REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

AGRICULTURAL FINANCE CORPORATION

FOR THE YEAR ENDED 30 JUNE, 2021

AGRICULTURAL FINANCE CORPORATION

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2021

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

CONTENTS

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. At cabinet level, the entity is represented by the Cabinet Secretary for the Ministry of Agriculture, Livestock and Fisheries, who is responsible for the general policy and strategic direction of the entity. The Corporation is domiciled in Kenya and has 47 numbers of branches in 35 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 Corporation 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 since inception been able to discharge this responsibility through an expansive branch network, offering quality affordable, accessible financial products and services tailored to meet diverse and exclusive needs of Kenyan farmers.

VISION

"To be the Premier Agricultural Development Bank in Kenya."

KEY ENTITY INFORMATION (Continued)

MISSION

"To provide sustainable financing through participative and collaborative financial and non-financial interventions, innovations, technology and products."

CORE VALUES

To fulfill its mandate, pursue the Vision and accomplish its Mission, the AFC will be guided by its core values of:

i) **Customer Focus -** We strive to put the customers' needs first and ensure we add value in their lives;

ii) **Integrity -** We are committed to adhering to moral and ethical principles to ensure efficiency in service delivery;

iii) **Dedication -** We are a responsible organization, committed to ensuring our intended clients, staff and partners are well served and, that we have a lasting impact on Kenya's agricultural sector;

iv) **Partnerships and Teamwork -** We are committed to teamwork within the organization and partnering with different stakeholders in the market in the delivery of our services;

v) **Social Responsibility -** We are committed to ensuring sustainability that strengthens our business, our workforce and the communities where we operate

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
1.	Hon. Franklin Bett, EGH	Chairman	05-May-2019
2.	Prof. Dulacha Galgallo Barako	Alternate to the Cabinet Secretary The National Treasury	30-Sep-2019
3.	Mr. Tobias Okong'o Osano	Alternate to the Principal Secretary Ministry of Agriculture-Livestock & Fisheries	07-Aug-2020
4.	Mr. George Kubai	Managing Director	22-Feb-2021
5.	Dr. Zablon Nyaenya Ayiera	Member	07-Aug-2020
6.	Eng. Muriuki Karue Muriuki	Member	07-Aug-2020
7.	Mrs. Rosemary Muthoni Munio	Member	02-Oct-2015
8.	Mr. Isaac Mundui Matu	Member	07-Aug-2020
9.	Eng. Luke Kangogo Kittony	Member	07-Aug-2020
10.	Ms. Rukia Rashid	Member	07-Aug-2020

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.

CORPORATION CONTACTS

HEADQUARTER
Development House,

Moi Avenue,

P.O Box 30367 – 00100 GPO

Nairobi.

Kenya.

CONTACTS
Telephone: +254-020-3317199

E-mail: info@agrifinance.org

Website: www.agrifinance.org

CORPORATION 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.

KCB Bank Limited,

Moi Avenue,

P.O Box 30081 - 00100 GPO

Nairobi.

Kenya.

KEY ENTITY INFORMATION (Continued)

INDEPENDENT AUDITOR

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

Auditor General,

Office of the Auditor General,

P.O Box 30084 - 00100 GPO

Nairobi.

Kenya.

PRINCIPAL LEGAL ADVISERS

The Attorney General,

State Law Office,

Harambee Avenue,

P.O. Box 40112 – 00200 City Square

Nairobi, Kenya.

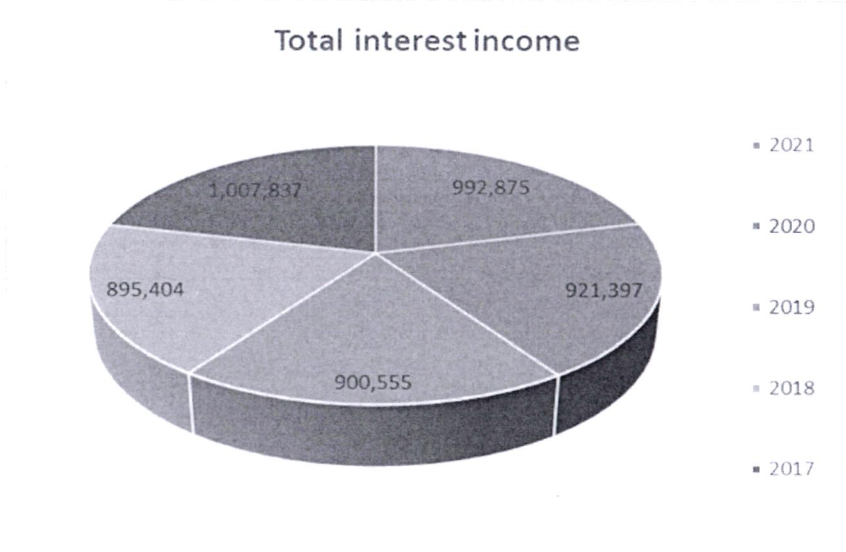
BUSINESS HIGHLIGHTS FIVE YEAR HISTORICAL PERFORMANCE

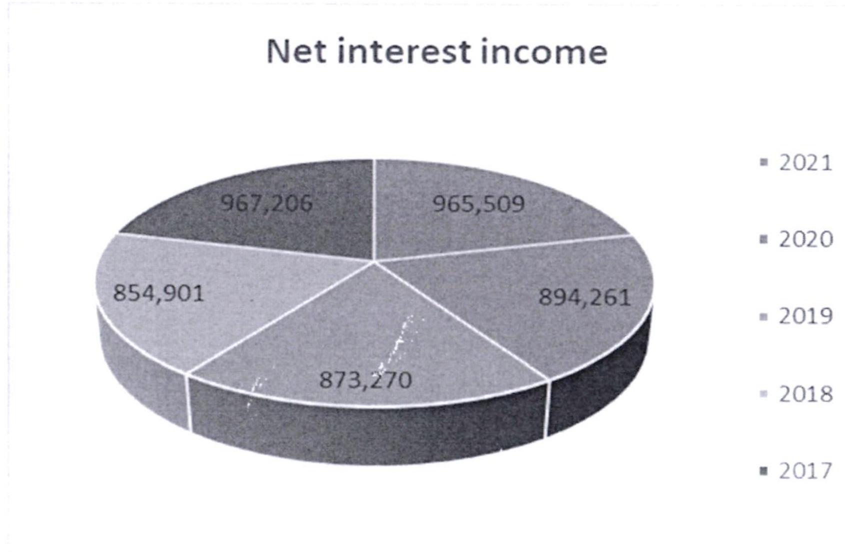
STATEMENT OF COMPREHENSIVE INCOME

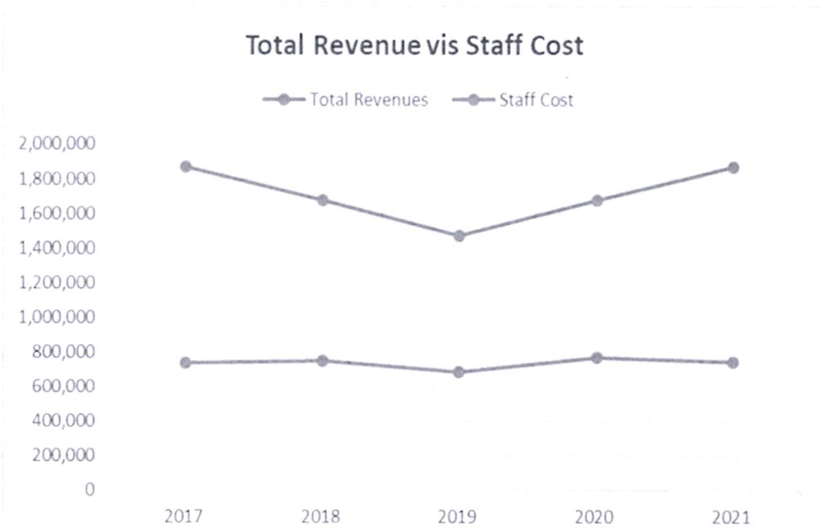
	2021	2020	2019	2018	2017
Revenues	**KES'000**	**KES'000**	**KES'000**	**KES'000**	**KES'000**
Interest Income:					
Interest on Loans	934,114	837,457	778,759	743,184	932,485
Interest on Short Term Deposits	58,761	83,940	121,796	152,221	75,352
Total interest income	**992,875**	**921,397**	**900,555**	**895,404**	**1,007,837**
Less: Interest expenses					
Interest on Redeemable Loans	15,129	15,005	15,395	38,260	38,562
Interest on RSF	9,456	9,379	9,430	-	-
Rebate Interest	2,780	2,753	2,459	2,243	2,069
	27,365	**27,137**	**27,285**	**40,503**	**40,631**
Net interest income	**965,509**	**894,261**	**873,270**	**854,901**	**967,206**
Non-Interest income					
Other Operating Income	145,699	183,323	171,892	92,753	113,912
Fee Income	188,489	172,225	170,980	182,240	182,557
Income from doubtful debts	298,454	1,009,952	252,138	549,123	607,443
Total Non-Interest income	**632,642**	**1,365,499**	**595,010**	**824,116**	**903,912**
Total Revenues	**1,598,151**	**2,259,760**	**1,468,280**	**1,679,017**	**1,871,118**
Operating Expenses					
Staff Cost	(740,817)	(767,651)	(681,735)	(752,198)	(737,510)
Board Expenses	(24,631)	(21,770)	(17,320)	(21,109)	(24,401)
Administration Costs	(267,452)	(298,378)	(299,854)	(276,281)	(233,883)
Depreciation & Amortization	(88,419)	(110,203)	(154,129)	(142,054)	(117,229)
Charge for Doubtful Debts	(329,124)	(743,015)	-	(208,786)	(486,767)
Total Expenses	**(1,450,443)**	**(1,941,017)**	**(1,153,038)**	**(1,400,427)**	**(1,599,790)**

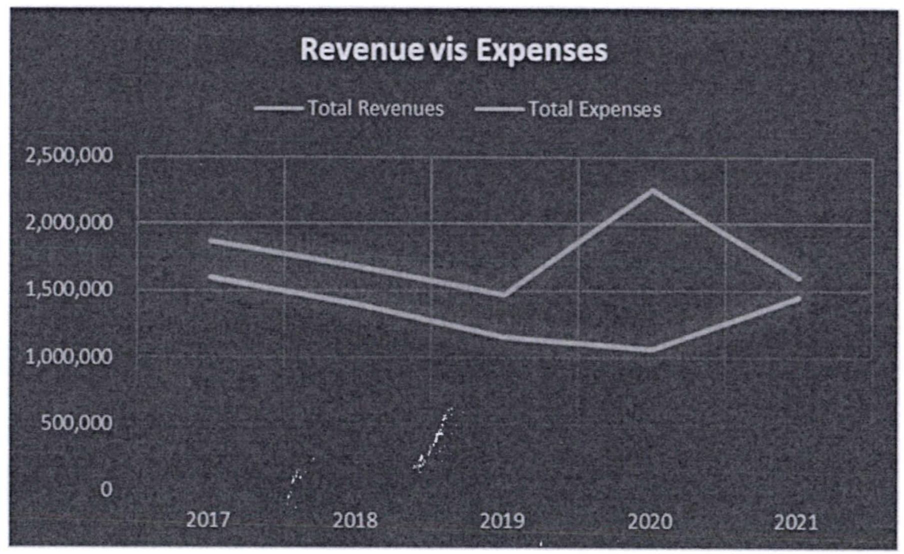
STATEMENT OF COMPREHENSIVE INCOME (Continued)

Profit before tax	**147,708**	**318,743**	**315,242**	**278,589**	**271,328**
Tax for the Year	(16,545)	(28,484)	(90,785)	(157,285)	(143,721)
Profit for the year	**131,164**	**290,259**	**224,457**	**121,304**	**127,607**


Total interest income
1,007,837
992,875
895,404
921,397
900,555
2021
2020
2019
2018
2017


Net interest income
967,206
965,509
854,901
894,261
873,270
2021
2020
2019
2018
2017


Total Revenue vis Staff Cost
Total Revenues
Staff Cost
2,000,000
1,800,000
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
2017
2018
2019
2020
2021

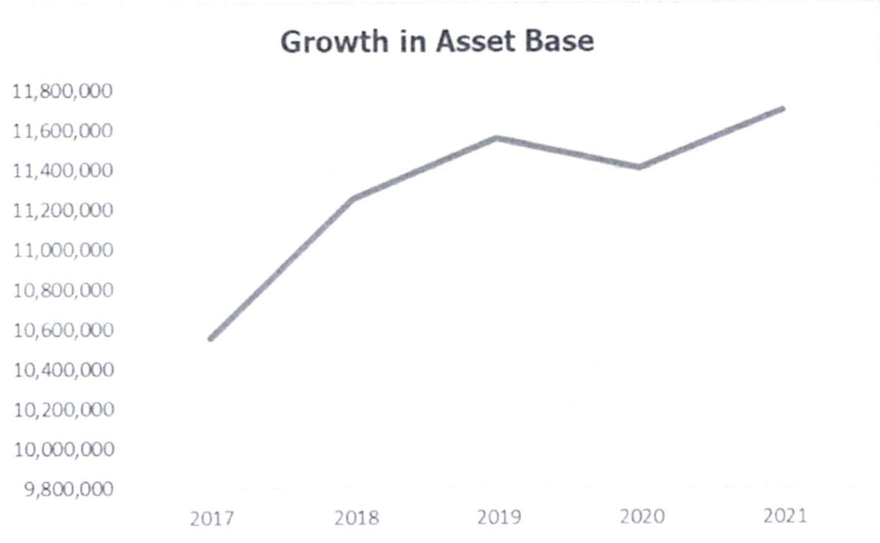

Revenue vis Expenses
Total Revenues
Total Expenses
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
2017
2018
2019
2020
2021

STATEMENT OF FINANCIAL POSITION

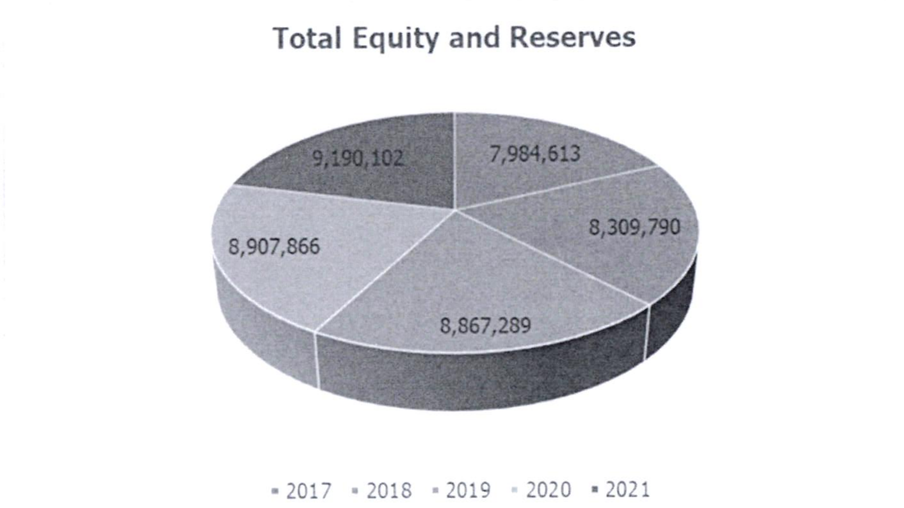
	2021 KES.'000	2020 KES.'000	2019 KES.'000	2018 KES.'000	2017 KES.'000
ASSETS:					
Non-Current Assets					
Property and Equipment	1,146,359	1,099,588	1,122,232	1,142,668	1,079,401
Intangible Assets	54,397	38,197	48,140	104,731	138,902
Deferred Tax Asset	12,902	3,563	555,557	588,975	588,975
Repossessed Farm Properties	365,249	267,794	268,041	259,167	137,995
Net Loans to Customers	8,394,479	7,748,754	6,238,828	5,602,718	4,896,537
Total Non-Current Assets	**9,973,386**	**9,157,896**	**8,232,798**	**7,698,259**	**6,841,810**
Current Assets					
Cash and Bank Balances	105,109	147,795	101,272	146,439	130,833
Short Term Deposits	611,038	778,674	1,105,958	1,271,502	1,117,576
Net Short Term Loans to Customers	912,685	1,143,204	1,961,846	1,981,527	1,863,487
Trade and Other Receivables	88,070	171,022	151,678	149,028	600,215
Inventories	4,532	4,020	2,695	3,591	1,937
Total Current Assets	**1,721,434**	**2,244,715**	**3,323,448**	**3,552,087**	**3,714,048**
Total Assets	**11,694,820**	**11,402,611**	**11,556,245**	**11,250,346**	**10,555,858**
EQUITY AND LIABILITIES					
Equity and Reserves					
Grants	3,768,923	3,617,851	3,623,994	3,803,691	3,597,951
Government Equity Capital	2,687,766	2,687,766	2,687,766	2,687,766	2,687,766
General Reserve	1,945,794	1,814,631	1,767,911	1,030,715	911,278
Revaluation Reserve	787,618	787,618	787,618	787,618	787,618
Total Equity and Reserves	**9,190,102**	**8,907,866**	**8,867,289**	**8,309,790**	**7,984,613**

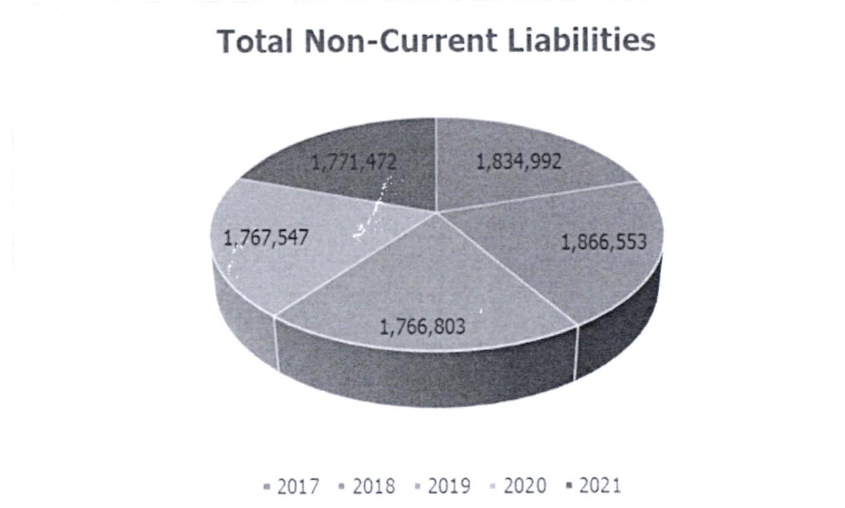
STATEMENT OF FINANCIAL POSITION (Continued)

