REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

*Enhancing Accountability*



# REPORT

# OF

# THE AUDITOR-GENERAL

# ON

# KENYA POST OFFICE SAVINGS BANK

# FOR THE YEAR ENDED 31 DECEMBER, 2020

# KENYA POST OFFICE SAVINGS BANK



POSTBANK

## My Bank, My Choice, My Future

## ANNUAL REPORT AND FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31ST DECEMBER 2020

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

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## CORPORATE INFORMATION

Kenya Post Office Savings Bank (Postbank) is established under an Act of Parliament CAP 493B of the laws of Kenya, and is domiciled in Kenya. The address of the registered office of the Bank is:

Postbank House
16th Banda Street
P. O. Box 30311 00100,
Email: md@postbank.co.ke
Website: www.postbank.co.ke
Nairobi-Kenya

**Principal Activities**
Postbank is primarily engaged in the mobilization of savings for national development and operates under the Kenya Post Office Savings Bank Act Cap 493B. In addition, the Bank offers other financial services such as remittance, collections and disbursement services.

**Directors**

The members of the Board of Directors who served during the year are shown on page 3 to 6.

**Ms Grace N Maina**
**Ag. Company Secretary**
**P. O. Box 30311- 00100,**
**Nairobi**

## CORPORATE INFORMATION (CONTINUED)

## PRINCIPAL BANKERS

Kenya Commercial Bank Ltd
Kencom House – 6th Floor
P.O Box 48400 - 00100
Tel: +254-020-3270000
Nairobi

National Bank of Kenya Ltd
Harambee Avenue branch
P.O Box 72866-00200
Tel: +254-020-2828000
Nairobi

Citibank, N.A.
P.O Box 30711-00100
Upper Hill Road
Nairobi

## INDEPENDENT AUDITOR

Auditor- General
Office of Auditor General
Anniversary Towers, University Way
P.O.Box 30084-00100
Nairobi

## PRINCIPAL LEGAL ADVISORS

Kale Maina & Bundotich Advocates
Teleposta Towers, 13th Floor, Kenyatta Avenue
P.O Box 10674-00100
Nairobi

Kimaru Kiplagat Advocates
National Bank Building, 1st Floor, Uganda Road
P.O Box 5025-30100
Eldoret

Cherono & Co. Advocates
Hazina Towers, 8th Floor, Monrovia Street
P.O. BOX 4007-00100
Nairobi

Kantai & Co. Advocates
Bruce House, 10th Floor, Standard Street
P.O. BOX 34247
Nairobi

Macharia-Mwangi & Njeru Advocates
ACK Garden Annex, 6th Floor, 1st Ngong Avenue
P.O. BOX 10627-00100
Nairobi

**BOARD OF DIRECTORS**
**Mr. Ntoros Baari Ole Senteu**
**Chairman**

Mr. Ntoros Baari Ole Senteu holds a Master of Arts degree in Rural Development from the University of Reading, UK. Prior to his appointment as Postbank Chairman, he served as the Board Chairman for Kenya Meat Commission between 2017 and 2019. Mr. Baari has vast experience in corporate governance having served in various Boards. He also has experience coordinating, implementing and evaluating public policies to address government requirements. Mr. Baari has attended many local & International conferences. He has participated, championed and provided leadership in community mobilization, involvement and participation.

**Hon. Amb. Ukur Yatani Kanacho**
**Cabinet Secretary, National Treasury & Planning**

Hon. Amb. Ukur Yatani Kanacho has over 27-year experience in public administration, politics, diplomacy and governance in public sector since 1992.

In January 2018 he was appointed the Cabinet Secretary for Labour and Social Protection, a position he's serving todate. Between the years 2006-2007 while Member of Parliament for North Horr constituency, he also served as an Assistant minister for science and technology.

At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya. Between June 2009 and October 2012, he served as Kenya's Ambassador to with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. In this position, he aggressively pursued and advanced Kenya's foreign interests. He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and chair of African Group of Ambassadors among others

Between 1992—2015, he served in different positions in Kenya's Public Administration including a District Commissioner, where sharpened his management and administrative skills. He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.

**BOARD OF DIRECTORS (CONTINUED)**

**Henry Mutwiri**

**Alternate to Cabinet Secretary, The National Treasury**

Mr. Henry Mutwiri Riungu is a financial professional with over fifteen years' experience. He holds an MBA in Finance from Maseno University, a Bachelor of Commerce degree from the University of Nairobi and a Post Graduate Diploma in Finance from KCA University
Top on the list of his vast experience is a fourteen-year tenure at National Treasury in various capacities as Senior Finance Officer, Deputy Head of the World Bank Division and the most recent roles being Chief Investment Officer and Chief Intergovernmental Fiscal Relations Officer. During his tenure at the National Treasury.

He was instrumental in the resource mobilization function at the Ministry of Finance, specifically by reviewing financing and credit agreements for mobilization of grants and donations, facilitating and monitoring implementation of donor funded projects and undertaking research on external resources mobilization to inform policy development.

**Mr. Moses Banda**

Moses Banda holds a Bachelor of Arts (BA) degree in Microfinance and Economic Community Development from Uganda Martyrs Catholic University and a Master of Business Administration (MBA) degree in Banking and Finance with specialization in Microfinance from Moi University. He has unrivalled experience in Microfinance, spanning over two decades. Prior to joining the Bank, Mr. Banda was lead Managing Director at Rosmo Limited, a founder employee of K-rep (now Sidian) Bank, and a Director at Susu Microfinance Bank-Nigeria.
He is hands on and has gained practical experience in leadership, governance, transformation, policy formulation, fundraising and lobbying. He is also a member of Association of Microfinance.
Mr. Banda has served as a director of several national and international organizations. He is a widely sought after public speaker, resource person and financial advisor.

**BOARD OF DIRECTORS (CONTINUED)**

**Mr. Samuel Bunei**

Mr. Samuel Bunei joined Postbank in December 2018. He has over 20 years' experience in Banking and Microfinance. Previously, he was Head of Microfinance at the National Bank of Kenya

Mr. Bunei started his career as a Graduate Trainee at the Co-operative Bank of Kenya rising through the ranks to the position of a Microfinance Manager. He has also worked at Kenya Commercial Bank as the Regional Microfinance Manager where he was instrumental in setting up and rolling out micro business across the entire branch network and at Family Bank where he held the position of Head of Microfinance.Having attended both local and international training.

He is fully conversant with Corporate Governance, Strategic Management, and Performance & Change Management. He holds a Master in Business Administration (MBA) in Entrepreneurship and a Bachelor of Education (B.Ed) Degree, both from Moi University. Samuel is also an Associate of Kenya Institute of Bankers (AKIB).

**Ms. Mercy Luseno**

Mercy S. Luseno holds a Bachelor of Education (Arts), in Mathematics and Business studies. She has previously worked as a Physics, Mathematics and Business Studies teacher. As a graduate of Moi University, Mercy left a huge impression organizing and supporting anti-cancer campaigns.Her main focus was creating breast and prostate cancer awareness. Ms. Luseno has been instrumental in creating awareness on environmental matters in an effort to enhance action for the protection of the environment.Mercy has been a strong voice outside her academic career advocating for women empowerment.

**Mr. George Ombua**
**Alternate to Inspector Genaral State Corporations**

Mr. George Ombua is the representative of the Inspector-General (Corporations) as stipulated under the State Corporations Act, Cap. 446 Laws of Kenya. He holds a Master of Science degree in ICT Policy and a Bachelor's degree in Information Technology from JKUAT. Ombua has attended Strategic Leadership Development Programme at Kenya School of Government (KSG) and has undertaken courses offered locally and abroad on Management, Leadership, Corporate Governance, Finance and Strategy. He has over 15 years working experience in the public sector with specialty on good corporate governance.

**BOARD OF DIRECTORS (CONTINUED)**
**Mr. Raphael M Lekolool**
**Managing Director**

Mr. Raphael Mingisian Lekolool (FCCA, CPA) holds a Master's degree in Business Administration (MBA) from Cardiff Business School, U.K., a Bachelor of Science degree in Financial Services (Hons) from the University Of Manchester, Institute Of Science and Technology (UMIST) and a Bachelor of Arts (Hons.) degree from the University of Nairobi. Raphael qualified as an Associate of the Chartered Institute of Bankers (ACIB), the U.K. in 2001 and is a Fellow of the Chartered Certified Accountants (ACCA) and member of ICPAK.

Raphael served as a member of the ACCA (Kenya) Members committee and the Senior Members Advisory Committee. He has also served as the Chair of Nairobi Chapel Finance Committee for six years. In a career spanning more than two decades in Banking and Insurance. Raphael has gained vast management and leadership experience. He has served in different capacities both in the private and public service. Prior to assuming the role of Managing Director at Postbank, he was the Chairperson of the Risk and Audit Committee at the Ethics & Anti-Corruption Commission. He has also served as the Chair of the Interim Management Committee (Board) at the Agriculture Food Authority (AFA) between 2016 and 2017.

At the UAP-Old Mutual Group, Raphael worked as the Enterprise Risk Officer tasked with the key responsibilities of formulation, review and implementation of the Group Risk Strategy programs for businesses in the region. His appointment at the Group preceded his serving at Faulu Microfinance Bank Ltd. where he worked in various capacities and led various teams as the Head of Risk and Compliance, Credit and Internal Audit and served as a member of the Executive Committee (EXCO) whose primary mandate is to oversee implementation of strategy and sustainable business growth. In these capacities, Raphael served as a Secretary to various Board Committees.

Raphael has also served as the Head of Quality Assurance Audit at KCB Bank (K) Ltd. and was instrumental in implementing a Risk-based audit methodology in response to the bank's rapid growth arising from the adoption of technology.

## SENIOR MANAGEMENT

**Mr. Raphael M Lekolool**
**Managing Director**

Head of ICT
Isaac Mumina Mutua

**Head Audit**
**Dr. CPA Calistus Wekesa (PhD)**

## CHAIRMAN'S STATEMENT

I am pleased to present the Annual Report and Financial Statements of Kenya Post Office Savings Bank (Postbank) for the year ended 31st December 2020. This was a very challenging business year amid the ongoing COVD-19 pandemic

## REVIEW OF ECONOMIC PERFORMANCE

### Global and Regional Economy

The COVID-19 pandemic has negatively impacted the global economy, following the stringent measures adopted by many countries of the world to contain the spread of the virus. According to the International Monetary Fund (IMF), economic growth is expected to contract by 4.9 percent in year 2020.

Economic activity in Sub-Saharan Africa is expected to contract by 3 percent in 2020, representing a drop in real per capita income of 5.3 percent, bringing per capita incomes back to 2013 levels. This means that a lot of the economic gains made over the years have been lost.

Kenya's economic outlook has for the year 2020 been largely subdued by the COVID-19 pandemic, which necessitated a raft of various containment measures, which have led to a subdued business environment. Although the pandemic has been contained fairly well in Kenya as evidenced by the relatively low infection rates and continued opening of our economy, The National Treasury estimates Kenya's economy will grow at 2.9 percent for the year 2020 on account of the shocks experienced from the pandemic. It is however expected that the Government's rapid Economic Stimulus Programme and the 'Post Covid-19 Economic Recovery Strategy' will stimulate the economic growth.

### Outlook for 2020

The global economy is expected to stabilize and improve, buoyed by recent roll-outs of various COVID-19 vaccines particularly in the developed nations. These initiatives are expected to contain the pandemic and kick-start economic growth. However, a rapid rebound is expected to follow, with world economic growth projected to rebound to 5.4 percent in year 2021.

Sub-Saharan Africa is also facing a major economic challenge going into 2021, brought upon by the COVID-19 pandemic. The IMF forecasts that the region is expected to grow to a modest 3.1 percent in the new year, subject to downside risks associated with the COVID-19 pandemic, the resilience of the region's health systems and uncertainty of access to an external funding gap estimated at between USD 130-140 billion.

Kenya's economic growth rate is expected to rise to 5.8 percent in year 2021 and 6.5 percent by 2024, buoyed by the Government's rapid Economic Stimulus Programme, 'Post COVID-19 Economic Recovery Strategy' and resumption of learning in all educational institutions in January 2021. While the country has kept some of its key indicators in check, including inflation which stood at 4.84% in October 2020, there are however various underlying risks which could hamper recovery efforts including the length and severity of the ongoing pandemic, unpredictable weather conditions given that Kenya is largely an agricultural country, as well as the pace of the overall global economic recovery.

