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, 2022

AGRICULTURAL FINANCE CORPORATION

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30TH JUNE, 2022

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.	Eng. Muriuki Karue Muriuki	Member	13-May-2022
2.	Joseph Mwaura Kamau	Alternate to the Cabinet Secretary The National Treasury	13-May-2022
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	13-May-2022
6.	Wanja Yvonne Michuki	Member	13-May-2022
7.	Mr. Julius Mutethia Kioga	Member	13-May-2022
8.	Hassan Mahmoud Haji	Member	13-May-2022
9.	Mr. Isaac Mundui Matu	Member	27-May-2022
10.	Hon. Franklin Bett, EGH	Chairman	Retired on 2-May 2022
11.	Prof. Dulacha Galgallo Barako	Alternate to the Cabinet Secretary The National Treasury	Retired on 13-Dec 2021
12.	Mrs. Rosemary Muthoni Munio	Member	Retired on 13-Dec 2021
13.	Eng. Luke Kangogo Kittony	Member	Retired on 13-Dec 2021
14.	Ms. Rukia Rashid	Member	Retired on 13-Dec 2021

KEY ENTITY INFORMATION (Continued)

CORPORATION SECRETARY

Mrs. Rose Ochanda

Development House,

Moi Avenue,

P.O Box 30367 – 00100 GPO

Nairobi.

Kenya

REGISTERED OFFICE

Development House,

Moi Avenue,

P.O Box 30367 – 00100 GPO

Nairobi.

Kenya.

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

KEY ENTITY INFORMATION (Continued)

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.

INDEPENDENT AUDITOR

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

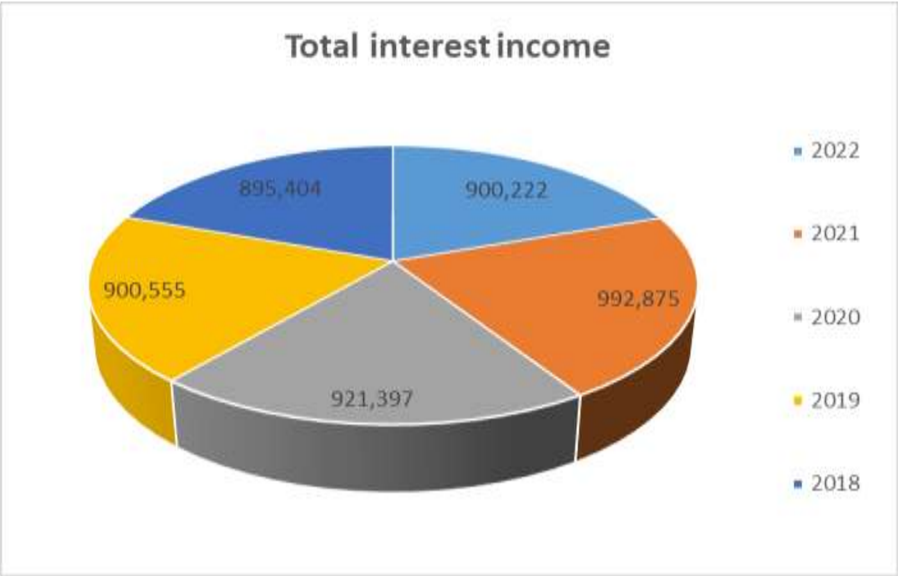
STATEMENT OF COMPREHENSIVE INCOME

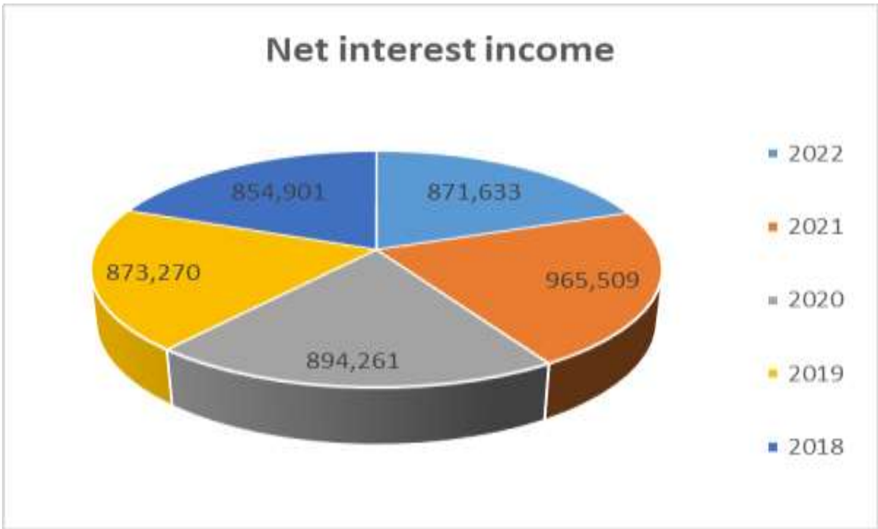
Revenues	**2022 KES'000**	**2021 KES'000**	**2020 KES'000**	**2019 KES'000**	**2018 KES'000**
Interest Income:					
Interest on Loans	849,304	934,114	837,457	778,759	743,184
Interest on Short Term Deposits	50,918	58,761	83,940	121,796	152,221
Total interest income	**900,222**	**992,875**	**921,397**	**900,555**	**895,404**
Less: Interest expenses					
Interest on Redeemable Loans	14,713	15,129	15,005	15,395	38,260
Interest on RSF	9,456	9,456	9,379	9,430	-
Interest on INK Fund	1,243		-	-	-
Rebate Interest	3,176	2,780	2,753	2,459	2,243
	28,588	**27,365**	**27,137**	**27,285**	**40,503**
Net interest income	**871,771**	**965,509**	**894,261**	**873,270**	**854,901**
Non-Interest income					
Other Operating Income	142,940	145,699	183,323	171,892	92,753
Fee Income	195,056	188,489	172,225	170,980	182,240
Income from doubtful debts	80,312	298,454	1,009,952	252,138	549,123
Total Non-Interest income	**418,308**	**632,642**	**1,365,499**	**595,010**	**824,116**
Total Revenues	**1,289,941**	**1,598,151**	**2,259,760**	**1,468,280**	**1,679,017**
Operating Expenses					
Staff Cost	(796,911)	(740,817)	(767,651)	(681,735)	(752,198)
Board Expenses	(13,527)	(24,631)	(21,770)	(17,320)	(21,109)
Administration Costs	(323,840)	(267,452)	(298,378)	(299,854)	(276,281)
Depreciation & Amortization	(105,588)	(88,419)	(110,203)	(154,129)	(142,054)
Charge for Doubtful Debts	(2,449)	(329,124)	(743,015)	-	(208,786)
Total Expenses	**(1,242,315)**	**(1,450,443)**	**(1,941,017)**	**(1,153,038)**	**(1,400,427)**

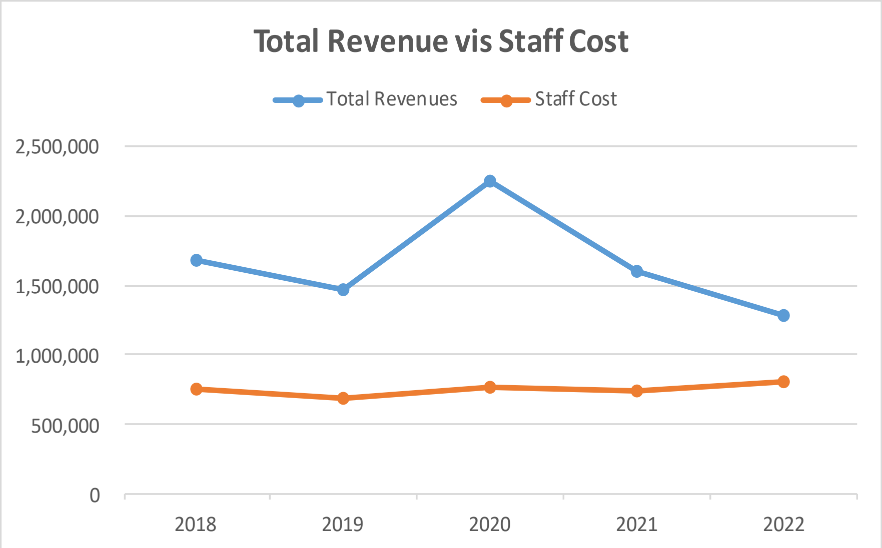
STATEMENT OF COMPREHENSIVE INCOME (Continued)

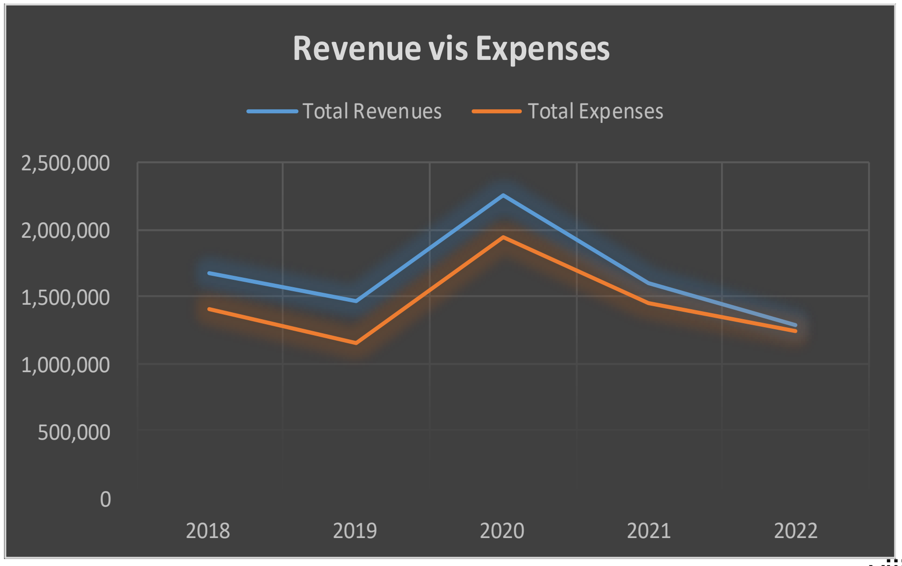
Profit before tax	**47,626**	**147,708**	**318,743**	**315,242**	**278,589**
Tax for the Year	(20,919)	(16,545)	(28,484)	(90,785)	(157,285)
Profit for the year	**26,707**	**131,164**	**290,259**	**224,457**	**121,304**

BUSINESS PERFORMANCE (Continued)