Non-Current Liabilities					
Redeemable Government Loans and Interest:	562,523	558,599	543,204	657,604	1,003,258
Risk Sharing Fund	377,215	377,215	391,866	377,215	-
Agency Funds	831,734	831,734	831,734	831,734	831,734
Total Non-Current Liabilities	**1,771,472**	**1,767,547**	**1,766,803**	**1,866,553**	**1,834,992**
Current Liabilities					
Payables	481,304	437,883	390,589	503,136	363,918
Trade and Other Payables	149,855	179,442	135,784	242,851	201,603
Current Tax Payable	90,745	100,312	385,384	328,017	170,732
Current Accounts	11,343	9,561	10,395	-	-
Total Current Liabilities	**733,247**	**727,198**	**922,152**	**1,074,003**	**736,253**
Total Equity and Liabilities	**11,694,820**	**11,402,611**	**11,556,245**	**11,250,346**	**10,555,858**


Growth in Asset Base
11,800,000
11,600,000
11,400,000
11,200,000
11,000,000
10,800,000
10,600,000
10,400,000
10,200,000
10,000,000
9,800,000
2017
2018
2019
2020
2021


Total Non-Current Assets
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
2017
2018
2019
2020
2021


Total Equity and Reserves
9,190,102
7,984,613
8,309,790
8,907,866
8,867,289
2017 2018 2019 2020 2021


Total Non-Current Liabilities
1,771,472
1,834,992
1,866,553
1,767,547
1,766,803
2017 2018 2019 2020 2021

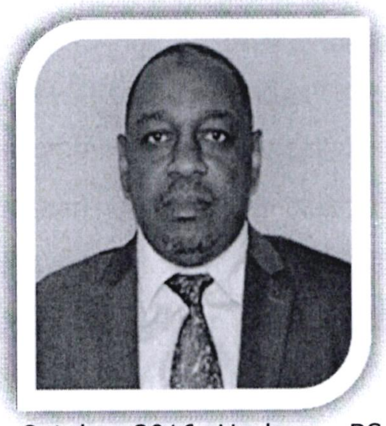
II. THE BOARD OF DIRECTORS

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

Hon. Amb. Ukur Yattani Kanacho, EGH has over 27-years experience in public administration, politics, diplomacy and governance in public sector since 1992. Before his appointment as Cabinet Secretary for the National Treasury & Planning, he served as the Cabinet Secretary for Labour and Social Protection since January 2018. Between the years 2006 -2007 while a Member of Parliament for North Horr constituency, he also served as an Assistant minister for science and technology. At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County. In June 2009 and October 2012, he served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. In this position, he aggressively pursued and advanced Kenya's foreign interests. In addition, he has held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against

THE BOARD OF DIRECTORS (Continued)

Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and chair of African Corporation of Ambassadors among others. During the years 1992—2015, he served in different positions in Kenya's Public Administration including a District Commissioner, where he sharpened his management and administrative skills. He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.



Prof. Hamadi Iddi Boga, is the Principal Secretary State Department for Agricultural Research and Acting Principal Secretary, State Department for Crop Development. He is an accomplished scholar, researcher and administrator. Before joining the Ministry he was a Professor of Microbiology at Jomo Kenyatta University of Agriculture and Technology (JKUAT) was the Acting Vice Chancellor of Taita Taveta University since 7th October 2016. He has a BSc in Botany and Zoology (First Class Honors) and MSc in Botany (Microbiology) from Kenyatta University in Kenya, PhD in Microbial Ecology and Microbiology from University of Konstanz, Germany and a Post-Doctoral Research stay at the Max Planck Institute for Terrestrial Microbiology in Marburg, Germany. He is also a Humboldt Fellow and was from 2010-2015 the Humboldt Ambassador Scientist for Kenya.

Boga has previously, held various administrative positions in JKUAT including Chairman of Botany Department (2002-2004), Director of Institute of Biotechnology Research (2005), Dean of Faculty of Science (2007) and Principal of JKUAT Taita Taveta Campus in Voi (2007 to 2012). From 2012-2016 he was the Principal of Taita Taveta University College.

He has an extensive international and local network of scientific engagements and collaborations. He is a board member of ICPE, ICRAF among others. He was a Board Member

THE BOARD OF DIRECTORS (Continued)

of the World Federation of Culture Collections (www.wfcc.org)(2010-2013). He was the Secretary of the African German Network of Excellence in Science (AGNES) (2013-2016), the Secretary (2002-2006) and later Chairman (2008-2010) of the Kenya German Scholars Association (KDSA)

Prof. Boga has over 66 scientific publications in International Journals, has supervised over 14 PhD and 31 MSc students. He is an active researcher with active international collaborations. Has a strong track record of fundraising for research. He has wide experience in Management and strategic planning.

At the Ministry, he is currently steering strategic policy transformation in the sector and has passion for embracing technology, innovations and digitalization to ensure informed and evidence based decision making and planning.

Prof. Dulacha G. Barako, **PhD** is the Senior Advisor to the Cabinet Secretary, The National Treasury. He is also adjunt Professor of Finance at KCA University. Prior to joining the Ministry, he was an associate professor of Finance at Moi University School of Business and the head of academic division at the Kenya School of Monetary Studies.

Prof. Barako, holds a PhD from the University of Western Australia, a Master of Business Administration and a Bachelor of Commerce degree both from the University of Nairobi. He has previous held other positions including being the technical advisor to the Commission on Revenue Allocation and a principal researcher at the Central Bank of Kenya. He has extensive experience in research, leadership, financial management and quality assurance.

THE BOARD OF DIRECTORS (Continued)

Mr. George Kubai is the Managing Director of Agricultural Finance Corporation. He is responsible for spearheading the Corporation's business strategy and operational excellence. He has proven executive leadership skills with over 15 years' experience in business management, relationship management, supply planning, project management, credit control, depot management and performance management. Prior to joining the Corporation, he worked at National Oil Corporation of Kenya (NOCK) where he was the General Manager, Downstream Operations. Mr. Kubai has held senior managerial positions in commercial banks, insurance companies and multinational Corporations having worked with Equity Bank, Sanlam Kenya (Pan Africa Insurance Holdings) and the Coca-Cola Company among others. He holds a Bachelor's degree from Maseno University and a Masters of Business Administration from Jomo Kenyatta University of Agriculture and Technology.

Mrs Rosemary Munio has extensive expertise and experience in consultancy with proficiency in strategic result based management and logical framework analysis. She has worked for over 20 years in various Non-Governmental Organizations (local and International) and for the government as a social development officer. Currently she is an independent development consultant.

She is a holder of an Executive MBA in Strategic Management from Moi University and BA in Social Works from University of Nairobi. She also holds the following Certificates of local Capacity in disaster preparedness and management, communication training program, conflict management course, gender responsive planning programming and management training, result based management.

THE BOARD OF DIRECTORS (Continued)

Dr. Zablon Nyaenya Ayiera is a lecturer at Moi University, School of Arts and Social Sciences, Nairobi campus and a Departmental Director of Stewardship Development and Trust Services at East Kenya Union Conference of Seventh Day Adventist Church. He is widely published and has carried out a number of research projects on societal and theology matters. He serves on various boards and Christian development programs. He is Chairman, Board of Management at Menyenya High School, Chairman, Board of Management at Riomego SDA Primary Boarding School, East Kenya Union Conference of Seventh Day Adventist Church Camp meeting Coordinator among others.

Dr. Nyaenya holds a Ph.D. from Moi University, Masters in Theology from St. Paul's University and a Bachelor of Arts in Theology from Tanzania Adventist College, University of Eastern Africa, Baraton.

Eng. Muriuki Karue Muriuki is a registered consulting engineer and former Senator for Nyandarua County and former MP for Olkalou Constituency. He is credited for having crafted the bill that established the Constituency Development Fund (CDF) in 2003.

He holds a Bachelor of Science in Engineering from the University of Nairobi and has done roadwork's course from Birmingham University.

THE BOARD OF DIRECTORS (Continued)

Ms. Rukia Rashid is passionate in driving women and youth development matters across all sectors especially in the trade and agricultural arenas. Currently she serves as the Chairperson of Kenya National Chamber of Commerce and Trade Chairperson of Agricultural Society of Kenya, Mombasa County.

In addition, she serves on various boards and community development programs including Makupa Boys High School, Mombasa Council of Elders and Mombasa County Security Team.

Eng. Luke Kangogo Kittony is a retired licensed Aircraft Maintenance Engineer with over 30 years' experience in the aviation industry (Engineering). He has worked at Kenya Air Force as a Warrant Officer, African Express Limited as a Chief Inspector and Technical Manager, Kenya Airways as Principal Engineer Quality Systems, Kenya Civil Aviation Authority as Director Aviation Safety, Security and Economic Regulations and East African Community Civil Aviation Safety and Security Oversight Agency (EAC CASSOA) as Deputy Executive Director (Technical). Currently he is a part time lecturer at Moi University, School of Aerospace Science.

Mr. Isaac Mundui Matu is a skilled agricultural manager and a farmer. He has worked as a Farm Manager at Murithia Farm and Transport Manager at Murithia Transporters in Nakuru.

He holds a Bachelor of Business Administration Studies from College of British Columbia, Vancouver, Canada.

THE BOARD OF DIRECTORS (Continued)

Mr. Tobisa Okong'o Osano is an economist with a wealth of experience spanning over 20 years in both public and private sector. Currently he is the Chief Finance Officer at State Department for Crop Development and Agricultural Research, a position he has held since 2017. He holds a Master of Arts in International Studies from Korea University and Bachelor of Arts (Economics) from the University of Nairobi. Mr. Okong'o is a Certified Public Accountant (CPA).

He is registered with National Council for Persons with Disabilities (NCPWD) and is a member of Economists Society of Kenya and Institute of Certified Public Accountants of Kenya (ICPAK).

Mrs. Rose Ochanda is the Company Secretary and Chief Legal Officer. She has served in various positions in State Corporations such as the Kenya Industrial Estates Limited and the Kenya Bureau of Standards as the Company Secretary and Chief Legal Officer respectively. She has also practiced as an Advocate in private with a focus on litigation, commercial and conveyance law.

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

THE BOARD OF DIRECTORS (Continued)

BOARD COMMITTEES

Name of the Committee	**Members**
Finance & Resource Mobilization Committee	1. Hon. Muriuki Karue 2. Isaac Matu 3. Prof. Dulacha Galgalo
Human Resource Committee	1. Ms Rukia Rashid 2. Dr. Zablon Ayiera 3. Tobias Osano
Credit and Risk Committee	1. Eng. Luke Kangogo 2. Rosemary Munio 3. Tobias Osano
Audit Committee	1. Rosemary Munio 2. Prof. Dulacha Galgalo 3. Ms. Rukia Rashid

III. MANAGEMENT TEAM

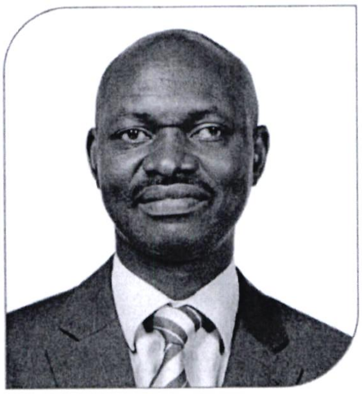
Mr. George Kubai is the Managing Director of Agricultural Finance Corporation. He is responsible for spearheading the Corporation's business strategy and operational excellence. He has proven executive leadership skills with over 15 years' experience in business management, relationship management, supply planning, project management, credit control, depot management and performance management. Prior to joining the Corporation, he worked at National Oil Corporation of Kenya.

(NOCK) where he was the General Manager, Downstream Operations. Mr. Kubai has held senior managerial positions in commercial banks, insurance companies and multinational Corporations having worked with Equity Bank, Sanlam Kenya (Pan Africa Insurance Holdings) and the Coca-Cola Company among others. He holds a Bachelor's degree from Maseno University and a Masters of Business Administration from Jomo Kenyatta University of Agriculture and Technology.

Mrs. Rose Ochanda is the Corporation Secretary and Chief Manager Legal Services. She has served in various positions in State Corporations such as the Kenya Industrial Estates Limited and the Kenya Bureau of Standards as the Company Secretary and Chief Legal Officer respectively. She has also practiced as an Advocate in private with a focus on litigation, commercial and conveyance law.

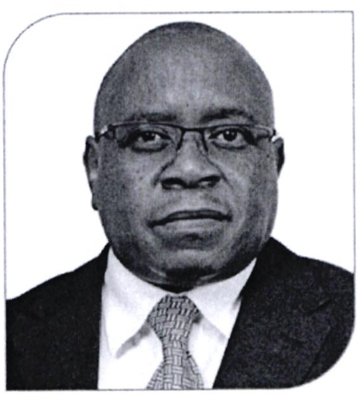
She is a holder of a Master in Business Administration Degree in Strategic Management and LLB (Hons) Degrees from the University of Nairobi.

MANAGEMENT TEAM (Continued)



CPA Tom Akeno is an accomplished finance professional with extensive public service experience spanning over 30 years having previously worked for the Ministry of Agriculture and the Kenya Tea Development Authority (KTDA). He has vast experience in financial accounting and management, corporate finance, financial systems implementation and Co-operative's management. Since joining the Corporation as an Accountant in 1995, he has risen through the ranks of Senior Accountant, Assistant Chief Accountant, Chief Accountant and currently is the General Manager Finance. He is also the Chairperson of AFC Staff Pension Schemes, Ufanisi Savings and Credit Co-operative Society and Ufa Housing Co-operative Society.

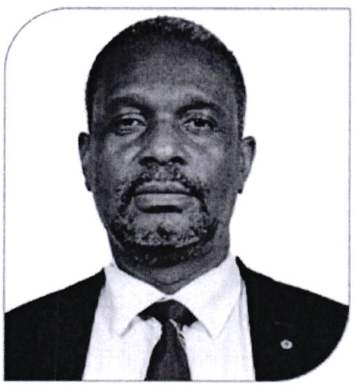
He holds a Master Degree in Business Administration specializing in Finance from the University of Nairobi and a Bachelor of Business Administration Degree in Accounting and Finance from the Kenya Methodist University. Akeno is a Certified Public Accountant and a member of good standing of the Institute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



Mr. Kipkemboi 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 over 30 years rising from the position of Personnel officer, Senior Personnel Officer, Principal Personnel Officer and Human Resources Manager. He is also a Trustee of the AFC Staff Pension Scheme. He holds a B.Sc (Business Administration) Degree from the United States International University (USIU) and a Diploma in Business Administration.

MANAGEMENT TEAM (Continued)

Mr. Daniel Olilo is an accomplished Information Technology Specialist with over 16 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 applications and systems integration.



Mr. Jackson Echoka is an agribusiness specialist with over 30 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.

MANAGEMENT TEAM (Continued)

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

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

Ms. Pauline Kathambana 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.

MANAGEMENT TEAM (Continued)

Mr. Bonano Badia is an accomplished finance expert specializing in project finance, deal structuring and rehabilitation of underperforming projects with practical industry experience spanning two decades. He has extensive experience in unusual and innovative development financing. His milestones projects include the innovation and implementation of weather based index products, managing the premier farmer based lending program under the Sugar Development Fund amounting KES 1.2 billion, designing and implementing bespoke IT credit based delivery systems and leading cross cutting teams on various socio-economic assignments notably integrated squatter resettlement programs, national agricultural mechanization program and a taskforce member on the rehabilitation of agricultural based state agencies. As credit lead, his main roles entail crafting strategies that deliver subsidized credit sustainably in a rapidly evolving and competitive environment.

He manages an annual fund in excess of KES 800 million with a staff compliment of over 350. His achievements in this role include the mainstreaming of the African Development Bank Lead Prudential Standards Guidelines and Rating System (PSGRS) in AFC, institutionalizing Credit Referencing and Risk transfer mechanisms and entrenching benchmark credit norms in the largely agri-based portfolio. Bonano is a CPA finalist from the Strathmore University. He holds a Bachelors Degree in Economics, and a Masters of Science in Finance & Investment from the University of Nairobi.

MANAGEMENT TEAM (Continued)

Mrs. Betty 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 international courses, among them the Fraud Investigation and Prevention as well as an Anti- Corruption.

Mr. John N. Mungai is an economist with over 10 years of experience in economic development and development finance. His key strengths and interests include: financial inclusion, project finance; strategy development and execution; economic and operational planning; research; fundraising; project management; Quality Management and performance management.

He previously worked as an economist for The National Treasury and Planning - Kenya and the County Government of Meru- Kenya. Mr. Mungai holds a Bachelors of Arts degree in Economics from Egerton University and a Masters of Science (MSc.) degree in Economics from Jomo Kenyatta University of Agriculture and Technology (JKUAT). He has also undertaken other relevant courses including; Senior Management Course (KSG), ISO QMS lead auditor Course (Bureau Veritas), Result

MANAGEMENT TEAM (Continued)

Based Monitoring and Evaluation Course (KSG), Financial Modelling Project Finance Course (AADFI) and Policies for Growth Course (The World Bank Institute)

Mr. Hezron Mbugua is a career procurement professional who has worked in the Corporation for 18 years. He holds a Bachelor of Business Administration & Management degree (Purchasing and Supply Chain Management) from St. Paul University, a Graduate Diploma in Purchasing and Supply from the Chartered Institute of Purchasing and Supplies (CIPS)-UK and a Diploma in Purchasing and Supplies from Kenya Institute of Management (KIM).

He is a member of the Chartered Institute of Purchasing and Supplies (CIPS)-UK and Kenya Institute of Supplies Management (KISM).