## CHAIRMAN'S STATEMENT (CONTINUED)

### Compliance with Statutory Requirements

During the period under review, the Bank honored all it statutory obligations by remitting all required deductions within the statutory time line.

### Strategic Planning

The Bank developed a new 5-year strategic Plan 2021-2025 to drive its business for this period. The same has formed the basis of Action Plan 2021 and ongoing performance contracting negotiations with the Government of Kenya for the year 2021.Themed "Setting the Base for KPOSB's Growth and Sustainability", the plan is based on the following Key Result Areas (KRAs) i.e. *Market Focus, Financial Sustainability, Human Capital Development, Business Efficiencies and Governance and Leadership.*

### Business Review

The Business Review initiated by the Bank in November 2019 was finalized in 2020.This review aimed at identifying interventions that will lead to accelerated business growth and sustainability through a new business model. The Bank has incorporated various findings and recommendations in its Strategic Plan 2021-2025 for implementation.

### COVID-19 Pandemic

The COVID-19 pandemic that has spread across the globe has had far reaching impacts on the social and economic lives of people, including Postbank's business. The Bank recorded notable drops in business performance for its New Accounts, Deposits, Transactions and Revenues among others, especially in the first half of the year when containment measures and the resulting restrictions were fully in place. In a bid to mitigate these adverse effects and cushion the Bank's business, various strategic responses were developed.

### Cost Management

The management is also addressing areas of cost management through staff rationalization, re-negotiation of branch rent leases, online training, rationalization of travel, review of service contracts and closing unprofitable branches amongst other areas. While one branch was closed during the year under review, the Bank's customers will continue to have access to the Bank's wide network comprising of countrywide branches, the *Mashinani* Agency Network, Mobile Banking and Internet Banking. Management is enhancing business Partnership's with the Government and Private sector especially for disbursement of Government Social funds and stipend, salaries and wages and provision of banc assurance services, to name a few.

The National Treasury approved the sale of the Postbank Training School in Muthaiga North in December 2016 to partly fund the staff restructuring. This, as well as the findings of the Business Review will reduce the Bank's Cost -Income ratio and set the Bank on the path to profitability.

### Appreciation

I would like to convey my sincere appreciation to the Government, our esteemed customers and business partners for their continued support. I also wish to thank the management and staff for their dedication to service.

..............................
**DIRECTOR**

**31st March 2021**

## MANAGING DIRECTOR'S STATEMENT

I wish to present the Bank's Annual Report and the Financial Statements for the year ended 31st December 2020. The macroeconomic environment was largely defined by the COVID-19 pandemic which led to depressed GDP growth.

### Financial Performance

Postbank's financial performance for the period ended 31st December, 2020 was a loss of Kshs.1.10 billion, recording an improved performance of Kshs 290 million or 21 % from a loss of Kshs 1.40 billion in FY 2019.

Total Assets grew by 8 % to Kshs 15.59 billion in FY 2020 from Kshs. 14.48 billion in the financial year 2019, mainly due to increased placements of funds on call and investments in Treasury Bonds.

The Bank's Customer Deposits increased by 8% to stand at Kshs 23.45 billion in the financial year from Kshs 21.78 billion in year 2019.

Some of the business growth initiatives the Bank is pursuing to enhance revenues include:

a) Discussions with various partners both in the public and private sector for business.

b) Bringing on board anchor clients to support profitability of the branches.

c) Popularizing MSAWA Account given the current COVID-19 environment.

d) Running corporate campaign in the media to raise the awareness of the Bank emphasising on the corporate attributes that include the tax-free benefit on interest earned, wide network, deposit guarantee by Government among other benefits.

e) Implementing various customer retention strategies

**RAPHAEL LEKOLOOL**
**MANAGING DIRECTOR**

**31st March 2021**

## CORPORATE GOVERNANCE STATEMENT

Postbank is committed to the standards of corporate governance as set by the Government for the public sector from time to time and the Central Bank of Kenya on specific services offered by Postbank.

The Board of Directors is responsible for the long term strategic direction for profitable growth of the Bank while being accountable to the shareholder by ensuring that Postbank complies with the laws and the highest standards of corporate governance and business ethics

The Directors attach great importance to the need to conduct the business and operations of Postbank with integrity and in accordance with generally accepted corporate practice and endorse the internationally developed principles of good corporate governance.

### Board of Directors

**The Board is made up of Seven (7) Directors of whom Six(6) are non-executive including the Chairman. The appointment dates for the respective directors are as show in the table below:**

| NO | DIRECTORS | TITLE | DATE OF APPOINTMENT |
|---|---|---|---|
| 1 | Mr. Ntoros Baari Ole Senteu | Chairman | 16th October 2019 |
| 2 | Mr. Henry Mutwiri | Alt. Representing C.S The National Treasury | 30th September 2019 |
| 3 | Mr. Moses Banda | Director | 20th September 2018 |
| 4 | Ms. Mercy Luseno | Director | 20th September 2018 |
| 5 | Mr. Samuel Bunei | Director | 19th December 2018 |
| 6 | Raphael Lekolool | Managing Director | 24th March 2020 |
| 7. | George Ombua | Alt. Representing Inspector General Corporations | 28th January 2019 |
| | | | |

Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance requirements. The day-to-day running of Postbank has been delegated to the Managing Director. The Board retains responsibility for establishing and maintaining the internal control over the strategic, financial, operational and compliance issues. The Board is responsible of ensuring succession planning and facilitates recruitment of the Managing Director.

The Board is complying with the Mwongozo "the code of governance for state corporations" and all the Directors have undergone Board Induction training on the code organised by the State Corporation Advisory Committee (SCAC).

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### Code of Ethics

Postbank is committed to the Public Officers Integrity and Ethics Act 2003, Leadership and Integrity Act 2012 and Kenya Anti-Corruption and Economic Crimes Act 2003.

### Communication with Shareholder

Postbank is committed to ensuring that the shareholder and the Parliament are provided with full and timely information about its performance. This is usually done through the distribution of the Bank's quarterly reports to the Inspectorate of State Corporations and Ministry of Finance and specifically the Annual reports to the Clerk of the Parliament for distribution to the Members of Parliament. Postbank is in compliance with its obligations under the KPOSB Act, State Corporations Act and Central Bank of Kenya guidelines relating to remittance services together with other Guidelines issued by the Government.

### Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the Year 2020 is disclosed in Note 12 to the Financial Statements. There were no loans given to sitting Directors at any time during the year.

### Board Meetings

The Board of Directors meet on quarterly basis or as required. The Board is responsible for monitoring the implementation of Postbank's planned strategy and reviewing it in conjunction with its financial performance. Specific reviews are also undertaken on operational issues and future planning. At the end of each financial year, the Board evaluates itself, the Managing Director and Senior Management Staff against targets that have been agreed at the beginning of the year.

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

**Board and Board Committees Attendance**

| Type of Meeting | No. of Meetings | Mr. Ntoros B. Ole Senteu | Mr. Moses Banda | Ms. Mercy Luseno | Mr. Samuel Bunei | Mr. Raphael Lekolool | Mr. Henry Riungu | Mr. George Ombua | Ms. Anne Karanja (her term ended on 31/05/2020) |
|---|---|---|---|---|---|---|---|---|---|
| Main Board Meeting | 7 | 5 | 7 | 7 | 7 | 5 | 7 | 6 | 2 |
| Special Board Meeting | 12 | 12 | 12 | 11 | 12 | 7 | 12 | 7 | 7 |
| Audit and Risk Board Committee | 6 | - | 6 | - | 6 | 2 | 6 | 3 | |
| Staff Board Committee | 9 | - | - | 9 | 9 | 2 | 7 | 6 | 7 |
| ICT Operations and Credit Committee | 4 | - | - | 4 | 4 | 2 | 4 | ~~4~~ | 2 |
| Strategy and Finance Board Committee | 10 | - | 10 | 10 | - | 2 | 8 | 7 | 8 |
| Board Evaluation Meeting | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | - |
| Official Meeting at the National Treasury | 1 | 1 | - | - | - | 1 | - | - | - |
| Official Meeting with the DG,NYS | 1 | | - | - | - | 1 | - | - | - |
| Official Meeting with the KDF Chief of Defence Forces | 1 | 1 | - | - | - | 1 | - | - | - |
| New MD's Induction | 1 | 1 | - | - | 1 | 1 | - | - | 1 |
| GOK Performance Contract vetting | 1 | 1 | - | 1 | - | - | - | - | - |
| Senior Managers Interviews | 1 | - | - | 1 | 1 | - | 1 | - | 1 |
| KPMG Business Review/Consultancy Board Interviews | 1 | 1 | - | - | 1 | - | - | - | - |
| Interview with KPMG team | 1 | - | - | 1 | - | - | - | - | - |
| **TOTALS** | **57** | **23** | **36** | **45** | **42** | **25** | **46** | **30** | **28** |

**DIRECTOR** ...................... **MANAGING DIRECTOR** ..................

**31st March 2021**

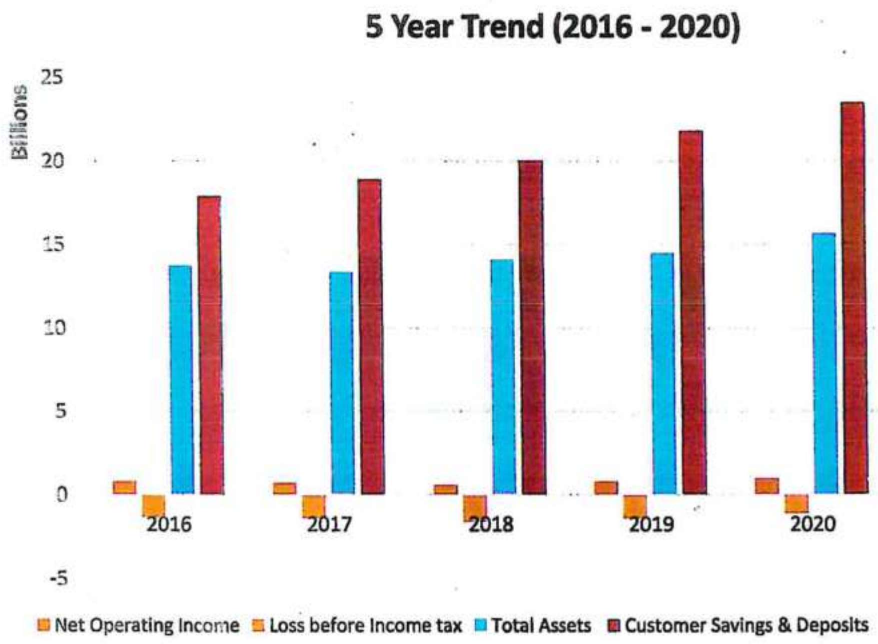
## MANAGEMENT DISCUSSION AND ANALYSIS

The Bank's financial performance for period ended 31st December was a loss of Kshs.1.10 billion recording a growth of 21 % from loss of Kshs 1.400 billion in FY 2019. Top-line growth was subdued, an indication of the tough business environment we operated in.

Net interest income increased from Kshs 322 million compared to Kshs 188 million over the same period in 2019 due to reduction in interest expense during the period. The Bank continues to focus on cost discipline.

Total assets grew by 2.6 % to at Kshs 15.62 billion in FY 2020 from Kshs. 14.48 billion in the financial year 2019, mostly driven by additional investments in Treasury Bonds during the year.

Customer deposits grew by 11.29% during the year to 23.45 billion from 21.78 billion in year 2019 with Bidii Savings Account, Pension accounts and Premium Plus Accounts accounting for more than 81 % of total deposits.



## MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

During the period under review, the Bank honored all it statutory obligations by remitting all required deductions within the statutory time line.

### Key projects and investment decisions the entity is planning/implementing

### Strategic Plan 2016 -2020

In the year 2019, the Bank continued the implementation of its 5-year strategic Plan – 2016-2020 while commencing on the development of the next 5 year plan. The Bank developed its Action Plan for the year 2020 which formed the basis of performance contracting with the Government of Kenya for the year 2020.