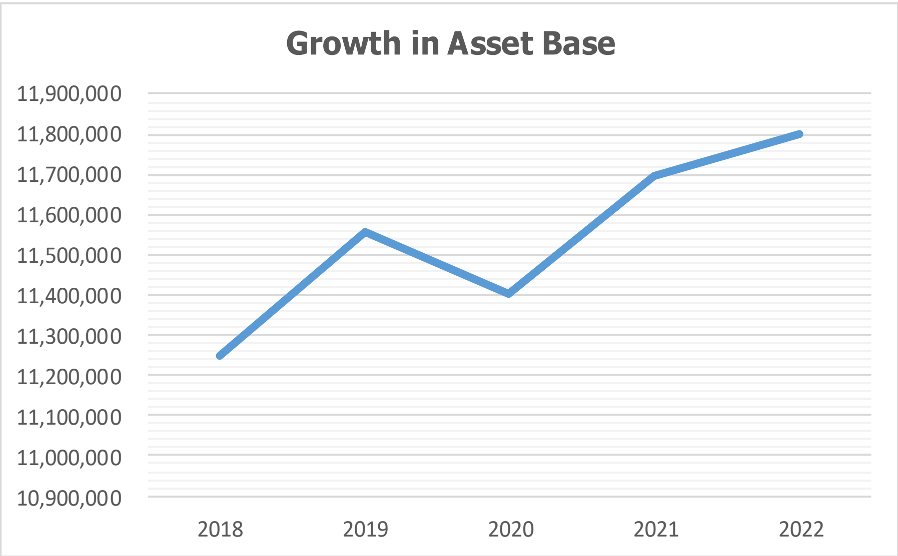
STATEMENT OF FINANCIAL POSITION

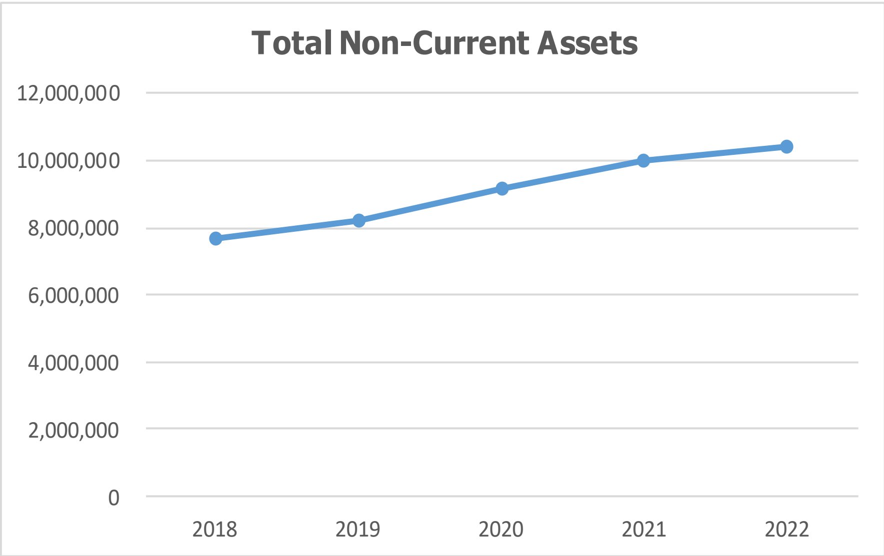
ASSETS:	2022 KES.'000	2021 KES.'000	2020 KES.'000	2019 KES.'000	2018 KES.'000
Non-Current Assets					
Property and Equipment	1,214,094	1,146,359	1,099,588	1,122,232	1,142,668
Intangible Assets	46,659	54,397	38,197	48,140	104,731
Deferred Tax Asset	21,404	12,902	3,563	555,557	588,975
Repossessed Farm Properties	377,839	365,249	267,794	268,041	259,167
Net Loans to Customers	8,795,746	8,394,479	7,748,754	6,238,828	5,602,718
Total Non-Current Assets	**10,455,741**	**9,973,386**	**9,157,896**	**8,232,798**	**7,698,259**
Current Assets					
Cash and Bank Balances	85,134	105,109	147,795	101,272	146,439
Short Term Deposits	511,874	611,038	778,674	1,105,958	1,271,502
Net Short Term Loans to Customers	651,227	912,685	1,143,204	1,961,846	1,981,527
Trade and Other Receivables	123,351	88,070	171,022	151,678	149,028
Inventories	4,427	4,532	4,020	2,695	3,591
Total Current Assets	**1,376,082**	**1,721,434**	**2,244,715**	**3,323,448**	**3,552,087**
Total Assets	**11,831,823**	**11,694,819**	**11,402,611**	**11,556,245**	**11,250,346**
EQUITY AND LIABILITIES					
Equity and Reserves					
Grants	3,783,923	3,768,923	3,617,851	3,623,994	3,803,691
Government Equity Capital	2,687,766	2,687,766	2,687,766	2,687,766	2,687,766
General Reserve	1,915,044	1,945,794	1,814,631	1,767,911	1,030,715
Revaluation Reserve	787,618	787,618	787,618	787,618	787,618
Total Equity and Reserves	**9,174,352**	**9,190,102**	**8,907,866**	**8,867,289**	**8,309,790**

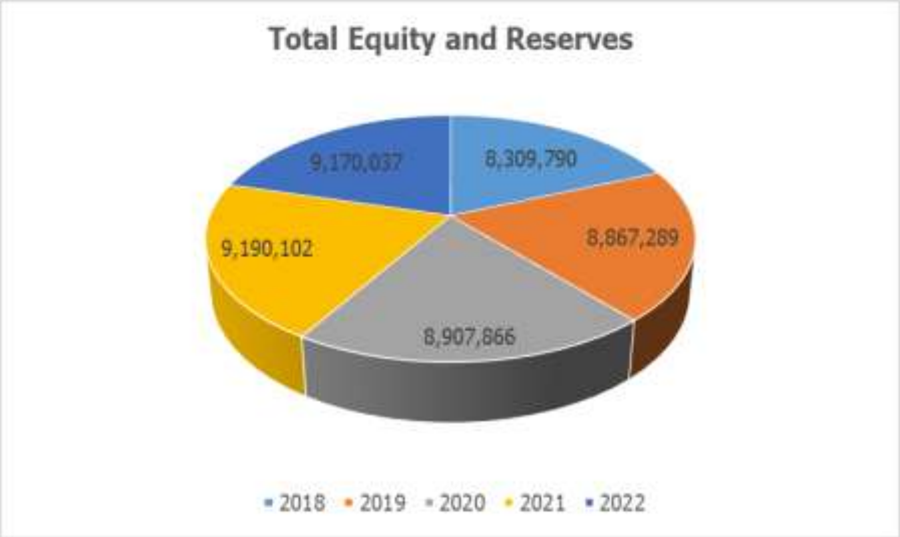
STATEMENT OF FINANCIAL POSITION (Continued)

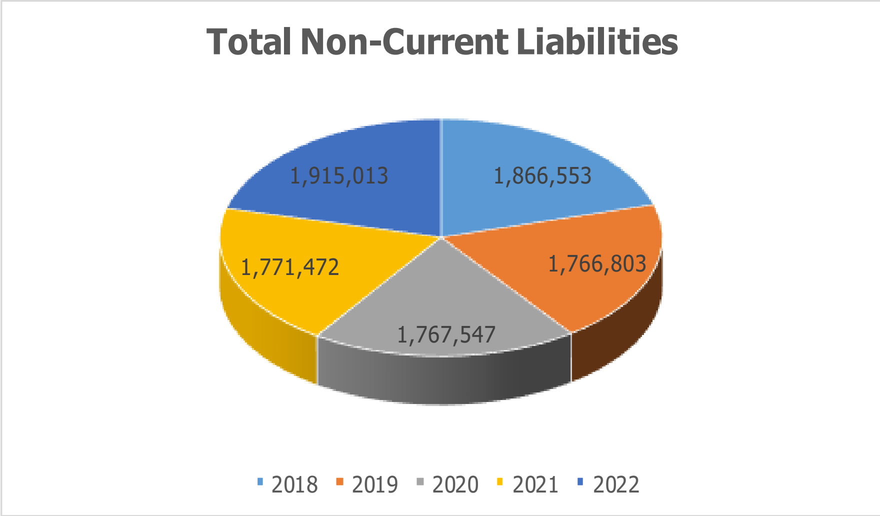
	2022 KES.'000	2021 KES.'000	2020 KES.'000	2019 KES.'000	2018 KES.'000
Non-Current Liabilities					
Redeemable Government Loans and Interest:	566,571	562,523	558,599	543,204	657,604
Risk Sharing Fund	384,890	377,215	377,215	391,866	377,215
Agency Funds	822,218	831,734	831,734	831,734	831,734
INK Fund	141,334	-	-	-	-
Total Non-Current Liabilities	**1,915,013**	**1,771,472**	**1,767,547**	**1,766,803**	**1,866,553**
Current Liabilities					
Payables	508,649	481,304	437,883	390,589	503,136
Trade and Other Payables	199,650	149,855	179,442	135,784	242,851
Current Tax Payable	20,919	90,745	100,312	385,384	328,017
Current Accounts	13,241	11,343	9,561	10,395	-
Total Current Liabilities	**742,459**	**733,247**	**727,198**	**922,152**	**1,074,003**
Total Equity and Liabilities	**11,831,823**	**11,694,820**	**11,402,611**	**11,556,245**	**11,250,346**

BUSINESS PERFORMANCE (Continued)









II. THE BOARD OF DIRECTORS

Hon. Peter Gatirau Munya is the Cabinet Secretary, Ministry of Agriculture, Livestock, Fisheries and Cooperatives (Kenya). He took over the ministry on 14th January 2020. This is after he was transferred from the Ministry of Trade and Industrialization. He also served in the same capacity in the ministry of East African Community and Northern Corridor Development. He is a politician who served as the first Governor of Meru County, and as the second Chairman of the Council of Governors.

He was until his appointment as a Cabinet Secretary the Party of National Unity (PNU) Leader. In 2002 Peter Munya campaigned for and won the Tigania East parliamentary seat in the then Meru North District. He was subsequently sworn into the 9th Kenyan Parliament on 9th January 2003.

In the 9th Parliament, Hon. Peter Munya founded and chaired Kenya Young Parliamentarians Association with the aim of championing in Parliament, issues affecting Kenya youth. He was also member of the Health Club Management committee and the Parliamentary Investment Committee (PIC) before his appointment to the government in 2006 as the Assistant Minister, Ministry of Internal Security and Provincial Administration where he called for stronger laws to curb small arms proliferation.

Dr. Francis Otieno Owino, PhD holds a Doctor of Philosophy [PhD] in Peace and Conflict Studies from Masinde Muliro University of Science and Technology obtained in 2013, Master of Business Administration [Strategic Management] from Kenya Methodist University, 2008, Bachelor of Arts [B.A] 2nd Class Upper Division, University of Nairobi, 1989, He possesses a Certificate in Guidance and Counselling from University of

THE BOARD OF DIRECTORS (Continued)

Nairobi in 2005. Some of his previous assignments include; Director, National Cohesion and Values with effect from 8th September 2009 to 14th August 2018 during which he successfully steered the formulation of policies on National Cohesion and National Values as enshrined in the Constitution of Kenya.

Previously, Dr. Owino served as Assistant Secretary, Senior District Officer, Senior Assistant Secretary, Undersecretary and Acting Deputy Secretary, recently successfully planned, hosted and chaired the 1st African Union Conference of State Parties on Public Service and Administration. He is a Board Member of the East and Southern African Management Institute (ESAMI) Governing Council.

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 has published widely and carried a number of research on societal and theology issues.

He also serves in various boards and Christian development programs including Chairman Board of Management at Menyanya 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. Ayiera 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.

THE BOARD OF DIRECTORS (Continued)

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

Karue holds a Bachelor of Science in Engineering from the University of Nairobi and a roadworks course from Birmingham University.

Mr. Kubai 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.

Kubai holds a Bachelor's degree from Maseno University and a Masters of Business Administration from Jomo Kenyatta University of Agriculture and Technology.

THE BOARD OF DIRECTORS (Continued)

Julius Mutethia Kioga is a business consultant with competencies in Strategic Management and Leadership, corporate restructuring and turnarounds, entrepreneurial ventures and corporate governance.

He has vast experience in the Banking and Petroleum, Oil and Gas sectors. He was the founder of Mid Oil Africa Ltd, the first successful Kenyan Petroleum Oil Company that was eventually acquired by Kenya Oil Company Ltd.

Mutethia is a holder of an MBA in Strategic Management from Maastricht School of Management, Netherlands. He is a Certified Public Accountant (CPA) and is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Wanja Yvonne Michuki is an executive coach, financial analyst and financial consultant. She has in-depth knowledge and experience of agricultural supply chains, and has proven experience in the development of high-level networks, influencing government and international institutions, as well as communicating business cases to multiple stakeholders.

Wanja is the Managing Director of Be Bold Consulting and Advisory Limited, a Kenyan consulting and executive coaching firm. She is a Salzburg Global Fellow and a member of the Women in Public Service Project, and the Family Firm Institute, Boston. She is a member of the Nairobi Advisory Board of the Columbia Global Centers. She was a Trade, Investment and Multilateral Diplomat for the Ministry of Foreign Affairs in Nairobi and London.

Wanja holds an MBA Finance and Economics from Columbia Graduate School of Business, a BA in Economics and Political Science from Bryn Mawr College (JYA University of Bristol),

THE BOARD OF DIRECTORS (Continued)

a Certificate from Sirdar Applied Directorship program, Nairobi, as well as a Practitioner Diploma in Executive Coaching from the Academy of Executive Coaching-UK.

Hassan Mahmoud Haji is an accomplished Public Administration professional with experience in management and administration having worked in the County Government of Lamu, Ministry of Environment and Natural Resources, Administration Police Training College and the Provincial Administration.

Hassan has a thorough understanding of Government policies and procedures as well as legislative drafting.

He is a holder of a Masters Degree in International Studies and Diplomacy, a Bachelor of Science in Social Work from Indira Gandhi National Open University and a Post graduate Diploma in Public administration and Management from Glasgow Caledonian University.

Mr. Isaac Mundui Matu is a skilled agricultural manager and a farmer. Currently he is the Managing Director of a family farm in Njoro. He has also 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 in both public and private sector. Currently he is the Chief Finance Officer at State Department for Crop Development and Agricultural Research.

Osano holds a Master of Arts in International Studies from Korea University and Bachelor of Arts (Economics) from the University of Nairobi. He is a Certified Public Accountant (CPA) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK) and the Economists Society of Kenya.

Mr. Joseph Kamau is an astute economist with vast experience in both public and private sector. He has worked at Equity Bank, Standard Chartered Bank and is currently an Economist at the Department of Government Investment and Public Enterprises, National Treasury.

He holds, an MBA in Finance from Korea Advanced Institute of Science & Technology (KAIST), a Masters Degree in Economics & Banking from Moi University and Bachelor of Arts degree in Mathematics & Economics from the University of Nairobi. Joseph Kamau is a Certified Investment and Financial Analyst.

THE BOARD OF DIRECTORS (Continued)

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. Wanja Michuki 2. Julius Mutethia 3. Tobias Osano
Human Resource Committee	1. Julius Mutethia 2. Isaac Matu 3. Tobias Osano
Credit and Risk Committee	1. Zablon Ayiera 2. Wanja Michuki 3. Joseph Kamau
Audit Committee	1. Muriuki Karue 2. Hassan Haji 3. Joseph Kamau

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 Chief Finance & Investments Officer. 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 Chief Human Capital and Administration Officer. 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. Nicholas Njeru is a seasoned practitioner in Procurement with practical experience of over 16 years, 10 of which have been in senior management. He previously worked for Kenya Revenue Authority (KRA), Kenya Vision 2030 Delivery Secretariat, BOC Gases Kenya, Africa Online Holdings Ltd, Safaricom Ltd and the National Treasury (Ministry of Finance).

Njeru holds a Masters Degree in Economics and Bachelors of Arts Degree in Economics from the University of Nairobi. He also has a post graduate Diploma in Procurement & Supply (CIPS) and is a certified Strategic Supply Chain Practitioner and CPA Finalist.