IV. CHAIRMAN'S STATEMENT

General Overview

The year 2020/21 was the most challenging year in the history of our Corporation and the economy as a whole. After a promising start with positive performance in the first weeks of the year, our full attention turned to the persistent spread of the COVID-19 pandemic and its impact on the industry and our business. The Board of Directors worked closely with the management to define and implement measures to protect the business and strengthen the Corporation's resilience. Firstly, we created a dedicated committee to focus on implementing measures to protect the health and safety of employees and customers. Secondly, we immediately under took a comprehensive cost cutting initiatives at all levels and launched a series of financing transactions to strengthen the financial position of the Corporation. Adapting the structure of our organization to the new business reality was the next important step, for which we made difficult and tough decisions.

Financial Performance

From a results perspective, the pandemic and related travel restrictions heavily impacted our performance, with pretax profits decreasing by 54% to KES 147.7 million compared to KES 318.7 million in the previous year. In this context, implementing cost-cutting initiatives at all levels of the organization generated costs savings of KES 240.5 million against a budget of KES 1.3 billion and played a key role in the Corporation's resilience.

Despite the challenging environment, these initiatives – underpinned by the remarkable support of our Government, as well as existing and new stakeholders – allowed us to strengthen our balance sheet and to create a solid liquidity position to mitigate the revenue impact of the Covid-19 pandemic. These measures saw our asset base grow to KES 11.7 billion up from KES 11.4 billion in 2019/20 financial year.

CHAIRMAN'S STATEMENT (Continued)

Community Engagement

It is in difficult times such as these, that support for disadvantaged children and families is most needed. Our CSR programs around the country continued to support and assist communities in markets where we operate.

Looking Forward

In the coming financial year 2021/22, we will be implementing several initiatives to strengthen the financial position of the Corporation, allowing AFC to endure the pandemic, even if the recovery takes longer than expected. Today, over a year later, we have learned many important lessons on how to best handle and cope with the crisis and, despite the still limited visibility, we can be cautiously remain optimistic that in the financial year 2021/22 we will see tangible improvements with respect to the overall health situation and the economic recovery. Rest assured that we remain vigilant regarding any developments to provide even safer working environments for our employees and customers. From the Corporation perspective, we are well prepared and ready to accelerate growth as soon as restrictions are lifted.

This year, a very special "Thank You" is due to all our employees and management teams, as the work, dedication and support given to the Corporation has been immense and exceptional in so many ways. We are equally grateful for the ongoing trust received from our various business partners and shareholders, thereby invigorating our long-standing relationships and allowing us to continuously foster our common vision to further develop AFC as a world class financier.

Hon. Franklin Bett, EGH
CHAIRMAN

V. REPORT OF THE MANAGING DIRECTOR

Managing Director's Statement

I have the pleasure to present the annual report of the Corporation for the financial year 2020/21. Amid the profound upheaval of the year, AFC's fundamental purpose never wavered. We began our 57th year as a Corporation with utmost confidence in our business strategy. We ended the year more certain than ever of the essential and life-changing role that the Corporation play in improving lives and empowering communities through food stability and playing a critical role in the Government's big 4 Agenda.

Throughout the year, the Corporation responded to the economic impacts and operational setbacks from COVID-19 with strong governance and oversight. We had to implement tough and difficult but necessary financial decisions approved by the Board to maintain operating cash flow and preserve jobs. These measures strengthened our financial position and allowed the Corporation to bounce back quickly as a strategic entity.

The management also worked closely with the Board to assess how the consequences from COVID-19 had influenced the Corporation overall risk profile. We made tactical adjustments as needed, but the core elements of our business strategy remained essentially unchanged throughout the year under review.

The foundational values of integrity, transparency and accountability drove long-term success for our Corporation as well as for the counties where we operate and the communities we serve. We reinforced our commitment to doing business in the right way during the year through our Governance structure, Business Ethics and Compliance program, which enabled us to balance the risks inherent in our emerging markets with the considerable opportunities that exist.

REPORT OF THE MANAGING DIRECTOR (Continued)

Financial Review

Our profit before tax for 2020/21 dropped by 54% to KES. 147.7 million compared to KES. 318.7 million in 2019/20 driven by a 7% growth in net interest income to KES. 965.5 million. The non-interest income dropped to KES 632.3 million from KES 1.4 billion reported in the previous period, representing a 54% decline. Similarly, arising from the loan waiver exercise concluded during the year, the loan loss provisions significantly reduced to KES 329.1 million compared to KES 743 million reported in 2019/2020 financial year.

Operating expenses were down by 5% to KES. 1.0 billion. Most expenses under this category remained stable and within the approved budget limits. Total assets of the Corporation surged to KES. 11.7 billion, a growth of 2% from KES. 11.4 billion reported in 2019/20 financial year. The key drivers for this growth were the loan book growth of 5% to KES. 9.8 billion and Government injection of KES. 500 million.

Loans worth KES 4.1 billion were disbursed compared to KES 4.2 billion disbursed in the previous year. On the other hand, a total of KES 4.3 billion was collected compared to KES 3.3 billion collected in the previous year representing a growth of 32%.

Looking Forward

At the time of preparing this report, a number of our projections and business plans changed due to the devastating effects of the COVID-19 pandemic, which was first detected in Country in March 2020.

Protecting the health of the public continues to take precedence at this point with the contingency measures that are in place to contain the virus adding to the economic vulnerabilities.

REPORT OF THE MANAGING DIRECTOR (Continued)

Additional restrictions to personal mobility including self-distancing and quarantine have further impacted the economic outlook.

Our positioning remains a great focus for our brand. We have plans to expand our branch footprint, offer seamless service to our customers and deliver exceptional service. The outlook beyond COVID-19 remains optimistic, while the timing remains fluid. We are well positioned to weather this period and grow once the pandemic is contained. We are supportive of the measures the government is taking to protect lives and we continue to focus on the safety and health of our customers and staff.

Conclusion

I want to thank my fellow colleagues for contributing their business expertise and industry knowledge. In particular, I extend my entire appreciation to the Board for their invaluable contributions and advice in a turbulent year.

Although some uncertainty remains in our industry and in the counties that we serve, I feel confident that AFC is on a strong footing as we begin this New Year. The set back is temporary. The years ahead are exciting! AFC is here to offer financial support to achieve your greatness.

Mr. George Kubai
MANAGING DIRECTOR

VI. STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2020/2021

Section 81 Subsection 2 (f) of the PFM Act, 2012 requires the accounting officer to include in the financial statements, a statement of the Corporation's performance against the predetermined objectives. AFC has pillars and objectives within its strategic plan for the FY 2018/2019-2022/2-23. AFC's three strategic pillars are anchored on the BIG 4 Agenda specifically on ***'food and nutritional security'*** and ***'agro-manufacturing'***

These strategic pillars are;

a) The Big 4 Agenda
b) Financial inclusion and access
c) Business Efficiency and governance

The Corporation developed its annual work plan based on the above pillars. The assessment of the Board's performance against the annual work plan is done on a quarterly basis. The Corporation achieved its annual targets set for the FY 2020/21 as indicated in the table below.

Strategic Pillar	Objective	Initiatives	Activities 2020/2021	Achievements 2020/20221
a) The Big 4 Agenda	Enhance Government collaboration to achieve Big Four Agenda and minimize wastage	i). Enhance Government collaboration to achieve Big Four Agenda	Establishing partnerships	• Signed an MOU with MOALF & TNT on ENABLE YOUTH Kenya. • Signed an MOU with MOALF, Agricultural sector Development Support Programme

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2020/2021 (Continued)

Strategic Pillar	Objective	Initiatives	Activities 2020/2021	Achievements 2020/20221
		ii). Partner with all credit providing government institutions/ agencies in the agricultural sector	Establishing partnerships	• Existing partnership with TNT on Risk Sharing Facility • Existing partnership with Commodities Fund
b) Financial inclusion and access	Drive financial inclusion in agriculture sector	Develop lending products for marginalized sectors in agribusiness (Youth, Women, People in ASALs and Islamic Finance)	Develop Islamic and youth focused products Mobilize funds for financing the target Corporations	• Developed Islamic financing product and the requisite policy under the sharia compliant framework. • Engagement with BADEA in progress for a line of credit
	Develop a wholesale lending model to de-risk and catalyze private sector agriculture financing	Develop wholesale products tailored to the private sector and target segments	Pilot two wholesale products	• Piloted Co-operative Ride- on Access Window (CRAW) and Microfinance Ride-on Window (MRAW)

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2020/2021 (Continued)

Strategic Pillar	Objective	Initiatives	Activities 2020/2021	Achievements 2020/20221
Financial inclusion and access		Formulate partnerships with the private sector	Develop five partnerships with private sector	Developed partnership with:- • Kenya Crops & Dairy Market Systems (KCDMS) • UN Women (launch of WAAW product & Capacity building) • ACDI VOCA (Finance construction and establishment of AFC Marsabit branch) • FAO/EU (WAAW baseline survey and launch) • AGRA, capacity building & improving access to agricultural financing in Bura. • FSD Kenya, strategic plan implementation • TECHNOSE RVE, identification and provision of markets for farmers

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2020/2021 (Continued)

Strategic Pillar	Objective	Initiatives	Activities 2020/2021	Achievements 2020/20221
c) Business Efficiency	Optimize the business model and accordingly enhance operational efficiencies to realize cost savings	Optimize the business model (through rebalancing loan book and enhance recoveries of NPLs)	Undertake wholesale lending	A total of KKES 770 million has been disbursed towards the wholesale lending model
			Recover NPLs	KES, 298 million
		Reduce overheads for increased efficiency	Undertake human capital audit	Rescheduled for 2021/22FY
		Increase automation across the organization	Automate loan origination and approval process	Loan origination automated through FITNES and integrated to the core banking system
		Enhance organizational capabilities	Train staff	Trainings conducted during the period under review as follows: • staff on customer care • staff on disability mainstreaming. • staff on Advanced program in development finance. • staff on Sharpening credit assessment skills • staff on financial reporting • staff on public relations (PRISK) • staff on various

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2020/2021 (Continued)

Strategic Pillar	Objective	Initiatives	Activities 2020/2021	Achievements 2020/20221
				continuous development programs
d) Enhance Governance & management framework		Adherence to Statutory and Legal requirements Constitution of Kenya, AFC Act, PPOA, Labour Laws, Environment etc.	Submit all reports	• Submitted four quarterly reports to: • The Commission on Administrative Justice. • Public Procurement Regulatory Authority • The National Treasury on financial performance
		Enhanced compliance to standards e.g ISO 9001:2015	internal & external ISO 9001:2015 audits was undertake in December 2020	Undertook Internal & External ISO audits on December 2020

VII. 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 is responsible for the long term success of the Corporation. It sets the Corporation's core values and strategy and oversees implementation by management of the strategic objectives. It ensures there is a strong risk management and internal control framework in place that allows risks to be assessed and managed effectively, including implementation of the risk strategy, corporate governance and corporate values. It provides leadership, direction and is responsible for corporate governance and financial performance of the Corporation.

CORPORATE GOVERNANCE STATEMENT (Continued)

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.

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.

CORPORATE GOVERNANCE STATEMENT (Continued)

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 Board 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.

Governance Principles

The Board of Directors of AFC have established robust governance structures modelled around the guidelines contained within Mwongozo. The principles derived from the regulatory and best practice frameworks, which have enabled the Board to establish a strong foundation that effectively upholds the Corporation's Corporate Governance practices, which include but not limited to:

CORPORATE GOVERNANCE STATEMENT (Continued)

Compliance	**Laws; Regulations; and Applicable Standards & Policies.**
Structural integrity and accountability	Board: composition; independence; competencies; diversity; complementarity; and effectiveness. Management: support structures; segregation of duty; and delegation of authority.
Timely, transparent and relevant communication and disclosures	Key policies and relevant information, to provide stakeholders with a clear understanding of our businesses.
Robust Internal Controls	Strong audit procedures and audit independence; internationally recognized auditing and accounting principles; well-scoped internal and external audits
Sustainability	Roles, objectives and remuneration aligned to the Government long term interests.
Optimized Strategy	Frequent and forward looking strategy reviews that anticipate risks and promote long term prosperity.
Integrity	Culture, practices, a well-defined, implemented Code of Conduct and Ethics.

Board Induction, Training and Professional Development

During the year, a new board was appointed on 7th August 2020. Each Director took part in an induction programme, during which he/she met members of Senior Management, received information about the role of the Board, each board Committee and the powers delegated to these Committees. The Board is committed to the continued professional development of the Directors in order to build on their expertise and develop deeper understanding of the Corporation's business, markets and is confident that its members have the full ability and knowledge to perform their duties as required.

CORPORATE GOVERNANCE STATEMENT (Continued)

BOARD & COMMITTEES MEMBERSHIP AND ATTENDANCE

1st July 2020 – 30th June 2021

DIRECTORS NAME & DESIGNATION	Finance & Resource Mobilization Committee		Human Resource Committee		Credit and Risk Committee		Audit Committee		Full Board	
Hon. Franklin Bett, EGH - Chairman									XX	4/4
Mr. George Kubai - MD									X	2/4
Dr. Zablon Nyaenya Ayiera			X	4/4					X	4/4
Eng. Muriuki Karue Muriuki	XX	4/4			XX	4/4			X	4/4
Mrs. Rose Ochanda									X	4/4
Mr. Isaac Mundui Matu	X	4/4							X	4/4
Eng. Luke Kangogo Kittony									X	4/4
Ms. Rukia Rashid			XX	4/4			X	4/4	X	4/4
Mrs. Rosemary Muthoni Munio					X	4/4	XX	4/4	X	4/4
'Prof. Dulacha Galgalo Barako	X	4/4					X	4/4	X	4/4
Mr. Tobias Okong'o Osano			X	4/4	X	4/4			X	4/4

Key

XX = Chairperson	
X = Member	

CORPORATE GOVERNANCE STATEMENT (Continued)

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

Board Performance Evaluation

The Board is responsible for ensuring that an evaluation of their performance and that of committees and individual directors are 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.

CORPORATE GOVERNANCE STATEMENT (Continued)

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.

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 Committees

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

- Audit
- Finance and Resource mobilization
- Credit and Risk
- Human Resource

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

CORPORATE GOVERNANCE STATEMENT (Continued)

Audit Committee

The committee is mandated to raise the standards of corporate governance by reviewing the quality and effectiveness of the internal control systems, the internal and external audit functions and the quality of financial reporting. In addition to advising the Board on best practice, the committee also monitors management's compliance with relevant legislations, regulations and guidelines as well as the Corporation's laid down policies and procedures.

The committee has direct access to the Internal Audit function, the Company Secretary and the external auditors. During the year the committee received and reviewed the findings of the internal and external audit reports and management's action to address them.

Finance and Resource Mobilization Committee

The committee is mandated to review and make recommendations on the Corporation's financial and accounting policies, the Corporation's Annual Budget, quarterly and annual financial statements and the annual procurement plan. The committee also reviews the implementation of the Strategic plan and monitors the performance contract of the Corporation and the Government.

Human Resource Committee

The committee is mandated to formulate staff policies and procedures and ensure an adequately staffed and professionally managed human resource. The committee assists the Board in discharging its corporate governance role by reviewing staffing needs of the Corporation, appoints senior management staff, reviews training needs and undertake disciplinary measures as per the staff policies.

CORPORATE GOVERNANCE STATEMENT (Continued)

Credit and Risk Committee

The Committee is mandated to review the oversight of the overall lending policy of the Corporation and deliberate and consider loan applications beyond the credit discretion limits set for management. The committee also reviews and considers all issues that may materially impact the present and future quality of the Corporation's credit risk management function as well as the quality of the loan portfolio and ensure adequate provisions for doubtful debts are maintained in line with the best practice and prudential guidelines.

The committee is also responsible for overseeing the implementation of the Corporation's risk management framework to ensure that all existing and potential significant risks are identified and effectively managed.

VIII. MANAGEMENT DISCUSSION AND ANALYSIS

Operational and Financial Performance

The performance of the Corporation for the financial year ended 30th June 2021 is presented herewith in accordance with the requirement of the Public Finance Management Act (PFM) 2012, International Financial Reporting Standards and AFC Act Cap 323.

The Corporation majorly derives its income from interest on loans. During the year under review, interest income was KES 934.1M against a budget of KES 1.32B, which is a performance of 71%. The target was not achieved as most of the disbursements made during the period were development loans whose interest accruals are spread over a longer term compared to seasonal crop credit. The operating expenditure was KES 1.5B against a budget of KES 1.6B.

Consequently, it is worth noting that the pretax profit significantly dropped by 54% to KES 147.7M compared to KES 318.7M reported in 2019/2020 financial year. This huge reduction was informed by the reduction in recovery from non-performing loans. The Government injection of KES 1.2 billion in the 2019/2020 financial year for waiver of loans following the Presidential directive of 2017 contributed to the higher performance reported in the previous years.

Cash flows from the operations of the Corporation are detailed in the cash flow statement for the twelve months ended June 30, 2021. The Cash and cash equivalent was KES 704.8M compared to KES 916.9M in the prior year.

Compliance with regulatory requirements

During the year ended 30th June 2021, the Corporation complied with all the statutory and regulatory obligations including but not limited to: remittance of PAYE, NHIF, NSSF, VAT, HELD, Withholding tax, etc within the stipulated deadlines.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The entity has an outstanding Corporation tax liability of KES. 90.7M and has a repayment plan to clear it once it's liquidity position improves.

Major risks facing the entity

a) 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.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

b) 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 department based in Head Office charged with responsibility of referencing our clients before advancement of loans to assess their credit worthiness.

