4,925	6,000	1,075	3,270	1,655
Entertainment Allowance	300	4,800	4,500	-	300
Other emoluments	1,200	1,500	300	1,200	-
Staff appointments & transfers allowances	3,018	4,000	982	3,820	(802)
Medical & staff Insurance expenses	61,301	53,000	(8,301)	51,020	10,281
Staff Insurance expenses	3,328	9,000	5,672	3,552	(224)
Pension contributions	33,877	35,000	1,123	33,225	652
Pension deficit contributions	50,000	50,000	-	50,000	-
NSSF employers contribution	1,206	6,480	5,274	1,213	(7)
Gratuities	13,172	15,000	1,828	9,249	3,923
Welfare & Uniforms	7,424	9,000	1,576	7,499	(75)
Leave Days Accrual	2,734	-	(2,734)	-	2,734
Total	737,510	763,557	26,047	698,098	39,412
22. (b) Board Members' Expenses	24,401	25,000	599	12,053	12,348
Total	24,401	25,000	599	12,053	12,348

NOTES TO FINANCIAL STATEMENT (Continued)

	ACTUAL 30.06.17 KES.'000	BUDGET 30.06.17 KES.'000	VARIANCE BUDGET 30.06.17 KES.'000	ACTUAL 30.06.16 KES.'000	VARIANCE ACTUAL 2016 vs 2017 KES.'000
22. (c) General & Administrative Expenses:					
Bank charges	2,993	3,000	7	3,374	(381)
Corporate Comm & advertisement	7,308	15,000	7,692	10,059	(2,751)
Publicity/Shows & Field days	6,996	18,500	11,504	5,477	1,519
ISO Certification	933	2,200	1,267	1,617	(684)
Corporate social responsibility/Donations	2,840	3,000	160	779	2,061
General office expenses	13,927	15,000	1,073	13,733	194
Insurance of Corporation assets	1,932	3,500	1,568	1,229	703
Insurance of Motor Vehicles	5,715	8,000	2,285	5,312	403
Land rent & rates	1,266	3,500	2,234	2,568	(1,302)
Legal fees	1,287	18,000	16,713	172	1,115
Maintenance of buildings	5,972	9,000	3,028	6,017	(45)
Maintenance of furniture & equipment	4,397	4,500	103	4,147	250
Office rentals	15,747	16,500	753	14,119	1,628
Printing & stationery	5,156	9,000	3,844	6,149	(993)
Professional consultants	3,768	6,000	2,232	6,523	(2,755)
Subscriptions to professional bodies	1,978	3,200	1,222	1,960	18
Research & development	-	2,000	2,000	474	(474)
Security	24,989	25,000	11	22,960	2,029
Software licences Taxes & licences	7,391	18,500	11,109	12,604	(5,213)
Telephone, internet & postage	28,226	32,500	4,274	25,911	2,315
General hotel & travel	19,193	28,000	8,807	24,888	(5,695)

NOTES TO FINANCIAL STATEMENT (Continued)

	ACTUAL	BUDGET	VARIANCE	ACTUAL	VARIANCE
	30.06.17	30.06.17	30.06.17	30.06.16	2016 vs 2017
	KES. '000	KES. '000	KES. '000	KES. '000	KES. '000
22. (c) General & Administrative Expenses:					
Continued					
Training	33,709	35,000	1,291	22,606	11,103
Vehicle fuel & oil	10,182	12,500	2,318	10,243	(61)
Vehicle maintenance	12,874	13,000	126	8,456	4,418
Water, electricity & gas	6,258	8,500	2,242	6,984	(726)
Transformation expenses	6,469	28,000	21,531	-	6,469
Auditors Fees	1,531	1,750	219	1,716	(185)
Fringe Benefit Tax	846	1,800	954	1,000	(154)
Total	233,883	344,450	110,567	221,077	12,806
Total	995,794	1,133,007	137,213	931,228	64,566

30.06.17 **30.06.16**

Average number of employees at the end of the year was:

Permanent Employees - Management	238	223
Permanent employees – Unionisable	271	276
Total	509	499

NOTES TO FINANCIAL STATEMENT (Continued)

Analysis of Rent Income & Profit on disposal of assets

	2017 KES.'000	2016 KES.'000
23. (a) Rent Income		
Details are as follows:-		
Development House Income/(Loss)	27,772	20,772
Other Properties net Income	55,507	47,091
Balance as at 30th June	83,279	67,863

	2017 KES.'000	2016 KES.'000
23. (b) Profit/Loss on disposal of assets		
The details are as follows:-		
Motor Vehicles	3,147	3,377
Gain on disposal of other assets	-	58,997
Balance as at 30th June	3,147	62,374