IV. CHAIRMAN'S STATEMENT

As I reflect upon my tenure as the Chairman, I was taken aback by a stark fact: more than one-half of financial year, AFC has struggled with the hard economic times due to the spillover of COVID-19 pandemic and the ongoing Russia-Ukraine war. The Russia-Ukraine conflict has triggered turmoil in the financial markets, and drastically increased uncertainty about the recovery of the global economy. The world economy will pay a "hefty price" for the war in Ukraine encompassing weaker growth, stronger inflation and potentially long-lasting damage to supply chains.
"Our greatest transformation happens through our toughest times". It's a thought provoking axiom that neatly sums up the times we live in. Probably, no other period in human history witnessed such a rapid surge of transformational ideas. One after the other, these new ideas are affecting and altering the destiny of humanity in unprecedented ways. Banking and finance too were and are being buffeted by wave after wave of game changing developments. With commendable foresight and nimbleness, AFC navigated through this disruptive whirlwind of currents and undercurrents, triumphantly emerging to share with you our financial performance for the year 2021/2022.

Performance Overview

The Corporation made a profit before tax of KES 47.6 million a drop of 68% from 147.8 million report in the financial year 2020/21. Our balance sheet grew marginal by 0.9% to KES 11.8 billion from 11.7 billion reported in the previous year. The growth in asset base reflects the benefits and resilience the business continues to draw from the transformational project that we have been implementing with a clear focus on improving operational efficiencies and leveraging innovative customer delivery platforms to serve our ever growing customer base. To be successful in the current global economy with increased competition and ever changing markets,

CHAIRMAN'S STATEMENT (Continued)

especially in the post-crisis context, firms need to focus more on innovation in exploring new ideas and designing new products, with this in mind, we were able to cut operational costs and save KES 334.1 million against a budget of KES 1.6 billion.

Board changes and Corporate Governance

The board is responsible for the corporate governance practices, and embraces its responsibilities to the Government and other stakeholders to uphold the highest ethical standards and ensure that the Corporation conduct its business in accordance with global best practice. The Board is composed of directors with variety of skills, experience and is well placed to drive the Corporation's business forward. A new board was appointed by the Government during the financial year under review. Again, we thank both the retired directors for their devotion and selfless service and wish the incoming directors success and God guidance in execution of the duty in their new roles.

Outlook

We look into future with great optimism. With the lifting of Covid-19 restrictions firmly behind us, the normalization of the weather patterns and conclusion of the General elections in August 2022, we anticipate a more vibrant economic growth and enhanced levels of investments. We are hopeful that supportive economic policies and prudent management of national economic affairs will be sustained in the days ahead. We remain eager and ready to take opportunity to grow our business as economic prospects improve for the benefit of the Government and our stakeholders.

Acknowledgement

I acknowledge and sincerely appreciate the immeasurable support I received from my fellow Board members in guiding the Corporation. On my behalf and the entire

CHAIRMAN'S STATEMENT (Continued)

Board of directors, I most sincerely thank Corporation team for their diligent service and dedication.

To the Government, I thank you for entrusting us with the responsibility of overseeing your investment and believing we can achieve greater performance together and support the farmers, who we do business with.

JOHN M MRUTTU
CHAIRMAN

V. REPORT OF THE MANAGING DIRECTOR

Managing Director's Statement

The Corporation remained resilient despite the impact of the COVID-19 Pandemic. The flipside of the pandemic was the increased use of technology and digital platforms in many facets of the lending business. The technological transformation is expected to positively impact service delivery, enhance efficiency and expand the reach on small holder farmers.

Our focus on becoming an increasingly agile and resilient entity has enabled us to overcome the changing business dynamics in the prevailing disruptive environment. In food and nutritional security, the Corporation has targeted specific value chains in addressing the key challenges hindering commercialization of agriculture namely:-

i) Low productivity along the value chains

ii) Inadequate entrepreneurial skills along the agricultural value chains

iii) Low access to markets by value chain actors (VCAs).

In addressing the above challenges, the Corporation will contribute significantly to the Big Four Agenda, Food Security and Manufacturing. These outcomes are also aligned to the Agriculture Sector Growth and Transformational Strategy (ASGTS 2019-2029) pillars of increased income for small scale farmers, pastoralists and fisher folk.

Financial Review

The Corporation's fundamentals remained promising during the 2021/22 financial year with the overall performance ending the period with a total asset base of KES 11.8 billion (2020/21: KES 11.7 billion).The net loan book closed at KES 9.4 billion up from KES 9.3 billion reported in the previous period.

REPORT OF THE MANAGING DIRECTOR (Continued)

A pre-tax profit of KES 47.6 million was recorded during the year representing a 68% drop compared to the previous period. The underlying trends of the income statement remained weak with total revenues dropping to KES 1.3 billion (2020/21: KES 1.6 billion).The operating costs remained high against the approved budget limits. In the period 2021/22, the total expenditure stood at KES 1.2 billion against the budgeted amount of KES 1.5 billion.

Non-performing loans remain a major issue with the corporate delinquency levels standing at 21%. In line with the requirements of 'IFRS 9', the Corporation estimated the total Expected Credit Losses (ECL) at KES 445 million (2020/21: KES 475 million) resulting to a 6% (KES 30.8 million) drop in the accumulated loan provisions compared to the same the period last year.

Loans worth KES 3.87 billion were disbursed compared to KES 4.13 billion disbursed in the previous year. On the other hand, a total of KES 4.44 billion was collected compared to KES 4.39 billion collected in the previous year representing a 1% growth.

Looking Forward

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 further.

Conclusion

I wish to thank my management team 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.

REPORT OF THE MANAGING DIRECTOR (Continued)

Although some uncertainty remains in our industry 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 2021/2022

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 2021/22 as indicated in the table below.

Strategic Pillar	Objective	Initiatives	Activities 2021/2022	Achievements 2021/2022
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 2021/2022 (Continued)

Strategic Pillar	Objective	Initiatives	Activities 2021/2022	Achievements 2021/2022
		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 2021/2022 (Continued)

Strategic Pillar	Objective	Initiatives	Activities 2021/2022	Achievements 2021/2022
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 • TECHNOSERVE, identification and provision of markets for farmers

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2021/2022 (Continued)

Strategic Pillar	Objective	Initiatives	Activities 2021/2022	Achievements 2021/2022
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, 80.3 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

STATEMENT OF PERFORMANCE AGAINST PREDETERMINED OBJECTIVES FOR FINANCIAL YEAR 2021/2022 (Continued)

Strategic Pillar	Objective	Initiatives	Activities 2021/2022	Achievements 2021/2022
				• relations (PRISK) staff on various continuous development programs 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 2021	Undertook Internal & External ISO audits on December 2021

VII. CORPORATE GOVERNANCE STATEMENT

The Board of Directors of AFC consider that good governance, achieved through an ethical culture, competitive performance, effective control and legitimacy, can create sustainable value and enhance long-term equity performance. The Board applies good governance practices to promote strategic decision making for the organization to balance short, medium and long-term outcomes to reconcile interests of the AFC as a whole together with its stakeholders and the society to create sustainable shared value. To that end, sound governance practices, based on accountability, transparency, ethical management and fairness, are entrenched across the business. Directors have a statutory duty to promote the success of the Corporation for the benefit of its stakeholders. In promoting the success of the Corporation, Directors must have due regard to the long-term consequences of their decisions, the legitimate interests of employees, the need to foster effective business relationships with suppliers, customers and various stakeholders, the impact of the Corporation's operations on the community and the environment, and the desire to maintain a reputation for high standards of business conduct.

The Board is committed to ensuring that the Corporation complies with the laws, regulations and standards applicable to it. The Board ensures that high standards and practices in Corporate Governance and more specifically the principles, practices and recommendations set out under the *Mwongozo code* is adhered to.

The Board also regularly reviews its corporate governance arrangements and practices and ensures that the same reflects the developments in regulation, best market practice and stakeholder expectations across all the regions where we operate. Our corporate governance framework enables the Board to oversee the strategic direction of the organization, financial goals, resource allocation, risk appetite and to hold the executive management accountable for execution.

CORPORATE GOVERNANCE STATEMENT (Continued)

Corporation operates within a clearly defined governance framework which provides for delegated authority and clear lines of responsibility without abdicating the responsibility of the Board. Through the framework, the Board sets out the strategic direction of the Corporation while entrusting the day-to-day running of the organization to the executive management led by the Managing Director, with their performance against set objectives and policies closely monitored. The Board operates through four committees mandated to review specific areas and assist the Board undertake its duties effectively and efficiently

The Board Charter, which has been approved and is regularly reviewed by the Board, provides for a clear definition of the roles and responsibilities of the Chairman, directors as well as the Company Secretary. The roles and responsibilities of the Chairman and the Managing Director are separate and distinct with a clear division of responsibility between the running of the Board and the executive responsibility of running the Corporation's business.

The Board

The Corporation is governed by a Board of Directors each of whom is, except for the Managing Director and the Corporation Secretary. The primary responsibility of the Board is to act in the best interests of Corporation and to foster the long-term success of the Corporation, in accordance with its legal requirements and its responsibilities to stakeholders. The Board achieves such success by setting appropriate business strategy and overseeing delivery against the set strategy. It ensures that the Corporation manages risks effectively and monitors financial performance and reporting. The Board serves as the focal point and custodian of corporate governance in the organisation. The directors recognise that good governance can create a good return to the Government by enhancing long-term

CORPORATE GOVERNANCE STATEMENT (Continued)

equity performance. While the board is unwavering in its adherence with legislation and regulations, the Corporation's commitment to good governance goes beyond a commitment to comply with minimum standards – it strives to create an ethos where governance is a central consideration in the way the business of the Corporation is conducted.

Role & Responsibilities of the Board

The scope of authority, responsibility and functioning of the board is contained in a formal charter which is regularly reviewed. The Board sets the strategic objectives of the Corporation with input from management, and oversees management, performance, remuneration and governance frameworks of the Corporation. The board develops and applies a work plan to help to ensure that it attends to all its responsibilities when these responsibilities have not been delegated to a committee. The Board's role and responsibilities include:

i. Approving the strategic and financial plans to be implemented by management approval of the strategy, business plans and annual budgets and of any subsequent material changes in strategic direction or material deviations from business plans.
ii. Approving the annual financial statements and annual report and the approval of quarterly reports
iii. Overseeing the Risk Management Framework and its operation and setting the Corporation's risk appetite within which management is expected to operate.
iv. Approving capital expenditure for investments and divestments and capital and funding proposals.

v. Reviewing succession planning for the management team and makes senior executive appointments, organizational changes and high-level remuneration issues.
vi. Providing oversight over performance against targets and objectives.

CORPORATE GOVERNANCE STATEMENT (Continued)

vii. Providing oversight over reporting to shareholders on the direction, governance and performance of the Group as well as other processes that require reporting and disclosure.

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. 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.

CORPORATE GOVERNANCE STATEMENT (Continued)

Board Meetings

The Board has in place an annual work plan that sets out the Board activities in a year. The Board meets at least once every quarter, and additionally, when necessary, to consider all matters relating to the overall control, business performance and strategy of the Corporation and succession planning. The Chairman, in conjunction with the Corporation Company Secretary work closely with the Managing Director to come up with the annual work plan and to set the agenda for each meeting. The notice, agenda and detailed board papers are circulated in advance of the meetings. Directors are entitled to request for additional information where they consider further information is necessary to support informed decision-making.

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:

Skills, Experience & Diversity

Having regard to the Corporation's vision, values and purpose, the individual attributes of each Director are as critical as the skills they bring. There is an expectation that each Director should be able to demonstrate sound business judgment, a strategic view, integrity, preparedness to question, challenge and critique and leadership qualities. At a collective level, the Corporation looks for a diversity of skills, knowledge and experience to enable the Board to provide the oversight needed to develop and achieve the overall strategy of the Corporation.

CORPORATE GOVERNANCE STATEMENT (Continued)

The Corporation seeks to have a Board that has the right mix of individuals with relevant attributes skills, knowledge and experience and who jointly have the overall collective competence to deal with current and emerging issues and effectively guide management in ensuring the highest performance for the Corporation. The Directors are expected to have a clear understanding of the strategy of the Corporation as well as knowledge of the industry and markets in which the Corporation operates. The aggregate mix of skills and experience of the Directors seeks to challenge management, ensure robust and constructive debate, augments and challenges the strategic thinking of the executives thereby adding value to the Corporation. The Board regularly reviews the skills, knowledge and experience represented on the Board against the skills and experience needed to deliver the strategy. The Board continuously reviews the skills, experience and diversity mix of the Board and continues to make efforts on diversifying the skill set and gender.

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.

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 2022 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 849.3M against a budget of KES 1.08B, which is a performance of 79%. 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 1.2B against a budget of KES 1.5B.

Consequently, it is worth noting that the pretax profit significantly dropped by 68% to KES 47.6M compared to KES 147.7M reported in 2020/2021 financial year. This huge reduction was informed by the reduction in recovery from non-performing loans.

Cash flows from the operations of the Corporation are detailed in the cash flow statement for the twelve months ended June 30, 2022. The Cash and cash equivalent was KES 583.8M compared to KES 704.8M in the prior year.

Compliance with regulatory requirements

During the year ended 30th June 2022, the Corporation complied with all the statutory and regulatory obligations including but not limited to: remittance of PAYE, NHIF, NSSF, VAT, HELB, Withholding tax, etc within the stipulated deadlines.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

The major risks facing the entity are as highlighted below:-

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

The credit portfolio is a major component of the asset portfolio of the Corporation; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Corporation's asset value and profitability. 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.