The Corporation writes off a loan balance as and when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

c) 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 financers & 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.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

d) Market Risk

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

e) 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.

f) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Corporation's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

HEADQUARTERS
Anniversary Towers
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REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Agricultural Finance Corporation set out on pages 1 to 71, which comprise the statement of financial position as at 30 June, 2021, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Agricultural Finance Corporation as at 30 June, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property and Equipment

The statement of financial position reflects a balance of Kshs.1,146,359,000 in respect of property, plant and equipment as at 30 June, 2021. The following anomalies were noted:

1.1. Land Without Ownership Documents

As previously reported, included in the property plant and equipment balance are twenty-nine (29) developed plots measuring a total of 5.3324 hectares valued at Kshs.191,627,798 and seven (7) undeveloped plots measuring a total of 1.5383 hectares with no ownership documents. Further, as disclosed in Note 8(a) to the financial statements, the value of land with a net book value of Kshs.34,523,000 excludes unvalued parcels of land located in Busia, Nanyuki and Kerugoya whose ownership is in dispute. Although Management explained that it continued with the pursuit of the ownership documents through the Ministry of Lands and the National Land Commission, the documents had not been obtained as at the time of audit.

In addition, the Corporation's parcel of land in Kisumu measuring 0.4299 hectares which was allocated on a 99 years lease term by the Government with effect from 1 January, 1993 as per the certificate of lease dated 3 January,1999, has been repossessed by the Kenya Railways Corporation (KRC) through the Commissioner of Lands who claim that the land was illegally allocated to the Agricultural Finance Corporation (AFC). An attempt to sell the plot of land failed as title document is said to have passed to KRC under unclear circumstances.

1.2. Undervaluation of Land

Included in the net book value of Kshs.34,523,000 for land is an amount of Kshs.523,382 that was utilized in the acquisition of five (5) parcels of land in Kimilili, Molo, Bungoma, Chogoria and Kisumu Municipality at a cost of Kshs.18,000, Kshs.4,010, Kshs.54,262, Kshs.438,820 and Kshs.8,290, respectively. The five (5) parcels of land have not been revalued contrary to the International Accounting Standard No.16 which requires sufficient regularity in revaluation of property, plant and equipment to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

In the circumstances, the accuracy, completeness and ownership status of the reported property, plant and equipment balance of Kshs.1,146,359,000 as at 30 June, 2021 could not be confirmed.

2. Unsupported Grants

As disclosed in Note 17 to the financial statements, the statement of financial position reflects a balance of Kshs.3,768,923,000 in respect of grants. However, supporting documents for grants totalling Kshs.2,468,923,000 were not provided for audit review.

In the circumstance, the accuracy and completeness of the balance of Kshs.3,768,923,000 in respect of grants could not be confirmed.

3. Unsupported Net Medium-Term Loans

The statement of financial position reflects a balance of Kshs.8,394,479,000 in respect of net medium-term loans to customers after adjustments for accumulated provisions. Further, and as disclosed in Note 9(a) to the financial statements, the total net loans before adjustments stood at Kshs.8,827,772,000. Included in the latter balance is an amount of Kshs.709,719,000 being accrued interest receivables, penalties receivables and loan fees receivables. However, a detailed report indicating when the interest amounts had fallen due was not provided.

In the circumstances, the appropriateness of the classification of the accrued interest, penalties and loan fees balances as a non-current asset and the medium-term loans of Kshs.8,827,772,000 could not be confirmed.

4. Medium Term Loans Issued on Fake Title Deeds

The statement of financial position reflects a balance of Kshs.8,394,479,000 in respect of net medium-term loans to customers which, as previously reported, 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. The Corporation filed seven (7) cases in Court against the fraudsters and judgement was entered in favor of the Corporation. However, the Corporation had not executed the warrants issued as at 30 June, 2021.

In a memo ref. AFC/LD/MEE dated 20 January, 2022 to the Chief Finance and Investments Officer, the acting Head of Legal Services indicated that the amount of loans advanced as Kshs.11,182,500. The circumstances under which the previously reported balance had been reduced from Kshs.22,661,000 by Kshs.11,478,500 were unclear and no explanation was provided for audit review. The matter has since been taken over by the Ethics and Anti-Corruption Commission (EACC) for investigations.

In the circumstances, the recoverability of the amount of Kshs.22,661,000 is doubtful.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Agricultural Finance Corporation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

Other Matter

1. Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.1,977,028,000 and Kshs.1,625,517,000 respectively resulting to an under-funding of Kshs.351,511,000 or 18% of the budget. Similarly, the Corporation expended Kshs.1,477,808,000 against an approved budget of Kshs.1,596,815,000 resulting to an under-expenditure of Kshs.119,007,000 or 7% of the budget. The revenue underperformance and the under-expenditure may have impacted negatively on the achievement of the planed goals and objectives of the Corporation.

2. Unresolved Prior Year Matters

Various prior year audit issues remained unresolved as at 30 June, 2021. Management has not provided reasons for the delay in resolving the prior year audit issues. Further, some unresolved prior year issues are not disclosed under the progress on follow up of auditor's recommendations section of the financial statements as required by the Public Sector Accounting Standards Board.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Unapproved Investment in Short Term Deposits

The statement of financial position reflects a balance of Kshs.611,038,000 in respect of short-term deposits as at 30 June, 2021. However, approvals for holding the investments in the deposits accounts were not provided for audit review. This is contrary to Section 9 of the Agricultural Finance Corporation Investment Policy, 2012 that requires the Investment Committee to have approval of the Managing Director when making investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies and guidelines of the Corporation.

In the circumstances, the regularity of the investments balance of Kshs.611,038,000 placed in the deposits accounts could not be confirmed.

2. Recruitment of Staff

During the year under review, the Corporation recruited fifty-seven (57) additional staff externally. However, evidence of external advertisements for the posts was not provided for audit review. It could therefore not be confirmed if the Corporation reached the widest pool of potential applicants and allowed for sufficient number of days before closing the advert.

Further, internal advertisements done during the year did not contain the number of available vacancies and detailed job descriptions and were therefore, incomplete and lacked proper guidance and transparency to the potential applicants.

In the circumstances, the Corporation may not have attracted the most suitable candidates for the vacancies or filled the vacancies in a transparent way.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

1. Non-Maintenance of Loans Securities Register

During the year under review, inadequacies were noted on controls governing the treatment and movement of loan security documents held by the Corporation. The Legal Department did not maintain an up to date register of all security documents as prescribed in the clause 5.3.1 of the Credit Policy.

Further, corresponding entries were not maintained in the Corporation's banking system in line with the Credit Policy. In addition, the current banking system was operationalized in 2016 but the Corporation is yet to fully migrate and maintain a register for prior years loans together with the corresponding securities. This implies that the Corporation has limited knowledge of the number and value of land securities it presently holds. Further, a monitoring and evaluation framework to regularly check and report on the status of land securities has not been instituted.

In the circumstances, internal controls on loans security register are inadequate.

2. Non-Performing Loans

Review of the loans portfolio report as at 30 June, 2021 revealed that 3,776 loans with a total outstanding balance of Kshs.3,320,091,220 or 32% of the total outstanding loans portfolio of Kshs.8,982,375,899 had been classified as non-performing loans in the system. This is double the maximum allowable standard of 15% by the prudential guidelines of the Association of African Development Finance Institutions, which the Corporation uses as specified in Chapter 7.1 of the Credit Policy.

The Corporation is therefore highly exposed to credit risk due to potential losses of 32% of its loans portfolio as a consequence of probable default.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standard requires that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, Management is responsible for assessing the 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 Management is aware of intention to terminate the Corporation or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Corporation monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of noncompliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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

CPA Nancy Gathungu, CBS
<u>AUDITOR-GENERAL</u>

Nairobi

02 September, 2022

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Standards of corporate behavior. Operational risks arise from all of the Corporation's operations and are faced by all business units.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Corporation standards for the management of operational risk in the following areas:-

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced and the adequacy of controls and procedures to address the risks identified.
- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with Corporation's standards is supported by a program of regular reviews undertaken by both the Internal Audit and Compliance & Control Section.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Corporation and the Board Audit Committee.

g) Strategic Risk

The Corporation defines strategic risk as the potential for loss arising from ineffective business strategies, improper implementation of those strategies, sudden unexpected changes in its operating environments, or from lack of adequate responsiveness to changes in those specific business environments. The Corporation faces several strategic risks from its environment which include:

- Macro-economic changes;
- Competition from the financial industry, and organisations providing similar services;
- Technological changes;
- Key legislative and regulatory changes;
- Major political events; and
- Human capital or social/demographic trends and changes

The institution carries out regular business performance reviews periodically, but at a minimum on a quarterly basis against. It performs regular industry strengths, weaknesses, opportunities and threats (SWOT); and peer analysis reviews and reports those. The reviews are regularly reported to the Board of Directors for information and advice, or action where significant deviations occur. The reports include identification of key risks being faced, and how they are being managed to be within approved appetite.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

h) Reputational Risk

Current or potential loss to earnings and/or capital arising from damage or deterioration of the Corporation's reputation or standing due to negative perception of its image or its business practices amongst customers, counterparties, shareholders, regulatory authorities and other stakeholders, whether true or not. When all other risks are managed well, this risk is substantially minimized.

Senior management and the Board of Directors receive periodic reports on the assessment of the Corporation's reputational risk exposures that arise from its business (including sales, service and legal matters) activities so as to form a view on associated risks and implement corrective actions.

i) Compliance & Legal Risk

The Corporation defines Compliance or Regulatory Risk as the potential of loss arising from non-compliance with laws, rules, regulations, obligatory practices/standards, contractual agreements, or other legal requirements including the effectiveness of preventing and handling litigation. It is not actively or deliberately pursued in the expectation of a profit or return, but occurs in the normal course of our business operations. The Corporation meets high standards of compliance with legal, regulatory and policy requirements in all business dealings and transactions.

j) Information & Communication Technology Risk

ICT Risk is the business risk associated with the use, ownership, operation, involvement, influence and adoption of ICT within an enterprise. It consists of ICT-related events and conditions that could potentially impact the business. It can occur

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

with both uncertain frequency and magnitude, and it creates challenges in meeting strategic goals and objectives.

Policies, processes and technology have been put in place to mitigate ICT risks. These are revised regularly to bring them up-to-date with the evolving threat landscape. Information Security incidents are identified, tracked and reported.

IX. ENVIRNOMENTAL AND SUSTAINABILITY REPORTING

1. Sustainability Strategy and Profile

AFC has taken a conscious and strategic approach in refining and realigning its deployment of credit and technical support in a manner that directly contributes to sustainable growth and development, while at the same time enhancing resilience across communities. The Corporation's guiding principle has been to approach sustainable development not as a singular, distinct pursuit, but as a critical value mainstreamed at the core of our business.

Principally, AFC now has a targeted approach that positions its resources to play a catalytic role and stimulate additional investments into the Agricultural sector. This is being achieved through instruments and collaboration that leverage private sector capital and development partners support. In this manner, AFC is driving the cost of Agricultural Credit even further down, thus making the sector more attractive, deepening inclusion of previously marginalized segments of the society and assuring environmental protection.

While our traditional approach has contributed immensely towards food and nutritional security and in addressing poverty, the Corporation noticed that mere continuation of those strategies would not have sufficed to achieve deepened sustainable development. In the length and breadth of the landscape across which the Corporation operates, economic and social progress remains uneven, and the Agricultural sector remains susceptible to shocks hence the fragility currently characteristic of the sector.

The new approach in addition to strengthening the ecosystems where credit has already been deployed, is opening new frontiers, where value chains have been mapped from end to end.

ENVIRNOMENTAL AND SUSTAINABILITY REPORTING (Continued)

2. Environmental Performance

The Corporation is mandated under the AFC Act (Cap 323, Laws of Kenya) to assist in the development of agriculture which is one of the anthropogenic activities that cause greenhouse gas (GHG) emissions that trap heat in the atmosphere resulting to global warming. These activities include; enteric fermentation from livestock, use of fertilizers, burning of farm residues and poor land cultivation practices. Similarly, conversion of wetlands to crop lands, deforestation and forest degradation significantly contribute to increased frequency and intensity of extreme weather conditions.

The Corporation's response to reducing environmental degradation has focused on adaptation and mitigation through financing and capacity building in the various programs that meet certain criteria as specified under the climate change Act of 2016.These include; water conservation, training and financing of drought tolerant crops, irrigation systems, eco-friendly horticulture, green house financing, organic farming and pasture based livestock management systems and ranches. Through these projects, the Corporation seeks to prevent or slow the increase of atmospheric GHG concentrations by limiting future emissions and enhancing potential sinks for GHG. In addition, the Corporation has banned the use of single use plastics in its offices and branches in line with Government guidelines.

In the last three financial years, AFC has continued to play a critical role in the realization of the climate change for low carbon and climate resilient development as highlighted below. The Corporation will continue allocating resources within the framework of the approved budgets to support the above projects.

ENVIRNOMENTAL AND SUSTAINABILITY REPORTING (Continued)

3. Employee Welfare

Our employees remain central to the delivery of our strategy and a core pillar of our success. Our intent is to provide the best employee value proposition in the market, creating a world class workplace that rewards performance, innovation and ethical conduct. We have already embarked on several culture transformation initiatives aimed at inculcating a new culture and values in our workplace. Key in this regard is our emphasis on a digital workplace as a precursor for delivering digital services. The prospects for our employees, including career progression, training and development, competitive remuneration, world class workplace and meaningful work is impeccable. Through them, we will create value for our customers and stakeholders, in line with our corporate purpose "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".

(i) **Recruitment and Selection:**-The Corporation is an equal opportunity employer and therefore appointments are not prejudiced against race, colour, language, nationality, pregnancy, marital status, HIV status, ethnic background, gender, age, disability and religion. The Corporation's recruitment policies and procedures are aimed at attracting the best available talent and to select solely on the basis of the Candidate's suitability to meet the requirements of the position. The Corporation endeavours to comply with the one third gender representation policy during the recruitment process.

(ii) **Performance Management System:**-The Corporation recognizes that in order to achieve organizational effectiveness and to effectively deliver

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

on its mandate, it must pursue a management policy that enables it to establish a high performance culture in its employees. The Corporation has implemented a Performance Management system which ensures that employees' performance supports the Corporation's strategic aims. Performance Contracts are signed yearly and a robust monitoring and Evaluation System put in place to track performance. In addition, the Corporation has implemented a performance reward system to recognize and reinforce high performance. The reward system also addresses any concerns on underperformance.

(iii) **Training and Development:-**The Corporation recognizes staff training and development as a strategic investment. It is therefore the policy of the Corporation to train and develop individual employees and teams to equip them with the skills, knowledge and competences that they require for undertaking current and future tasks. The intention is to prepare employees to keep pace with the changing business environment. To this end, the Corporation on a continuous basis identifies skills gaps and puts in place interventions to improve the skills.

(iv) **Health and Safety:-**It is the moral and legal responsibility of the Corporation to recognize and commit itself to provide and maintain safe and healthy working conditions, equipment, and systems of work for all employees. Employees are required to take reasonable care for the health and safety of themselves and of other people who may be affected by their acts or omissions, and to co-operate in ensuring that the Corporation's policy is observed. In pursuit of these obligations, every effort has been made to ensure that the health, safety and welfare of all employees,

ENVIRNOMENTAL AND SUSTAINABILITY REPORTING (Continued)

clients and visitors is adequately addressed in compliance with the Occupational Safety and Health Act, 2007 (OSHA).

4. Market Place Practices

Development Financial Institutions perform intermediation functions that are critical to the real economy. In particular, they correct the asymmetry of information between investors and borrowers and channel savings into investments. These functions facilitate and contribute to the growth of the economy. Linkages between DFIs through inter-bank markets and payment systems are vital to the functioning of financial markets. The loss of confidence in one major financial institution is a financial crisis that can snowball into a loss of confidence in the entire market because the inability of one DFI to meet its obligations can drive other, otherwise healthy, DFIs into insolvency. The risks then become systemic, endangering the whole financial sector. If the financial sector is not working well, then the entire market economy is not working well. For this reason, the Government imposes significant regulation and oversight to ensure the smooth functioning of the financial sector and when problems arise, they must act quickly to avert systemic crises. To fulfil its mandate, the AFC Board of Directors, Management and Staff are committed to ensure compliance to the applicable laws, regulatory requirements and its core values of striving to put the customers' needs first and adhering to the moral and ethical principles to ensure efficiency in service delivery.

AFC strategically plans for, and manages all interactions with third party persons that supply goods and/or services to the organization in order to maximize the value of those interactions. In practice, this entails creating closer, more collaborative relationships with key suppliers in order to uncover and realize new value and reduce

ENVIRNOMENTAL AND SUSTAINABILITY REPORTING (Continued)

risk of failure. From time to time, the Corporation invites its suppliers for summits/trainings, which bring together all strategic suppliers together to share, provide feedback on its strategic supplier relationship management programs, and solicit feedback and suggestions from key suppliers. Operational business reviews are also carried out, where individuals responsible for day-to-day management of the relationship review progress on joint initiatives, operational performance, and risks. The Corporation procures services and goods from different entities and honors the payments as soon as the obligations are met by the suppliers. The Corporation also allocates sufficient resources to meet these obligations on the due dates.

Ethical marketing is a key component of our strategy. The processes by which AFC markets its products and services focuses not only on how its products benefit customers, but also how they benefit socially responsible or environmental causes. In addition to the Corporation's commitment to different stakeholders beyond the business customers, AFC takes moral actions that encourage a positive impact on all of the Corporation's stakeholders from the customers and the employees to the suppliers, shareholders, and communities in which the Corporation operates.

Consumer protection practices safeguard farmers and the public against unfair practices. Consumer protection measures established by the Corporation are intended to prevent the Institution from engaging in malpractices or specified unfair practices in order to gain an advantage over competitors or to mislead consumers. The measures may also provide additional protection for the general public which may be impacted by a product (or its production) even when they are not the direct purchaser or consumer of that product.

ENVIRNOMENTAL AND SUSTAINABILITY REPORTING (Continued)

The Corporation is committed to ensuring that equal opportunity is given to customers across the country to access its products and services. In this regard, due effort has been made to design bespoke product delivery channels that take into consideration those segments of the population that have previously been marginalized. Additionally, AFC ensures that no bias exists in service delivery, ensuring that this is done efficiently across all value chains, ages and gender. The Corporation does not endorse or give preferential support to third party products or services.