### Major Risk Facing Postbank

The major risk facing Postbank is lack of one stop shop banking solution for customers compared to the competition. The Bank is a Savings Bank and not a lender, thus the customers find it easier to save where the Financial Institution can provide loans to assist them grow business, buy key assets and payment of school fees among others. This has led to shrinking of the customer deposit base, dormant accounts and as a result, led to depletion of the Bank's capital base and losses.

The Board and the management have been in consultation with the Government through the National Treasury with a view to injecting capital to defray the accumulated losses as provided in the Kenya Post Office Savings Bank Act, cap 493B, section 13(I).
The management is also addressing areas of cost management and through staff rationalisation and closing unprofitable branches. One branch was closed during the year under review. Customers will still be served through the Mashinani Agency Network, Mobile Banking and Internet Banking. Management is enhancing business Partnership's with the Government and Private sector especially for disbursement of Government Social funds and stipend, salaries and wages.
The National Treasury approved the sale of the Postbank Training School in Muthaiga North in December 2016 to partly fund the staff restructuring. This will reduce the cost income ratio. The Bank had budgeted for Kshs 230 million Gain on Sale of Training School in FY 2019 which was not realized.

## CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

Postbank has a long term vision to contribute towards the sustainable development in the country. This is achieved through giving back to society in which it operates. During the year 2020, the Bank was involved in various Corporate Social Responsibility (CSR) initiatives aimed at positively impacting lives of people in communities. The Bank's CSR activities are focused on Education, Environment, Health and Response to distress calls. To augment these efforts, the Bank also took part in CSI initiatives that focused on broadening access to financial services for communities, particularly in rural areas. The Bank partnered with like-minded organisation ultimately addressing problems perceived by the society as crucial.

This was achieved through the four key pillars which are:

a) Health
b) Financial Inclusion
c) Education
d) Environment.

### 1. HEALTH

The Bank acknowledges that a healthy nation is a productive nation and hence undertakes activities that enhance the country's well-being. In an effort to improve the well-being of the community in which it exists, Postbank sponsored the "Beyond Zero Half Marathon" an initiative of Kenya's First Lady that advocates for a reduction in HIV infections, early screening of cancer, zero maternal and child deaths and a stop to FGM and child marriages. Funds mobilized in these intitiatives are devolved to support the aforementioned areas in health.

To complement the social protection interventions of the Government to fight COVID 19, the Bank procured and distributed 17 hand washing stations across the country. Installation of the stations were strategic to areas where the most vulnerable members were stationed. In addition, the Bank also installed a water point in Mariakani, Kinango sub-county aimed at improving access to water to the vulnerable members of that community. These efforts are in line with the Bank's sustainability objectives of empowering members especially in the rural community. The water point will serve 5,000 members of that community who experience perennial water shortage.

### 2. FINANCIAL INCLUSION

Given the critical role of financial literacy, the Bank intensified focus on financial empowerment through providing information across digital platforms. To emphasize this, the Bank commemorated World Savings Day and Global Money Week through a series of financial literacy campaigns with the aim of mobilizing thrift for national development.

## CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT (CONTINUED)

In an effort to improve the well-being of the community in which we exist, the Bank collaborated with various stakeholders to extend the quality of health services offered to citizenry. In view of this, the Bank partnered with Mater Hospital in an effort to raise funds to assist children from families who cannot afford cost of cardiac surgery. The Bank also sponsored the "Beyond Zero" campaign, an initiative of Kenya's First Lady aimed at advocating and focusing on the well-being of women, children and adolescents therefore ending preventable deaths faced by families. In addition, the Bank sponsored free medical camps in Kapsabet and Machakos Counties

### 3. EDUCATION

The Bank also endeavors to mentor young professionals through offering internship opportunities to reinforce skills taught in the classrooms. As more college and University students enter the banking world before graduation, the Bank seeks to nurture them towards excellence in respective fields through offering hands-on experience through internship programs.

### 4. ENVIRONMENT

The Bank recognizes that meaningful change requires commitment and rising to the challenge. Towards this end, the Bank supported the Government's agenda in enhancing forest cover through engaging in tree planting initiatives. In parallel, the Bank partnered with the National Youth Service to support their coordinated efforts and contribute to environmental sustainability efforts. Hence, the programme oversaw the growing of over 6,000 tree seedlings across NYS stations.

Postbank believes in inspiring and building better lives and communities.

DIRECTOR ....................

31st March 2021

## REPORT OF THE DIRECTORS

### Principal activities

The principal activities of the Bank during the year under review were primarily savings education and financial literacy, collection of funds from private and public enterprises and disbursement of funds for Government pensions and salaries in accordance with KPOSB ACT CAP 493B.

### Results

The results for the year are as set out on pages **21 to 25**

### Directors

The members of the Board of Directors who served during the year are shown on page 3 and 6

### Auditors

The Auditor General is responsible for the statutory audit of Postbank in accordance with the Article 229 of the Constitution of Kenya and Public Audit Act 2015 for the period ended 31st December 2020.

By order of the Board.

**Ms. Grace Maina**
**Ag. Company Secretary**

**31st March 2021**

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The State Corporations' Act requires the Directors to prepare financial statements for each financial year, which gives a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results for that year. It also requires the Directors to ensure that the entity keeps proper accounting records which disclose with reasonable accuracy the financial position of the entity. The Directors are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on 31st December 2020

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; safeguarding the assets of the entity;

iv Selecting and applying appropriate accounting policies; and

v Making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment's and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and (the State Corporations Act).

The Directors are of the opinion that the Postbank's financial statements give a true and fair view of the state of Postbank's transactions during the financial year ended December 31st, 2020, and of the Bank's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Bank, which have been relied upon in the preparation of the Bank's financial statements as well as the adequacy of the systems of internal financial control.

### Approval of the financial statements

The Bank's financial statements were discussed and approved by the Board on ____________ 2021 and signed on its behalf by:

Managing Director
Raphael Lekolool

**Ag. Head of Finance**
**Benard Musyoki**
**ICPAK Member No 2881**

**Director**

# REPUBLIC OF KENYA

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## REPORT OF THE AUDITOR-GENERAL ON KENYA POST OFFICE SAVINGS BANK FOR THE YEAR ENDED 31 DECEMBER, 2020

REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of the Kenya Post Office Savings Bank set out on pages 21 to 65, which comprise the statement of financial position as at 31 December, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Kenya Post Office Savings Bank as at 31 December, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012 and the Kenya Post Office Savings Bank Act.

### Basis for Qualified Opinion

### 1. Long Outstanding Receivables

The statement of financial position reflects net accounts receivable balance of Kshs.2,537,263,931 which, as disclosed in Note 24 to the financial statements, includes gross accounts receivable of Kshs.3,295,887,656. The balance includes Kshs.405,231,629 and Kshs.268,553,158 relating to GoK – Kenya Post and Telecommunication Corporation and GoK Pension Cheques Receivable – Postal Corporation of Kenya, respectively, which had been outstanding for more than thirteen (13) years. Although Management cited commitment from the concerned parties including The National Treasury to settle the debts, as at the time of audit, the amounts were still outstanding. In addition, although a provision of Kshs.758,623,725 had been made against bad and doubtful debts, the adequacy of the provision could not be confirmed.

In the circumstances, full recoverability of net accounts receivable balance of Kshs.2,537,263,931 could not be confirmed.

**2. Cash and Cash Equivalents**

The statement of financial position reflects a cash and cash equivalents balance of Kshs.1,193,792,381 which as disclosed in Note 18 to the financial statements, includes amounts of Kshs.292,874,146 and Kshs.900,918,235 in respect of cash in hand and cash at bank, respectively. However, the bank reconciliation statements for the month of December, 2020 reflected a total cash book balance of Kshs.897,631,956 resulting into a variance of Kshs.3,286,279. Although Management attributed the variance to the exclusion of ledger balances for closed branches from the bank reconciliation statements, no evidence was provided to support this assertion. Further, the reported cash in hand balance of Kshs.292,874,146 differed with the balance of Kshs.301,176,953 reflected in the board of survey report with a variance of Kshs.8,302,807 which was not reconciled.

In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,193,792,381 could not be confirmed.

**3. Property and Equipment**

**3.1 Lack of Title Deed and Encroachment of Land**

The statement of financial position reflects a net book value of Kshs.2,258,574,234 for property, plant and equipment which as disclosed at Note 26 to the financial statements, included a value of Kshs.805,000,000 for land of which Kshs.5,000,000 related to a parcel of land located within Nairobi. However, the land had remained unfenced and had since been encroached by informal settlers. Although Management explained the measures they had put in place to secure the land and obtain a title deed, as at the time of audit, full and actual possession of the land had not been obtained.

**3.2 Unknown Ownership Status of Land in Dispute**

Over the years, the Bank has been embroiled in a dispute for a parcel of land in Nairobi, Milimani Area. The land was registered in the name of the Bank and valued at Kshs.550,000,000 but had its title deed encumbered. Review of information provided, indicated that the matter between the Bank and a claimant has been in Court since 1995. The outcome of the case had not been determined at the time of the audit.

**3.3 Motor Vehicle Without a Logbook**

Included in the reported property and equipment balance of Kshs.2,258,574,234 is Kshs.17,429,664 relating to motor vehicles. However, the logbook for one motor vehicle valued at Kshs.400,000 had not been issued to the Bank by the National Transport and Safety Authority (NTSA) since November, 1997. This was despite the Bank having paid the requisite duty to register the vehicle in its own name.

In the circumstances, the ownership of the two parcels of land and the motor vehicle could not be confirmed.

### 4. Unsupported Intangible Assets

The statement of financial position reflects an amount of Kshs.34,197,513 in respect of intangible assets. However, the supporting schedule provided for audit review reflected intangibles amounting to Kshs.30,464,527 resulting to an unexplained variance of Kshs.3,732,986.

In the circumstances, the accuracy of the intangible assets balance of Kshs.34,197,513 could not be confirmed.

### 5. Loss of Cash Through Fraud and Cash Shortages

The statement of financial position reflects prepayments and other assets balance of Kshs.2,427,126,751 which, as disclosed under Note 25 to the financial statements, includes an amount of Kshs.854,273,527 in respect of other assets and prepayments. The supporting schedule provided for audit reflected receivables totaling to Kshs.76,378,627 (2019: Kshs.81,128,628) being money lost through fraud. As reported previously, evidence of the effort by Management to recover the money was not provided for audit. In addition, the schedule reflected Kshs.40,686,118 (2019: Kshs.35,228,987) being cash shortages attributable to working cashiers. This is despite the provisions of the Bank's Human Resource Policy that such cash shortages be made good within forty-eight (48) hours by the concerned staff. As previously reported, Management had not implemented the Policy to safeguard customers' savings and deposits.

Under the circumstances, the recoverability of the amounts could not be confirmed.

### 6. Irregular Setting Off of Account Balances

The statement of financial position reflects an amount of Kshs.2,537,263,931 in respect of accounts receivable which as disclosed in Note 24 to the financial statements, includes a balance of Kshs.615,255,961 in respect of staff loans. However, the supporting schedule provided for audit review revealed that the staff loans balance includes credit balances of Kshs.62,369,063 and Kshs.204,429,623 in respect of staff advances and new staff loans clearing respectively, which were un-procedurally set off against the other accounts receivable balances.

Similarly, the statement of financial position reflects a balance of Kshs.4,027,585,146 in respect of accounts payables and accruals which as disclosed in Note 29 to the financial statements, included a balance of Kshs.1,389,247,293 in respect of other creditors. However, the supporting schedule provided for review revealed that the other creditors balance includes debit balances of Kshs.26,187,563, Kshs.2,707,781, Kshs.162,942 and Kshs.5,156,038 in respect of mobile internet transactions, money gram creditors, payroll remittances and VAT on supplies, respectively, and which were un-procedurally set off against the other accounts payable balances. This is contrary to the provisions Paragraph 32 of the International Accounting Standard No. 1 – Presentation of Financial Statements, which provides that assets and liabilities, and revenues and expenses shall not be offset unless permitted by an International Financial Reporting Standard.

In the circumstances, it could not be confirmed that the accounts receivable and accounts payable balances had been fairly stated.

### 7. Unsupported Prior Year Adjustments

The statement of changes in equity reflects prior year adjustments balance of Kshs.118,932,169 relating to correction of errors affecting various prior year balances. However, the prior year adjustments were not restated retrospectively in the comparative year contrary to the requirements of Paragraph 42(a) of the International Accounting Standard No. 8 – Accounting Policies, Changes in Accounting Estimates and Errors, which states that, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery, by restating the comparative amounts for the prior period(s) presented in which the error occurred. Further, the journal vouchers supporting the prior year adjustments were not provided for audit.