Management of credit risks

The Corporation manages credit risk in accordance with its Credit Policy, Credit Risk Appetite and related governing documents. The goal of credit risk management is to ensure the Corporation operates within the risk appetite defined in accordance with the policies and strategic objectives in the area of credit, from a single transaction to credit portfolio level.

The Corporation's credit risk management framework and policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Corporation's credit portfolio across different sectors of the economy, a large number of borrowers, different linkage segments, and different geographical regions. The policy and practice of distributing risks among economic sectors is based on an evaluation of anticipated developments in the different sectors. For this purpose, the Corporation conducts industry-level economic feasibility studies to evaluate the risk and business potential

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

related to activity in the various economic sectors. The Corporation's business objectives are determined in accordance with these studies. Credit review processes identify, monitor, mitigate and report to the responsible manager/function on negative signs related to borrowers. Credit risk management is based on the following principles:

- **Independence** – This ensures proper corporate governance, prevent conflicts of interest, and create a system of checks and balances. The goal of this principle is to ensure that the information regarding risks reported to management functions, and in particular to senior management and the Board of Directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.
- **Hierarchy of authority** – The Corporation has a hierarchy of authority that outlines a sequence of credit authorizations according to the level of debt of the borrower or group, the risk rating and problematic debt classifications allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for transfer to approval committee.
- **Credit policies and procedures** – The Board of Directors of the Corporation approves the credit policies, which are examined and updated regularly, according to changes in the financial markets and in the economy. The policies and procedures include various limits on the credit portfolio in accordance with the risk appetite of the Group, including exposure limits by economic sector, country, financial institution or as a function of the risk level assessed by the Corporation. Limits are also imposed on the maximum

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

exposure to a single borrower or a group of borrowers according to the credit rating assigned to the borrower, which reflects the borrower's risk level.

- **Controls and risk identification** – The process of reviewing and identifying credit risks is conducted by the three lines of defense. In the first and second lines of defense, controls are applied from an individual credit item to the portfolio level according to materiality thresholds. The Credit and Risk Departments coordinate reports to the Senior Management and Board of Directors regarding trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, analysis of concentration, stress scenarios, and presentation of general risk indicators.

  The identification of credit risk in existing products is based on risk management, measurement, and control processes at the various lines of defense, on the other hand, the identification of risk in new credit products is guided by the new products and initiatives risk assessment policy which specifies the processes to be followed for each new product at the Corporation to identify all risks inherent in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.

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 makes provision for loan balances 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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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.

Problematic debts and borrowers in distress

The policy for debt classifications and allowances includes indicators for the identification of customers who, according to the Corporation's assessment, may default on their obligations to the Corporation. The Credit, and Risk Departments determine whether the specific customers should be included in the Corporation's watch list, whether the customer's rating requires re-classification, and whether an allowance for credit losses is necessary. Customers identified for close monitoring and existing watch list customers are discussed monthly in the Management Credit Risk Committee. These borrowers are supervised and monitored more closely, and the Bank works to reduce its exposure to them by redeeming credit from the borrowers' resources. In certain cases, customers are transferred to a division specializing in monitoring and restructuring of customers' debt, or to the Loan Recovery unit.

Impact of the coronavirus crisis

The Corporation continued to extend assistance to customers who encountered a temporary crisis and whom the Corporations believes will overcome the crisis. In this context, the effects of the crisis are considered, and customers are scrutinized in depth. Some of the actions included:

i. Proactive engagement of borrowers to ensure that well-tailored support is provided to alleviate the impact of COVID-19, while maintaining the effectiveness of debt collection activities.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

ii. Proactive monitoring of credit portfolio concentrations with extra emphasis on groups and/or sectors severely affected by the pandemic.
iii. Granting payment deferrals on outstanding loans within our regions, under the policy guidelines on moratoria on loan repayments issued in light of the COVID-19 crisis along with other regulators statements.
iv. Enhanced control and reporting framework for loans under moratoria to monitor measures and loan performance before and after the expiration of granted repayment extensions.
v. The severity of the pandemic's effects varied significantly in industries. Consequently, AFC set out to identify those that could be more affected to focus credit risk management.

c) Liquidity and Funding Risk

Liquidity Risk is the risk that the Corporation is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. 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.

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 due to fluctuations in market risk factors such as interest (IRR). The objective of market risk

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events or legal risk but excluding strategic and reputation risk. The Corporation manages Operational Risk via a comprehensive risk management framework, and is supported by an established network of systems, policies, standards, and procedures. The Operational Risk Management Framework assist the Corporation in integrating risk management into significant activities and functions. As part of this framework, AFC has defined its operational risk appetite

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

and has established a Risk and control assessment process to help units to self-assess on significant operational risks and controls, identify, and address any gaps in the design and/or operating effectiveness of internal controls that mitigate significant operational risks. Reports on compliance with risk appetite limits are submitted on a quarterly basis, within the consolidated risk document.

Routine procedures are performed to identify, map, and assess operational risks and controls at the units of the Corporation. A comprehensive mapping process of operational risks in all units of the Corporation is performed regularly.

Operational Risk Management process in AFC consists of following components:

- Identification.
- Assessment.
- Monitoring.
- Controlling / Mitigating of Operational risks
- Reporting
- Training and Awareness

The goals of operational risk management are:

• To ensure effective oversight and management of operational risks in all units of the Corporation, including risk ownership and decision making based on cost-benefit considerations.

• To ensure effective identification and communication of operational risks in all substantial business operations of the aim of establishing operational risk appetite congruent with the approved strategic objectives of each unit in the Corporation.

• To establish an internal control structure promoting appropriate values of a culture of awareness, transparency, and efficiency with respect to operational risks within the Corporation.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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.

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,

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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.

k) Cyber Risk

Cybersecurity concerns continue to manifest across the world with hackers continuing to enhance their attack capabilities. This trend is expected to continue in coming years, and financial sector will remain a primary target. Given AFC's increasing reliance and adoption of digital systems, cyber threats make cyber security one of the Corporation's top risks.

Therefore, the Corporation endeavors to achieve cyber resilience that can withstand, detect, and rapidly react to cyberattacks, while constantly evolving and improving its defenses.

Cybersecurity is built into our culture to foster crucial behaviors that protect the Corporation and our customers' information. This includes provision of training to all staff, including rolling out mandatory cybersecurity training course, and awareness initiatives on digital channels help customers to stay safe online. The Corporation has also invested in extensive resources (both human and technological) to strengthen its information security and cyber defense system, to cope with the sophistication of cyber threats. The Corporation's defense framework consists of layers of protection using advanced technologies. The Corporation operates cyber defense processes to minimize the risk of system penetration, unauthorized access to information systems, and materialization of attacks, and to ensure the correctness, availability, and confidentiality of data. The Corporation continually works to identify threats, risks, and enhance the effectiveness of defensive framework accordingly.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

l) Fraud Risk

Fraud includes all those activities involving dishonesty and deception that can drain value from the business, directly or indirectly, whether or not there is personal benefit. The Corporation Fraud Risk Policy/framework covers both internal and external frauds, and aims to reinforce the AFC values of honesty, integrity, and ethics and in this regard has a "Zero Tolerance" approach to fraud and corruption. AFC is committed to ensuring that a fraud free environment exists, and high ethical standards are upheld in the organization. The key objectives of Fraud Risk framework are:

- Development of a suitable environment for fraud management.
- Maximum deterrence of fraud.
- Professional investigation of detected fraud.
- Effective sanctions, including legal action against people committing fraud.
- Effective methods for seeking redress in respect of money defrauded.
- Raising awareness of fraud and its prevention within the Group and to give guidance on reporting of suspected fraud and how the investigations will be conducted.

AFC is committed and continue to build capability for effective response to fraud risks having made several enhancements to our systems and controls including the implementation of the Fraud Management System. The Fraud Management System has enhanced fraud management through automated detection of fraud across banking channels by enabling identification of unusual behavior and increase in operational efficiency by augmenting fraud investigation efforts.

IX. ENVIRONMENTAL 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.

ENVIRONMENTAL 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.

ENVIRONMENTAL 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.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

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

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

policy is observed. In pursuit of these obligations, every effort has been made to ensure that the health, safety and welfare of all employees, 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

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

those interactions. In practice, this entails creating closer, more collaborative relationships with key suppliers in order to uncover and realize new value and reduce 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.

ENVIRONMENTAL 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

The Agricultural Finance Corporation is committed to giving back to the communities in which it operates by taking care of the environment, and building and nurturing relationships with its employees, customers and the general public.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

The Corporation, through its Corporate Social Responsibility (CSR) initiatives, undertakes projects that have potential to achieve positive, long-term, social, economic and environmental impact in its areas of operation. These projects are undertaken in the areas of health, water and sanitation, environment and education.

During the 2021-2022 FY, the Corporation's CSR activities focused on Health and Environment. This is in line with sustainable development goals (SDGs 3 and 15) to ensure healthy lives, promote well-being and improve the living environment.

Part of the Corporation's interventions were as follows:

S.No	Name of Organisation	Location	Region	Thematic Area	Donation	Amount (Kes,000)
1.	Kitobo dispensary	Mboghoni ward, Taita Sub-County	Coast	Environment	Purchase of 10,000 litre water tank and construction of its base, water pump, pipes and fittings	300
2.	St. Vincent Small Home	Kiminini Sub – County, Tranz Nzoia County	North Rift	Health	Purchase of wheel chairs, walking crutches, beds, mattresses	300
3.	AIC Mai - Mahiu Children's Home	Naivasha District, Nakuru County	Central Rift	Environment	Purchase of 10,000 litre water tank and construction of its base, water pump, pipes and fittings	300

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

S.No	Name of Organisation	Location	Region	Thematic Area	Donation	Amount (Kes'000)
4.	Kenyatta National Hospital	Nairobi County	Eastern Region	Health	Purchase of Trampoline, Assorted educative/cognitive toys, soft puffs, Therapy mat, therapeutic spiker balls and sensory tunnels	300
5.	a) Kairuni Special School for the mentally handicapped	Tharaka-Nithi County	Mt. Kenya	Environment	Purchase of mosquito nets, painting of dormitory	170
	b) Dream Dancer Home for orphans	Tharaka-Nithi County	Mt. Kenya	Environment	Purchase of 10,000 litre water tank, construction of its base and a water pump.	130
6.	Daisy Special School for handicapped children	Kakamega County	Nyanza/ Western	Environment	Solar equipment	400
	TOTAL					**1,900**

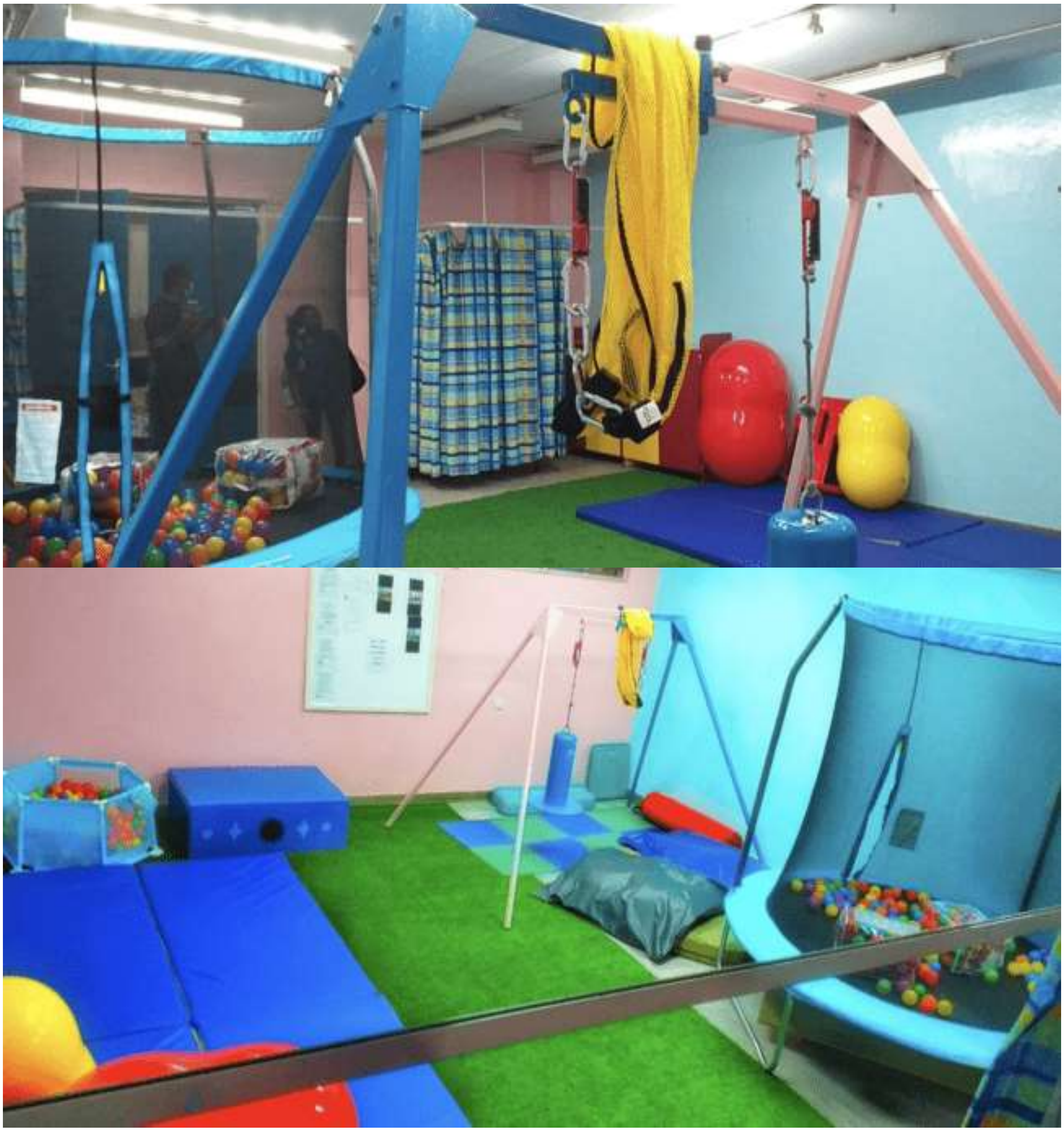
ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

Eastern Region

During the period under review the Corporation donated an Occupational Therapy equipment to Kenyatta National Hospital

Occupational Therapy equipment

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)



Occupational Therapy equipment to Kenyatta National Hospital

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

Mt. Kenya Region

Water tank to Dream Dancer Home for Orphans

Mosquito nets and painting of the dormitory at Kairuni Special School for the Mentally Handicapped

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

Coast Region

Water tank, pump and pipes to Kitobo Dispensary

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

Central Rift Region

Water tanks and gutters at Mai-Mahiu Children's Home

Nyanza/Western Region

Solar equipment to Daisy Special School for the Physically Handicapped

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

North Rift Region

Tree Planting Activities

In line with a presidential directive that all Parastatals/State agencies allocate at least 10% of their CSR budget to planting tree seedlings for afforestation of the country, the Corporation planted 5,879 tree seedlings.