AFC's consumer protection framework in the financial service industry is evolving as products become more complex and a greater number of people rely on financial services. The Corporation's framework includes three complementary aspects. First, it includes laws and regulations governing relations between service providers and users and ensuring fairness, transparency and recourse rights. Second, it requires an effective enforcement mechanism including dispute resolution. Third, it includes promotion of financial literacy and capability by helping users of financial services to acquire the necessary knowledge and skills to manage their finances. In this regard, the Corporation reports, on a quarterly basis, to the Commission on Administrative

Justice, Office of the Ombudsman, as pertains to any and all public complaints and access to information requests in connection with AFC's service delivery.

5. Community Engagements

Corporate Social Responsibility

At AFC, sustainability means integrating business with the environment and contributing to the well-being of the people and the nation wherever it operates. While the Corporation conducts its business according to its mandate, attention is

ENVIRNOMENTAL AND SUSTAINABILITY REPORTING (Continued)

also given to improving communities to strive for better quality of life, now and in the future. The Corporation's initiatives are aimed at creating shared values with the community. AFC's corporate social responsibility initiatives are anchored on four (4) thematic areas:

1. Education
2. Health
3. Water and sanitation
4. Environment

In the period under review, the Corporation undertook CSR activities amounting to KES 1.2 million, part of these activities are as follows:

Water and Sanitation

Sufficient, safe, acceptable and physically accessible water has been a pipe dream to many communities. With this in mind, AFC donated 4 water tanks with a capacity of 10,000 litres to different institutions that impacted over 3,000 lives.

With the water tanks, the communities can now access clean water for drinking, cleaning the schools and most important, washing hands especially amid the COVID – 19 pandemic

Water tank donation to Mwaroko Primary School

ENVIRNOMENTAL AND SUSTAINABILITY REPORTING (Continued)

Environment

Degradation of natural resources adversely affects agricultural productivity and levels of income for agriculture dependent households. The impact and effects of climate change and man-made degradation of natural resources therefore needs to be considered if agriculture is to remain sustainable.

AFC recognizes its responsibility to ensure all reasonable steps are taken to protect and preserve the environment in which it operates. In this respect, the Corporation has planted and maintained about 50,000 tree seedlings in 7 acres across the country.

The Corporation is mandated under the AFC Act (Cap 323, Laws of Kenya) to assist in the development of agriculture which is one of the anthropogenic activities that cause greenhouse gas (GHG) emissions that trap heat in the atmosphere resulting to global warming. These activities include; enteric fermentation from livestock, use of fertilizers, burning of farm residues and poor land cultivation practices. Similarly, conversion of wetlands to crop lands, deforestation and forest degradation significantly contribute to increased frequency and intensity of extreme weather conditions.

The Corporation's response to reducing environmental degradation has focused on adaptation and mitigation through financing and capacity building in the various programs that meet certain criteria as specified under the climate change Act of 2016.These include; water conservation, training and financing of drought tolerant crops, irrigation systems, eco-friendly horticulture, green house financing, organic farming and pasture based livestock management systems and ranches. Through these projects, the Corporation seeks to prevent or slow the increase of atmospheric GHG concentrations by limiting future emissions and enhancing potential sinks for GHG.

ENVIRNOMENTAL AND SUSTAINABILITY REPORTING (Continued)

X. REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended June 30, 2021, in accordance with the section 194 of the Public Finance Management (PFM) Act, 2012 which disclose the state of affairs of the Corporation.

i. Principal activities

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

ii. Results

The results of the entity for the year ended June 30, 2021 are set out from page 1 to page 51.

iii. Dividends

As per the current dividend policy in place, the Corporation will only consider any dividends payout, after the government loans are fully repaid and the Corporations' liquidity is healthy. The Directors therefore do not propose to pay any dividends during the year under review. The retained earnings will be utilized to repay Government loans and the surplus will be reinvested in normal corporate business.

iv. Directors

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

REPORT OF THE DIRECTORS (Continued)

v. Auditors

The Auditor General is responsible for the statutory audit of the Corporation in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015, which empowers the Auditor General to nominate other auditors to carry out the audit on his behalf.

By Order of the Board

Mrs. Rose Ochanda	**Hon. Muriuki Karue**
Corporation Secretary	**Chair – Finance & Resource**
Nairobi	**Mobilization Committee**
Date:	**Date:**

XI. STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and (section 14 of the State Corporations Act, - 446) and the Agricultural Finance Corporation Act Cap 323 require the Directors to prepare financial statements in respect of that 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 Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the Corporation.

The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year ended on June 30, 2021. This responsibility includes:

(i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;

(ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;

(iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;

(iv) safeguarding the assets of the entity;

(v) selecting and applying appropriate accounting policies; and

(vi) making accounting estimates that are reasonable in the circumstances.

STATEMENT OF DIRECTORS' RESPONSIBILITIES (Continued)

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and 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 financial year ended June 30, 2021, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 9th September, 2021 and signed on its behalf by:

Hon. Franklin Bett	**Mr. George Kubai**	**Hon. Muriuki Karue**
Chairman	**Managing Director**	**Board Member**

XII. REPORT OF THE INDEPENDENT AUDITORS ON THE AGRICULTURAL FINANCE CORPORATION

XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2021

	Notes	2021 KES'000	2020 KES'000
Revenues			
Interest Income:			
Interest on Loans	2 (a)	934,114	837,457
Interest on Short Term Deposits	2 (b)	58,761	83,940
Total interest income		**992,875**	**921,397**
Less: Interest expenses			
Interest on Redeemable Loans	3 (a)	15,129	15,005
Interest on RSF	3 (b)	9,456	9,379
Rebate Interest	4	2,780	2,753
Total Interest expenses		**27,365**	**27,137**
Net interest income		**965,509**	**894,261**
Non-Interest income			
Other Operating Income	5 (a)	145,699	183,323
Fee Income	5 (b)	188,489	172,225
Income from doubtful debts	6	298,454	1,009,952
Total Non-Interest income		**632,642**	**1,365,499**
Total Revenues		**1,598,151**	**2,259,760**
Operating Expenses			
Staff Cost	7 (a)	(740,817)	(767,651)
Board Expenses	7 (b)	(24,631)	(21,770)
Administration Costs	7 (c)	(267,452)	(298,378)
Depreciation & Amortization	8 (a & b)	(88,419)	(110,203)
Charge for Doubtful Debts	12 (a)	(329,124)	(743,015)
Total Expenses		**(1,450,443)**	**(1,941,017)**
Profit before tax		**147,708**	**318,743**
Tax for the Year	23 (a)	(16,545)	(28,484)
Profit after tax		**131,164**	**290,259**

XIV. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2021

	Notes	2021	2020
ASSETS:		**KES.'000**	**KES.'000**
Non-Current Assets			
Property and Equipment	**8 (a)**	1,146,359	1,099,588
Intangible Assets	**8 (b)**	54,397	38,197
Deferred Tax Asset	**10**	12,902	3,563
Repossessed Farm Properties	**11**	365,249	267,794
Net Medium Term Loans to Customers	**9 (a)**	8,394,479	7,748,754
Total Non- Current Assets		**9,973,386**	**9,157,896**
Current Assets			
Cash and Bank Balances	**13 (a)**	105,109	147,795
Short Term Deposits	**14**	611,038	778,674
Net Short Term Loans to Customers	**9 (b)**	912,685	1,143,204
Trade and Other Receivables	**15**	88,070	171,022
Inventories	**16**	4,532	4,020
Total Current Assets		**1,721,434**	**2,244,715**
Total Assets		**11,694,820**	**11,402,611**
EQUITY AND LIABILITIES			
Equity and Reserves			
Grants	**17**	3,768,923	3,617,851
Government Equity Capital	**18**	2,687,766	2,687,766
General Reserve	**19 (a)**	1,945,794	1,814,631
Revaluation Reserve	**19 (b)**	787,618	787,618
Total Equity and Reserves		**9,190,102**	**8,907,866**
Non-Current Liabilities			
Redeemable Government Loans and Interest:	**20 (a)**	562,523	558,599
Risk Sharing Fund	**20 (b)**	377,215	377,215
Agency Funds	**20 (c)**	831,734	831,734
Total Non-Current Liabilities		**1,771,472**	**1,767,547**
Current Liabilities			
Payables	**21 (a)**	481,304	437,883
Trade and Other Payables	**21 (b)**	149,855	179,442
Current Tax Payable	**21 (c)**	90,745	100,312
Current Accounts	**13 (b)**	11,343	9,561
Total Current Liabilities		**733,247**	**727,198**
Total Equity and Liabilities		**11,694,820**	**11,402,611**

STATEMENT OF FINANCIAL POSITION (Continued)

The financial statements set out on pages 1 to 73 were approved by the Board of Directors on 9th September 2021 and were signed on its behalf by:

Mr. George Kubai **Managing Director**	**CPA Tom O Akeno** **Chief Finance & Investments Officer** **ICPAK M/NO: 8116**	**Hon. Franklin Bett** **Chairman**
Dated 09/09/2021	**Dated 09/09/2021**	**Dated 09/09/2021**

XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2021

	Notes	Government Equity Capital	General Reserve	Revaluation Reserve	Grants	Totals
2019:		**KES.'000**	**KES.'000**	**KES.'000**	**KES.'000**	**KES.'000**
At 1 July 2019 - As previously stated		**2,687,766**	**1,766,436**	**787,618**	**3,623,994**	**8,865,814**
Muri Farm Settle Fund	**17**	-	-	-	(6,143)	(6,143)
Deposit on rent treated as income	**19 (a)**	-	(2,994)	-	-	(2,994)
Reversal of Tax Liability	**19 (a)**	-	312,924	-	-	312,924
Deferred Tax Reversal	**19 (a)**	-	(551,994)	-	-	(551,994)
Profit for the Year	**19 (a)**	-	290,259	-	-	290,259
Balance as at 30th June 2020		**2,687,766**	**1,814,631**	**787,618**	**3,617,851**	**8,907,866**
Balance as at 1st July 2020		**2,687,766**	**1,814,631**	**787,618**	**3,617,851**	**8,907,866**
Muri Farm Settle Fund	**17**	-	-	-	(348,928)	(348,928)
GOK Subsidy to Financial Inst	**17**	-	-	-	250,000	250,000
Grant - Development Vote	**17**	-	-	-	250,000	250,000
Profit for the Year	**19 (a)**	-	131,164	-	-	131,164
Balance as at 30th June 2021		**2,687,766**	**1,945,794**	**787,618**	**3,768,923**	**9,190,101**

XVI. STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30TH JUNE 2021

	NOTES	2021 KES.'000	2020 KES.'000
Cash flow from operating activities:			
Profit/(Loss) Before Taxation		147,708	318,743
Adjustments for:			
Interest on Short Term Deposits	**2 (b)**	(58,761)	(83,940)
Depreciation of Property & Equipment	**8 (a)**	74,102	83,312
Amortization of Intangible Assets	**8 (b)**	14,317	26,891
Profit/loss on Disposal of Assets	**22 (b)**	(49,455)	(4,109)
Interest expense	**3 (a & b)**	24,585	24,384
Increase in Inventories	**16**	(513)	(1,325)
Corporate Tax paid	**21 (c)**	(26,112)	-
Increase in Deferred Tax Asset	**10**	(9,339)	-
Increase in Trade and Other Receivables	**15**	82,953	(30,080)
Decrease in Trade and Other Payables	**21 (a & b)**	13,835	103,416
Interest paid	**20 (b)**	(9,430)	(25,810)
Net cash flows generated from operating activities		**203,890**	**411,481**
Cash flow from Investing activities:			
Purchase of Property & Equipment	**8 (a)**	(121,721)	(60,668)
Purchase of Intangible Assets	**8 (b)**	(30,516)	(16,947)
Interest on Short Term Deposits	**2 (b)**	58,761	83,940
Proceeds from disposal of Property & Equipment	**22 (b)**	55,306	4,141
Rescheduled GOK loan repayment	**20 (a)**	(11,081)	-
Increase in Repossessed Farm Properties	**11**	(97,455)	247
Decrease in Short Term Loans to Customers	**9 (b)**	230,519	818,642
Assets reclassified		(5,156)	-
Proceeds from disposal of Repossessed Farm Properties	**11**	-	215
Decrease/Increase in Loans to Customers	**9 (a)**	(645,725)	(1,509,732)
Net cash flow used in investing activities		**(567,067)**	**(680,163)**
Cash flow from Financing activities:			
GOK Project Subsidy Funds 2016 - Muri Farm Settle Fund	**17**	(348,928)	(6,143)
Deposit on rent treated as income	**19 (a)**	-	(2,994)
Grant - Development Vote	**17**	250,000	-
GOK Subsidy to Financial Inst	**17**	250,000	-
Net cash flow used in financing activities		**151,072**	**(9,137)**
Net increase in cash and cash equivalent		(212,103)	(277,819)
Cash and cash equivalent at the beginning of the year		916,908	1,194,728
Cash and cash equivalent at the end of the period	**13 & 14**	**704,805**	**916,908**

STATEMENT OF CASH FLOW (Continued)

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.

XVII.STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30TH JUNE 2021

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2020-2021	2020-2021	2020-2021	2020-2021	2020-2021
Revenue	Kshs	Kshs	Kshs	Kshs	Kshs
Interest Income:					
Interest on Loans	1,321,735	-	1,321,735	934,114	(387,621)
Interest on Short Term Deposits	67,512	-	67,512	58,761	(8,751)
Total interest income	**1,389,247**	**-**	**1,389,247**	**992,875**	**(396,372)**
Non-Interest income					
Fee/Other Operating Income	502,955	-	502,955	334,188	(168,767)
Income from doubtful debts	84,825	-	84,825	298,454	213,629
Total Non-Interest income	**587,780**	**-**	**587,780**	**632,642**	**44,862**
Total Revenues	**1,977,028**	**-**	**1,977,028**	**1,625,517**	**(351,511)**
Expenses					
Staff Cost	848,600	-	848,600	740,817	107,783
Board Expenses	36,000	-	36,000	24,631	11,369
Administration Costs	391,500	-	391,500	267,452	124,048
Depreciation & Amortization	118,811	-	118,811	88,419	30,392
Charge for Doubtful Debts	180,000	-	180,000	329,124	(149,124)
Interest on Redeemable Loans	18,499	-	18,499	24,585	(6,086)
Rebate Interest	3,405	-	3,405	2,780	625
Total expenditure	**1,596,815**	**-**	**1,596,815**	**1,477,808**	**119,007**
Surplus for the period	**380,212**	**-**	**380,212**	**147,708**	**(232,504)**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2021 (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 2020, the management reviewed the approved budget for the financial year 2020/2021 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 budgetary reallocation in the Supplementary budget had no overall effect on the approved budget amount for the financial year 2020/21.

During the period under review, loans worth KES 4.3 billion were collected compared to KES 3.3 billion in the previous period. The increase in the amount of loans collected largely the growth in interest income. Interest earnings from investments in term deposits decreased as a result of the decline in the amounts held in term deposits i.e from Kshs 0.7 billion to Kshs 0.6 billion.

During the period under review, part of KES 1.2 billion received from the Government was applied to close loan accounts considered for waiver following the Presidential directive of 2017. This amount forms part of the recoveries from NPLs which stood at KES 298.5 million for the period ended 30th June 2021.

XVIII. NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

AFC is established by and derives its authority and accountability from Agricultur Corporation Act Cap 323. The Corporation is wholly owned by the Government of Ke domiciled in Kenya. The Corporation's principal activity is providing credit facilitie purpose of developing agriculture.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis excep measurement at re-valued amounts of certain items of property, plant and e marketable securities and financial instruments at fair value, impaired assets at their recoverable amounts and actuarially determined liabilities at their present v preparation of financial statements in conformity with International Financial Standards (IFRS) allows the use of estimates and assumptions. It also requires ma to exercise judgement in the process of applying the Corporation's accounting pol areas involving a higher degree of judgement or complexity, or where assump estimates are significant to the financial statements, are disclosed.

The financial statements have been prepared and presented in Kenya Shillings, whicl functional and reporting currency of the Corporation and all values are rounded to the thousand (KES'000).

The financial statements have been prepared in accordance with the PFM Act 2012 Corporations Act Cap 446, Agricultural Finance Corporation Act Cap 323, Int Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) to entities reporting under IFRS.

NOTES TO FINANCIAL STATEMENT (Continued)

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2021

A number of new standards and interpretations have been published that are not mandatory for annual periods commencing 1 January 2020 and have not been early adopted by the Corporation. The Corporation's assessment of the impact of these new standards and interpretations is as follows:

IAS 1 and IAS 8 - 'Presentation of financial statements' and 'Accounting policies, changes in accounting estimates and errors' on the definition of material

These amendments become effective for annual periods beginning on or after 1 January 2020. The amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

- use a consistent definition of materiality through IFRSs and the conceptual framework for financial reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is: "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The change is not expected to have any material impact to the accounts.

NOTES TO FINANCIAL STATEMENT (Continued)

IFRS 3 - Business combinations

The standard becomes effective for annual periods beginning on or after 1st January 2020. This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations. More acquisitions are likely to be accounted for as asset acquisitions.

To be considered a business, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present (including for early stage companies that have not generated outputs). To be a business without outputs, there will now need to be an organised workforce. The new standard is not expected to have any impact in the annual accounts.

IFRIC 23 Clarification on accounting for Income tax exposures

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely

NOTES TO FINANCIAL STATEMENT (Continued)

amount method or the expected value method when measuring an uncertainty). The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;

(b) assumptions and other estimates used; and

(c) potential impact of uncertainties not reflected.

The new Standard is effective for annual periods beginning on or after 1st January 2019.

The following amended standards are not expected to have a significant impact on the Corporation's financial statements.

Prepayment Features with Negative Compensation (Amendments to IFRS 9)

Long-term Interests in Associates and Joint Ventures 1 (Amendments to IAS 28)

Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards

Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

New Standard or amendments Effective for annual periods beginning on or after

— Definition of a Business (Amendments to IFRS 3) 1st January 2020

— Definition of material (Amendments to IAS 1 and IAS 8) 1st January 2020

— Amendments to references to the Conceptual Framework in IFRS Standards 1st January 2020

— IFRS 17 insurance contracts 1st January 2021

— Sale or combination of assets between an investment and associate or joint venture (Amendments to IFRS 10 and IAS 28)

NOTES TO FINANCIAL STATEMENT (Continued)

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in financial year 2020/21.