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

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

S/NO	REG NO	MAKE	DATE PURCHASED	COST PRICE	PROFIT	PURCHASE PRICE
1	KAB 512 B	LAND CRUISER	06/19/1991	975	369	364
2	KAR 403 L	TOYOTA COROLLA	07/27/2004	1,393	356	356
3	KAR 421 L	DAIHATSU TERRIOS	07/27/2004	1,560	475	475
4	KAR 422 L	DAIHATSU TERRIOS	07/27/2004	1,560	338	338
5	KAR 611 L	DAIHATSU TERRIOS	07/27/2004	1,560	337	337
6	KAR 902 L	MITSUBISHI LANCER	02/22/2005	1,481	346	346
7	KAW 509 Z	SUZUKI JIMNY 1.3 JX	05/20/2007	1,580	248	248
8	KAW 510 Z	SUZUKI JIMNY 1.3 JX	05/20/2007	1,580	315	321
9	KAW 493 Z	SUZUKI JIMNY 1.3 JX	05/20/2007	1,580	451	451
10	KBL 867 G	DAIHATSU TERIOS DX	10/07/2010	2,687	1,755	1,755
11	KAR 267 L	DAIHATSU TERRIOS	07/27/2004	1,560	200	200
12	KBW 069 V	DAIHATSU TERIOS	11/19/2013	3,365	(2,044)	830
Balance as at 30th June				20,881	3,147	6,021

NOTES TO FINANCIAL STATEMENT (Continued)

		2017	2016
	NOTES	KES.'000	KES.'000
24 (a) Cash flow from operating activities:			
Profit/(Loss) Before Taxation		271,328	249,614
Adjustments for:			
Interest on Short Term Deposits	2 (b)	(75,352)	(108,374)
Depreciation of Property & Equipment	8 (a)	75,652	70,329
Amortisation of Intangible Assets	8 (b)	41,577	1,954
Profit/loss on Disposal of Assets	23 (c)	(3,147)	(62,374)
Interest expense	20 (a)	38,561	39,485
Operating profit/(Loss) before working capital changes		348,619	190,634
Cash generated from operations			
Increase in Inventories		(874)	479
Increase in Trade and Other Receivables		(538,604)	45,658
Decrease in Trade and Other Payables		(49,103)	(235,923)
Cash generated from operations			
Interest paid		(11,000)	(342)
Net cash from operating activities		(250,962)	506
24 (b) Analysis of cash and cash equivalents			
Cash and Bank Balances	13 (a)	130,833	109,218
Overdrawn Current Account	13 (b)	-	(6)
Short term deposit	14	1,117,576	712,498
		1,248,409	821,710

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are subject to readily convertible to known amounts of cash and are insignificant risk of changes in value.

NOTES TO FINANCIAL STATEMENT (Continued)

INCOME TAX EXPENSE/ (CREDIT)

25(a) Current taxation	NOTES	2017 KES.'000	2016 KES.'000
Current taxation based on the adjusted profit for the year at 30%		100,250	67,933
Current tax: prior year under/(over) provision		-	-
Current year deferred tax charge		43,471	-
Prior year under-provision for deferred tax		-	-
		143,721	67,933

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

	2017 KES.'000	2016 KES.'000
Profit before taxation	271,328	249,614
Tax at the applicable tax rate of 30%	81,398	74,884
Current tax: 2010/2011 under-provision	-	-
Tax effects of expenses not deductible for tax purposes	51,536	-
Tax effects of income not taxable	(944)	-
Tax effects of excess capital allowances over depreciation/amortisation	11,731	(6,951)
Deferred tax prior year over-provision	-	-
	143,721	67,933

XVII. PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	Property and Equipment – Lack of ownership documents for some parcels of land.	All the listed undeveloped parcels of land without ownership documents were excluded from the list of our assets as per your recommendation in the management letter ref: AFC/5/2013/2014/ (6) dated 8 th December 2014.	The Corporation Secretary & Chief Manager Legal Services. Mrs. Rose Ochanda	Not resolved	Ongoing
	Additions to Property and Equipment - Lack of Non-Current Assets policy and Procedure manual on capitalization policy.	Policy provided to the auditors	General Manager – Finance Mr. Tom O. Akeno	Resolved	Not applicable
	Loss of Cash As previously reported in 2014/2015, an 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	This is a criminal case file no 113/19/2012 court file 1311/2012 Republic of Kenya vs. Lawrence M. Bokoro & Another that is ongoing at the Milimani Law Court.	The Corporation Secretary & Chief Manager Legal Services. Mrs.	Not resolved	Ongoing criminal case no 113/19/2012.