Kenya is targeting to plant at least two billion trees by end of 2022 in a bid to increase the country's forest cover from the current 7% to 10%.

This exercise was carried out in AFC's various regions.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

Coast Region - Eldoro Primary School

Central Rift Region – Eldama Ravine Gk Prison

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

Nyanza/Western Region- Muthenkuar Secondary School

Mount Kenya Region- Mugumoini Primary School

ENVIRONMENTAL AND SUSTAINABILITY REPORTING (Continued)

Eastern Region -Kireita Forest

X. REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended June 30, 2022, 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, 2022 are set out from page 1 to page 95.

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

Mr. Mainga Evans E.
Ag. Corporation Secretary
Nairobi
Date: 06/09/2022

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, 2022. 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, 2022, 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 6th September, 2022 and signed on its behalf by:

Chairman	**Mr. George Kubai**
John M Mruttu	**Managing Director**

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

REPUBLIC OF KENYA

Telephone: -254-(20) 3214000
E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR GENERAL
Enhancing Accountability

REPORT OF THE AUDITOR-GENERAL ON AGRICULTURAL FINANCE CORPORATION FOR THE YEAR ENDED 30 JUNE, 2022

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 the 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

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

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 75, which comprise of the statement of financial position as at 30 June, 2022, 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, the financial position of Agricultural Finance Corporation as at 30 June, 2022, and of its financial performance and its

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

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. Unsupported Property, Plant and Equipment

The statement of financial position and Note 8(a) to, the financial statements reflects a balance of Kshs.1 ,214,094,000 in respect of property, plant and equipment. 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 with no ownership documents. In addition, the balance includes a parcel in Chogoria which Management has explained that it has been repossessed by County Government.

Further, the value of land excludes unvalued parcels of land located in Nanyuki and Kerugoya which Management has explained was repossessed by the respective County Governments due to failure by the Corporation to develop the property within the stipulated time. However, no evidence to support the repossession was provided. The balance also excludes land located in Busia whose ownership was not provided. Although Management has explained that it continues to pursue 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.

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, Malo, 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

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

differ materially from that which would be determined using fair values at the end of reporting period. In addition, the ownership documents for three (3) of the parcels of land have not been secured.

Moreover, the statement of financial position reflects net book value for property and equipment and intangible assets of Kshs. 1,214,094,000 and Kshs 46,659,000 respectively as disclosed in Notes 8(a) and 8(b) of the financial statements. However, assets with a total historical cost of Kshs. 81 0,253,000 were fully depreciated and had not been revalued yet they were still in use.

In the circumstances, the accuracy, completeness and ownership of property plant and equipment balance of Kshs. 1 ,214,094,000 could not be confirmed.

2. Non-Performing Loans to Customers

The statement of financial position and Note 9 to the financial statements reflects loans to customers totalling Kshs. 9,892,054,000. Review of loan portfolio records provided for audit review revealed that Management had classified loans totalling Kshs. 3,068,757,220 as non-performing representing 31 % of the total reported loan book as at 30 June, 2022. However, only loan balances amounting to Kshs. 830,573,976 held in 2,457 accounts with arrears amounting to Kshs. 829,695,138 were transferred to the debt recovery unit for specialized attention during the year under review. This is almost 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.

Further, the loan portfolio reflects Directors' loans of Kshs. 54,927,000 which comprises

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

of seven (7) loan accounts out of which six of the loan accounts are in arrears amounting to Kshs. 35,829,353 and have all been referred to the debt recovery unit. Review of records revealed the six accounts have been graded as non-collectable even upon disposal of attached securities as per the existing credit policy. Although a provision of Kshs. 5,955,000 has been made on directors' loans, this may be inadequate.

In the circumstances, the accuracy and completeness of the medium-term loans to customers of Kshs. 8,531,064,000 and short-term loans to customers of Kshs. 697,058,000 could not be confirmed.

3. Medium Term Loans Issued on Doubtful Title Deeds

The statement of financial position reflects a balance of Kshs. 8,795,746,000 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 that were fraudulent. The Corporation filed seven (7) cases in Court against the fraudsters and judgement was entered in favour of the Corporation. However, the Corporation had not executed the warrants issued as at 30 June, 2022 and details on the other cases have not been provided.

In the circumstances, the recoverability of the loans issued on fraudulent titles was doubtful.

4. Unsupported Trade and Other Receivables

The statement of financial position and Note 15 to the financial statements reflects trade and other receivables balance net of specific provision for bad debts of Kshs. 114,500,000. Included in the balance are other receivables of Kshs. 16,641,000

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

which further includes overdrawn balances on loan servicing of Kshs. 1,186,185 whose detailed listing of the debtors was not provided for audit review.

In addition, receivables balance includes rent receivable of Kshs. 97,496,000 out of which Kshs. 2,238,000 is due from the NHIF Nakuru. Review of the ledger reveal that the balance related to the last quarter of the financial year while the lease agreement provided for rent totalling Kshs. 1,930,000 which was actually received on 30 May, 2022. No explanation for the anomaly has been provided and this results in overstatement of rent receivables balance.

In the circumstances, the accuracy and completeness of the trade and other receivables balance of Kshs. 114,500,000 could not be confirmed.

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

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

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. 1,930,449,000 and Kshs.1,318,530,000 respectively resulting to an under-funding of Kshs.611 ,920,000 or 32% of the budget. Similarly, the Corporation expended Kshs. 1,270,904,000 against an approved budget of Kshs. 1,559,457,000 resulting to an under-expenditure of Kshs. 288,553,000 or 19% 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, 2022. 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, 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.

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

Basis for Conclusion

1. Irregular Write-Off of Fraudulent Transactions

The statement of financial position and Note 13(b) to the financial statements reflects bank current accounts overdraft balance of Kshs. 13,241,000 which is in respect of a bank account held at the National Bank Eldoret branch. The balance is net of Kshs. 15,061,900 being the value of fraudulent transactions at the Eldoret branch that occurred in the financial year 2017/2018.

Although Management has explained that provisions for these losses were made in the books no evidence of provision for losses amounting to Kshs. 9,090,400 was provided. However, no authority from the National Treasury to write off the balance as required by regulation 148(6) of the Public Finance Management (National Government) Regulations, 2015 has been provided and progress on the investigations on the fraud was also not provided.

In the circumstances, Management was in breach of the law.

2. Delay in Disposal of Repossessed Farm Properties

The statement of financial position and Note 11 to the financial statements reflects the value of repossessed farm properties of Kshs. 377,839,000 in respect of one hundred and thirty-two (132. Management explained that the Corporation had so far managed to dispose off only fourteen (14) properties worth Kshs. 16,430,000 which was an indication that the rate of disposal was slow.

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

In the circumstances, the delay in disposal of the properties was likely adversely affect the liquidity of the Corporation and subsequently affect achievement its core mandate.

3. Irregular Discharge of Loan

The statements of changes in net assets reflects a reduction in general reserves of Kshs. 57,554,000 being reversal of interest and penalties accrued between January 2018 to June, 2021 on two rescheduled loan that had been disbursed in 2013 that was settled when the borrower substituted the initial collateral of two pieces in Nyeri of land for 40 plots of land located in Kiambu.

Review of records revealed that a borrower had obtained two loans amounting to Kshs. 100,000,000 which were secured with two parcels in Nyeri County. The borrower defaulted on repayment and the loan repayment was rescheduled in 2015 which was also defaulted. In January, 2018, the borrower offered an initial forty (40) parcels of land as settlement for the loan and later an additional nine (9) parcels plots. According to the Board of Directors meeting held on the 28 August, 2018 the following recommendations were made;

i) A professional valuation be made of the new proposed collateral,
ii) The Corporation to advertise and dispose of the parcels subject to the
iii) professional valuation,
iv) The proceeds of the sale shall be assessed to determine the parcels adequacy in fully meeting the client's liability to the Corporation,
v) That the primary securities for the loan shall only be released to the client upon outstanding recovery of the entire outstanding amount

However, the following anomalies were noted;

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

i. The account was closed on 13 January, 2022 and reversals/write off amount due as at that date of Kshs. 61,211,833 were done. Although Management has explained that this relates to the accumulated interest and penalties charged during the renegotiation of the settlement, detailed working and approval by the' Board was not provided. In addition, the loan- statement provided has missing transaction of charges on the account between 29 August, 2016 to 1 September, 2020.

ii. The valuation report provided was dated 17 November, 2017 which was before the date the borrower requested for substitution of the collateral .In addition, the valuation report does not support the values the parcels of land were recognized at of Kshs. 95,000,000 and the board approved release of the initial security before disposal of the substituted land to determine if the client's liability to the Corporation had been fully met.

In the circumstances, the discharge of the loan was irregular.

4. Unapproved Short-Term Deposits

The statement of financial position reflects short term deposits of Kshs. 511,874,000. The balance includes Kshs. 229,974,000 and Kshs. 277,241,000 held in fixed deposit accounts" in Family bank and Equity bank respectively. This was contrary to the Treasury circular No.4 of 2017 which provides that State Corporations are required to invest surplus funds in Treasury bills and Treasury bonds and in commercial banks with approval from The National Treasury.

In the circumstances, Management was in breach of the National Treasury guidelines.

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

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

about whether the activities, financial transactions and information reflected in the financial statements comply, 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 procedures performed, except for the matter 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

Non-Maintenance of Loans Securities Register

During the year under review, and as previously reported inadequacies were noted on controls governing the treatment and movement of loan security documents held by the Corporation. The Legal Department did not provide for audit an up to date register, maintained 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. Further, a monitoring and evaluation

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

framework to regularly check and report on the status of land securities has not been instituted.

In the circumstances, existence of effective internal controls in respect of loans securities could not be confirmed.

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 effective processes and systems of internal controls, 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 Financial Reporting Standards (IFRS) and for maintaining effective internal controls 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 controls, 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 the intention to terminate the Corporation or to cease operations.

Management is also responsible for the submission of the Corporation's financial

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

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 Corporation's financial reporting process, reviewing the effectiveness of how Management 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.

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

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 controls 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 controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under the ISSAls. A material weakness is a condition in which the design or operation of one or more of the internal controls 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 controls 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.

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

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 controls.

- 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 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.