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.

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.

NOTES TO FINANCIAL STATEMENT (Continued)

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 of the same asset are charged against the revaluation reserve account; all other decreases are charged to profit or loss in the income statement.

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

c) Depreciation and Impairment of Property & Equipment

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

NOTES TO FINANCIAL STATEMENT (Continued)

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 and pro-rated after deducting a scrap value of KES 20. The rates used are set out in the Corporation's accounting policy for Non-Current assets as follows:

Freehold land Nil
Leasehold premises and improvements rates are based on the unexpired lease term or 50 years whichever is less.

Motor vehicles	25%	Computers and Software	33.3%
Furniture & Fittings	12.5%	Buildings	2%
Office equipment	20%		

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

d) Intangible Assets

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

- It is technically feasible to complete the software product so that it will be available for use;

NOTES TO FINANCIAL STATEMENT (Continued)

- 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.

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.

NOTES TO FINANCIAL STATEMENT (Continued)

Bad debts are charged to the Income statement and written off after all recovery efforts 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.

Deferred tax

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

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

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused

NOTES TO FINANCIAL STATEMENT (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENT (Continued)

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 capitalized as part of the cost of the project.

j) Budget information

In accordance with the requirements of State Corporation Act, Section 11 & 12 Cap. 446, legal notice no. 93 part (3), Section 4 of State Corporation Act Regulation 2004 on Performance Contracting and Section 218 of PFM Act Regulation 2015, the Corporation received it's approved annual Budget vide the National Treasury circular Ref: MOA/B.1.8A/VOL.IX/61 dated 12th August 2020. Subsequent revisions were made to the approved budget in accordance with specific approvals from the appropriate authorities.

The revisions were incorporated in 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 2020-2021 budget.

The Corporation's budget is prepared on a difference basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the

NOTES TO FINANCIAL STATEMENT (Continued)

financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. In addition to the basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

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

k) Comparative figures

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

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

NOTES TO FINANCIAL STATEMENT (Continued)

An actuarial valuation done as at 30th June 2018 indicated that the fund had a deficit of KES 46 million which amount was cleared in the previous period.

The Corporation intends to carry out an actuarial valuation of the Scheme to establish the current status after the audit of the Scheme's financial year 2021/22.

m) Provision for Doubtful Debts

The Corporation had finalized the preparations for full implementation of the International Financial Reporting Standard (IFRS) 9, which became effective January 1, 2018. This accounting standard is premised on expected losses and requires entities to increase provisioning for sectors or areas that are deemed to be of higher risk.

IFRS 9 "Financial Instruments" replaced IAS 39 "Financial Instruments: Recognition and Measurement" and is effective for annual periods beginning on or after January 1, 2018.

As at 30th June 2021, the total loan portfolio stood at KES 9.8 billion comprising of short term loans of KES 1.0 billion, medium term loans of KES 8.1 billion and staff loans of KES 0.7 billion. Arising from the recoveries made from Non-performing loans of KES 298.5 million, the total accumulated provisions for loans significantly increased to KES 475.9 million. The status of the accumulated provisions and portfolio classification are as summarized in the tables below.

NOTES TO FINANCIAL STATEMENT (Continued)

The tables below reconciles the closing impairment allowances for financial assets accordance with IFRS 9.

Impairment Allowance Reconciliation (KES. '000)						
Asset	**Value**	**(ECL) Accumulated Provisions Balance b/f**	**Recoveries NPLs**	**Write-offs**	**Charge/Write Back**	**Total ECL IFRS 9**
Loan Advances/ Portfolio	9,783,128	455,409	(298,454)	(10,115)	329,124	475,964

Summary note on accumulated provisions for the year as at 30th June 2021 as disclosed under note 9

Classification	**Portfolio/value**	**B/F**	**Charge, Write back/ Collection**	**Current balance**
Short Term	1,012,142	42,671	60,816	60,816
Medium Term	8,112,716	399,985	412,218	412,218
Staff	658,270	12,753	2,930	2,930
Total	**9,783,128**	**455,409**	**475,964**	**475,964**
Grand Total	**9,783,128**	**455,409**	**475,964**	**475,964**

NOTES TO FINANCIAL STATEMENT (Continued)

Composition of Loan Portfolio As at 30/6/2021 (KES. '000)				
Component	**Medium Term Loan**	**Short Term Loan**	**Staff Loan**	**Total**
Outstanding Principle	7,466,219	864,324	651,833	**8,982,376**
Outstanding Interest	397,280	51,208	6,410	**454,898**
Late Fees	249,217	35,205	26	**284,448**
Loan Fees	56,787	4,619	-	**61,406**
Totals	**8,169,503**	**955,356**	**658,269**	**9,783,128**

NOTES TO FINANCIAL STATEMENT (Continued)

n) Cash and Cash Equivalents

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

o) Trade and Other Payables

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

p) Provision for Staff Leave Pay

All employees' entitlements to annual leave days which are recognised as they accrue to the employees. At the end of the financial year, a provision is made for the estimated liability for annual leave not utilized at the reporting date.

q) Farm Properties in Possession

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

NOTES TO FINANCIAL STATEMENT (Continued)

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.

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, 2021.

NOTES TO FINANCIAL STATEMENT (Continued)

v) Related Parties Disclosures

Government of Kenya

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

Employees

The entity provides certain qualifying employees with car and housing loans on terms more favourable than available in the market. The benefit obtained by staff is subjected to income tax as required under the Kenya Income Tax Act.

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Corporation. Business transactions with all parties, including the

Directors or their related parties are carried out at arms' length. In the financial year 2020/21 the Directors submitted their annual declarations of interests which included:

An acknowledgement that should it come to the attention of a Director that a matter concerning the Corporation may result in a conflict of interest, they are obliged to declare the same and will exclude themselves from any discussion or decision over the matter in question.
An acknowledgement that should the Director be appointed to the Board of an entity, including a Government entity that may expose the Director to potential or actual conflict of interest, the Director will be obliged to declare such appointment, undergo an assessment to determine the extent of such conflict and, where applicable, offer their resignation as a Director where the conflict cannot be mitigated by the existing Board policies for the management of conflicts of interest.

NOTES TO FINANCIAL STATEMENT (Continued)

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

i) Nature of related party relationships

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

Key management remuneration	**2021 KES'000**	**2020 KES'000**
Directors	24,631	22,172
Key management compensation	55,090	46,200

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

Estimates and assumptions

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

NOTES TO FINANCIAL STATEMENT (Continued)

Useful lives and residual values

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

- The condition of the asset based on the assessment of experts employed by the Entity
- The nature of asset, its susceptibility, adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset.
- Changes in the market in relation to the asset

Impairment losses on loans and advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Corporation's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Corporation reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the

NOTES TO FINANCIAL STATEMENT (Continued)

Operation department is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The Corporation also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances account cutting across various sectors. Assets with similar risk characteristics are grouped together for the purpose of determining the collective impairment within the Corporation.

NOTES TO FINANCIAL STATEMENT (Continued)

	2021 KES.'000	2020 KES.'000
2 (a). Interest on Loans		
Interest on Medium Term Loans	792,016	685,671
Interest on Short Term Loans	107,982	122,066
Interest on Staff Loans	34,116	29,720
Balance as at 30th June	**934,114**	**837,457**

2 (b). Interest on Short Term Deposits

Details are as follows:-	2021 KES.'000	2020 KES.'000
Short Term Deposits	58,089	82,543
Bank Accounts	671	1,398
Balance as at 30th June	**58,761**	**83,940**

3 (a). Interest on Redeemable Loans

The interest charge on redeemable loans outstanding as at 30th June 2021 were as follows:

	2021 KES.'000	2020 KES.'000
GOK Restructured Red. Loan	15,129	15,005
Balance as at 30th June	**15,129**	**15,005**

3 (b). Interest on RSF		
Risk Sharing Fund	9,456	9,379
Balance as at 30th June	**9,456**	**9,379**

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 specific rates of interest accrued on annual basis. The Corporation is not exposed to the risks of interest rate fluctuations in the market as the rates were determined at the of loan receipt.

NOTES TO FINANCIAL STATEMENT (Continued)

4. Rebates Interest	**2021** **KES.'000**	**2020** **KES.'000**
Rebates Interest	2,780	2,753
Balance as at 30th June	**2,780**	**2,753**

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 Cap 323.

5 (a). Other operating Income **Non-Interest Income**	**2021** **KES.'000**	**2020** **KES.'000**
Rent income - Note 22 (a).	87,538	150,709
Profit on disposal of assets- Note 22 (b).	49,455	4,109
Agency commission	3,686	3,387
Sundries	5,019	10,984
Write back of provisions	-	14,133
Balance as at 30th June	**145,699**	**183,323**

5 (b). Fees Income	**2021** **KES.'000**	**2020** **KES.'000**
Application & Forms fees	24,268	25,488
Conveyance	70,906	59,148
Loan Commitments Fees	51,086	44,145
Inspection fees	122	97
Other Loan Processing fees	5,981	4,502
Discharge of Securities Fees	6,365	4,608
Loan Waiver Processing Fees	1,731	139
Account Maintenance Fee Income	28,030	34,099
Balance as at 30th June	**188,489**	**172,225**

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

6. Income from doubtful debts

All loans considered to be non-performing are provided and classified as doubtful debts as the likelihood of full repayment is remote. However, any subsequent recoveries are recognized as income.

	2021 **KES.'000**	**2,020** KES.'000
Recoveries from NPL's - General	298,454	858,338
Recoveries from NPL's - Specific	-	151,613
Balance as at 30th June	**298,454**	**1,009,952**

NOTES TO FINANCIAL STATEMENT (Continued)

7. (a) Staff Costs	**2021**	**2020**
	KES.'000	**KES.'000**
Salaries	441,945	426,283
Overtime	3,581	2,806
House allowance	106,635	103,079
Transport allowance	46,930	46,052
Hardship allowance	9,169	9,425
Acting/Duty & Aggregation allowance	3,456	1,563
Leave allowance	3,807	4,142
Other emoluments	619	1,200
Staff appointments & transfers allowances	1,776	1,504
Medical & staff Insurance expenses	55,078	50,154
Staff Insurance expenses	2,953	4,217
Pension contributions	35,974	36,008
Pension deficit contributions	-	46,046
NSSF employers contribution	1,248	1,217
Gratuities	17,523	15,248
Welfare & Uniforms	10,124	18,707
Total	**740,817**	**767,651**

7. (b) Board Members' Expenses	**2021**	**2020**
	KES.'000	**KES.'000**
Chairman's Standing Fees	960	960
Sitting Allowance	9,320	8,560
Travelling Allowance	1,997	1,939
Night Out & Meal Allowance	7,975	6,323
Sundry Board Expenses	771	4
Training Expenses	3,090	3,984
Medical	518	-
Total	**24,631**	**21,770**

NOTES TO FINANCIAL STATEMENT (Continued)

7. (c) General & Administrative Expenses:	2021 KES.'000	2020 KES.'000
Bank charges	2,719	2,726
Corporate Comm & advertisement	10,732	7,853
Publicity/Shows & Field days	945	8,650
ISO Certification	1,206	803
Corporate social responsibility/Donations	1,226	5,761
General office expenses	15,600	15,032
Insurance of Corporation assets	825	1,043
Insurance of Motor Vehicles	5,047	4,998
Land rent & rates	1,366	912
Legal fees	500	7,618
Maintenance of buildings	3,647	4,276
Maintenance of furniture & equipment	12,311	13,871
Office rentals	19,375	21,223
Printing & stationery	7,955	6,086
Professional consultants	3,590	3,567
Subscriptions to professional bodies	1,402	1,850
Research & development	684	881
Security	27,280	27,056
Software licences Taxes & licences	37,289	36,704
Telephone, internet & postage	32,477	31,822
General hotel & travel	26,828	23,642
Entertainment Expense	-	1,115
Training	11,884	34,967
Vehicle fuel & oil	13,526	13,542
Vehicle maintenance	14,957	12,070
Water, electricity & gas	6,956	6,559
Transformation expenses	5,269	1,760
Auditors Fees	1,531	1,531
Fringe Benefit Tax	326	460
Total	**267,452**	**298,378**
Total	**1,032,900**	**1,087,799**

	30.6.21	**30.6.20**
Average number of employees at the end of the year was:		
Permanent Employees - Management	282	243
Permanent employees – Unionisable	252	251
Total	**534**	**494**

NOTES TO FINANCIAL STATEMENT (Continued)

8. (a) Property and Equipment

2021	Freehold Land	Buildings & Civil Works	Motor Vehicles	Office Equipment Furniture & Fittings	Computer Hardware	Fixed assets transfer account	Totals
COSTS:	**KES'000**	**KES'000**	**KES'000**	**KES'000**	**KES'000**	**KES'000**	**KES'000**
As at 30th June 2020	**40,527**	**1,054,031**	**291,645**	**472,230**	**168,958**	**-**	**2,027,390**
Additions	-	-	54,281	44,637	5,287	17,517	121,721
Written-off	-	-	-	(98,311)	(89,604)		(187,915)
Disposal	(6,004)	-	(1,580)	-	-	-	(7,584)
As at 30th June 2021	**34,523**	**1,054,031**	**344,346**	**418,555**	**84,641**	**17,517**	**1,953,612**
DEPRECIATION:							
Charge for previous years	-	**208,303**	**253,206**	**302,622**	**163,671**	**-**	**927,802**
Charge for the year	-	21,079	25,452	26,768	803	-	74,102
Written-off	-	-	-	(103,467)	(89,604)	-	(193,071)
Disposal	-	-	(1,580)	-	-	-	(1,580)
As at 30th June 2021	**-**	**229,382**	**277,078**	**225,923**	**74,870**	**-**	**807,254**
NET BOOK VALUE							
As at 30th June 2021	**34,523**	**824,648**	**67,268**	**192,632**	**9,771**	**17,517**	**1,146,359**

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	256,729	256,729
Office Equipment	144,433	144,433
Computer Hardware	125,923	125,923
Software	160,190	160,190
Furniture and Fittings	30,595	30,595
Total as at 30th June	**717,870**	**717,870**

NOTES TO FINANCIAL STATEMENT (Continued)

8. (a) Property and Equipment

2020	Freehold Land	Buildings & Civil Works	Motor Vehicles	Office Equipment Furniture & Fittings	Computer Hardware	Totals
COSTS:	**KES'000**	**KES'000**	**KES'000**	**KES'000**	**KES'000**	**KES'000**
As at 1st July 2019	**40,527**	**1,054,031**	**310,056**	**412,751**	**167,768**	**1,985,132**
Additions	-	-	-	59,478	1,190	60,668
Disposal	-	-	(18,411)	-	-	(18,411)
As at 30th June 2020	**40,527**	**1,054,031**	**291,645**	**472,230**	**168,958**	**2,027,390**
DEPRECIATION:						
Charge for previous years	-	**187,223**	**241,836**	**273,679**	**160,163**	**862,901**
Charge for the year	-	21,081	29,780	28,943	3,508	83,312
Disposals	-	-	(18,410)	-	-	(18,410)
As at 30th June 2020	**-**	**208,303**	**253,206**	**302,622**	**163,671**	**927,802**
NET BOOK VALUE						
As at 30th June 2020	**40,527**	**845,727**	**38,439**	**169,607**	**5,287**	**1,099,588**

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	256,729	161,238
Office Equipment	144,433	138,105
Computer Hardware	125,923	142,151
Software	160,190	16,349
Furniture and Fittings	30,595	58,116
Total as at 30th June	**717,870**	**515,959**

NOTES TO FINANCIAL STATEMENT (Continued)

8. (b) Intangible Assets

	2021 KES'000	2020 KES'000
COSTS:		
As at 1st July	**244,806**	**227,857**
Additions	30,516	16,948
As at 30th June	**275,322**	**244,805**
AMORTISATION		
As at 1st July	**206,608**	**179,717**
Charge for the year	14,317	26,891
As at 30th June	**220,925**	**206,608**
NET BOOK VALUE	**54,397**	**38,197**

NOTES TO FINANCIAL STATEMENT (Continued)

Loans to Customers	2021	2020
9. (a) Loans to Customer	**KES.'000**	**KES.'000**
Medium Term Loans	8,114,837	7,571,925
Staff Loans	658,270	544,639
Directors Loans	54,666	44,929
Total Medium Loans to Customer	**8,827,772**	**8,161,493**
Less Accumulated Provision		
Medium term loans	420,540	399,985
Staff Loans	12,753	12,753
Net loans to Customer	**8,394,479**	**7,748,754**
9. (b) Short Term Loans to Customers	955,356	1,185,875
Less Accumulated Provision		
Short term loans	42,671	42,671
Net Short Term Loans to Customers	**912,685**	**1,143,204**
Classified Under		
12. (b) Medium Term Loans	420,540	399,985
12. (b) Short Term Loans	42,671	42,671
12. (b) Staff Loans	12,753	12,753
Total	**475,964**	**455,410**

Medium Term Loans: These are loans whose maturity period are between twelve months and four years.
Staff Loans: These are loans to current staff and ex-staff
Directors Loans: These are loans to current & past directors
Short Term Loans: These are loans whose maturity periods is up to 12 months and instalments for medium term loans that will fall due within the next twelve months.