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>cheque by various staff members. Information available indicates that the cheques were cashed by an accountant in charge of cash office, who also doubled as the Corporation's bank agent.</p> <p>Net Loans to Customers</p> <p>(i) As previously reported in 2014/2015 and disclosed in note 12 to the financial statements, loans to customers balance of Kshs.4,294,811,000 include an amount of Kshs.22,661,100 advanced to thirteen (13) farmers in Kapsabet. Information available indicates 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.</p> <p>(ii) Similarly and as previously reported, included in the loans to customers balance are loans to staff totalling Kshs.286,496,000 that includes advances 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 have not been provided for.</p>	<p>The corporation filed six (6) cases against the fraudsters, namely Eldoret HCC No 100, 102, 103, 104, 105 & 106 of 2011. Judgment was entered in favor of the Corporation and decrees accordingly extracted.</p> <p>Warranties were issued and the process of execution initiated. The Corporation has continued to pursue the properties of the 13 fraudsters for attachments and recovery. However there have been challenges in identifying and locating the fraudsters' properties. Under the circumstances, the Corporation has fully provided for these cases as bad and doubtful debts in our previous accounts.</p>	<p>The Corporation Secretary & Chief Manager Legal Services. Mrs. Rose Ochanda</p>	<p>Issue no (i) not resolved. Number (ii) resolved.</p>	<p>(i) Ongoing</p>
		<p>The composition of provision of Kshs 20,387,000 comprised of a specific provision of Kshs 17,782,000 in respect of ex-staff loans and a general provision of Kshs 2,605,000 for the current staff. The same has not been reviewed because we consider it adequate.</p>			

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Deferred Tax Asset</p> <p>The statement of financial position reflects an amount of Kshs.670,978,000 on deferred tax assets. This amount is a reduction of last year's figure of Kshs.700,379,000. However no workings were provided for the figure of the deferred tax asset, or the movement from last year's figure of Kshs.29,401,000 described as Tax for the Year in note 10 to the financial statements.</p> <p>The deferred tax asset presented therefore is contrary to the requirements of the International Accounting Standards (IAS) no.12 on deferred tax, which provides the basis of arriving at deferred taxation asset or liability and how the expensed portion should be accounted for under income. Considering that the deferred tax figure has been carried forward for the last three years, and only a portion was expensed during the year, and which was not supported, deferred tax is not fairly stated.</p>	<p>We amended the portion expensed during the year to conform to IAS 12 as highlighted in the draft letter.</p>	<p>General Manager – Finance Mr. Tom O. Akeno</p>	<p>Resolved</p>	
	<p>Trade and Other Receivables</p> <p>(i) Rent Receivables</p> <p>The statement of financial position reflects an amount of Kshs.61,611,000 under trade and other receivables as at 30 June 2016, which includes rent receivable from Judiciary amounting to</p>	<p>(i) Rent Receivable</p> <p>Out of the total outstanding rent from the Judiciary of Kshs. 31,398,545 as at 30th June 2015, Kshs. 8,871,664.05 was received in July 2015, leaving an outstanding balance of Kshs 22,526,882.80. The Judiciary however indicated in their letter ref:</p>	<p>The Corporation Secretary & Chief Manager Legal Services. Mrs.</p>	<p>Resolved.</p>	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>Kshs.31,398,546 that has been outstanding for a considerably long time. Management has however not made any provision for this amount although its recoverability appears doubtful. In addition, note 1 (L) to the financial statements states that an estimate is made on doubtful debts based on a review of outstanding amounts at year end. However, no evidence was presented for audit verification to confirm the statement.</p> <p>(ii) General Provision for Bad Debts</p> <p>The statement of financial position's trade and other receivables balance of Kshs.61,611,000 is net of a general provision of Kshs.22,527,000. This is contrary to the disclosure made under note (h) to the financial statements, which states that provision for bad debts are recognized at fair values less allowances for any uncollectible amounts and that the assessment for impairment is done on a continuing basis and an estimate is made of doubtful receivables based on a review of all outstanding amounts at year end, and that bad debts are written off after all efforts at recovery</p>	<p>AFC/LD/JUDICIARY dated 10th June 2015 that our lease agreements had formed a major part of their audit queries and were having difficulties in responding to the same, thus they were unwilling to pay us the balance.</p> <p>It is on this basis that a specific provision was made of Kshs. 22,527,000 in the financial year 2014/15 being the total outstanding balance whose recoverability was remote.</p>	<p>Rose Ochanda</p>	<p>Resolved.</p>	
		<p>(ii) Based on a review of the debtors outstanding as at 30th June 2016 the management was satisfied that the outstanding debts were collectable, hence no provision was made. From the opening balance of Kshs. 107,270,000 excluding the specific provision of Kshs 22,527,000 for the Judiciary rent receivable it can be evidenced that the Corporation was able to collect a significant amount of the</p>	<p>General Manger – Finance. Mr Tom O. Akeno</p>		