In the circumstances, the accuracy and validity of the prior year adjustment could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Post Office Savings Bank Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and 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.

## Emphasis of Matter

### Material Uncertainty in Relation to Going Concern

The bank reported a loss of Kshs.1,101,020,895 (2019:Kshs.1,400,244,912) increasing the accumulated loss from Kshs.14,027,788,796 as at 31 December, 2019 to Kshs.15,247,741,860 as at 31 December, 2020. Further, the bank's current liabilities balance of Kshs.27,540,297,970 exceeded the current assets balance of Kshs.13,421,772,418 resulting to a negative working capital of Kshs.14,118,525,552 (2019: Kshs.12,916,167,262). The Bank was, therefore, unable to meet its financial obligations when due. As disclosed at Note 2(e)(i) to the financial statements, the Bank was technically insolvent and its continued operations as a going concern will depend on the continued support from the government and creditors.

My Opinion is however, not modified on the effect of this matter.

### Key Audit Matters

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

### Other Matter

### Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual receipts on a comparable basis of Kshs.1,630,565,313 and Kshs.969,174,821 respectively, resulting to an under-funding of Kshs.661,390,492 or 40% of the budget. Similarly, the Bank expended Kshs.2,070,195,716 against an approved budget of Kshs.2,610,753,047 resulting to an under-expenditure of Kshs.540,557,331 or 21% of the budget.

The under-funding and under-performance affected the planned activities and may have impacted negatively on service delivery to the public.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

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

### Basis for Conclusion

### 1. Late Submission of Financial Statements and Non-compliance with Financial Reporting Guidelines

Management submitted the bank's financial statements for the year ended 31 December, 2020 to the Office of the Auditor-General for audit on 14 April, 2021 two weeks after the statutory date of 31 March, 2021. This is contrary to Section 81(4)(a) of the Public Finance Management Act, 2012 which states that not later than three months after the end of each financial year, the Accounting Officer for the entity shall submit the entity's financial statements to the Auditor-General and a copy of the statement to the Controller of Budget, The National Treasury and the Commission on Revenue Allocation. Late submission of financial statements is not only in breach of law but also hampers the Office of the Auditor-General from completing the audit as stipulated by the statutes.

In addition, the financial statements submitted for audit did not include appendices showing the progress on follow-up of auditor's recommendations and other details as required by the financial reporting guidelines issues by the Public Sector Accounting Standards Board.

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

**2. Non-Compliance with Fiscal Responsibility Principles**

The statement of profit or loss and other comprehensive income reflects an amount of Kshs.1,171,018,104 in respect of employee expenses which represents 121% of the reported total revenue of Kshs.969,174,821. This is contrary to the provisions of Regulation 26(1)(a) of the Public Finance Management (National Government) Regulations on fiscal discipline which states that National Government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35% of the revenues generated by the entity.

In addition, as previously reported, the approved staff establishment for the Bank was six hundred and ten (610) officers, while the actual staff in post were six hundred and seventy-four (674) exceeding the staff establishment by sixty-four (64) employees. Review of the status in the year under audit, indicated that the actual staff in post had reduced to six hundred and forty-seven (647) exceeding the staff establishment by thirty-seven (37) employees. This has continued to contribute to high cost of compensation to staff and hence, the Bank continued to record operating deficits.

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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements 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 audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

**Basis for Conclusion**

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and 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 control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Bank'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 liquidate the Bank or to cease operations.

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

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 following the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the Bank'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 overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall 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 ISSAIs. 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 non-compliance. 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 Bank's policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism 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 the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank'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 Bank to cease to continue as a going concern.

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

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

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

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal 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**

**30 September, 2022**

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | 2020 Kshs | 2019 Kshs |
|---|---|---|---|
| Interest income | 4 | 795,322,120 | 739,827,426 |
| Interest expense | 5 | (472,278,582) | (551,816,959) |
| **Net interest income** | | **323,043,538** | **188,010,467** |
| Fees and commission income | 6 | 460,194,065 | 435,024,516 |
| Fees and commission expense | 7 | (42,079,795) | (43,550,092) |
| **Net Fees and commission income** | | **418,114,270** | **391,474,424** |
| **Net trading income** | | **741,157,808** | **579,484,891** |
| Foreign exchange income | 8 | 107,675,788 | 90,597,632 |
| Other Operating income | 9 | 120,341,225 | 103,122,610 |
| **Net Operating Income** | | **969,174,821** | **773,205,133** |
| Operating Costs | | | |
| Impairment loss on loans and advances | 10 | (40,000,000) | (29,000,000) |
| Employee expenses | 11 | (1,171,018,104) | (1,153,873,508) |
| Board expenses | 12 | (11,482,672) | (13,406,349) |
| Operating expenses | 13 | (403,703,543) | (400,784,218) |
| Depreciation expenses | 26 | (136,254,561) | (161,232,208) |
| Amortisation cost-Intangible Assets | 27 | (20,882,187) | (18,773,773) |
| Amortisation cost- Treasury Bonds | 14 | (15,583,146) | (15,698,518) |
| Other expenses | 15 | (271,271,503) | (380,681,471) |
| **Total Operating Costs** | | (2,070,195,716) | (2,173,450,045) |
| **Loss before income tax** | | **(1,101,020,895)** | **(1,400,244,912)** |
| Income tax expense* | | 0 | 0 |
| **Loss for the period** | | **(1,101,020,895)** | **(1,400,244,912)** |

*The Bank is exempted from paying corporate taxes as per the Income Tax Act Cap 470 First schedule Part I.

## STATEMENT OF FINANCIAL POSITION

| | Notes | 2020 Kshs | 2019 Kshs |
|---|---|---|---|
| **ASSETS** | | | |
| Bank and Cash Balances | 18 | 292,874,146 | 350,527,345 |
| Funds on Call and Short Notice | 19 | 267,597,631 | 64,879,148 |
| Investment in Treasury Bonds | 20 | 5,978,144,001 | 4,334,249,567 |
| Investment Property | 21 | 1,002,390,225 | 1,002,390,225 |
| Stocks | 22 | 11,312,331 | 14,145,662 |
| Other Investments | 23 | 4,145,167 | 4,100,500 |
| Accounts Receivables | 24 | 2,537,263,931 | 2,610,326,854 |
| Prepayments & Other Assets | 25 | 2,427,126,751 | 2,531,321,171 |
| Property and Equipment | 26 | 2,258,574,234 | 2,263,288,081 |
| Intangible Assets | 27 | 34,197,513 | 46,548,577 |
| **Total Assets** | | **14,813,625,930** | **13,721,777,130** |
| LIABILITIES | | | |
| Customer Savings and Deposits | 28 | 23,453,971,509 | 21,779,302,505 |
| Accounts Payables & Accruals | 29 | 4,027,585,146 | 3,243,022,878 |
| GOK Pension Reserve Fund | 30 | 58,741,315 | 68,911,268 |
| **Total Liabilities** | | **27,540,297,970** | **25,091,236,651** |
| **SHAREHOLDERS' EQUITY** | | | |
| **Capital Grants** | 31 | 23,568,774 | 20,780,547 |
| Revaluation Reserves | | 3,271,360,210 | 3,271,360,210 |
| Change in Fair Value for Bonds AFS | 20 b | 127,059,071 | 129,317,436 |
| Retained Earnings | | (15,247,741,860) | (14,027,788,796) |
| **Total Shareholders' Equity** | | **(11,825,753,806)** | **(10,606,330,604)** |
| **TOTAL LIABILITIES & SHAREHOLDERS' EQUITY** | | **15,714,544,165** | **14,484,906,047** |

The financial statements on pages 19 to 65 were approved and authorised for issue by the Board of Directors on _____________ 2021 and were signed on its behalf by:

**Managing Director**
**Raphael Lekolool**

**Ag. Head of Finance**
**Benard Musyoki**
**ICPAK Member No 2881**

Director

## STATEMENT OF CHANGES IN EQUITY

| | Capital Grants | Revaluation Reserves | Change in Fair value | Retained Earnings | TOTALS |
|---|---|---|---|---|---|
| | **Kshs** | **Kshs** | **Kshs** | **Kshs** | **Kshs** |
| **At 1st January 2020** | **20,780,547** | **3,271,360,210** | **129,317,436** | **(14,027,788,796)** | **(10,606,330,604)** |
| Loss for the year | | | | (1,101,020,895) | (1,101,020,895) |
| Change during the year -AFS | | | (2,258,365) | | (2,258,365) |
| Additions during the year (i) | 2,788,227 | | | | 2,788,227 |
| Prior year adjustments (ii) | | | | (118,932,169) | (118,932,169) |
| **At 31st December 2020** | **23,568,783** | **3,271,360,210** | **127,059,071** | **(15,247,741,860)** | **(11,825,753,797)** |
| **At 1st January 2019** | **28,379,957** | **3,271,360,210** | **95,628,836** | **(12,588,190,816)** | **(9,192,821,813)** |
| Loss for the year | | | | (1,400,244,912) | (1,400,244,912) |
| Additions during the year | (7,599,410) | | | | (7,599,410) |
| Change during the year -AFS | | | 33,688,600 | | 33,688,600 |
| Prior year adjustments | | | | (39,353,069) | (39,353,069) |
| **At 31st December 2019** | **20,780,547** | **3,271,360,210** | **129,317,436** | **(14,027,788,796)** | **(10,606,330,604)** |

Prior year adjustment of Ksh118, 932,169 in year 2020 arose from:

| | |
|---|---|
| a) Unremitted kra tax arrears on excise duty. | 87,884,511 |
| b) Drug ajustment | 1,558,916 |
| c) Rent adjustment | 6,186,836 |
| d) Advertising ,business permit, subscription & training | 8,968,914 |
| e) Depreciation adjustment | 4,643,750 |
| f) Other adjustment | 9,689,242 |
| **Total** | **118,932,169** |

## STATEMENT OF CASH FLOWS

| | Note | 2020 Kshs | 2019 Kshs |
|---|---|---|---|
| **Profit/(Loss) for the year** | | (1,101,020,895) | (1,400,244,912) |
| Adjustments for:- | | | |
| Depreciation | | 157,136,748 | 180,005,981 |
| Appreciation/Diminution in value of quoted investments | 9 | (44,668) | (113,625) |
| Prior year adjustments | | (114,288,420) | (39,353,069) |
| **Operating profit/(loss) before working capital changes** | | **(1,058,217,235)** | **(1,259,705,625)** |
| (Increase)/ Decrease in Accounts Receivables & Prepayments | 9 | 177,257,344 | (84,569,481) |
| (Increase)/Decrease in stocks | | 2,833,331 | (998,475) |
| Increase/(Decrease) in Accounts Payables & Accruals | | 784,562,268 | 158,216,403 |
| Increase/(Decrease) Customer Savings and deposits | | 1,674,669,004 | 1,760,873,771 |
| Increase/(Decrease) GoK Pension Reserve fund account | | (10,169,953) | (104,383,904) |
| **Net cash flows from operating activities** | | **1,570,934,759** | **469,432,690** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of Property and Equipment | 26 | (144,715,586) | (66,301,006) |
| Change in fair Value for Bonds AFS | 20b | (2,258,365) | 33,688,600 |
| **Net cash flows from investing activities** | | **(146,973,951)** | **(32,612,406)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Receipts from WSBI | 31 | 2,788,227 | (7,599,410) |
| **Net cash flows from financing activities** | | **2,788,227** | **(7,599,410)** |
| Net increase in cash and cash equivalents | | 1,426,749,036 | 429,220,874 |
| Cash and cash equivalents at the beginning of the year | 32 | 6,012,784,977 | 5,583,564,103 |
| **Cash and cash equivalent at the end of the year** | 32 | **7,439,534,013** | **6,012,784,977** |

*The notes on pages 26 to 65 form an integral part of these financial statements.*