	Notes	2021	2020
10. Deferred Tax Asset:		**KES.'000**	**KES.'000**
The net deferred tax asset is arrived at as follows:			
Balance b/f as at 1st July		3,563	555,557
Timing difference for the FY		9,339	-
Deferred Tax Reversal		-	(551,994)
Balance as at 30th June		**12,902**	**3,563**

11. Repossessed Farm Properties:	**2021**	**2020**
	KES.'000	**KES.'000**
Acquisition value as at 1st July	267,794	268,041
Additions - FPIP	97,455	-
Disposals - FPIP	-	(247)
Balance as at 30th June	**365,249**	**267,794**

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:

	2021	2020
Loans to Customers:	**KES.'000**	**KES.'000**
General provision	329,124	743,015
Total charge for the year	**329,124**	**743,015**

12 (b). Accumulated provisions for doubtful debts

The accumulated provisions are analysed as below:

	2021	2020
Specific Provisions	**KES'000**	**KES'000**
Balance as at 1 July	-	151,614
Recoveries from NPL	-	(151,614)
Balance as at 30th June	**-**	**-**
General Provisions		
Balance as at 1st July	442,656	529,607
Write back of provisions	-	-
Charge for the year	329,124	743,015
Interest Concession - Farm Loans	(10,115)	(2,487)
Movement in provisions Staff specific	-	15,156
Movement in provisions Staff General	-	15,703
Recoveries from NPL	(298,454)	(858,338)
Balance as at 30th June	**463,211**	**442,656**
Staff Loans:		
Specific Provisions		
Balance as at 1st July	9,482	24,638
Movement in provisions during the year	-	(15,156)
Balance as at 30th June	**9,482**	**9,482**
General Provisions		
Balance as at 1st July	3,272	18,973
Movement in provisions during the year	-	(15,702)
Balance as at 30th June	**3,272**	**3,272**
Other debts:		
Balance as at 1st July	-	14,133
Write back of provision	-	(14,133)
Balance as at 30th June	**-**	**-**
Provisions Summary		
General Provisions	475,964	455,410
Balance as at 30th June	**475,964**	**455,410**

NOTES TO FINANCIAL STATEMENT (Continued)

13 (a). Cash and Bank Balances	2021 KES.'000	2020 KES.'000
Current accounts	44,315	95,344
Branch Collection Accounts	15,304	7,087
Branch Imprest Accounts	11,336	6,243
Branch Loan Funds Accounts	34,154	39,121
Balance as at 30th June	**105,109**	**147,795**

13 (b). Cash and Bank Balances		
Current accounts	(11,343)	(9,561)
Balance as at 30th June	**(11,343)**	**(9,561)**

14. Short Term Deposits	2021 KES.'000	2020 KES.'000
Co-operative Bank	338,078	468,391
National Bank of Kenya	-	300,000
Kenya Commercial Bank	266,830	-
Interest receivable	6,131	10,283
Balance as at 30th June	**611,038**	**778,674**

The average effective interest rate on the short term deposits as at June 30, 2021 was 10.8% (2020 10%). These are committed funds held in short term deposits at various banks awaiting disbursements to farmers and whose maturity is between one to six months.

NOTES TO FINANCIAL STATEMENT (Continued)

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

Summarized analysis of the cash and cash equivalents

Financial institution	Account number	2021 KES.'000	2020 KES.'000
a) Current account			
Kenya Commercial bank	Various	10,043	10,843
Co-operative Bank of Kenya	Various	16,352	18,352
National Bank of Kenya	Various	46,459	97,602
Balance as at 30th June		**72,854**	**126,797**
c) Fixed deposits account			
Co-operative Bank	Various	338,078	468,391
National Bank of Kenya		-	300,000
Kenya Commercial Bank	Various	266,830	-
Interest receivable	Various	6,131	10,283
Balance as at 30th June		**611,038**	**778,674**
d) Staff car loan/ mortgage			
National bank of Kenya	01001061023900	1,734	1,734
Balance as at 30th June		**1,734**	**1,734**
e) Others(specify)			
Cash in transit	Various	696	496
cash in hand	Various	23	223
M-Pesa Phone Float	Various	1,546	1,522
M-Pesa Cash Float	Various	1,754	1,791
M-Banking accounts	Various	12,390	3,404
Vault Cash	Various	2,769	2,267
Balance as at 30th June		**19,179**	**9,703**
Grand total		**704,805**	**916,908**

NOTES TO FINANCIAL STATEMENT (Continued)

15. Trade and other receivables	2021 KES.'000	2,020 KES.'000
Rent receivable- Other properties	64,992	64,005
Prepaid expenses	7,318	72,183
Utilities & Other deposits	2,345	2,335
Accounts receivable- Others	13,414	30,770
Prepaid Interest on RSF	-	1,730
Balance as at 30th June	**88,070**	**171,022**
Specific Provision for Bad Debts	-	-
Balance as at 30th June	**88,070**	**171,022**
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	22,789	20,782
Between 30 and 60 days	32,112	52,112
Between 61 and 90 days	2,846	22,846
Between 91 and 120 days	10,202	10,202
Over 120 days	20,121	65,080
Total	**88,070**	**171,022**

16. Inventories

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

	2021 KES.'000	2020 KES.'000
Stationery & Office Supplies	3,716	3,430
Kitchen, Detergents & Toiletries	140	217
Computer Stationery	676	373
Balance as at 30th June	**4,532**	**4,020**

NOTES TO FINANCIAL STATEMENT (Continued)

17. GRANTS	**2021 KES'000**	**2020 KES'000**
Development	20,611	20,611
Rehabilitation	18,752	18,752
I C A	2,500	2,500
Special Emergency Fund	3,470	3,470
Ministry of Finance	40,000	40,000
IDA 105/344	2,168	2,168
IDA 692	3,335	3,335
Vihiga	700	700
North Tetu	149	149
IADP	278	278
Narok Agricultural Dev. Project	760	760
World Bank Credit 4	21,925	21,925
IDA 1143 KE	14,529	14,529
IDA 1995 KE	1,594	1,594
Japanese Grant SCC Scheme 42 2004	769,000	769,000
GTZ Grant-2006	6,055	6,055
GOK Grant Livestock Off Take 2006	95,000	95,000
GOK Grant Livestock Off Take 2009	190,000	190,000
GOK Grant Livestock Off Take 2011	405,650	405,650
GOK Grant Livestock Off Take 2012	60,000	60,000
GOK Grant 2013	700,000	700,000
Grants - Food Security	500,000	500,000
GOK Project Subsidy Funds 2016	112,447	461,375
Grant - Development Vote	550,000	300,000
GOK Subsidy to Financial Inst	250,000	-
Balance as at 30th June	**3,768,923**	**3,617,851**

These are non-refundable grants from the Government of Kenya and other donors to finance specific lines of credit (scheme) 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 KES.1.3 billion in five equal installments. The fifth and last tranche of 260 million was received in 2006/2007 Financial Year. The Government also converted loans due from the Corporation amounting to 1,387,765,881 into equity bringing the total figure to KES. 2,687,765,881. The equity injection was meant to build a sustainable capital base for the Corporation.

NOTES TO FINANCIAL STATEMENT (Continued)

19. Reserves	2021 KES.'000	2020 KES.'000
(a) General Reserve		
Balance as at 1st July	1,814,631	1,766,436
Reversal of Tax Liability	-	312,924
Deposit on rent treated as income	-	(2,994)
Deferred Tax Reversal	-	(551,994)
Profit after taxation for the year	131,164	290,259
Balance as at 30th June	**1,945,794**	**1,814,631**

The General Reserve is the undistributed profit from the operations.

(b) Revaluation reserve	2021 KES.'000	2020 KES.'000
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. 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)

	2021	2020
20. (a) Redeemable Government Loans and Interest:	**KES.'000**	**KES.'000**
Principal		
GOK Restructured Red. Loan	494,830	502,927
Sub Total	**494,830**	**502,927**
Interest		
GOK Restructured Red. Loan	67,693	55,672
Sub Total	**67,693**	**55,672**
Total	**562,523**	**558,599**
20. (b) Risk Sharing Fund & Interest		
Risk Sharing Fund	377,215	377,215
Sub Total	**377,215**	**377,215**
Total	**939,738**	**935,814**

20. (c) Agency Funds:	**2021**	**2020**
	KES.'000	**KES.'000**
Kenya Sugar Board	722,218	722,218
Coffee Dev Fund	9,516	9,516
NIB- Rice rev fund	100,000	100,000
Sub Total	**831,734**	**831,734**
Grand Total	**1,771,472**	**1,767,547**

NOTES TO FINANCIAL STATEMENT (Continued)

	NOTES	2021 KES.'000	2020 KES.'000
21. Payables and Accruals			
(a) Payables			
Borrowers credit balances		420,992	362,003
Unprocessed Loan Receipts		-	1,229
Customers Loan deposits		60,312	74,650
Balance as at 30th June		**481,304**	**437,883**

(b) Trade and Other Payables		
Cash security deposits	2,571	2,905
Insurance receipts	9,653	7,512
External audit fees	4,593	3,062
Gratuity	24,040	15,781
Employees other deductions	-	377
Accrued Leave days	6,021	7,773
Other payables	80,172	117,648
Interest on redeemable loans	22,804	24,384
Balance as at 30th June	**149,855**	**179,442**

(c) Current Tax payable		2021 KES.'000	2020 KES.'000
Balance as at 1st July		100,312	384,752
Reversal of Tax Liability		-	(312,924)
Tax paid		(26,112)	-
Corporate tax for the year	23 (a)	16,545	28,484
Balance as at 30th June		**90,745**	**100,312**

NOTES TO FINANCIAL STATEMENT (Continued)

Analysis of Rent Income& Profit on disposal of assets

	2021	2020
22. (a) Rent Income	**KES.'000**	**KES.'000**
Details are as follows:-		
Development House Income/(Loss)	33,600	39,298
Other Properties net Income	53,938	111,410
Balance as at 30th June	**87,538**	**150,709**

22. (b) Profit/Loss on disposal of assets	**2021**	**2020**
The details are as follows:-	**KES.'000**	**KES.'000**
Motor Vehicles	243	4,030
Gain on disposal of other assets	49,212	80
Balance as at 30th June	**49,455**	**4,109**

During the year under review, the Corporation disposed a motor, two parcels of land and other assets for Kshs 55,306

NOTES TO FINANCIAL STATEMENT (Continued)

INCOME TAX EXPENSE/ (CREDIT)

23(a) Current taxation	NOTES	2021 KES.'000	2020 KES.'000
Current taxation based on the adjusted profit for the year at 30%		16,545	28,484
Current tax: prior year under/(over) provision		-	-
Current year deferred tax charge			
Prior year under-provision for deferred tax		-	-
		16,545	**28,484**

(b) Reconciliation of tax expense/(credit) to the expected tax based on accounting profit	2021 KES.'000	2020 KES.'000
Profit before taxation	147,708	318,743
Tax at the applicable tax rate of 30%	44,312	95,623
Current tax: 2010/2011 under-provision	-	-
Tax effects of expenses not deductible for tax purposes	(44,312)	(95,623)
Tax effects of income not taxable	-	-
Tax effects of excess capital allowances over depreciation/amortization	-	-
Deferred tax prior year over-provision	-	-
Rental income tax	16,545	28,484
	16,545	**28,484**

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)*
2018/2019 Audit certificate	**Property and Equipment** As previously reported, Property and equipment balance of KES 1,122,232,000 as at 30th June 2019 includes twenty nine (29) developed plots measuring a total of 5.3324 hectares valued at KES 191,627,798 and seven undeveloped plots measuring 1.5383 hectares with no ownership documents. Although Management explained that it continued with the pursuit of the ownership documents through the Ministry of Lands and the the National Land Commission, the document had not been obtained as at the time of audit. In addition, the value of land and buildings with a net book value of KES 907,335,000 excludes unvalued parcels of land	During the year under review, the Corporation continued with the pursuit of title documents for all its properties through the Ministry of Lands and Urban Development and the National Land Commission and has documentary evidence of the communication with the respective government entities. We endeavor to continue with the pursuit of the same. In addition, the Board approved the engagement of a surveyor to enable the Corporation get all ownership documents of it's properties. The process is at procurement stage.	Chief Manager Legal Services Rose Ochanda	Unresolved.	

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)*
	located in Busia, Nanyuki and Kerugoya whose ownership is in dispute.				
	Doubtful Recoverability of Loans to Customers As reported in the previous years and as disclosed under Note 9 (a) to the financial statements, net medium term loans to customers of KES. 6,238,828,000 as at 30 June 2019 includes an amount of KES. 22,661,000 advanced to thirteen (13) farmers in Kapsabet. Information available indicates that the Corporation advanced the amount against various collaterals in form of title deeds which appeared fraudulent. Management explained that the Corporation filed six cases against the fraudsters under Eldoret HCC No.100, 102, 103, 104, 105 and 106 of 2011 and judgement entered in favor of the Corporation. However as at the date of this report, execution of the warrants issued had not been effected. Recoverability of the amount of Kshs. 22,661,000 is therefore, doubtful.	Further to our previous responses, the Corporation asserts that it employed its internal machinery through the regional and the branch offices to carry out investigation on the traceability of the fraudsters. Presently, the execution of the said warrants is not possible due to their expiry. The Corporation finds itself in a difficult position of applying for fresh warrants as it cannot trace the persons against whom they are supposed to be executed. The Corporation has fully provided for these cases as bad and doubtful debts in our accounts and put them under non-accrual status.	Chief Manager Legal Services Rose Ochanda	Unresolved.	

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)***
	Loss of Cash As previously reported in 2015/2016 and earlier years, examination of records between January 2005 and November 2010 revealed that the Corporation lost a sum of Kshs. 35,840,714 through fraudulent transactions involving encashment of 196 cheques by various staff members. The case is still in court and any provisions for the loss that would have been necessary in relation to this uncertainty have not been incorporated in these financial statements.	This is an ongoing 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.	Chief Manager Legal Services Rose Ochanda	Unresolved.	
2019/2020 Audit certificate	**Undervaluation of Land** The statement of financial position reflects a balance of Kshs. 1,099,588,000 under property and equipment which, as disclosed in Note 8(a) to the financial statements, includes an amount of Kshs. 886,254,000 being the net book value of land and buildings. The	The Corporation revalued its land and properties in the financial year 2017/2018. However, the listed properties could not be revalued since the Corporation did not have the requisite title deeds to prove their ownership. These properties were allotted to the Corporation by various local authorities.	Chief Human Capital & Admin Officer Tallam K. W. C	Unresolved	

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)*
	latter balance includes an amount of Kshs. 526,550 that was used in acquisition of six parcels of land in Kimilili, Molo, Bomet, Bungoma, Chogoria and Kisumu and Kisumu Municipality. The six parcels of land have not been revalued contrary to the International Accounting Standard No. 16 which requires sufficient regularity in revaluation of property, plant and equipment to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.	All the listed undeveloped parcels of land without ownership documents were excluded from the list of our assets hence they do not form part of our assets disclosed under note 8 of the financial statements for purposes of fair presentation and following the auditor's recommendation in the management letter ref: AFC/5/2013/2014/ (6) dated 8th December 2014. This is also in line with guidance note under the revaluation model "If an item is revalued, the entire class of assets to which that asset belongs must be revalued (IAS 16.36). IAS 16 requires that all assets in the recognized classifications must be revalued for the new values to be adopted for disclosure purposes. Therefore, the valuation report was not adopted on this basis and the Auditor's recommendations in a letter ref. AFC/5/2016-2017/ (10) dated 7th February 2018.			
	Property with Expired Lease Included in the land and buildings net book value balance of Kshs. 886,254,000 is a parcel of land Nakuru Municipality block 8/22	Lease renewed and land disposed	Chief Manager Legal Services Rose Ochanda	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)*
	situated at the junction of Argwings Kodhek Road and Sungura Avenue in the larger industrial area within Nakuru municipality. Review of lease documents provided indicated that the residential plot lease expired in 2015 and has not been renewed. An attempt to sell of the property through an auction during the year was not successful. Under the circumstances, it was not possible to confirm whether the property and equipment balance of Kshs. 1,099,588,000 as at 30 June, 2020 was fairly stated.				
	Tax Matters **Unexplained Reversal of Current Tax Payable.** The statement of financial position reflects a balance of Kshs. 100,312,000 under current tax payable which, as disclosed in Note 21 (c) to the financial statements, is net of a reversal of tax liability of Kshs. 312,924,000 during the year. The reversal was effected on the advice by a tax consultant but the	In the Board of directors meetings held on 16th and 23rd June 2015, the Board resolved to source for services of a tax consultant to ascertain the accuracy of the deferred tax amounts in our financial statements which item had remained un-resolved for a long period It is on this basis that a tender was awarded to Afrek & Associates for provision of tax consultancy on deferred and computation of income tax for financial year 2003 to 2017 via our tender number AFC/FIN/18.4.2/2019.	Chief Investments & Finance Officer. Tom O. Akeno	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)*
	basis for the tax reversal was not disclosed. It is also not clear whether the Corporation had consulted with the Kenya Revenue Authority before reversing a liability that it had already recognized. Further, the current tax payable of Kshs. 100,312,000 includes an amount of Kshs. 28,484,000 in respect of corporate tax attributed to rental income tax. However, no analysis was provided to support the rental tax payable balance. Consequently, the accuracy and completeness of the current tax payable balance of Kshs. 100,312,000 as at 30 June, 2020 could not be confirmed.	The consultant established that the Corporation incurred a loss of KES 1.6 b and 1.1b in financial years ending 30th June 2004 and 2005 respectively. The Corporation did not fully exhaust these accumulated losses while filing its returns for previous years. As per ITA section 5, notwithstanding subsection (4), the Minister may, on the recommendation of the Commissioner, extend the period of deduction beyond ten years where a person applies through the Commissioner for such extension, giving evidence of inability to extinguish the deficit within that period. The consultant recommended that we prepare return based on separate sources of income, hence the payable tax of rental income that was in profit. These recommendations by the consultant necessitated the utilization of tax payable on main business of KES 284,440,000 against the accumulated losses. The current outstanding tax payable is based on rental income from the year 2015 to date.			
	Unexplained Reversal of Deferred Tax Asset The statement of financial position	In line with the requirements for IAS 12 Income Taxes implements 'comprehensive balance sheet method' of	Chief Investments & Finance Officer. Tom O. Akeno	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)*
	reflects a balance of Kshs. 3,563,000 under deferred tax asset which, as disclosed in Note 10 to the financial statements, is net of a deferred tax reversal of Kshs. 551,994,000 which was debited to general reserve during the year. However, as previously reported, supporting documents for the deferred tax reversal were not provided for audit verification. Consequently, the accuracy and completeness of the deferred tax asset of Kshs. 3,563,000 as at 30 June, 2020 could not be confirmed.	accounting for income taxes which recognizes both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test. The analysis of deferred tax asset as per the financial statement indicated the use of only losses brought forward in its computation, as opposed to both losses and the temporary difference derived from the carrying amount and tax base of Wear & Tear items. This resulted to overstatement of deferred tax asset at that time. To rectify the error, the consultant reworked the deferred tax based on IAS 12 and since the previous figure had been impacted against the losses, then the reversal had to be effected against the reserves.			
	Repossessed Farm Properties	The Corporation acquired these	Chief Manager	Unresolved	