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

- 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls 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
AUDITOR-GENERAL

Nairobi

17 May, 2023

XIII. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2022

	Notes	2022	2021
Revenues		**KES'000**	**KES'000**
Interest Income:			
Interest on Loans	**2 (a)**	849,304	934,114
Interest on Short Term Deposits	**2 (b)**	50,918	58,761
Total interest income		**900,222**	**992,875**
Less: Interest expenses			
Interest on Redeemable Loans	**3 (a)**	14,713	15,129
Interest on RSF	**3 (b)**	9,456	9,456
Interest on INK Fund	**3 (c)**	1,243	-
Rebate Interest	**4**	3,176	2,780
Total Interest expenses		**28,588**	**27,365**
Net interest income		**871,633**	**965,509**
Non-Interest income			
Other Operating Income	**5 (a)**	169,875	145,699
Fee Income	**5 (b)**	195,056	188,489
Income from doubtful debts	**6**	53,377	298,454
Total Non-Interest income		**418,308**	**632,642**
Total Revenues		**1,289,941**	**1,598,151**
Operating Expenses			
Staff Cost	**7 (a)**	(796,911)	(730,694)
Board Expenses	**7 (b)**	(13,527)	(24,631)
Administration Costs	**7 (c)**	(323,840)	(277,576)
Depreciation & Amortization	**8 (a & b)**	(105,588)	(88,419)
Charge for Doubtful Debts	**12 (a)**	(2,449)	(329,124)
Total Expenses		**(1,242,315)**	**(1,450,443)**
Profit before tax		**47,626**	**147,708**
Tax for the Year	**23 (a)**	(20,919)	(16,545)
Profit after tax		**26,707**	**131,164**

XIV. STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2022

	Notes	2022	2021
ASSETS:		**KES.'000**	**KES.'000**
Non-Current Assets			
Property and Equipment	**8 (a)**	1,214,094	1,146,359
Intangible Assets	**8 (b)**	46,659	54,397
Deferred Tax Asset	**10**	21,404	12,902
Repossessed Farm Properties	**11**	377,839	365,249
Net Medium Term Loans to Customers	**9 (a)**	8,795,746	8,394,479
Total Non- Current Assets		**10,455,741**	**9,973,386**
Current Assets			
Cash and Bank Balances	**13 (a)**	85,204	105,110
Short Term Deposits	**14**	511,874	611,038
Net Short Term Loans to Customers	**9 (b)**	651,227	912,685
Trade and Other Receivables	**15**	114,500	88,070
Inventories	**16**	4,427	4,532
Total Current Assets		**1,367,231**	**1,721,435**
Total Assets		**11,822,973**	**11,694,820**
EQUITY AND LIABILITIES			
Equity and Reserves			
Grants	**17**	3,783,923	3,768,923
Government Equity Capital	**18**	2,687,766	2,687,766
General Reserve	**19 (a)**	1,906,193	1,945,794
Revaluation Reserve	**19 (b)**	787,618	787,618
Total Equity and Reserves		**9,165,501**	**9,190,102**
Non-Current Liabilities			
Redeemable Government Loans and Interest:	**20 (a)**	566,571	562,523
Risk Sharing Fund	**20 (b)**	384,890	377,215
INK Fund	**20 (c)**	141,334	-
Agency Funds	**20 (d)**	822,218	831,734
Total Non-Current Liabilities		**1,915,013**	**1,771,472**
Current Liabilities			
Payables	**21 (a)**	508,649	481,304
Trade and Other Payables	**21 (b)**	199,650	149,855
Current Tax Payable	**21 (c)**	20,919	90,745
Current Accounts	**13 (b)**	13,241	11,343
Total Current Liabilities		**742,459**	**733,247**
Total Equity and Liabilities		**11,822,972**	**11,694,820**

STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2022 (Continued)

The financial statements set out on pages 1 to 95 were approved by the Board of Directors on 6th September, 2022 and were signed on its behalf by:

Mr. George Kubai **Managing Director**	**CPA Tom O Akeno** **Chief Finance & Investments Officer** **ICPAK M/NO: 8116**	**Mr. John M Mruttu** **Chairman**
Dated 06/09/2022	**Dated 06/09/2022**	**Dated 06/09/2022**

XV. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH JUNE 2022

	Notes	Government Equity Capital	General Reserve	Revaluation Reserve	Grants	Totals
2020:		**KES.'000**	**KES.'000**	**KES.'000**	**KES.'000**	**KES.'000**
At 1 July 2020 - As previously stated		**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 30 June 2021		**2,687,766**	**1,945,794**	**787,618**	**3,768,923**	**9,190,101**
Balance as at 1 July 2021		**2,687,766**	**1,945,794**	**787,618**	**3,768,923**	**9,190,101**
ACDI/VOCA Grant	**19 (a)**	-	-	-	15,000	15,000
AFC/LRD/AWW dated 12.01.2022	**19 (a)**	-	(57,554)	-	-	(57,554)
Prior year adjustment	**19 (a)**	-	(8,754)	-	-	(8,754)
Profit for the Year	**19 (a)**	-	26,707	-	-	26,707
Balance as at 30th June 2022		**2,687,766**	**1,906,193**	**787,618**	**3,783,923**	**9,165,501**

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

	NOTES	2022 KES.'000	2021 KES.'000
Cash flow from operating activities:			
Profit/(Loss) Before Taxation		47,626	147,708
Adjustments for:			
Interest on Short Term Deposits	**2 (b)**	(50,918)	(58,761)
Depreciation of Property & Equipment	**8 (a)**	86,936	74,102
Amortization of Intangible Assets	**8 (b)**	18,652	14,317
Profit/loss on Disposal of Assets	**22 (b)**	(2,286)	(49,455)
Interest expense	**3 (a & b)**	24,169	24,585
Increase in Inventories	**16**	106	(513)
Corporate Tax paid	**21 (c)**	(90,745)	(26,112)
Increase in Deferred Tax Asset		(8,502)	(9,339)
Increase in Trade and Other Receivables	**15**	(26,431)	82,953
Decrease in Trade and Other Payables	**21 (a & b)**	77,139	13,835
Interest paid	**20 (b)**	-	(9,430)
Net cash flows generated from operating activities		**75,746**	**203,890**
Cash flow from Investing activities:			
Purchase of Property & Equipment	**8 (a)**	(192,635)	(121,721)
Purchase of Intangible Assets	**8 (b)**	(10,913)	(30,516)
Interest on Short Term Deposits	**2 (b)**	50,918	58,761
Proceeds from disposal of Property & Equipment	**22 (c)**	2,223	55,306
Rescheduled GOK loan repayment		-	(11,081)
Increase in Repossessed Farm Properties	**11**	(12,590)	(97,455)
Assets reclassified		-	(5,156)
Decrease in Short Term Loans to Customers	**9 (b)**	261,458	230,519
Decrease/Increase in Loans to Customers	**9 (a)**	(401,267)	(645,725)
Net cash flow used in investing activities		**(302,806)**	**(567,067)**
Cash flow from Financing activities:			
Muri Farm Settle Fund	**19**	-	(348,926)
ACDI/VOCA Grant	**19**	15,000	-
AFC/LRD/AWW dated 12.01.2022	**19**	(57,554)	-
Prior year adjustment	**19**	(8,754)	-
INK Fund Loan	**20 (d)**	141,334	-
Grant - Development Vote	**17**	-	250,000
Agra Revenue grant		6,064	-
Financial Sector Deepening		10,000	-
GOK Subsidy to Financial Inst	**17**	-	250,000
Net cash flow used in financing activities		**106,090**	**151,074**

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30TH JUNE 2022 (Continued)

	NOTES	2022 KES.'000	2021 KES.'000
Net increase in cash and cash equivalent		(120,970)	(212,103)
Cash and cash equivalent at the beginning of the year		704,805	916,908
Cash and cash equivalent at the end of the period	**13 & 14**	**583,836**	**704,805**

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 2022

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference
	2021-2022	2021-2022	2021-2022	2021-2022	2021-2022
Revenue	**KES.'000**	**KES.'000**	**KES.'000**	**KES.'000**	**KES.'000**
Interest Income:					
Interest on Loans	1,080,366	-	1,080,366	849,304	(231,062)
Interest on Short Term Deposits	80,575	-	80,575	50,918	(29,657)
Total interest income	**1,160,940**	**-**	**1,160,940**	**900,222**	**(260,718)**
Non-Interest income					
Fee/Other Operating Income	384,509	-	384,509	337,996	(46,514)
Income from doubtful debts	385,000	-	385,000	80,312	(304,688)
Total Non-Interest income	**769,509**	**-**	**769,509**	**418,308**	**(351,201)**
Total Revenues	**1,930,449**	**-**	**1,930,449**	**1,318,530**	**(611,920)**
Expenses					
Staff Cost	873,200	-	873,200	796,911	76,289
Board Expenses	19,760	-	19,760	13,527	6,233
Administration Costs	369,423	-	369,423	323,840	45,584
Depreciation & Amortization	95,049	-	95,049	105,588	(10,539)
Charge for Doubtful Debts	165,000	-	165,000	2,449	162,551
Interest on Redeemable Loans	33,926	-	33,926	25,412	8,513
Rebate Interest	3,099	-	3,099	3,176	(77)
Total expenditure	**1,559,457**	**-**	**1,559,457**	**1,270,904**	**288,553**
Surplus for the period	**370,993**	**-**	**370,993**	**47,626**	**(323,367)**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30TH JUNE 2022 (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 2021, the management reviewed the approved budget for the financial year 2021/2022 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 2021/22.

During the period under review, loans worth KES 4.44 billion were collected compared to KES 4.39 billion in the previous period representing a 1% growth. Interest earnings from investments in term deposits decreased as a result of the decline in the amounts held in term deposits i.e from KES 0.6 billion to KES 0.5 billion.

XVIII. NOTES TO FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

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

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

The financial statements have been prepared in accordance with the PFM Act 2012, the State Corporations Act Cap 446, Agricultural Finance Corporation Act Cap 323, International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) applicable 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 30th June 2022

The Corporation has applied the following standards and amendments for the first time for their annual reporting period commencing 1st January 2021. These standards and amendments did not have a material impact on the financial statements.

Title	Key requirements	Effective Date
Amendments to IFRS 9 (Phase 2).	The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.	Annual periods beginning on or after 1 January 2021
Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.	Annual periods beginning on or after 1 January 2022

NOTES TO FINANCIAL STATEMENT (Continued)

Title	Key requirements	Effective Date
Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).	Annual periods beginning on or after 1 January 2022

NOTES TO FINANCIAL STATEMENT (Continued)

Summary of Significant Accounting Policies (Continued)

ii) Changes in accounting policies and disclosures (Continued)

New standards, amendments and interpretations issued not yet effective

Recognition of income and expenses

i. Interest income and expenses

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit impaired assets, the Corporation estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

NOTES TO FINANCIAL STATEMENT (Continued)

ii. Dividend income

Dividend income is recognised when the Corporation's right to receive payment is established.

iii. Risk premium

Risk premium fees are charged on unsecured loans issued to customers and members of staff and is meant to mitigate against risk of default arising from permanent death or disability. The net fees, minus any claims or other costs incurred, are recognised upfront as a liability and are amortized into the profit or loss over the tenure of the loan.

iv. Fees and commission income and expenses

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate. Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period A contract with a customer that results in a recognised financial instrument in the Corporation's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

v. Rental income

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

NOTES TO FINANCIAL STATEMENT (Continued)

vi. Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

vii. Income Tax

(i) Current income Tax

Current income tax expense comprises current income tax and change in deferred income tax. Income tax expense is recognized in profit or loss except to the extent that it related to items recognized directly in equity or other comprehensive income. Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. The amount of tax payable or recoverable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

(ii) Deferred Income Tax

Deferred income tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination, and which affects neither accounting nor taxable profit. It is also not recognised for temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future and the investor is able to control the timing of the reversal of the temporary difference.

Deferred income tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or

NOTES TO FINANCIAL STATEMENT (Continued)

substantively enacted by the reporting date. A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis, or their tax assets and liabilities will be realized simultaneously.

In determining the amount of current and deferred tax, the Corporation considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Corporation to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

viii. Financial assets and liabilities

(i) Recognition and measurement

Financial assets and financial liabilities are recognised in the Corporation's statement of financial position when the Corporation becomes a party to the contractual provisions of the instrument. Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss (FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

NOTES TO FINANCIAL STATEMENT (Continued)

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e., day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e., day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in financial year 2021/22.

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.

NOTES TO FINANCIAL STATEMENT (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENT (Continued)

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. 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%

NOTES TO FINANCIAL STATEMENT (Continued)

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

NOTES TO FINANCIAL STATEMENT (Continued)

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortized over their estimated useful lives which is three.

e) Amortization and Impairment of Intangible Assets

Amortization is calculated on the straight-line basis over the estimated useful life of computer software for three years at the rate of 33.3%.

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

f) Trade and Other Receivables

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

NOTES TO FINANCIAL STATEMENT (Continued)

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 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

NOTES TO FINANCIAL STATEMENT (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENT (Continued)

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 2021-2022 budget.

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

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

NOTES TO FINANCIAL STATEMENT (Continued)

k) Comparative figures

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

l) Retirement Benefit Obligations.

The Corporation previously contributed to a defined benefits retirement scheme which it funded and whose assets are held in a separate Trustees' administered guaranteed fund. With effect from January 2008 the Corporation contributes to a defined contribution pension scheme following the closure of the defined benefits scheme in December 2007. A defined contribution plan, is a plan under which the Corporation pays fixed contribution in to a separate scheme and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all the employees the benefit relating to employees in service in the current or prior periods. The Corporation also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). As at the date of the report the defined benefits retirement scheme had a deficit of KES 66.8 million, which the Corporation's proposals to be making a quarter payment of KES 5.3 million.

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.

NOTES TO FINANCIAL STATEMENT (Continued)

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 2022 , the total loan portfolio stood at KES 9.89 billion comprising of short term loans of KES 0.69 billion, medium term loans of KES 8.53 billion, director's loans of KES 0.055 billion and staff loans of KES 0.61 billion. Total accumulated provisions for loans slightly reduced to KES 445.08 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	9,892,054	475,964	(26,935)	(3,948)	-	445,081
Other debts	119,106	-	-	-	2,449	2,449
					Total	447,530

Summary note on accumulated provisions for the year as at 30th June 2022 as disclosed under note 9

Classification	Portfolio/value	B/F	Write offs	Charge, Write back/ Collection	Current balance
Short Term	697,058	60,903	163	(15,256)	45,830
Medium Term	8,531,064	405,020	3,784	(25,949)	382,855
Directors Loans	54,927	7,127	-	(1,172)	5,954
Staff	609,005	2,912	-	7,527	10,440
Other debts	-	-	-	2,449	2,449
Total	**9,892,054**	**475,964**	**3,948**		**447,530**

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, 2022.