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL

| | Original budget | Adjustments | Final budget | Actual | Variance | |
|---|---|---|---|---|---|---|
| | Kshs | Kshs | Kshs | Kshs | Kshs | % |
| Interest income | 989,031,346 | | 989,031,346 | 795,322,120 | (193,709,226) | -20% |
| Interest expense | (670,864,569) | | (670,864,569) | (472,278,582) | 198,585,987 | -30% |
| **Net interest income** | **318,166,777** | | **318,166,777** | **323,043,538** | **4,876,761** | **2%** |
| Fees and commission income | 1,040,855,045 | | 1,040,855,045 | 460,194,065 | (580,660,980) | -56% |
| Fees and commission expense | (38,167,762) | | (38,167,762) | (42,079,795) | (3,912,033) | 10% |
| **Net Fees and commission income** | **1,002,687,282** | | **1,002,687,282** | **418,114,270** | **(584,573,012)** | **-58%** |
| **Net trading income** | **1,320,854,060** | | **1,320,854,060** | **741,157,808** | **(579,696,251)** | **-44%** |
| Foreign exchange income | 131,408,360 | | 131,408,360 | 107,675,788 | (23,732,572) | -18% |
| Other Operating income | 178,302,894 | | 178,302,894 | 120,341,225 | (57,961,669) | -33% |
| **Net Operating Income** | **1,630,565,313** | | **1,630,565,313** | **969,174,821** | **(661,390,492)** | **-41%** |
| **Operating Costs** | | | 0 | | | |
| Impairment loss on loans and advances | (40,000,000) | | (40,000,000) | (40,000,000) | (0) | 0% |
| Employee expenses | (1,373,226,374) | 500,001 | (1,372,726,373) | (1,171,018,104) | 201,708,269 | -15% |
| Board expenses | (15,611,000) | 0 | (15,611,000) | (11,482,672) | 4,128,328 | -26% |
| Operating expenses | (412,091,617) | (2,494,751) | (414,586,368) | (403,703,543) | 10,882,825 | -3% |
| Depreciation expenses | (172,191,864) | 0 | (172,191,864) | (136,254,561) | 35,937,303 | -21% |
| Amortisation cost-Intangible Assets | (39,134,324) | 0 | (39,134,324) | (20,882,187) | 18,252,137 | -47% |
| Amortisation cost- Treasury Bonds | (15,638,316) | 0 | (15,638,316) | (15,583,146) | 55,170 | 0% |
| Other expenses | (542,859,552) | 1,994,750 | (540,864,802) | (271,271,503) | 269,593,299 | -50% |
| **Total Operating Costs** | **(2,610,753,047)** | **(0)** | **(2,610,753,047)** | **(2,070,195,716)** | **540,557,331** | -21% |
| **Loss before income tax** | **(980,187,734)** | | **(980,187,734)** | **(1,101,020,895)** | **(120,833,161)** | **12%** |
| Income tax expense* | | | | | | |
| **Loss for the period** | **(980,187,734)** | | **(980,187,734)** | **(1,101,020,895)** | **(120,833,161)** | **12%** |

*The Bank is exempted from paying corporate taxes as per the Income Tax Act Cap 470 First schedule Part 1.

## 1 GENERAL INFORMATION

Kenya Post Office Savings Bank (Postbank) is established under an Act of Parliament CAP 493B of the laws of Kenya, and is domiciled in Kenya and is wholly owned by the Government of Kenya

Postbank is primarily engaged in the mobilization of savings for national development and operates under the Kenya Post Office Savings Bank Act Cap 493B. In addition, the Bank offers other financial services such as remittance, collections and disbursement services.

For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and other comprehensive income in these financial statements

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Accounting Standards (IAS). The financial statements were authorised for issue by the Board on 21st January, 2020.

The financial statements comprise of statement of comprehensive income, statement of financial position, statement of changes in reserves, statement of cash flows, and notes.

### b) Basis of Measurement

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) based on the historical cost convention. The bank revalued its property and equipment in December 2017.

### c) Functional and Presentation Currency

These financial statements are presented in Kenya shillings (Kshs), which is the company's functional currency. Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates i.e. Kenya shillings.

### d) Use of Estimates and Judgment's

The preparation of financial statements requires management to make judgment's, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses.

The estimates and assumptions are reviewed on an ongoing basis. Revision to estimates are recognized prospectively

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### e) Assumptions and Estimation of Uncertainties

**(i) Going concern**

The Bank operates with the intention of being in business in the next 12 months and in the foreseeable future. The management runs the day to day activities by ensuring that assets are realized and liabilities honored in the normal course of business.

However, the Bank's future performance is dependent on restructuring and government support in defraying the incurred losses from the year 2012 to 2019 amounting to Kshs. (14,027,788,796) in accordance with KPOSB Act cap 493B section 13 (1).

Note 10- Impairment loss on deposits, loans and advances

Note 2.2 (s)- Recognitions and measurement of contingencies: Key assumption about the likelihood and magnitude of an outflow of resources

**(ii) Critical judgment in applying the entity's accounting policies**

In accessing the need for collective loss allowances, management considers factors such as:

- Credit quality
- Portfolio size
- Concentrations
- Economic factors

Note 26- Depreciation of equipment and intangible assets. The Bank reviews the useful life of its property and equipment and intangible assets at the end of each financial period

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**f) Changes in accounting policies and disclosures**

**New standards and interpretations not yet adopted**

***IFRS 16: Leases***

The standard, which was issued in January 2016, will upon implementation result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. The accounting for lessors will not significantly change.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its consolidated financial statements, as described below

**a) Leases in which the Bank is a lessee**

i) the final reconciliation of the of the Bank's leases' portfolio
ii) the Bank's assessment of whether it will exercise any lease renewal options; and
iii) the extent to which the Bank chooses to utilise practical expedients and recognition exemptions available under the standard.

The Bank will recognise new assets and liabilities for its operating leases of Group premises and equipment. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of- use assets and interest expense on lease liabilities. Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

As at 31 December 2020, the Bank's future minimum lease payments under non-cancellable operating leases amounted to kshs 94 million

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**f) Changes in accounting policies and disclosures (continued)**

**New standards and interpretations not yet adopted**

**b) Transition**

The transition provisions of IFRS 16 allow an entity not to restate comparatives. The Bank will elect not to restate comparatives but instead adopt IFRS 16 on 1 January 2019 using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Bank has assumed an average incremental rate of 10% on all its operating leases.

**New and amended standards adopted by the Bank**

i) IFRS 15 Revenue from Contracts with Customers
ii) IFRS 9 Financial Instruments
iii)Annual Improvements 2015-2016 cycle
iv) Transfers of investment property – amendments to IAS 40
v) Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Bank changed its accounting policies and made certain retrospective adjustments following the adoption of IFRS 9 and IFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**f) Changes in accounting policies and disclosures (continued)**

**New and amended standards adopted by the Bank (Continued)**

IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). It replaced the existing revenue standards and their related interpretations

The five steps in the model are as follows:
• Identify the contract with the customer
• Identify the performance obligations in the contract
• Determine the transaction price
• Allocate the transaction price to the performance obligations in the contracts
• Recognise revenue when (or as) the entity satisfies a performance obligation.

The core principle of IFRS 15 is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration of which the entity expects to be entitled in exchange for those goods or services. The standard incorporates a five step analysis to determine the amount and timing of revenue recognition.

Because the standard does not apply to revenue associated with financial instruments, it does not impact the majority of the Bank's revenue streams. The Bank has reviewed the contracts with customers within the scope of IFRS 15 and concluded that the adoption of IFRS 15 did not have a material impact on the Bank's revenue recognition criteria and there were therefore no transition adjustments required.

***IFRS 9 - Financial Instruments***

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and financial liabilities at the date of transition will recognised in the opening retained earnings and other reserves of the current period.

The Bank is still accessing the impact of IFRS 9 on its financial statements

*Notes to the Financial Statements*

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2-Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements have

**Revenue Recognition**

Income is recognised on an accrual basis

*i) Interest*

Interest income and expense are recognised in the statement of comprehensive income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:
Interest on financial assets and liabilities at amortised cost on an effective interest rate basis;

- Interest on available-for-sale investment securities on an effective interest basis; and
- Interest income and expense on all trading assets and liabilities are considered to be incidental to the bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

*ii) Fees and commission income*

Fees and commission income and expense are recognised on an accrual basis when the service has been provided .Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate

Other fees and commission income, including account servicing fees, are recognised as the related services are performed

*Notes to the Financial Statements*

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b) Foreign currency transactions**

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions if any. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined if there is any.

**c) Employee benefits**

The Bank operates a defined contribution scheme whose funds are held in a separate trustee administered and guaranteed scheme managed by an approved investment company. The pension plan is funded by contributions from the employees and the Bank. The bank's contributions are charged to profit or loss in the year to which they relate.

**d) Property, plant and equipment**

**(i) Investment Property**

Though the standard is silent on definition of significant, the assumption of materiality will guide while determining the threshold. Anything greater than 10% will greatly influence the decision maker. In the case of the Bank, the percentage of usage for Karura Training center, Upper Hill properties and Dandora Plot is insignificant, hence classified under Investment Properties contrary to owner occupation at Postbank Postbank House Nairobi (49%); Postbank Mombasa (25%); Postbank Nakuru (50%); and Postbank Eldoret (100%) which is significant, and falls under Plant Property and Equipment (PPE).

Equally the International Accounting Standard (IAS 16) – considers Plant, Properties and Equipment (PPE) as tangible assets held for use in production or supply of goods or services, for rentals to others, or for administrative purposes and are expected to be used for more than one period. The standard also allows a choice of accounting model to use either cost model or revaluation model. In our case we opted for revaluation model.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### d) Property, plant and equipment

**(ii) Revaluation and Cost Model**

The Bank has used the Revaluation and depreciating model for Land and Buildings while for all other classes of assets, Cost and depreciating model has been applied as per IAS 16.

**(iii)Property and Equipment and Depreciation**

Leasehold properties for which the lease has 99 years or more to run are stated at cost or valuation and are not depreciated. Other assets are stated and depreciated at cost.
Depreciation is calculated on a straight-line basis, at rates estimated to write off the assets over their expected useful lives.

The following depreciation rates are used:

| Category | Rate p.a. |
|---|---|
| Buildings | 2.5% |
| Show stands | 20.0% |
| Motor vehicles | 25.0% |
| Furniture and fittings | 12.5% |
| Electronic office equipment | 20.0% |
| Non-electronic office equipment | 12.5% |
| Computer hardware | 20.0% |
| Computer software | 20.0% |

### (e) Intangible assets

Software license costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computers software products controlled by the bank are recognised as intangible assets.

### f) Amortisation and impairment of intangible assets

Amortisation is calculated using the straight line method to write down the cost of each license or item of software to its residual value over its estimated useful life using annual rate of 20%.

### g) Stocks

Stocks comprise of stationery and drugs in the staff clinic which are valued at cost.

### h) Cash and cash equivalents

Cash and cash equivalents for the purposes of the cash flow statement comprise cash and bank balances net of bank overdraft, deposits in commercial banks and financial institutions and Treasury bills, treasury and corporate bonds as at the balance sheet date.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya

Quoted investments are classified as non-current assets and comprise marketable securities traded freely at the Nairobi Securities Exchange or other regional and international securities exchanges. Quoted investments are stated at fair value

### k) Trade and other receivables

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

### l)Taxation

The Bank was exempted from paying corporate taxes as per the Income Tax Act Cap 470 First schedule Part 1, however this was lifted by The Tax Laws (Amendment) Act, 2020 (meaning the Bank is now subject to corporate tax)

### m) Trade and other payables

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

### n) Retirement benefit obligations

The bank operates a retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by a Fund Manager. The contributions made by the Bank both to the Defined Benefit and Defined Contribution retirement scheme and to the Provident Fund are charged to the profit and loss account in the year of contribution.

From year 2011, the Bank and the employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the company's contributions are charged to the profit and loss account in the year to which they relate

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### o) Short term employee benefits

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an employment cost accrual.

### p) Foreign Currency Transactions

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the bank operates), which is Kenya Shillings. Foreign currency transactions during the year are converted into Kenya shilling equivalent at rates ruling at the transaction date.
Assets and liabilities at the statement of financial position date which are expressed in foreign currency are translated into Kenya shillings at the rates ruling at the transaction date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

### q) Revaluation Reserve

The revaluation reserve relates to property and equipment. The reserve is non-distributable.
Revaluation reserves are made up of periodic adjustments arising from fair valuations of Property and equipment. Movement in the revaluation reserve are shown in the statement of changes in equity is Kshs 3,271,360,210

The Bank revalued Land, Buildings, Motor Vehicles, Furniture & Fittings, Electronic Office Equipment's, Non Electronic Office Equipment's and Computer Hardware on an open market basis by professional valuers, Realty Valuers East Africa Limited as at 29th December 2017. The book values of the properties were adjusted to the revaluations, and the resulting surplus, was credited to the revaluation reserve.