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>have been exhausted. My review revealed that the general provision for bad debts has remained constant at Kshs.22,527,000 despite the movement in the trade and other receivables. In addition, there was no evidence that attempts are being made to recover amounts due from Judiciary. Furthermore, a recoverability fee and charges of Kshs.8,227,000 which was deducted from outstanding debts was not supported with any documentary evidence. Under the circumstance, the recoverability of the trade and other receivables figure of Kshs.61,611,000 could not be ascertained.</p>	<p>debts leaving a balance of Kshs. 61,611,000. Recoverable fees and charges include auctioneers' and valuation fees paid by the Corporation and subsequently debited to the clients accounts. This account was in credit because the invoices had been expensed. We have since corrected this error and the respective invoices debited to this account.</p>			
	<p>Payables The statement of financial position reflects an amount of Kshs.389,221,000 under payables. These relates to amounts owing to customers in form of credit balances, unprocessed loan receipts and loan deposits as at 30 June 2016 that had not been credited to customers. Review of records revealed that an amount of Kshs.32,219,000 relating to unprocessed loan receipts had been received through the bank but had not been credited to customers amount as these had not been</p>	<p>Out of Kshs 32,219,000 an amount of Kshs 31,766,000 relates to proceeds from the sale of seed maize from Kenya Seed Company for clients under Bura branch. However, the remittances were not accompanied by the schedule of beneficiaries hence the amounts were posted to Suspense Account. The list of beneficiaries was received in July 2016 and receipts issued to the respective client accounts. The balance of Kshs 453,000 relates to various unidentified remittances which we are in the process of identifying the beneficiaries for the purposes of receipting to</p>	<p>General Manger – Finance. Mr Tom O. Akeno</p>	<p>Resolved.</p>	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>identified and were therefore in suspense account. In addition customers' loans deposits amounting to Kshs.107,040,000, which were indicated to belong to various savings groups and dormant accounts could not be verified for lack of documentation. It is not clear why the Corporation would be holding huge figures relating to customers in credit balances. It is also not clear why it takes long to identify and conclude routine customer transactions. Under the circumstance, the validity, completeness and figure of accuracy of Kshs.389,221,000 under payables could not be confirmed.</p>	<p>their respective accounts. Out of the total Customer's Loan deposit of Kshs 107,040,000, an amount of Kshs 59,346,000 is attributable to balances in the customer's individual, groups and corporate clients' relationship accounts. These accounts were established internally to enable the clients access their loan disbursements immediately without being channelled to their bank accounts. The clients access this money at their convenience. On the other hand Kshs 4,996,000 relate to staff relationship accounts for processing staff loan disbursements, imprest and per diems. The balance of Kshs 42,698,000 is attributable to dormant individual, staff, group, FPIP deposits accounts and rejected credits items – savings. Where an account remains without any transaction for a period of one year, the status changes to dormant. However, these accounts are re-activated whenever a client wants to transact business.</p>	<p>General Manger – Finance. Mr Tom O. Akeno</p>	<p>Resolved.</p>	
	<p>Trade and Other Payables The statement of financial position reflect a figure of Kshs.194,145,000 under trade and other payables. As disclosed under note 21 (b) to the financial statements, the amount is net of Kshs.147,620,082 and Kshs.5,212,282,092 relating to other creditors and inter branch transfer A/c</p>	<p>Below is an explanation provided for each of the debit balances represented in Trade and Other payables:- a) Other Creditors general ledger number 2200031 We wish to clarify that the debit amount in the other creditors accounts</p>	<p>General Manger – Finance. Mr Tom O. Akeno</p>	<p>Resolved.</p>	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>respectively, contrary to the International Accounting Standard (IAS) No. 1 on set offs. The management has not explained what these debit balances represent in the trade and other payables balance as at 30 June 2016. Consequently, the validity of the figure of Kshs.194,145,000 on trade and other payables could not be confirmed.</p>	<p>are not set offs as indicated instead these were payments to creditors and adjustment transactions during the financial year.</p> <p>b) Rent Creditors general ledger number 2200034</p> <p>(i) The debit amount of Kshs 7,161,075 on 27th November 2015 vide GJV number 141521 was in respect to an adjustment of surplus receivables from Development House management Committee (DHMC) against rent payment.</p> <p>(ii) Payment of Kshs 5,510,785.70 vide cheque number 585695 on 30th November 2015 was rent due to DHMC.</p>	<p>General Manger – Finance. Mr Tom O. Akeno</p>	<p>Resolved.</p>	
	<p>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 balance of Kshs.70,482,000. The amount was occasioned by the tax calculation of the year of Kshs.67,933,000 where an amount of Kshs.38,532,000 was credited against Tax Payable in the Year, while an amount of Kshs.29,401,000 was credited</p>	<p>We have amended the portion expensed during the year to conform to IAS 12 as highlighted in the draft letter. The Corporation is still recouping previous years losses hence no tax is due for payment, as a result the tax element has been netted off against the deferred tax asset balance.</p>	<p>General Manger – Finance. Mr Tom O. Akeno</p>	<p>Resolved.</p>	

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Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	<p>against deferred tax asset. However, no workings were provided to show how the corporate tax payable for the year was calculated. In addition, it is not clear how the taxable profit position would have been, if adequate provision for bad and doubtful loans and other debts had been adequately made. Consequently, the accuracy of the corporate tax payable could not be confirmed.</p>	<p>In the Financial year 2013/2014, the Corporation had provided for Kshs 100,000,000 to cater for staff rationalization which was envisaged. However, the exercise was not implemented hence informing the write back of the provision. It is this write back of Kshs 100,000,000 that resulted in the substantial increase in sundry income reported under operating activities. Likewise Kshs 10,893,000 of unidentified loan receipts that had remained in the Suspense account for a period of over three years were transferred to miscellaneous income and Kshs 22,985,000 are miscellaneous collection. Included in this figure is Kshs 7,574,000 received from the Liquidated Trust Bank and Kshs 12,046,000 being administration costs recovered from the sale of Kilombe Farm.</p>	<p>General Manger – Finance. Mr Tom O. Akeno</p>	<p>Resolved.</p>	
	<p>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 59% from the previous year income of Kshs.114,499,000. However, the increase was attributed to profit on disposal of assets Kshs.62,374,000 and Kshs.142,770,000 income described as sundries income. Out of the sundries income, an amount of Kshs.133,878,000 was described as miscellaneous income. And although some of the incomes within the miscellaneous income were described as receipt for tender documents, search fees, etc., it is not clear what the huge revenue related to. It is also not clear why</p>				