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 2021/22 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	2022 KES'000	2021 KES'000
Directors	13,527	24,631
Key management compensation	57,981	55,090

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)

	2022 KES.'000	2021 KES.'000
2 (a). Interest on Loans		
Interest on Medium Term Loans	747,223	792,016
Interest on Short Term Loans	54,534	107,982
Interest on Staff Loans	47,547	34,116
Balance as at 30th June	**849,304**	**934,114**

2 (b). Interest on Short Term Deposits

Details are as follows:-	2022 KES.'000	2021 KES.'000
Short Term Deposits	50,421	58,089
Bank Accounts	497	671
Balance as at 30th June	**50,918**	**58,761**

3 (a). Interest on Redeemable Loans

The interest charge on redeemable loans outstanding as at 30th June 2022 were as follows:

	2022 KES.'000	2021 KES.'000
GOK Restructured Red. Loan	14,713	15,129
Balance as at 30th June	**14,713**	**15,129**

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

3 (b). Interest on INK Fund		
INK Fund	1,243	-
Balance as at 30th June	**1,243**	**-**

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	**2022**	**2021**
	KES.'000	**KES.'000**
Rebates Interest	3,176	2,780
Balance as at 30th June	**3,176**	**2,780**

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	**2022**	**2021**
Non-Interest Income	**KES.'000**	**KES.'000**
Rent income - Note 22 (a).	115,056	87,538
Profit on disposal of assets- Note 22 (b).	2,286	49,455
Agency commission	4,356	3,686
Sundries	21,241	5,019
Write back of provisions	26,935	-
Balance as at 30th June	**169,875**	**145,699**

5 (b). Fees Income	**2022**	**2021**
	KES.'000	**KES.'000**
Application & Forms fees	26,089	24,268
Conveyance	75,064	70,906
Loan Commitments Fees	55,240	51,086
Inspection fees	125	122
Other Loan Processing fees	5,239	5,981
Discharge of Securities Fees	4,934	6,365
Loan Waiver Processing Fees	546	1,731
Account Maintenance Fee Income	27,820	28,030
Balance as at 30th June	**195,056**	**188,489**

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.

	2022	**2021**
	KES.'000	KES.'000
Write back of General Provisions	-	298,454
Income from Muri Farm	53,377	-
Balance as at 30th June	**53,377**	**298,454**

NOTES TO FINANCIAL STATEMENT (Continued)

7. (a) Staff Costs	**2022**	**2021**
	KES.'000	**KES.'000**
Salaries	465,568	441,945
Overtime	3,566	3,581
House allowance	111,364	106,635
Transport allowance	55,051	46,930
Hardship allowance	9,223	9,169
Acting/Duty & Aggregation allowance	2,303	3,456
Leave allowance	3,912	3,807
Other emoluments	1,200	619
Staff appointments & transfers allowances	5,781	1,776
Medical & staff Insurance expenses	66,562	55,078
Staff Insurance expenses	3,255	2,953
Pension contributions	38,722	35,974
NSSF employers contribution	1,251	1,248
Gratuities	19,726	17,523
Leave Days Accrual	9,426	-
Total	**796,911**	**730,694**

7. (b) Board Members' Expenses	**2022**	**2021**
	KES.'000	**KES.'000**
Chairman's Standing Fees	805	960
Sitting Allowance	4,340	9,320
Travelling Allowance	813	1,997
Night Out & Meal Allowance	3,120	7,975
Sundry Board Expenses	-	771
Training Expenses	3,859	3,090
Medical	589	518
Total	**13,527**	**24,631**

NOTES TO FINANCIAL STATEMENT (Continued)

7. (c) General & Administrative Expenses:	2022 KES.'000	2021 KES.'000
Bank charges	4,170	2,719
Corporate Comm & advertisement	16,669	10,732
Publicity/Shows & Field days	793	945
ISO Certification	2,038	1,206
Corporate social responsibility/Donations	6,499	1,226
General office expenses	14,976	15,600
Insurance of Corporation assets	1,754	825
Insurance of Motor Vehicles	10,160	5,047
Land rent & rates	1,140	1,366
Legal fees	916	500
Maintenance of buildings	2,239	3,647
Maintenance of furniture & equipment	13,518	12,311
Office rentals	21,946	19,375
Printing & stationery	7,368	7,955
Professional consultants	6,446	3,590
Subscriptions to professional bodies	2,577	1,402
Research & development	1,318	684
Security	24,735	27,280
Software licences Taxes & licences	45,062	37,289
Telephone, internet & postage	33,881	32,477
General hotel & travel	23,609	26,828
Entertainment Expense	1,985	-
Training	37,320	11,884
Vehicle fuel & oil	15,724	13,526
Vehicle maintenance	10,217	14,957
Water, electricity & gas	7,689	6,956
Transformation expenses	2,806	5,269
Auditors Fees	1,531	1,531
Welfare & Uniforms	4,440	10,124
Fringe Benefit Tax	315	326
Total	**323,840**	**277,576**
Total	**1,134,278**	**1,032,900**

	30.6.22	30.6.21
Average number of employees at the end of the year was:		
Permanent Employees - Management	268	282
Permanent employees – Unionisable	244	252
Total	**512**	**534**

NOTES TO FINANCIAL STATEMENT (Continued)

8. (a) Property and Equipment

	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**
2021	**34,523**	**1,054,031**	**344,346**	**418,555**	**84,641**	**17,517**	**1,953,613**
Additions	-	57,790	-	67,058	14,762	53,024	192,635
Transfers	-	-	-	-	-	(37,965)	(37,965)
As at 30 June 2022	**34,523**	**1,111,821**	**344,346**	**485,613**	**99,404**	**32,576**	**2,108,283**
DEPRECIATION:							
Charge for previous years	-	**229,382**	**277,078**	**225,923**	**74,870**	**-**	**807,254**
Charge for the year	-	21,864	22,124	40,685	2,263	-	86,936
As at 30 June 2022	**-**	**251,246**	**299,202**	**266,608**	**77,133**	**-**	**894,189**
NET BOOK VALUE							
As at 30 June 2022	**34,523**	**860,575**	**45,144**	**219,005**	**22,271**	**32,576**	**1,214,094**
As at 30 June 2021	**34,523**	**824,648**	**67,268**	**192,632**	**9,771**	**17,516.52**	**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	287,536	256,729
Office Equipment	166,098	144,433
Computer Hardware	143,552	125,923
Software	179,413	160,190
Furniture and Fittings	33,655	30,595
Total as at 30th June	**810,253**	**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	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. (b) Intangible Assets

	2022 KES'000	2021 KES'000
COSTS:		
As at 1st July	**275,322**	**244,806**
Additions	10,914	30,517
As at 30th June	**286,236**	**275,322**
AMORTISATION		
As at 1st July	**220,925**	**206,608**
Charge for the year	18,652	14,317
As at 30th June	**239,577**	**220,925**
NET BOOK VALUE	**46,659**	**54,397**

NOTES TO FINANCIAL STATEMENT (Continued)

Loans to Customers	2022	2021
9. (a) Loans to Customer	**KES.'000**	**KES.'000**
Medium Term Loans	8,531,064	8,114,837
Staff Loans	609,005	658,270
Directors Loans	54,927	54,666
Total Medium Loans to Customer	**9,194,996**	**8,827,772**
Less Accumulated Provision		
Medium term loans	382,856	413,413
Directors Loans	5,955	7,127
Staff Loans	10,439	12,753
Net loans to Customer	**8,795,746**	**8,394,479**
9. (b) Short Term Loans to Customers	697,058	955,356
Less Accumulated Provision		
Short term loans	45,831	42,671
Net Short Term Loans to Customers	**651,227**	**912,685**
Classified Under		
12. (b) Medium Term Loans	382,856	413,413
12. (b) Short Term Loans	45,831	42,671
12 (b) Directors Loans	5,955	7,127
12. (b) Staff Loans	10,439	12,753
12. (b) Other debtors	2,449	-
Total	**447,531**	**475,964**

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	2022	2021
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		12,902	3,563
Timing difference for the FY		8,502	9,339
Balance as at 30th June		**21,404**	**12,902**

11. Repossessed Farm Properties:	**2022**	**2021**
	KES.'000	**KES.'000**
Acquisition value as at 1st July	365,249	267,794
Additions - FPIP	15,000	97,455
Disposals - FPIP	(2,410)	-
Balance as at 30 June	**377,839**	**365,249**

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:

	2022	2021
Loans to Customers:	**KES.'000**	**KES.'000**
General provision	-	329,124
Total	**-**	**329,124**
Other Debts:		
Specific provisions	2,449	-
Total	**2,449**	**-**
Total charge for the year	**2,449**	**329,124**

12 (b). Accumulated provisions for doubtful debts

The accumulated provisions are analysed as below:

	2022	2021
General Provisions	**KES'000**	**KES'000**
Balance as at 1st July	463,211	442,656
Write back of provisions	(26,935)	-
Charge for the year	-	329,124
Interest Concession - Farm Loans	(3,947)	(10,115)
Movement in provisions Staff specific	2,314	-
Recoveries from NPL	-	(298,454)
Balance as at 30th June	**434,642**	**463,211**
General Provision		
Balance as at 1st July	7,127	7,127
Recoveries from NPL	(1,172)	-
Balance as at 30th June	**5,955**	**7,127**
Specific Provisions		
Balance as at 1st July	9,482	9,482
Movement in provisions during the year	958	-
Balance as at 30th June	**10,440**	**9,482**
General Provisions		
Balance as at 1st July	3,272	3,272
Movement in provisions during the year	(3,272)	-
Balance as at 30th June	**-**	**3,272**
Other debts:		
Charge for the year	2,449	-
Balance as at 30th June	**2,449**	**-**
Provisions Summary		
General Provisions	447,531	475,964
Balance as at 30th June	**447,531**	**475,964**

NOTES TO FINANCIAL STATEMENT (Continued)

13 (a). Cash and Bank Balances	2022 KES.'000	2021 KES.'000
Current accounts	26,831	44,315
Branch Collection Accounts	13,163	15,304
Branch Imprest Accounts	15,848	11,336
Branch Loan Funds Accounts	29,361	34,155
Balance as at 30th June	**85,204**	**105,110**

13 (b). Cash and Bank Balances		
Current accounts	(13,241)	(11,343)
Balance as at 30th June	**(13,241)**	**(11,343)**

14. Short Term Deposits	2022 KES.'000	2021 KES.'000
Co-operative Bank	-	338,078
Kenya Commercial Bank	-	266,830
Equity Bank	277,241	-
Family Bank	229,974	-
Interest receivable	4,659	6,131
Balance as at 30th June	**511,874**	**611,038**

The average effective interest rate on the short term deposits as at June 30, 2022 was 10.8% (2021 10.8%). 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	2022 KES.'000	2021 KES.'000
a) Current account			
Kenya Commercial bank	Various	6,421	10,043
Co-operative Bank of Kenya	Various	11,225	16,352
National Bank of Kenya	Various	36,016	46,459
Balance as at 30th June		**53,662**	**72,854**
c) Fixed deposits account			
Co-operative Bank	Various	-	338,078
Kenya Commercial Bank	Various	-	266,830
Equity Bank	Various	277,241	
Family Bank	Various	229,974	
Interest receivable	Various	4,659	6,131
Balance as at 30th June		**511,874**	**611,038**
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	194	696
cash in hand	Various	34	23
M-Pesa Phone Float	Various	1,453	1,546
M-Pesa Cash Float	Various	1,847	1,754
M-Banking accounts	Various	12,008	12,390
Vault Cash	Various	1,030	2,769
Balance as at 30th June		**16,566**	**19,179**
Grand total		**583,836**	**704,805**

NOTES TO FINANCIAL STATEMENT (Continued)

15. Trade and other receivables	**2022 KES.'000**	**2021 KES.'000**
Rent receivable- Other properties	88,646	64,992
Prepaid expenses	7,804	7,318
Utilities & Other deposits	3,859	2,345
Accounts receivable- Others	16,641	13,414
Balance as at 30th June	**116,950**	
Specific Provision for Bad Debts	2,449	-
Balance as at 30th June	**114,500**	**88,070**
At June 30, the ageing analysis of the gross trade receivables was as follows:		
Less than 30 days	65,134	22,789
Between 30 and 60 days	5,723	32,112
Between 61 and 90 days	5,560	2,846
Between 91 and 120 days	18,871	10,202
Over 120 days	21,662	20,121
Total	**116,950**	**88,070**

16. Inventories

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

	2022 KES.'000	**2021 KES.'000**
Stationery & Office Supplies	3,730	3,716
Kitchen, Detergents & Toiletries	156	140
Computer Stationery	540	676
Balance as at 30th June	**4,427**	**4,532**

NOTES TO FINANCIAL STATEMENT (Continued)

17. GRANTS	2022 KES'000	2021 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	112,447
Grant - Development Vote	550,000	550,000
GOK Subsidy to Financial Inst	250,000	250,000
ACDI/VOCA Grant	15,000	-
Balance as at 30th June	**3,783,923**	**3,768,923**

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	2022 KES.'000	2021 KES.'000
(a) General Reserve		
Balance as at 1st July	1,945,794	1,814,631
AFC/LRD/AWW dated 12.01.2022	(57,554)	-
Prior year adjustment	(8,754)	-
Profit after taxation for the year	26,707	131,164
Balance as at 30th June	**1,906,193**	**1,945,794**

The General Reserve is the undistributed profit from the operations.