### r) Revenue Reserve

This represents undistributed profits/accumulated losses from current and previous years including prior year adjustments. The accumulated loss as at 31st December 2020 is Kshs (15,247,741,860).

### s) Contingent Liabilities

Litigation is a common occurrence in the banking industry due to the nature of the business. Although there may be no assurance, the Directors believe based on the information available and advice from the legal experts that the claims will be defended successfully and therefore no provision has been made in the financial statement.
The significant claims are described below:

*Notes to the Financial Statements*

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**s) Contingent Liabilities (Continued)**

(i) PostBank - vs - Simiyu Wasike: The land in dispute involves Postbank and Simiyu Wasike. It is in Upper Hill. ( as per revaluation done in December 2017) but carried at book value of Kshs 27,390,225 .The Bank lost the matter at the High Court and filed an Appeal.
(iii) Kshs 625 million arising out of adverse judgement and Actuarial Valuation issued on disputed mater involving KPOSB Staff Rerirement Scheme property (Karen/Langata) adopted by the Board for settlement as per RBA Guidelines.

**t) Budget**

The original budget for FY 2020 was approved by the National Treasury on 7th April 2020.

The bank uses Zero-based budgeting (ZBB). All expenses must be justified for each new period. The budgeting starts from a "zero base," and every function within an organization is analysed for its needs and costs. Budgets are then built around what is needed for the upcoming period. This allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped and then measured against previous results and current expectations. At the end of every month actual and budgeted amount is compared to obtain variances. The presentation of budget information in Financial Statements is done as per International Public Sector Accounting Standard (IPSAS) 24.
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.
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 the section of Statement of Comparison of Budget and Actual of these financial statements.

*Notes to the Financial Statements*

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.3 Foreign currency translation**

*(a) Functional and presentation currency*

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements are presented in Kenya shillings, which is the Bank's presentation currency

*(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except for differences arising on translation of non-monetary financial assets carried at fair value through other comprehensive income, which are recognised in other comprehensive income

Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

**2.4 Financial instruments**

**a) Recognition**

The Bank initially recognises loans, advances, deposits and debt securities on the date at which they are originated.

Purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Financial instruments (Continued)

***b)Classification***

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition

***(i) Financial assets at fair value through profit or loss***

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

***ii) Loans and Receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. These include advances to staff, Visa credit to customers and placements with other banks. Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

***iii) Held-to-maturity***

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include Treasury Bills, Treasury Bonds and Government Stock.

***iv) Available-for-sale***

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or exchange rates. Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2.4 Financial instruments (Continued)**

***iv) Available-for-sale (continued)***

Available-for-sale financial assets and financial assets are carried at fair value through profit or loss. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the financial assets category are included in the statement of comprehensive income in the year in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in profit or loss. However, interest calculated using the effective interest method is recognised in the statement of comprehensive income.

As per IAS 39, financial instruments are supposed to be classified as Held-to-maturity and Available-for-sale. However, the Bank has classified all its financial instruments as Held-to-maturity since the Bank has no intention of selling the instruments.

***v) Identification and Measurement of Impairment of Financial Assets***

At each statement of financial position date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Financial instruments (Continued)

*v) Identification and Measurement of Impairment of Financial Assets (Continued)*

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to the statement of comprehensive income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the statement of comprehensive income.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

*vi) Derecognition*

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.4 Financial instruments (Continued)

***vii) Impairment for Non-Financial Assets***

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

***viii) Budget Accounting Policy***

The bank uses Zero-based budgeting (ZBB). All expenses must be justified for each new period. The budgeting starts from a "zero base," and every function within an organization is analysed for its needs and costs. Budgets are then built around what is needed for the upcoming period. This allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped and then measured against previous results and current expectations. At the end of every month actual and budgeted amount is compared to obtain variances. The presentation of budget information in Financial Statements is done as per International Public Sector Accounting Standard (IPSAS) 24.

## 3 FINANCIAL RISK MANAGEMENT

### a) Principles

Postbank faces various types of risks which arise from its day to day operations as a financial institution. The Board of Directors and Management therefore devote a significant portion of their time to the management of these risks. The mainstay of effective risk management is the identification of significant risks, the quantification of the Banks's risk exposure, actions to limit risk and the constant monitoring of risk.

The overarching aim of risk management is to ensure that all risks assumed in the course of the Bank's business are recognized early on and mitigated by effective risk management. Successful risk management is recognized as a pre-condition for the sustained growth and success of the Bank. Risk management and monitoring are implemented via the Bank's risk management and risk control process and the organization structure corresponds to prudent Risk Management Guidelines.

**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**a) Principles (Continued)**

In order to ensure continuous improvement of risk management at all times the following key risk principles have been adopted and are applied;

• The Board of Directors assumes the ultimate responsibility for the level of risks taken by the Bank and is responsible to oversee the effective implementation of the risk strategies.

• The organizational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are continuously being reviewed to ensure clarity of their roles and responsibilities.

• Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and this is being supplemented by setting risk limits at the overall Bank and divisional levels, as well as by enforcing consistent operating limits for individual business activities.

• Risk management is increasingly being linked to management processes such as strategic planning, annual budgeting and performance measurement.

• Identified risks are reported in a transparent and timely manner and in full to the responsible senior management.

• Appropriate and effective controls exist for all processes entailing risks.

All these principles are enshrined in the Bank's risk management policy.

**(b) Credit risk**

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the bank or if an obligor otherwise fails to perform as agreed

## 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

### (b) Credit risk ( Continued)

*(i) Management of Credit Risk*

The Bank is subject to credit risk through its lending and investing activities. Considerable resources, expertise and controls are devoted to managing it and comprehensive strategies, policies and procedures have been developed to effectively manage this risk.

The Bank's primary exposure to credit risk arises through its advances to employee and Visa credit to customers. Credit risk ratings are assigned to customers to enable the bank to establish the risk and enable credit decisions to be undertaken within acceptable risk appetite threshold through its credit policy.

At the management level there, is a credit risk department staffed with highly skilled personnel who ensure credit risk are identified and mitigated. Within this department there are debt collecting officers who follow up on bad loans.

*(ii) Write-off Policy*

The Bank writes off a loan / security balance (and any related allowances for impairment losses) when management determines that the advances / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure

### (c) Liquidity Risk

Liquidity risk is the current or prospective risk to earnings and capital arising from the institution's failure to meet its maturing obligations when they fall due without incurring unacceptable losses.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank has access to a diverse funding base. Funds are raised mainly from deposits.

**3 FINANCIAL RISK MANAGEMENT (CONTINUED)**
**(c) Liquidity Risk (continued)**

***Exposure to liquidity Risk***

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month.
The board has approved a policy to effectively manage liquidity at all times to meet depositors demand, and unexpected outflow. The investment undertakes statement of financial position liquidity and scenario analysis as per the policy on bi-monthly basis.
The bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with range maturities, in addition the bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

**(d) Market Risk**

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

***(i) Management of market Risk***

Overall responsibility for management of market risk rests with a management committee of the Bank, the Asset and Liability Committee (ALCO). The risk department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.
Regular monitoring of Postbank's risk profile against risk appetite limits e.g. foreign exposure and risk limits, liquidity and solvency ratios which are contained in the market risk framework incorporating market and country risk policies approved by the board.

***ii) Exposure to Interest Rate Risk***

The principal risk to which financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps.

**3 FINANCIAL RISK MANAGEMENT(CONTINUED)**

**(e) Operational Risk**

The Operational risk is a risk of losses resulting from inadequate or failed internal processes, people, and systems or from external events.

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. The responsibility is supported by the development of overall Bank standards for the management of operational risks. Compliance with these standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Board Risk Committee and senior management of the Bank.

***Risk measurement and control***

Interest rate, credit, liquidity, operational risk and other risks are actively managed by independent risk control groups to ensure compliance with the Bank's risk policy. The Bank's risk exposure limits are assessed regularly to ensure their appropriateness given the Bank's objectives and strategies and current market conditions

| 4 Interest Income | 2020 | 2019 |
|---|---|---|
| Interest on Treasury Bills/Bonds | 628,269,863 | 578,273,546 |
| Interest on Term deposits | 15,373,227 | 6,109,746 |
| Interest on Staff Loans | 34,986,660 | 41,730,646 |
| Interest on Visa Balances | 2,999,922 | 2,998,800 |
| Credit Partners -Shared Interest Income | 113,692,448 | 110,714,688 |
| | 795,322,120 | 739,827,426 |

**5 Interest expense**

| | | |
|---|---|---|
| Interest on:- | | |
| Bidii Savings Account | 124,484,377 | 179,526,195 |
| Step Account | 5,643,132 | 16,659,093 |
| Pension Account | 65,258,643 | 90,426,361 |
| Premium Savings Account | 19,533 | 53,104 |
| Premium Plus Account | 216,711,883 | 225,894,784 |
| Fixed Deposit Account | 63,840 | 231,808 |
| Save As You Earn Account | 43,719,616 | 14,837,404 |
| Staff Salary Account | 856,087 | 1,015,164 |
| Salary Account | 3,289,328 | 4,923,790 |
| Postbank Junior Account | 1,814 | 17,535 |
| Pamoja Account | 921,251 | 1,798,555 |
| Bidii Junior Trustee Account | 85,156 | 152,788 |
| Smata Youth Save | 2,173,480 | 3,923,740 |
| Waridi Account | 7,224,103 | 9,860,847 |
| M-Chama Account | 1,340,989 | 1,916,606 |
| Mobile Savings Account | 42,780 | 41,607 |
| Akiba Account | 13,866 | 24,119 |
| Inua Jamii | 428,704 | 513,460 |
| | 472,278,582 | 551,816,959 |

| 6 Fees & Commissions Income | 2020 | 2019 |
|---|---|---|
| Inactivity Fees | 26,840,506 | 70,575,447 |
| Salary Crediting Fees | 75,157,141 | 35,445,389 |
| Premature withdrawal Fees | 34,399,700 | 37,398,246 |
| Withdrawal Fees | 62,525,585 | 65,089,061 |
| Visa Fees | 3,578,144 | 4,077,544 |
| Card Fees | 26,987,130 | 22,148,344 |
| Western Union - MTS Commission | 39,534,103 | 40,222,482 |
| Citibank Commission | 732,650 | 995,670 |
| Pension Commission | 60,375,400 | 61,588,900 |
| Inua Jamii Commission | 36,983,564 | 5,146,020 |
| Money Transfer Commission (Others) | 16,538,751 | 19,461,727 |
| ATM withdrawal Fees | 44,783,644 | 41,066,261 |
| Bills Commission-Water & Electricity | 16,290,334 | 22,621,503 |
| Forfeited Interest & Bonus-SAYE Income | 6,772,148 | 0 |
| Miscellaneous Fees & Commission (others) | 8,695,265 | 9,187,922 |
| | 460,194,065 | 435,024,516 |

**7 Fees and Commissions Expense**

| | | |
|---|---|---|
| Shared Costs Adjustments | 7,344,978 | 13,942,512 |
| Commission Expense-MoneyGram | 2,364,062 | 2,003,535 |
| Premium Paid Commission on Purchase of T/Bonds | 161,817 | 0 |
| Bonus Paid-SAYE Expense | 1,690,303 | 0 |
| Commissions & Agency Fee | 14,975,539 | 10,436,082 |
| Mobile banking Expenses | 9,633,791 | 8,377,680 |
| Commission paid on deposit mobilisation | 5,909,305 | 8,790,283 |
| | 42,079,795 | 43,550,092 |