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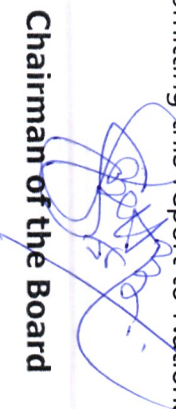
Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
	it could not be properly described. Consequently, the validity, completeness and accuracy of this revenue item could not be ascertained.				

Guidance Notes:

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


 Managing Director

Date : 28th September 2017


 Chairman of the Board

Date: 28th September 2017

I. APPENDIX 1 PROJECT IMPLEMENTED BY THE CORPORATION

No project was undertaken during the period under review.

II. APPENDIX 2 RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds	Date received as per bank statement	Nature: Recurrent/Development/Others	Where Recorded/recognized						Total Transfers during the Year
			Total Amount - KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
The National Treasury	21/10/2016	GOK Risk Sharing Fund	300,000	-	300,000	-	-	-	300,000
The National Treasury	08/02/2017	GOK Risk Sharing Fund	250,000	-	250,000	-	-	-	250,000
The National Treasury	19/04/2017	GOK Project Subsidy Funds	191,475	-	191,475	-	-	-	191,475
The National Treasury	N/A	GOK Drought Mitigation Funds	500,000	-	-	-	500,000	-	500,000
Total			1,241,475	-	741,475	-	500,000	-	1,241,475

III. Appendix 3: DETAILED ANALYSIS OF CASH AND CASH EQUIVAENT

Please see the attached appendix 3 for cash and cash equivalent of each bank account as at 30th June 2017

Appendix 3: DETAILED ANALYSIS OF CASH AND CASH EQUIVAENT

ACCOUNT NAME	ACCOUNT NUMBER	AMOUNT	CASH-IN-HAND
BARCLAYS			
Ngong Branch Collection	651600952	160	-
TOTAL		160	-
CO-OP			
CO-OP Current account	1136001267600	1,009	-
Kericho Branch Collection	1120054196703	35	-
Kericho Branch Imprest	1120054196701	-	-
Kericho Loan Funds Account	01120054196704	11	-
Kerugoya Loan Funds Account	1120273802600	885	-
Kilgoris Branch Collection	1136001267602	2	-
Kilgoris Loan Funds Account	1136001267605	3	-
Muranga Loan Funds Account	1138422223900	481	-
Nanyuki Loan Funds Account	1136365660900	4	-
Ngong Branch Collection	1136001267606	237	-
Ngong Branch Imprest	1136001267603	-	1
Ngong Loan Funds Account	1136001267604	35	-
Nyahururu Branch Collection	1136501087900	2	-
Nyahururu Branch Imprest	1136501087901	5	5
Nyahururu Loan Funds Account	1136501087902	3	-
Oyugis Branch Collection	1136454306600	72	-
Oyugis Branch Imprest	1120454306600	24	2
Oyugis Loan Funds	1136454306601	3	-
Turbo Branch Imprest	1136001267601	1	-
TOTAL		2,814	8

**Appendix 3: DETAILED ANALYSIS OF CASH AND CASH EQUIVAENT
 (Continued)**

ACCOUNT NAME	ACCOUNT NUMBER	AMOUNT	CASH-IN-HAND
KCB			
Bomet Branch Collection	1109313667	115	-
Bondo Branch Collection	1122294352	5	-
Bondo Branch Imprest	1122292155	9	-
Bondo Loans Fund Account	1134024142	1,058	-
Bura Branch Collection Account	1151671320	2	-
Bura Branch Imprest Account	1151671940	102	2
Bura Loan Funds Account	1151672092	1,351	-
Chogoria Branch Collection	1133297706	1	-
Chogoria Branch imprest	1133297838	-	2
Chogoria Loan Funds Account	1134220928	10	-
Eldama Ravine Branch Collectio	1105622142	43	-
Eldama Ravine Branch Imprest	1105622347	-	2
Eldama Ravine Loan Funds	1135038295	2	-
Embu Branch Collection	1102829943	4	-
Hola Branch Collection Account	1166415724	1	-
Hola Branch Imprest	1166415651	29	8
Hola Loan Fund Account	1166415589	1	-
Imprest - Development House	1001060955900	1,214	-
Iten Branch Collection	1133837999	4	-
Iten Branch Imprest	1133577040	10	4
Iten Loan Funds	1135004994	29	-
Kabarnet Branch Collection	1103636103	1	-
Kabarnet Branch Imprest	1103636391	15	3
Kabarnet Loan Funds Account	1136384456	516	-
kajiado Branch Collection	1108367445	13	-
Kajiado Branch Imprest	1108367739	1	5
Kajiado Loan Funds Account	1137939125	26	-
Kakamega Branch Collection	1101677724	272	-
Kapsabet Branch Imprest	1003055714101	37	2
KCB Central collection account	1165944057	7,812	-
Kerugoya Branch Collection	1104003147	45	-
Kerugoya Branch Imprest	1104003325	34	6
Kiambu Branch Collection	1101973250	615	-
Kilgoris Branch Imprest	1107883644	28	3