(b) Revaluation reserve	2022 KES.'000	2021 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

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NOTES TO FINANCIAL STATEMENT (Continued)

20. (a) Redeemable Government Loans and Interest:	2022 KES.'000	2021 KES.'000
Principal		
GOK Restructured Red. Loan	486,734	494,830
Sub Total	**486,734**	**494,830**
Interest		
GOK Restructured Red. Loan	79,837	67,693
Sub Total	**79,837**	**67,693**
Total	**566,571**	**562,523**
20. (b) Risk Sharing Fund & Interest		
Risk Sharing Fund	377,215	377,215
Interest	7,675	-
Sub Total	**384,890**	**377,215**
Total	**384,890**	**377,215**
20. (c) INK Fund & Interest		
INK Fund	141,334	-
Sub Total	**141,334**	**-**
Total	**1,092,795**	**939,738**

20. (d) Agency Funds:	2022 KES.'000	2021 KES.'000
Kenya Sugar Board	722,218	722,218
Coffee Dev Fund	-	9,516
NIB- Rice rev fund	100,000	100,000
Sub Total	**822,218**	**831,734**
Grand Total	**1,915,013**	**1,771,472**

NOTES TO FINANCIAL STATEMENT (Continued)

	NOTES	2022 KES.'000	2021 KES.'000
21. Payables and Accruals			
(a) Payables			
Borrowers credit balances		408,195	420,992
Unprocessed Loan Receipts		131	-
Customers Loan deposits		69,724	60,312
Suspended Income on Non-Performing Accounts		30,599	-
Balance as at 30th June		**508,649**	**481,304**
(b) Trade and Other Payables			
Cash security deposits		2,840	2,571
Insurance receipts		8,133	9,653
External audit fees		3,062	4,593
Gratuity		25,426	24,040
Accrued Leave days		11,780	6,021
Revenue Grants		15,326	-
Other payables		107,670	80,172
Interest on redeemable loans		25,412	22,804
Balance as at 30th June		**199,650**	**149,855**

(c) Current Tax payable		2022 KES.'000	2021 KES.'000
Balance as at 1st July		90,745	100,312
Deferred tax for the year		-	-
Reversal of Tax Liability		-	-
Tax paid		(90,745)	(26,112)
Corporate tax for the year	**23 (a)**	20,919	16,545
Balance as at 30th June		**20,919**	**90,745**

NOTES TO FINANCIAL STATEMENT (Continued)

Analysis of Rent Income& Profit on disposal of assets

	2022	2021
22. (a) Rent Income	**KES.'000**	**KES.'000**
Details are as follows:-		
Development House Income/(Loss)	55,828	33,600
Other Properties net Income	59,229	53,938
Balance as at 30th June	**115,056**	**87,538**

22. (b) Profit/Loss on disposal of assets	**2022**	**2021**
The details are as follows:-	**KES.'000**	**KES.'000**
Motor Vehicles	-	243
Gain on disposal of other assets	2,286	49,212
Balance as at 30th June	**2,286**	**49,455**

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

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

NOTES TO FINANCIAL STATEMENT (Continued)

INCOME TAX EXPENSE/ (CREDIT)

23(a) Current taxation	**NOTES**	**2022 KES.'000**	**2021 KES.'000**
Current taxation based on the adjusted profit for the year at 30%		20,919	16,545
Current tax: prior year under/(over) provision		-	-
Current year deferred tax charge			
Prior year under-provision for deferred tax		-	-
		20,919	**16,545**

(b) Reconciliation of tax expense/(credit) to the expected tax based on accounting profit	**2021 KES.'000**	**2020 KES.'000**
Profit before taxation	47,626	147,708
Tax at the applicable tax rate of 30%	14,288	44,312
Current tax: 2010/2011 under-provision	-	-
Tax effects of expenses not deductible for tax purposes	(14,288)	(44,312)
Tax effects of income not taxable	-	-
Tax effects of excess capital allowances over depreciation/amortization	-	-
Deferred tax prior year over-provision	-	-
Rental income tax	20,919	16,545
	20,919	**16,545**

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)*
2020/2021 Audit certificate	**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: **Land Without Ownership Documents** As previously reported, included in the property plant and equipment balance are	The Nanyuki and Kerugoya plots were repossessed by respective county authorities as the Corporation could not abide by the condition of developing the property within the stipulated time in the allotment letters. These plots were dropped from our list of assets for this reason. For Busia plot, the Corporation is following up on the ownership document with the Ministry of Lands. The parcel of land has since been	Ag. Chief Manager Legal Services Evans Mainga	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)*
	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.	developed. The Corporation is the registered owner of all that parcel of land known as Kisumu Municipality/Block 6/391whose lease was issued on 3rd June 1999. The parcel is located along the Nyerere Road within Kisumu County. The area is also known as "Jua Kali", where the informal artisans in Kisumu ply their trade. The Corporation's plot has been invaded by the artisans. As a cost reduction measure and an attempt to increase its asset base, the Corporation intended to construct its offices on the said parcel noting that owners of the neighboring plots like the then Nakumatt Limited harboured			

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	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.	similar ideas. The Corporation therefore engaged the artisans who had squatted upon the said parcel in discussions with a view to acquiring vacant possession to enable development of the property. They did not yield and declined to vacate the premises constraining the Corporation to issue eviction notices upon them. Appreciating the contribution of the informal sector to the economy, the Corporation sought a more humane way of evicting the artisans through a court process rather than forceful eviction which could have led to loss of life and property. The Corporation filed KISUMU ELC 61 OF 2017 AFC vs GEORGE OJWANDO & 6 OTHERS. The suit was also informed by the survey report issued by Plan B			

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)*
		Consultancy, Licensed Land Surveyors dated 16th July, 2013 who identified and demarcated the subject parcel. Efforts to identify the exact occupiers by the surveyor were fruitless due to their hostility. The Corporation was therefore compelled to sue the officials of the Jua Kali Artisans Association who had declined to implore upon their members to vacate the subject parcel. During the pendency of the suit, the officials were voted out of leadership thereby jeopardizing the Corporation's chances of success. The court directed The Ministry of Lands, Housing and Urban Development to carry out a survey to establish if the defendants actually occupied the subject parcel, if not then identify who the			

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		occupants were. The report only went as far as identifying where the defendants were located but did not identify the occupant of the plot despite the Corporation's persistent pleas. Obviously, the report bore a negative tangent on the success of the suit which was eventually dismissed. That did not mean that the Corporation lost its proprietary interest on the land. It must be noted, that efforts seeking to obtain vacant possession over the subject parcel have consistently been sought through various lawful means. a) On 13th September 2019, the Corporation issued a fresh notice upon the squatters to vacate the premises and placed it on site.			

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		b) The said notice elicited the attention of the Hon. Governor of the County of Kisumu and by a letter dated 16th September, 2019 ref: CGK/GVN/ADM/01/VOL.1/513 he requested the institution to forestall any precipitate action and invited the Corporation for a meeting to map a plausible solution. c) On 18th September 2019 a meeting was held at the County offices in Kisumu where the county officials promised the Corporation that they would assist it acquire vacant possession after its taskforce on relocation of the artisans within the city completed its work. d) That the commitments of the meeting by the County Government of Kisumu were			

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)*
		followed up by a letter dated 7th October, 2019 assuring the Corporation that they would assist it in recovering the plot. e) The Corporation followed up the matter vide the letter dated 6th March 2020 (which did not elicit any response) f) A further notice to vacate dated 29th March 2020 seeking vacant possession was issued. g) A letter from the Corporation to the Managing Director of Kenya Railways ref: AFC/MD/12.7 dated 30th June 2020 reiterating the position of the Corporation and highlighting the salient points of a conversation held between the two heads of the institutions.			

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)*
		h) The memo from the Regional Manager Nyanza/Western dated 7th September 2020 highlighting a conversation held between herself and the Head of Infrastructure at The Kenya Railways. i. The Corporation maintains its position as the lawful and bona-fide owner of Kisumu Municipality/Block 6/391. It was issued with and still possesses a Certificate of Lease on 3rd June 1999. It is true that the Kenya Railways alleged ownership of the subject parcel but the legitimacy of title has not been challenged by Kenya Railways or any other person or institution. Ownership still vests with the Agricultural Finance Corporation. ii. The question of occupation			

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)*
		has been frustrated by the hostile nature of the artisans. The officials of the association have continuously hidden the identity of the occupants with a view to protecting their own and supporting the livelihood of the squatters. This does not mean that the Corporation shall relent in its pursuit to evict any occupier in a manner prescribed by law. iii. In view of the findings of the survey report by the Ministry of Lands, Housing and Urban Development dated 30th November, 2015 the defendants in the suit were vindicated and naturally the suit was bound to die a natural death. Efforts by counsels of the Corporation seeking more time to get the identity of the actual squatters with a view to substituting them			

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		with the vindicated ones did not bear fruit. The court was of the opinion that once the identity of the occupiers was established the courts would be glad to issue orders for eviction.			
	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	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. All the listed undeveloped parcels of land without ownership documents were excluded from the list of our assets hence they	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)*
	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.	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.			

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)*
	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.	In the past, the Corporation received non-refundable grants from the Government and other donors to finance specific lines of credit. These grants were received as early as 1980s and records having been retained for a period exceeding the legal minimum requirement of seven years were archived as required. Therefore we have been able to retrieve those received after 2006.	Chief Finance & Investments Officer. Tom O Akeno	Resolved	
	Unsupported Net Medium-Term Loans The statement of financial position reflects a balance of Kshs. 8,394,479,000 in respect	As disclosed and classified under note 9, any loan whose term is less than twelve months is classified as short term while	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)*
	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	those exceeding twelve months are classified as medium term. It is worth noting that the total outstanding balances as disclosed under note 9, include principal, interest, penalties and other fees. The table below breaks down the above component for easy of reference.			

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)*
	loans of Kshs. 8,827,772,000 could not be confirmed.				
	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	We wish to clarify that the figure indicated in our letter ref: AFC/LD/MEE dated 20th January, 2022 of Kshs 11,182,500 is for the outstanding Principal at the time of disbursement, while the one of Kshs 22,661,000 is the total outstanding debt inclusive of the arrears. Further to our previous responses, the Corporation asserts that it employed its internal mechanism 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	Head Debt Recovery Unit.	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)*
	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.	not possible due to their expiry. We submit that our officers conducted due diligence in the loaning process and the fraud was perpetrated in the Land's office which exposed the Corporation. The Corporation has fully provided for these cases as bad and doubtful debts in our accounts and put them under non-accrual status.			

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

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-expenditure may have impacted negatively on the achievement of the planed goals and objectives of the Corporation.				
	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	The board in it's sitting of 10th May, 2012 approved an Investment policy document to guide the Corporation in investment of such surplus funds. Attached is a copy of the board extract approving the investment guidelines. Since policy is designed to allow for sufficient flexibility in the management and oversight process, while ensuring prudence and care in the execution of the policy, the board has made it mandatory for all payments above 10 million to have an approval of the Managing	Chief Finance & Investments 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)*
	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.	Director. All investments in term deposits during the period had the requisite approval of the Managing Directors.			
	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	The Corporation invited applications from intern, attaches' and apprentices to provide a face of Kenya and a large database for the potential candidates. This provided a wider pool of applicants to be reached. The Corporation advertised for the positions on 5th February, 2020, while the closing date was 18th February, 2020 allowing	Chief Human Capital & Admin Officer Tallam K. W. C	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)*
	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.	applicants 14 days to submit their applications.			
	Non-Maintenance of Loans Securities Register During the year under review, inadequacies were noted on	An up to date register for all loan securities held by the Corporation	Ag. Chief Manager Legal Services Evans Mainga		

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)*
	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	is maintained in both hard and soft entries. Effective 2016 when the FITNES system was operationalized, the security details for all loans disbursed are maintained in the system. All other security details for loans disbursed prior 2016, are available in the Equinox Banking System which has been maintained as a reference system. Further, we confirm that all loans maintained in the previous system i.e EBS were successfully migrated to the current system and requisite balances verified before the change-over. On a regular basis, the legal department conducts stock take on the securities held for purposes of ensuring existence and completeness. Further to the auditor's recommendations, a monitoring			

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)***
	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.	and evaluation framework has been established through creation of a module in the Core banking system where all securities are mapped to the loan applications with a unique identifier in the both the physical file and the system. Any movement of a security from the registrar, is logged and a workflow of the same approved through a maker, checker control.			
	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	The Corporation grants loans that are secured through various securities as provided in the credit policy manual. At the time of appraisal stage a valuation of the security is carried out based on criteria specified in the policy. The delinquency rate is calculated on the basis of total arrears on the total outstanding loan balances. The delinquency by the auditors	Chief Credit Officer. Bonano Badia		

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)*
	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.	was arrived at after dividing the total nonperforming loan by total outstanding portfolio which is contrary to 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. As at 30th of June, 2021, the Corporation loan portfolio stood at Kshs 9,783,128,422.92. Included in these balances are arrears of Kshs 213,902,201.21 translating to a delinquency level of 21.6%. However, the management has noted the concern to ensure the delinquency level is within the allowable standard of 15%.			

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 06/09/ 2022

Chairman of the Board
Date 06/09/2022

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

The Corporation did not receive any fund from the Government or other entity