**8 Foreign Exchange Income**

| | | |
|---|---|---|
| Realised Gain/Loss On Sale Of Forex From MTS | 26,180,132 | 11,764,984 |
| Forex Gain On Money Transfer Transactions -WU | 66,356,219 | 62,239,014 |
| Forex Gain On Transactions -Money Gram | 15,139,437 | 16,593,635 |
| | 107,675,788 | 90,597,632 |

| | | 2020 | 2019 |
|---|---|---|---|
| 9 | **Other Operating Income** | Kshs | Kshs |
| | Rental Income | 66,051,745 | 70,883,387 |
| | Dividend income | 0 | 80,137 |
| | Interest on Bank accounts | 5,320,138 | 14,734 |
| | Tender fees | 5,200 | 68,200 |
| | Appreciation/Diminution in value of quoted | 44,668 | 113,625 |
| | Mobile Banking Fee | 28,402,631 | 20,245,496 |
| | Capital Gain on Sale of Investments | 9,147,664 | 0 |
| | Commission Income on Foreign Visa | 236,550 | 801,000 |
| | Sundry income | 11,132,629 | 10,916,031 |
| | | 120,341,225 | 103,122,610 |

**10 Impairment loss on loans and advances**

| | | |
|---|---|---|
| Visa card debtors | 0 | 9,280,000 |
| General Provisions-Including Staff loans | 40,000,000 | 19,720,000 |
| | 40,000,000 | 29,000,000 |

**11 Employee Expenses**

| | | |
|---|---|---|
| Salaries and Wages | 737,126,957 | 765,046,102 |
| Pensions and Provident Fund contr. | 193,917,264 | 90,420,500 |
| Medical expenses | 40,828,321 | 39,372,533 |
| Staff training | 1,456,731 | 16,820,496 |
| Other staff expenses | 197,688,831 | 242,213,877 |
| | 1,171,018,104 | 1,153,873,508 |

**12 Board Expenses**

| | | |
|---|---|---|
| Directors Honoraria | 960,000 | 202,082 |
| Directors Allowances | 10,460,652 | 13,166,047 |
| Directors Allowances Telephone | 62,020 | 38,220 |
| | 11,482,672 | 13,406,349 |

**13 Operating Expenses**

| | 2020 Kshs | 2019 Kshs |
|---|---|---|
| Security expenses | 105,551,099 | 106,091,008 |
| Insurances | 15,678,402 | 14,412,970 |
| Office rent | 98,463,761 | 103,001,101 |
| Land rent and rates | 409,457 | 425,147 |
| Repairs and maintenance | 47,300,422 | 53,150,096 |
| Service charge | 13,752,360 | 16,460,437 |
| Licenses | 99,185,234 | 82,282,394 |
| Grounds maintenance | 1,322,400 | 1,228,820 |
| Agency Fees PCK/Others | 20,283,997 | 19,760,406 |
| Agency Expansion Project Expenses | 1,756,411 | 3,971,839 |
| | 403,703,543 | 400,784,218 |

**14 Amortisation cost- Treasury Bonds**

| | | |
|---|---|---|
| Amortisation | 15,583,146 | 15,698,518 |

This relates to Treasury Bonds Premiums amortised during the period

**15 Other Expenses**

| | | |
|---|---|---|
| Operating Stationery | 4,348,963 | 1,287,705 |
| ATM Card Cost | 15,716,940 | 35,034,248 |
| Travel and Subsistence allowances | 11,080,488 | 30,438,492 |
| Newspapers and Periodicals | 362,955 | 707,736 |
| Printing and stationery | 4,931,406 | 8,778,758 |
| Debt collection | 84,517 | 1,078,731 |
| Postage & telephone | 78,085,214 | 75,207,916 |
| Computer expenses | 10,617,959 | 11,113,791 |
| Motor Vehicle Expenses | 5,586,510 | 7,790,809 |
| Audit fees | 4,500,000 | 4,500,000 |
| Donations and subscriptions | 5,321,702 | 6,291,171 |
| Legal and professional fees | 8,020,236 | 16,808,278 |
| Electricity and water | 21,708,459 | 26,447,784 |
| Cleaning, Sanitation & Messengerial | 19,976,334 | 19,908,763 |
| Special Projects Launching | 1,683,992 | 6,535,179 |
| Procurement Costs | 303,839 | 939,588 |
| Excise Duty | 0 | 2,379,806 |
| Bank Charges | 9,030,480 | 12,011,706 |
| Selling & Marketing expenses | 50,955,671 | 91,622,855 |
| Hire of Motor Vehicles | 6,256,140 | 11,677,292 |
| Research & Development | 200,000 | 200,000 |
| Retail Banking-Search fee | 18,015 | 54,184 |
| Integrated Reimbursement fee | 12,481,683 | 9,866,679 |
| | 271,271,503 | 380,681,471 |

| 16 | Profit (Loss) For The Year | Note | 2020 Kshs | 2019 Kshs |
|---|---|---|---|---|
| | The loss for the year is stated after charging: | | | |
| | Directors emoluments | 12 | 11,482,672 | 13,406,349 |
| | Audit fees | 15 | 4,500,000 | 4,500,000 |
| | Depreciation/amortization intangible asset expense | 26 | 157,136,748 | 180,005,981 |
| | Bonds amortisation cost | 14 | 15,583,146 | 15,698,518 |
| | Pension scheme contribution | 11 | 193,917,264 | 90,420,500 |
| | ***and after crediting: -*** | | | |
| | Dividends | 9 | 0 | 80,137 |
| | Appreciation/Diminution in value of quoted | 9 | 44,668 | 113,625 |

**17**

**Explanation Of Material Variance on The Statement of Comparison of Budget and Actual for The Twelve Months Ending 31 December 2020**

| | Actual | Budget | Variance | |
|---|---|---|---|---|
| **Income** | **Kshs** | **Kshs** | **Kshs** | **%** |
| a) Interest income | 795,322,120 | 989,031,346 | (193,709,226) | -20% |
| b) Fees and commission income | 460,194,065 | 1,040,855,045 | (580,660,980) | -56% |
| c) Other Operating income | 120,341,225 | 178,302,894 | (57,961,669) | -33% |

i)Year 2020 was characterized by low interest rates due to Government interventions to boost the economy during the COVID -19 pandemic. This led to yields on Treasury Bonds to drop leading to purchase of investments with low yields in the Primary Auction Markets. This negatively impacted on the Bank's target investment return of 13%. (average yield for the year was 10.52%)

ii) Fees and commission income for the period was below budget because of non attainment of key revenue lines eg. GoK Pension Commission due to declining number of pension accounts ,decline in MTS revenue (money transfer servises).

iii) On other income -Rental income for the period was Kshs 66 million, 24% lower than the target of Kshs 90 million due to low occupancy level. The decline is attributed to ongoing COVID-19 pandemic which has resulted in reduced demand for office spaces as businesses restructure their operations leading to the scaling down by some firms while others adopt working from home strategies.

| **Direct Expenses** | **Actual** | **Budget** | **Variance** | **%** |
|---|---|---|---|---|
| d) Interest expense | (472,278,582) | (670,864,569) | 198,585,987 | -30% |

Down ward revision of interest rates paid to depositors in the year and non–achievement of deposits mobiliztion target in the year.

| **Recurrent Expenses** | **Actual** | **Budget** | **Variance** | **%** |
|---|---|---|---|---|
| e) Board expenses | (11,482,672) | (15,611,000) | 4,128,328 | -26% |
| f) Operating expenses | (403,703,543) | (412,091,617) | 10,882,825 | -3% |
| g) Depreciation expenses | (136,254,561) | (172,191,864) | 35,937,303 | -21% |
| h) Amortisation cost-Intangible Assets | (20,882,187) | (39,134,324) | 18,252,137 | -47% |

Cost control management and lower purchase of assets than anticipated

| 18 | **Bank and Cash Balances** | **2020** | **2019** |
|---|---|---|---|
| | | Kshs | Kshs |
| | Cash at Bank | 900,918,235 | 763,128,917 |
| | Cash in Hand | 292,874,146 | 350,527,345 |
| | | 292,874,146 | 350,527,345 |

Bulk of cash at bank was held at Kenya Commercial Bank of Kenya and National Bank of Kenya who are the Bank's main bankers

**19 Funds on Call and Short Notice**

| | | |
|---|---|---|
| Commercial Bank of Africa | 10,935,004 | 10,935,004 |
| Co-operative Bank | 50,000,000 | 0 |
| Citibank | 16,103,009 | 15,589,200 |
| National Bank of Kenya | 161,331,296 | 11,048,544 |
| Kenya Commercial Bank of Kenya | 29,228,322 | 27,306,400 |
| | 267,597,631 | 64,879,148 |

The Bank has placed some of its funds in call accounts with commercial banks as as listed above. The funds are lien for clearing settlements
For the year under review, the funds were invested at the following interest rates

| BANK | RATE |
|---|---|
| Commercial Bank of Africa | 7% |
| Co-operative Bank | 6% |
| Citibank | 4% |
| National Bank of Kenya | 3% |
| Kenya Commercial Bank(K) | 7% |

**20 Investment in Treasury Bonds**

| | | |
|---|---|---|
| Treasury Bonds-Available For Sale | 2,718,828,001 | 2,074,533,567 |
| Kengen Infrastructure Bond | 0 | 0 |
| Jamii Bora Bond | 199,500 | 199,500 |
| Government of Kenya Treasury Bonds | 3,259,116,500 | 2,759,516,500 |
| | 5,978,144,001 | 4,834,249,567 |

**20 (a) Investment in Treasury Bills and Bonds/Others**

| ASSET | Balance On 01.01.2020 | Additions In The Year 2020 | Increase/ Decrease Revaluation Adjustment In Year 2020 | Disposal/ Redemption In Year 2020 | Balance On 31.12.2020 |
|---|---|---|---|---|---|
| | Kshs | Kshs | Kshs | Kshs | Kshs |
| Jamii Bora Bond | 199,500 | | | | 199,500 |
| GOK Treasury Bonds-Held to Maturity | 2,759,516,500 | 500,000,000 | | (400,000) | 3,259,116,500 |
| GOK Treasury Bonds-Available for sales | 2,074,533,567 | 1,077,998,577 | 13,920,935 | (447,625,078) | 2,718,828,001 |
| | | | | | |
| **Total** | **4,834,249,567** | **1,577,998,577** | **13,920,935** | **(448,025,078)** | **5,978,144,001** |

**20 b Change in Fair Value for Bonds AFS**

| Balance on 01.01.2020 | Revaluation decrease | Balance On 31.12.2020 |
|---|---|---|
| | Kshs | Kshs |
| 129,317,436 | -2,258,365 | 127,059,071 |

Capital gains figure on sale of bonds will be adjusted
The effective weighted average rate of interest in respect to the above investments in year 2020 was

| | |
|---|---|
| KENGEN Infrastructure Bond | 12.50% |
| Jamii Bora Bond | 13.30% |
| Government of Kenya Treasury Bonds-HTM | 12.65% |
| Government of Kenya Treasury Bonds-AFS | 12.92% |

* decrease in Revaluation of Available-For-Sale in year 2020 is Kshs 2,258,365

| | | 2020 | 2019 |
|---|---|---|---|
| 21 | **Investment Property** | Kshs | Kshs |
| | Cost | | |
| | At 1 January | 1,002,390,225 | 1,002,390,225 |
| | At 31 December | 1,002,390,225 | 1,002,390,225 |

Included in the investment Property is

(i) Upper Hill Property whose market value is Ksh.550,000,000 ( as per revaluation done in December 2017) but carried at book value of Ksh 27,390,225. Title to the Upper Hill property is in dispute with the current occupant of the premises claiming allotees interest absolutely. The matter is in court and the Bank expects a favorable outcome since it has a vesting right in the property and is holding it with an intention of selling or reinvesting.
The property is a piece of land with a building taken over from Thabiti Finance Ltd in lieu of deposits held for the Bank

(ii)Karura Training & Spoerts Complex valued at Ksh 970,000,000 as per the latest valuation report undertaken by Realty Valuers East Africa Limited as at 29th December 2017. Sale of the property is ongoing and to date we have received Kshs 652.4 million as down payment.

(iii) Dandora Plot with a value of Ksh 5,000,000.

The reclassification of Dandora Plot and Karura Training centre from Property and Equipment to Investment property has been done as per IAS 40.

| | | 2020<br>Kshs | 2019<br>Kshs |
|---|---|---|---|
| 22 | **Stocks** | | |
| | Stationery | 10,566,417 | 10,897,868 |
| | Drugs | 745,914 | 3,247,794 |
| | | 11,312,331 | 14,145,662 |
| 23 | **Other Investments** | | |
| | Quoted investments (cost) | 2,055,637 | 2,055,637 |
| | Unquoted investment | 13,540,000 | 13,540,000 |
| | | 15,595,637 | 15,595,637 |
| | Less: Provision for diminution in market value of quoted /unquoted investments | (11,450,470) | (11,495,137) |
| | | 4,145,167 | 4,100,500 |

(i) Quoted investments were valued at Kshs.2,791,168 (2019 Kshs.2,746,500) using the Nairobi Securities Exchange market price at the close of the year.