**Appendix 3: DETAILED ANALYSIS OF CASH AND CASH EQUIVAENT
 (Continued)**

ACCOUNT NAME	ACCOUNT NUMBER	AMOUNT	CASH- IN-HAND
KCB			
Kilifi Branch Collection	1102290408	20	-
Kilifi Branch Imprest	1102290173	16	1
Kilifi Loan Funds Account	1135029660	243	-
Loitokitok Branch Collection	1107883709	16	-
Loitokotok Loan Funds Account	1134403364	-	-
Machakos Branch Collection	1107108381	33	-
Molo Branch Imprest	1106493494	161	10
Mpeketoni Branch Collection	1133514316	12	-
Mpeketoni Branch Imprest	1133514278	12	3
Mpeketoni Loan Funds Account	1134875878	27	-
Murang'a Branch Collection	1107247381	857	-
Murang'a Branch Imprest	1107247756	1	-
Naivasha Branch Collection	1107458846	422	-
Naivasha Branch Imprest	1107462851	5	5
Naivasha Loan Funds	1135303096	549	-
Nanyuki Branch Collection	1103075322	3	-
Nanyuki Branch Imprest A.C	1103075039	-	1
Thika Branch Collection	1109313677	7	-
Ukunda Branch Collection	1108620892	132	-
Ukunda Branch Imprest	1108621015	1	1
Ukunda Loan Funds Account	1136037349	7,778	-
Wote Branch Collection	1105355799	52	-
Wote Loans Fund Account	1133315208	765	-
TOTAL		24,513	58
NBK			
AFC Deposit account	01020005529200	165	-
AFC General current account	01001004368300	30,773	-
AFC Investment account	01001004368301	40,068	-
AFC Loans revolving account	01001061023900	743	-
Bomet Branch Imprest	01001079455501	-	-
Bomet Loan Funds Account	01001079455500	26	-
Bungoma Loan Funds Account	01001094560300	82	-
Bungoma Branch Collection	01004054896100	7	-
Bungoma Branch Imprest	01004054896200	30	4

**Appendix 3: DETAILED ANALYSIS OF CASH AND CASH EQUIVAENT
 (Continued)**

ACCOUNT NAME	ACCOUNT NUMBER	AMOUNT	CASH- IN-HAND
NBK			
Busia Branch Collection	01001129125500	33	-
Busia Branch Imprest	01001129125502	15	5
Busia Loan Funds Account	01001129125501	9	-
Eldoret Branch Collection	1003028336701	481	-
Eldoret Branch Imprest	1003028336700	-	-
Eldoret Loan Funds	01003028336702	3,090	-
Embu Branch Imprest	1004069004100	1	3
Embu Loan Funds Account	01020069142100	333	-
Kakamega Branch Imprest	1004054896200	33	2
Kakamega Loan Funds Account	01001071878200	37	-
Kapsabet Branch Collection	01003055714100	52	-
Kapsabet Loan Funds	01003055714102	242	-
Karatina Branch Collection	01004044508700	(1)	-
Karatina Branch Imprest	01004044509400	8	3
Karatina Loan Funds Account	01004044710300	873	-
Kiambu Branch Imprest	01004099719200	26	1
Kiambu Loan Funds Account	01004084369300	6	-
Kisii Branch Collection	01003033926701	(1)	-
Kisii Branch Imprest	01003071283300	24	-
Kisii Loan Funds Account	00123033926700	77	-
Kisumu Branch Collection	01003024650400	21	-
Kisumu Branch Imprest	01003033926700	46	1
Kisumu Loan Funds	01001024650400	73	-
Kitale Branch Collection	01004024650403	35	-
Kitale Imprest	01004024650404	25	2
Kitale Loan Funds	01004050314000	197	-
Loitokitok Branch Imprest	01001060955900	17	-
Machakos Branch Collection	01023078445201	2	-
Machakos Branch Imprest	01001078445200	6	3
Machakos Loan Funds Account	01023078445200	9	-
Meru Branch Collection	01001039024501	15	-
Meru Branch Imprest	01001039705300	32	2
Meru Loan Funds Account	01001040516700	2	-