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)*
	As disclosed in Note 11 to the financial statements, the statement of financial position reflects a balance of Kshs. 267,794,000 under repossessed farm properties as at 30 June, 2020. Included in the balance are ten parcels of land spread in the four Counties of Homa Bay, Migori, Nyamira and Nandi. However, the ownership of the properties, or the loan balances against which they were repossessed could not be established. Further, the repossessed farm properties balance of Kshs. 267,794,000 includes a property with an outstanding amount of Kshs. 6,092,187 for which the title deed is still in the name of the clients contrary to Section 9.8 of the Loan Policy which provides that upon acquisition of property by the Corporation, the Legal Department will arrange for the transfer of the property to the Corporation. Under the circumstances, the accuracy, ownership and completeness of the repossessed	properties in auctions that took place way back. The Corporation experienced difficulties while trying to register these properties. The Land Control Boards were simply non-functional in these regions for a long time. The Corporation second option was to have the properties sold back to the original owners who had expressed interest.	Legal Services Rose Ochanda		

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)*
	farm properties balance of Kshs. 267,794,000 could not be confirmed.				
	Loans Management **Loans Write off Without Board Approval** The statement of financial position reflects an amount of Kshs. 7,748,755,000 in respect of net loans after provision for bad and doubtful loans. Information available indicates that in the financial year 2017/2018, the Board and The National Treasury granted approval for write off totalling Kshs. 2,164,311,134 The amount related to principal and accumulated interests for specific loans and affected 5,668 identified cases that had been taken between 2013 and 2016 calendar years. The loans were spread in six counties and also included unsecured group loans in all counties and bad and doubtful loans in all counties. The first tranche towards the write off of the amounts was received from The National Treasury in the financial year 2017/2018 and amounted to Kshs.	As previously reported by management, there had never been an approved list by Government. Government released funds to the generally affected farming community by drought and other natural calamities. The Board was mandated to develop the criteria that was to effect the write off. In its sittings of 12th July 2017 and 5th September 2017 the Board set out a criteria for the implementation of the write-off. All write offs were on the basis of this criteria. It is worth noting that the presidential declarations were made in July 2017 while funds to facilitate the exercise were received between the period 2017 and 2020. Due to time difference and the lengthy process of seeking approval for the write off, the accounts continued to accrue interests and fees resulting to the variances of Kshs. 27.67 million as observed. In addition to this, some of the groups	Chief Credit Officer. Bonano Badia	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)*
	918,228,335. During the year under review, the Corporation received an amount of Kshs. 1,200,000,000 from The National Treasury towards the settlement of the remaining balance. The amount was received in two instalments of Kshs. 600,000,000 each on 18 October, 2019 and 27 December, 2019 respectively. The amount of Kshs. 1,200,000,000 was recorded in the books of the Corporation under grants - GOK-Project Subsidy Funds 2016, but was used to settle loan balances that had not been initially approved by the Board. Although all the 5668 cases that had been identified by the Board and had their interest charges suspended from the date they were identified, the Corporation continued to charge them interest in a different memorandum but the interest was not accrued in the books of the Corporation. The suspended interest as at 30 June, 2020 was eventually written off using the Kshs. 1,200,000,000 provided for the loan write-offs. The	that would have benefitted from the waiver, opted to repay their accounts so as to benefit from future loans from AFC. Attached are copies of the loan statements from the affected groups. (ii).This explains why the variation in number of groups. Finally, we wish to clarify that no single or additional loan was waived outside the set criteria. All the loans waived were within the set and approved BoD criteria as outlined in excerpts. (i).Total loans waived amount to kshs 2.186 billion.			

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)***
	balances that ought to have been written off remained in the books of the Corporation. It is not clear how the balances that had already been approved for write off will be settled. In addition, the loan waivers of Kshs. 1,200,000,000 was used to settle balances that had not been approved by the Board as follows: (i) Unsecured group loans all counties - the Board had approved 126 loans totalling Kshs. 113,393,163 for written off. However, the Management had written off 120 loans with an amount of Kshs. 141,053,626 but six loans were not written off despite having an overpayment of Kshs. 27,660,463. (ii) County loans - 4271 loans amounting to Kshs. 934,664,123 were approved by the Board for write off while the cumulative amounts paid was Kshs. 1,576,669,981 resulting in unexplained 395 additional loans written off with an overpayment of Kshs. 642,005,858. (iii) In addition, of the amounts written off, Kshs. 746,234,994, was				

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)*
	related to suspended interests that had not been provided for when the loan write offs were proposed. This resulted in an accumulated write off of Kshs. 932,290,756 on suspended interests that had not been provided for when the write offs were proposed. Consequently, the accuracy, completeness and validity of the loan balances of Kshs. 7,748,755,000 as at 30 June, 2020 could not be confirmed.				
	Non-Performing Loans The net medium-term loans to customers balance of Kshs. 7,748,755,000 also includes non-performing loans amounting to Kshs. 2,592,482,619 which are attributed to 4,743 farmers. No efforts have been made to recover the loan amounts. Consequently, the recoverability of the net medium term loans to customers of Kshs. 7,748,755,000 as at 30 June, 2020 cannot be confirmed.	The Corporation has a loan recovery department whose main objective is to deal with long outstanding loans whose collections efforts by the branches have not born fruits. Once the non-performing loans are transferred to Head Office, we apply graduated recovery methods ranging from negotiating for fresh and firm repayment proposals, issuing statutory notices and finally auctioning the security if the repayment proposals are not honored. Where the security does not attract external buyers, the Corporation acquires the property and sells it at a future date at a viable price	Chief Credit Officer. Bonano Badia	Resolved	
	Loans Closed Off by Super User	The IT role is to provide technical	Chief ICT Officer.	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)*
	and Undefined Users Examination of system logs and loan close up indicated that a total of 2,255 loans amounting to Kshs. 1,159,938,173 were closed by the super users (IT Department). No explanation was provided on why the super users closed the loan accounts contrary to Section 4.7.1 of the Operations Procedures which states that the branch accountant is the only one authorized to close a loan upon confirming that the loan servicing account has sufficient credit by applying the necessary codes in the system. Further, a total of 4,603 loans amounting to Kshs. 2,962,815,541 were closed by undefined users in the system. In addition, loans worth Kshs. 197,375,467 were closed by the systems vendor. Consequently, the accuracy, validity, and completeness of the net medium-term loans to customers of Kshs. 7,748,755,000 as at 30 June, 2020 could not be confirmed.	support in the operational systems. The loan closure process is designed such that once a loan account is fully repaid and has no outstanding balances, the system automatically closes the account series through the End of Day (EOD) process that is run on a daily basis through the IT staff. This process also facilitates daily interest accruals for loans. Manual account closure is not encouraged except for early loan pay-off cases. Therefore, all the loans closed by the super users are those automatically closed by the system after the EOD process upon full repayment of the account. Subsequently, the system captures the details of the staff running the EOD process for purposes of audit trails and this is why their user ID appear on the report. Bankers Realm banking system is event driven which closes loan series and not accounts. Loan series can only be closed when. a. By the system when the loan is paid off. b. By the system, when the loan balance is zero.	Daniel Olilo		

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)***
		At the end of every day, an ICT staff is tasked with running EOD process. The system goes through all loans and checks whether they have a status of closed or whether the loan balance is zero and thus needs to be closed. If the closed status has a tag of closed, the system closes it automatically. If the balance is zero, the system also closes it automatically. Because, an ICT staff is the one who has logged into the system to run the end of day procedure, it captures their name as being the one who has carried out the closure process. This was demonstrated to the External Auditors. As per the auditor's recommendation and to ensure compliance to standards and policies, the system has been instructed to capture a 'sys' user instead of the ICT staff for any automatic closure of loans by the system during the end of day procedures. This was confirmed by the auditor and is shown in the attached reports and screenshots. We have also in order to comply with the ISO procedures, amended the ISO procedure to capture closure of accounts			

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		and series during the End of Day procedure automatically by the system.			
	Long Outstanding Ex Staff Loans The net medium-term loans to customers of Kshs. 7,748,754,000 includes an amount of Kshs. 544,639,000 under staff loans which further includes an amount of Kshs. 25,594,418 due from ex-staff that have been outstanding for a long period. Management has not disclosed measures taken recover the long outstanding loans. Consequently, the recoverability of the outstanding loans of Kshs. 25,594,418 to ex staff as at 30 June, 2020 is doubtful.	The Corporation is holding several cases of ex-staff which are in arrears. The non performing staff accounts are as a result of staff resignations/separations, economic, environmental or other weaknesses inherent in the projects undertaken. The Corporation has always applied graduated recovery methods ranging from negotiating for fresh and firm repayment proposals, issuing statutory notices and finally auctioning the security if the repayment proposals are not honored. Where the security does not attract external buyers, the Corporation acquires the property and sells it at a future date at a viable price.	Chief Human Capital & Admin Officer. Tallam K. W. C	Unresolved	
	Unsecured Loans **Loan RIM No. 44860** The Corporation advanced a client a loan of Kshs. 4,000,000 for purchase of 85 bulls and fencing and farming installations on 10 November, 2013 which was to be repaid monthly with a banker's order of Kshs. 188,408 with effect from 30 March, 2014. The client however, failed to adhere to	It is true that there are uncollected balances from the account that have been placed on NPA. Any action other that this would have witnessed a continued accumulation of interest with no possibility of recovery. The sale of land that realized Kshs. 2 million reduced the extent of loss to the Corporation by a similar amount. The Corporation exercised its Statutory	Chief Credit Officer. Bonano Badia	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)*
	the conditions of the contract and the Corporation through a public auction on 2 August, 2018 sold off the security LR. No. KAJIADO/LORNGUSUAI2526 at Kshs. 2,000,000. As at the end of the financial year, the total payment amounted to Kshs. 2,563,000 which included proceeds from auction of Kshs. 2,000,000 and part payment of Kshs. 563,000 which had been made by client. The total outstanding debt stood at Kshs. 7,200,563 which is unsecured since the security had already been sold and transferred to the new owner. Recovery of the amount of Kshs. 7,200,563 owed to the Corporation is doubtful.	Power of sale as provided for in policy and law. The forceful recovery measures are as per the AFC Credit Policy. Any uncollected balance upon auction is demanded from the client and where this is futile the same is presented to the Board for consideration for write-off. Since the recoverability of the said balances is doubtful, the management has fully provided for the account as bad and doubtful and shall present the case for BoD approval to write-off the outstanding balances.			
	Loan RIM No. 56567 A client had an outstanding balance of Kshs. 64,721,778 from a loan of Kshs. 100,000,000 disbursed on 25 January, 2018. The loan was issued without security and registration of debenture is still pending two years after the loan was issued.		Chief Credit Officer. Bonano Obadia		

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)*
	Under the circumstances, the Corporation risks loss of the outstanding loan balance of Kshs. 35,278,222 in case of default.				
	Unsecured Loan - Loan RIM No. 58574 The Corporation approved and disbursed a loan amounting to Kshs. 20,000,000 on 21 August, 2018 to a company for establishment of 380 acres of sugarcane whose security was a parcel of land in Naivasha L.R No. 4358/10(IR No. 197797). The outstanding balance as at 30 June, 2020 stood at Kshs. 22,992,080 with total arrears of Kshs. 2,992,080. The following observations were made on review of the valuer's report on the security: (i) The securing property is registered in the name of an individual. However, it was established that the title was fraudulently registered and that the true owner is the Kenya Agricultural and Livestock Research Organization (KALRO) as per court ruling dated 15 July, 2019 and a new title deed L.R.		Chief Credit Officer. Bonano Obadia		

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)***
	No. 27158 (in the name of KALRO) which is an amalgamation of L.R No. 4358 was issued on 1 March, 2004. (ii) There is a charge dated 4 December, 2018 registered against the title in favour of the Corporation to secure unspecified amount. (iii) The property is vacant, undeveloped and fallow with bushes and shrubs. (iv) The property measures 28.86 hectares or 71.32 acres and not 380 acres as detailed by the borrower during application. As per Demand Notice dated 9 December, 2019, the Corporation visited the said project farm and confirmed that the financed project does not exist. Under the circumstances, the recoverability of the loan balance of Kshs. 22,992,080 as at 30 June, 2020 remains doubtful.				
	Unsecured Loan - Loan RIM No.62694 The Corporation approved and disbursed a loan amount of Kshs. 10,000,000 on 11 February, 2019 to	The above named client was granted a loan of KES 10,000,000/= on 11/2/2016 secured by LR No. MAGUMOINI/ITUGURURU/335 charged in favor of Agricultural Finance Corporation.	Chief Credit Officer. Bonano Obadia		

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)*
	client ID 030062694 and Account ID 1200300626941. However, the loan security was a property co-owned and therefore it was not possible to establish the status of the security. Under the circumstances, the security of the loan of Kshs. 10,000,000 could not be confirmed.	The title deed is registered in the name of Rocky Ranch Limited and John Miriti Mbarire who gave their consent to Milton Mugambi to use the same as security.However much the title deed is co-owned, the corporation obtained a formal guarantee from John Miriti Mbarire granting authority to charge Lr No. MAGUMOINI/ITUGURURU/335 as a security for the loan advanced by the corporation. In addition Rocky Ranch Limited who partly own the security also provided a board resolution authorizing charging of the said security in favor of AFC for the loan facility advanced to one of the directors Milton Mugambi Imanyara. In view of the above the facility is fully secured and the corporation interest is taken care of			
	Unreconciled Transaction Between AFC and Commodity Fund The statement of financial position reflects a balance of Kshs. 179,442,000 under trade and other payables which includes an amount of Kshs. 9,515,756 due to the	The Corporation received Kshs. 1 billion from the defunct Kenya Sugar Board. A collection of Kshs. 230.9 million was recovered by AFC and the same revolved back for on lending thereby maintaining the revolved funds at Kshs. 1 billion. Between 11th September 2009 and 23rd March 2016, the Corporation repaid a	Chief Investments & Finance Officer. Tom O. Akeno	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)*
	Commodities Fund. However, records maintained by Commodities Fund reflects a balance of Kshs.1,068,976,155 resulting in an unreconciled difference of Kshs.1,059,460,399. Consequently, the accuracy and completeness of trade and other payables balance of Kshs. 179,442,000 as at 30 June, 2020 could not be confirmed.	total of Kshs. 483.2 million to the defunct Kenya Sugar Board. As such, the un-reconciled balance cannot be Kshs. 1,059,460,398.88. The Corporation endeavors to reconcile these balances with the new entity; the Commodities Fund that took over the portfolio of the defunct Kenya Sugar Board.			
	Cash and Bank Balances **Inaccuracy of Cash and Bank Balances** The statement of financial position reflects cash and cash equivalents of Kshs. 147,795,000 which, as disclosed in Note 13(a) to the financial statements, comprised of various account balances from the branches and the Head Office. Examination of reconciliation statements revealed material variances from the regions bank's reconciliation statements compared to Head Office. Further, the adjusted cash book balance was not applied				

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)***
	resulting in a misstatement of cash and bank balances by Kshs. 2,100,534. Under the circumstances, the accuracy and completeness of cash and Cash equivalents balance of Kshs. 147,795,000 as at 30 June, 2020 could not be confirmed.				
	Board Expenses The statement of comprehensive income reflects board expenses amounting to Kshs. 21,770,000. Examination of board composition and appointments revealed the following unsatisfactory issues: (i) Two Board Members representing the Ministries of Agriculture, Livestock and Fisheries - State Department for Crops and The National Treasury were not gazetted and their appointment letters were also not provided for audit review. (ii) Five individuals described as Members were paid sitting allowances and other allowances while they were not indicated as Board of Directors in the other information accompanying the				

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)*
	financial statements. In addition, documentary evidence on their gazettement and appointment letters were not provided for audit review. Under the circumstances, the accuracy, validity and completeness of the Board expenses of Kshs. 21,770,000 could not be confirmed.				

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 9th September 2021

Chairman of the Board
Date 9th September 2021

APPENDIX 1 PROJECT IMPLEMENTED BY THE CORPORATION

No project was undertaken during the period under review.

APPENDIX 2 RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES

Name of the MDA/Donor Transferring the funds				Where Recorded/recognized					
	Date received as per bank statement	**Nature: Recurrent/Development/Others**	**Total Amount - KES**	**Statement of Financial Performance**	**Capital Fund**	**Deferred Income**	**Receivables**	**Others - must be specific**	**Total Transfers during the Year**
The National Treasury	20/08/2020	Grant - others	250,000	-	250,000	-	-	-	250,000
The National Treasury	22/04/2021	Grant - others	250,000	-	250,000	-	-	-	250,000
Total			**500,000**	**-**	**500,000**	**-**	**-**	**-**	**500,000**

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

Appendix 3: ANALYSIS FOR MOVEMENT IN PPE FOR CASH FLOW STATEMENT

Opening balances	Land & Buildings	Motor Vehicles	Furniture & Fittings	Computers	Software	Fixed Assets Clearing	Control Total
Balances as at 30th June 2020	**1,094,558**	**291,645**	**472,230**	**168,958**	**244,805**	-	**2,272,196**
Less: Accumulated Depreciation	208,303	253,206	302,622	163,671	206,608	-	**1,134,411**
Opening balances as at 1st July 2021	**886,254**	**38,439**	**169,607**	**5,287**	**38,197**	-	**1,137,785**
Add: Additions during the year	-	54,281	44,637	5,287	30,516	17,517	**152,238**
Depreciation eliminated on disposal	-	1,580	5,156	-	-	-	**6,736**
Less: Disposal during the year	6,004	1,580	-	-	-	-	**7,584**
Depreciation charge	21,079	25,452	26,768	803	14,317	-	**88,419**
Balances as at 30th June 2021	**859,170**	**67,268**	**192,632**	**9,771**	**54,397**	**17,517**	**1,200,755**