**Appendix 3: DETAILED ANALYSIS OF CASH AND CASH EQUIVAENT
 (Continued)**

ACCOUNT NAME	ACCOUNT NUMBER	AMOUNT	CASH- IN-HAND
NBK			
Migori Branch Collection	01004083639200	251	-
Migori Branch Imprest	01003024650401	12	9
Migori Loan Funds Account	01023083898700	-	-
Molo Branch Collection	10040535100100	10	-
Molo Loan Funds Account	01023095149800	1	-
Nakuru Branch Collection	01003020332300	-	-
Nakuru Branch Imprest	01003020332301	6	4
Nakuru Loan Funds Account	01001020332300	38	-
Narok Branch Collection	01003024650407	71	-
Narok Branch Imprest	01003024650408	5	-
Narok Loan Funds Account	01001024650401	31	-
NBK Development House Bank	01001060100500	4,129	-
Nyeri Branch Collection	01001043000002	(1)	-
Nyeri Branch Imprest	01001043000000	16	6
Nyeri Loan Funds Account	01001043000001	17	-
Thika Branch Collection	01001076214704	54	-
Thika Branch Imprest	01001076214702	2	-
Thika Loan Funds Account	01001076214700	10	-
Turbo Branch Collection	01003028297100	1	-
Turbo Loan Funds	01003028297201	5,710	-
Wote Branch Imprest	01003028297200	22	1
Ziwa Branch Collection Account	01003073073201	17	-
Ziwa Branch Imprest	01003073073200	22	10
Ziwa Branch Loans Funds	01004076029400	421	-
TOTAL		88,562	57
Staff car loan/ mortgage			
National bank of Kenya	01001061023900	709	-
TOTAL		709	-
On-call deposits			
Kenya Commercial bank	MM1635030200	50,000	
TOTAL		50,000	

**Appendix 3: DETAILED ANALYSIS OF CASH AND CASH EQUIVAENT
 (Continued)**

ACCOUNT NAME	ACCOUNT NUMBER	AMOUNT	CASH-IN-HAND
Fixed Deposit Accounts			
Co-operative Bank	01132001267634	150,000	-
National Bank of Kenya	01329004368348	150,000	-
National Bank of Kenya	01329004368347	100,000	-
NIC Bank	1004635554	150,000	-
National Bank of Kenya	01329004368349	200,000	-
Co-operative Bank	01132001267635	200,000	-
National Bank of Kenya	01329004368350	100,000	-
TOTAL		1,050,000	-
Interest receivable			
Kenya Commercial bank	MM1635030200	1,957	-
Co-operative Bank	01132001267634	2,700	-
National Bank of Kenya	01329004368348	2,918	-
National Bank of Kenya	01329004368347	1,945	-
NIC Bank	1004635554	2,485	-
National Bank of Kenya	01329004368349	2,740	-
Co-operative Bank	01132001267635	2,416	-
National Bank of Kenya	01329004368350	415	-
TOTAL		17,576	-
Mpesa Phone Float			
001	Kitale Branch	53	47
002	Eldoret Branch	2	98
003	Kericho Branch	39	11
004	BUNGOMA BRANCH	13	37
005	Busia Branch	10	40
006	Kakamega Branch	6	94
007	Kisii Branch	13	37
008	Kisumu Branch	-	200
009	Migori Branch	30	20
010	Molo Branch	28	22
011	Nakuru Branch	158	42
012	Naivasha Branch	39	11
013	Nyahururu Branch	32	18
014	Nyeri Branch	42	8

**Appendix 3: DETAILED ANALYSIS OF CASH AND CASH EQUIVAENT
 (Continued)**

ACCOUNT NAME	ACCOUNT NUMBER	AMOUNT	CASH- IN- HAND
Mpesa Phone Float			
015	Nanyuki Branch	11	39
016	Kerugoya Branch	39	11
017	Muranga Branch	30	20
018	Kiambu Branch	14	36
019	Embu Branch	28	22
020	Meru Branch	117	33
021	Machakos Branch	43	7
023	Kajiado Branch	18	32
025	Eldama Ravine Branch	20	30
026	Iten Branch	29	21
027	Kapsabet Branch	38	12
029	Ngong Branch	13	37
030	Chogoria Branch	25	25
032	Narok Branch	18	32
033	Karatina Branch	22	78
034	Bomet Branch	56	44
035	Thika Branch	15	35
037	Ukunda Branch	20	30
038	Kilifi Branch	86	64
040	Head Office Branch	14	136
041	Oyugis Branch	0	50
042	Development House Branch	70	30
045	Loitokitok Branch	1	49
046	Kabarnet Branch	43	7
048	Kiligoris Branch	7	43
053	Turbo Branch	27	73
056	Wote Branch	22	28
057	Bondo Branch	73	27
058	Ziwa Branch	20	30
059	Mpeketoni Branch	24	26
060	Bura Branch	63	37
TOTAL		1,470	1,830

**Appendix 3: DETAILED ANALYSIS OF CASH AND CASH EQUIVAENT
 (Continued)**

ACCOUNT NAME	ACCOUNT NUMBER	AMOUNT	CASH- IN-HAND
M-Banking Account			
M-Banking Clearing Account C2B		1,788	-
M-Banking account clearing B2C		930	-
Mobile Banking Airtime Account		1	-
TOTAL		2,719	-
Vault Cash			
Vault Cash		4,227	-
TOTAL		4,227	-
Cash in transit			
Cash in transit		3,707	-
TOTAL		3,707	-
GRAND TOTAL		1,248,409	-

IV. ANALYSIS OF PORTFOLIO MOVEMENT AS AT 30TH JUNE 2017

Balances as at 1 July 2016		2017		2016
Medium Term Loans		KES.'000		KES.'000
Not yet due:	Principal	3,972,850	-	3,952,191
	Interest	96,352	-	104,930
Arrears:	Principal	925,936	-	981,540
	Interest	328,419	-	366,910
	Interest on arrears	871,729	-	1,028,998
	Loan Fees	83,995	-	84,243
Sub Total		6,279,282	-	6,518,812
Add Transactions during the year				
Disbursements		1,971,949	-	2,169,929
Collections		(2,044,105)	-	(2,166,054)
Interest earned		890,715	-	462,821
Write-off		(411,047)	-	(706,226)
Sub-total		407,513	-	(239,531)
Balances as at 30 June 2017		6,686,794	-	6,279,282

Analysis of balances as at 30th June 2017		2017		2016
Medium Term Loans		KES.'000		KES.'000
Not yet due:	Principal	3,849,304	-	3,972,850
	Interest	74,772	-	96,352
Arrears:	Principal	1,334,453	-	925,936
	Interest	414,061	-	328,419
	Interest on arrears	895,539	-	871,729
	Loan Fees	118,665	-	83,995
Total		6,686,794	-	6,279,282
Provisions				
Balance as at 1 July 2016		1,963,704	-	2,110,300
Collection from D&B		(607,443)	-	(122,984)
Charge write backs		(84,376)	-	(60,845)
Bad Debts		518,117	516	58,000
Sub Total		1,790,002	516	1,984,471
Net Medium Loans		4,896,792	516	4,294,811

**ANALYSIS OF PORTFOLIO MOVEMENT AS AT 30TH JUNE 2017
 (Continued)**

Short Term Loans		1,790	-	-
Not yet due:	Principal	1,247,315	-	1,117,348
	Interest	32,611	-	29,441
Arrears:	Principal	647,366	-	527,707
	Interest	70,087	-	44,111
	Interest on arrears	576,817	-	506,628
	Loan Fees	41,574	-	27,434
Sub Total		2,615,769		2,252,670
Add Transactions during the year				
Disbursements		773,146	-	997,787
Collections		(1,331,772)	-	(830,739)
Interest earned		117,122	-	196,050
Sub-total		(441,504)		363,098
Balance as at 30 June 2017		2,174,265		2,615,769

**Analysis of balances as at 30
 th June 2017**

		2017		2016
Short Term Loans		KES.'000		KES.'000
Not yet due:	Principal	1,082,022	-	1,247,315
	Interest	34,010	-	32,611
Arrears:	Principal	493,468	-	647,366
	Interest	104,096	-	70,087
	Interest on arrears	434,385	-	576,817
	Loan Fees	26,283	-	41,574
Total		2,174,265		2,615,769
Provisions				
Balance as at 1 July 2016		141,954	-	77,550
Charge write backs		-	-	-
Adjustments		-	-	-
Adjustments		-	-	-
Bad Debts		169,046	-	-
Total		311,000	-	77,550
Net Loans to customers		1,863,265	-	2,538,219

Agricultural Finance Corporation
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V. Appendix 4: ANALYSIS FOR MOVEMENT IN PROPERTY AND EQUIPMENT FOR CASH FLOW STATEMENT

Opening balances	Land & Buildings	Motor Vehicles	Furniture & Equip	Computers	Software	Fixed Assets Clearing	Control Total
Balances as at June 2016	1,096,287	219,467	261,566	143,139	59,478	67,107	1,847,044
Less: Accumulated Depreciation	124,042	173,781	214,555	135,332	49,509	-	697,219
Opening balances as at July 2016	972,245	45,686	47,011	7,807	9,969	67,107	1,149,825
Add: Additions during the year	-	45,411	17,983	14,824	110,362	113,624	188,581
Part payment during last year 2016	-	-	6,960	-	60,147	-	-
Depreciation eliminated on disposal	-	18,007	-	-	-	-	18,007
Less: Disposal during the year	-	20,881	-	-	-	-	20,881
Depreciation charge	22,579	33,157	11,814	8,102	41,577	-	117,229
Transfer from WIP	-	-	-	-	-	180,731	-
Balances as at June 2017	949,665	55,066	60,140	14,529	138,902	-	1,218,302

Property and Equipment as at June 2016 1,139,856
 Intangible Assets as at June 2016 9,969
1,149,825

Add Purchases
 Property and Equipment as analyzed above 78,218
 Intangible Assets 110,361
1,338,405
1,338,405
 (20,881)

Less disposal
 Less dep for the year 1,317,524
 Add dep on disposal (117,229)
 18,007

Non-Current assets as at 30-06-2017
1,218,302