Quoted investments comprise of equity holdings in the following listed companies:

| | | | Value as at | |
|---|---|---|---|---|
| **Company** | **No.of Sha** | **Market price** | **31.12.2020** | **31.12.2019** |
| Kakuzi Ltd | 6,500 | 365.00 | 2,372,500 | 2,210,000 |
| Total Kenya Ltd | 15,000 | 24.00 | 360,000 | 412,500 |
| Bamburi Cement Ltd | 1,550 | 37.85 | 58,668 | 124,000 |
| | | | **2,791,168** | **2,746,500** |

(ii) Unquoted investment represents 80% of deposits in City Finance Bank (Jamii Bora Bank) converted into shares following their restructuring in year 2000.

## 24 Accounts Receivables

| | 2020 | 2019 |
|---|---|---|
| | Kshs | Kshs |
| Postal Corporation of Kenya-Excess Deposits | 780,394,108 | 780,394,108 |
| GoK -KP&TC (i) | 405,231,629 | 405,231,629 |
| Commission Receivable from GoK for pension | 72,956,827 | 63,414,190 |
| Prepaid GoK Pension – PCK Payroll | 634,246,507 | 689,709,306 |
| GoK Pension Cheques Receivable – PCK (ii) | 268,553,158 | 268,553,158 |
| PCK Overdrawn Claimable | 44,953,868 | 44,953,868 |
| Restitution (PCK) | 58,161,703 | 57,278,335 |
| Directors Loans | 3,327,044 | 3,327,044 |
| Inua Jamii Commission Receivable | 11,246,550 | 0 |
| Staff Loans | 615,255,961 | 690,341,617 |
| Staff debtors – Personal Development Loan | 75,720,530 | 97,545,301 |
| Interest Receivable -PDL | 116,213,941 | 104,790,693 |
| Rent Receivables | 85,762,433 | 73,000,353 |
| Staff Imprest | 4,778,433 | 2,015,593 |
| Trade Debtors | 119,084,964 | 48,395,384 |
| | 3,295,887,656 | 3,328,950,579 |
| Provision for bad and doubtful debts | (758,623,725) | (718,623,725) |
| | 2,537,263,931 | 2,610,326,854 |

(i) Kshs. 405,231,629 relates to amount owing from the defunct KP&TC and has been outstanding since year 2005. The Government of Kenya has since given assurance of settlement of the amount, in effect through PCK

(ii) Kshs.268,553,158 relates to amount owed to Postbank by PCK in respect to pension's cheques and warrants handled by PCK on an agency agreement. This amount has been outstanding since year 2007 and the two organizations have made commitments to offset these amounts in the next financial year

## 24 Account Receivable

| 31st December 2020 | TOTAL | 0 to 30 Days | 31 to 60 Days | 61 to 90 Days | 91 and over Days |
|---|---|---|---|---|---|
| PCK Excess Deposits | 780,394,108 | 0 | 0 | 0 | 780,394,108 |
| KP&TC Excess Deposits | 405,231,629 | 0 | 0 | 0 | 405,231,629 |
| GoK Pension Cheques Receivable from PCK | 72,956,827 | | 9,542,637 | 4,092,300 | 59,321,890 |
| Prepaid GoK Pension (Payroll) – PCK | 634,246,507 | 5,358,709 | 5,632,152 | 6,209,845 | 617,045,801 |
| GoK Pension Cheques Receivable – PCK | 268,553,158 | 0 | 0 | 0 | 268,553,158 |
| PCK Overdrawn Claimable | 44,953,868 | 0 | 0 | 0 | 44,953,868 |
| Restitution (PCK | 58,161,703 | 0 | 494,440 | 883,368 | 56,783,895 |
| Directors Loans | 3,327,044 | 0 | 0 | 0 | 3,327,044 |
| Inua Jamii Commission Receivable | 11,246,550 | 937,213 | 1,874,426 | 2,811,639 | 5,623,272 |
| Staff Loans | 615,255,961 | 438,593,896 | | 1,391,021 | 175,271,043 |
| Staff Debtors PDL | 75,720,530 | 20,337,781 | | | 55,382,749 |
| Interest Receivable PDL | 116,213,941 | 11,424,671 | 0 | 0 | 104,789,270 |
| Rent Receivables | 85,762,433 | 12,643,129 | 2,523,340 | 118,951 | 70,477,013 |
| Staff Imprest | 4,778,433 | | 258,671 | 2,880,744 | 1,639,018 |
| Trade Debtors | 119,084,964 | 70,689,580 | 605,684 | | 47,789,700 |
| **TOTAL RECEIVABLES** | **3,295,887,656** | **559,984,979** | **20,931,350** | **18,387,868** | **2,696,583,458** |
| Provision for bad debts | (758,623,725) | (2,416,667) | (2,416,667) | (2,416,667) | (751,373,725) |
| **NET RECEIVABLES** | **2,537,263,931** | **557,568,312** | **18,514,684** | **15,971,201** | **1,945,209,734** |

| 31st December 2019 | TOTAL | 0 to 30 Days | 31 to 60 Days | 61 to 90 Days | 91 and over Days |
|---|---|---|---|---|---|
| PCK Excess Deposits | 780,394,108 | 0 | 0 | 0 | 780,394,108 |
| KP&TC Excess Deposits | 405,231,629 | 0 | 0 | 0 | 405,231,629 |
| GoK Pension Cheques Receivable from PCK | 63,414,190 | | | 4,092,300 | 59,321,890 |
| Prepaid GoK Pension (Payroll) – PCK | 689,709,306 | 5,358,709 | 5,632,152 | 6,209,845 | 672,508,600 |
| GoK Pension Cheques Receivable – PCK | 268,553,158 | 0 | 0 | 0 | 268,553,158 |
| PCK Overdrawn Claimable | 44,953,868 | 0 | 0 | 0 | 44,953,868 |
| Restitution (PCK | 57,278,335 | 0 | 494,440 | 0 | 56,783,895 |
| Directors Loans | 3,327,044 | 0 | 0 | 0 | 3,327,044 |
| Staff loans | 690,341,617 | 515,070,574 | | | 175,271,043 |
| Staff Debtors PDL | 97,545,301 | 42,162,552 | | | 55,382,749 |
| Interest Receivable PDL | 104,790,693 | 1,423 | 0 | 0 | 104,789,270 |
| Rent Receivables | 73,000,353 | 2,523,340 | | | 70,477,013 |
| Staff Imprest | 2,015,593 | | 376,575 | | 1,639,018 |
| Trade Debtors | 48,395,384 | | 605,684 | | 47,789,700 |
| **TOTAL RECEIVABLES** | **3,328,950,579** | **565,116,598** | **7,108,851** | **10,302,145** | **2,746,422,985** |
| Provision for bad debts | (718,623,725) | (2,416,667) | (2,416,667) | (2,416,667) | (711,373,725) |
| **NET RECEIVABLES** | **2,610,326,854** | **562,699,931** | **4,692,185** | **7,885,478** | **2,035,049,261** |

## 25 Prepayments and Other Assets

| | 2020 | 2019 |
|---|---|---|
| | Kshs | Kshs |
| Accrued interest on Treasury Bonds | 141,210,483 | 81,598,740 |
| Discount on Treasury Bonds | 65,433,129 | 61,166,159 |
| Fixed deposits in ailing financial institutions | 406,138,379 | 406,138,379 |
| Transitorial Accounts - Postbank (i) | 1,108,044,371 | 1,121,957,220 |
| Premium on Treasury Bonds (Prepaid) | 258,165,241 | 273,748,387 |
| Other Assets and Prepayments | 854,273,527 | 992,850,665 |
| | 2,833,265,130 | 2,937,459,550 |
| Provision for bad and doubtful debts: | | |
| | (406,138,379) | (406,138,379) |
| | 2,427,126,751 | 2,531,321,171 |

(i )Kshs. 1,108,044,371 under Transitorial accounts relates to balances held in accounts used by the Bank to process internal payments. Therefore, the balance is not a realisable asset.

26 **a) Property & Equipment**
**As at 31 December 2020**

| | Land | Building | Leasehold | Motor Vehicles | Furniture & Fittings | Electronic Office Eqpmt | Non Electronic Office Eqpmt | Computer Hardware | Fixed Asset Clearing Account | Capital Work In Progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | | | |
| At 1 Jan. 2020 | 805,000,000 | 1,522,086,130 | 6,500,000 | 64,435,006 | 400,179,987 | 316,380,586 | 97,993,308 | 848,810,265 | 13,713,609 | 9,993,587 | 4,085,092,478 |
| | | | | | | | | | | | |
| Additions | 0 | 0 | 0 | 0 | 103,600 | 21,298,949.78 | 68,400 | 2,911,464 | 4,259,281 | 85,883,370 | 114,525,064 |
| Prior year adjustment | | | | | 8,715,715 | 378,160 | 1,755,002 | 9,612,299 | | | 20,461,177 |
| **Cost 31.12.2020** | **805,000,000** | **1,522,086,130** | **6,500,000** | **64,435,006** | **408,999,303** | **338,057,696** | **99,816,710** | **861,334,028** | **17,972,889** | **95,876,957** | **4,220,078,719** |
| Depreciation | | | | | | | | | | | |
| Depre.01.01.20 | 0 | 411,000,299 | 6,500,000 | 38,113,214 | 303,539,924 | 257,414,472 | 80,224,657 | 725,011,830 | 0 | 0 | 1,821,804,397 |
| Charge for the year | 0 | 39,190,483 | | 8,892,128 | 20,435,096 | 20,961,155 | 4,772,081 | 42,003,618 | | 0 | 136,254,561 |
| Prior year adjustment | | | | | 2,167,294 | 26,108 | 42,072 | 1,210,053 | | | 3,445,527 |
| **Depre.31.12.20** | **0** | **450,190,782** | **6,500,000** | **47,005,342** | **326,142,314** | **278,401,735** | **85,038,810** | **768,225,501** | **0** | **0** | **1,961,504,485** |
| **NBV 31.12.2020** | **805,000,000** | **1,071,895,348** | **0** | **17,429,664** | **82,856,989** | **59,655,961** | **14,777,899** | **93,108,527** | **17,972,889** | **95,876,957** | **2,258,574,234** |
| **NBV 31.12.2019** | **805,000,000** | **1,111,085,831** | **0** | **26,321,792** | **96,640,064** | **58,966,114** | **17,768,651** | **123,798,434** | **13,713,609** | **9,993,587** | **2,263,288,081** |

26 **b)Property & Equipment**
**As at 31 December 2019**

| | Land | Building | Leasehold | Motor Vehicles | Furniture & Fittings | Electronic Office Eqpmt | Non Electronic Office Eqpmt | Computer Hardware | Fixed Asset Clearing Account | Capital Work In Progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | | | | |
| At 1 Jan. 2019 | 805,000,000 | 1,522,086,130 | 6,500,000 | 51,310,006 | 395,465,735 | 307,838,541 | 94,534,308 | 824,048,964 | 4,055,693 | 9,993,587 | 4,020,832,964 |
| | | | | | | | | | | | |
| Additions | 0 | 0 | 0 | 13,125,000 | 2,041,830 | 2,157,945 | 0 | 15,123,153 | 9,657,916 | 0 | 42,105,844 |
| Prior year adjustment | | | | | 2,672,422 | 6,384,100 | 3,459,000 | 9,638,148 | | | 22,153,670 |
| **Cost 31.12.2019** | **805,000,000** | **1,522,086,130** | **6,500,000** | **64,435,006** | **400,179,987** | **316,380,586** | **97,993,308** | **848,810,265** | **13,713,609** | **9,993,587** | **4,085,092,478** |
| Depreciation | | | | | | | | | | | |
| Depre.01.01.19 | 0 | 371,809,816 | 6,500,000 | 31,948,751 | 282,854,350 | 235,496,193 | 74,313,428 | 657,649,650 | 0 | 0 | 1,660,572,189 |
| Charge for the year | 0 | 39,190,483 | | 6,164,463 | 20,685,574 | 21,918,279 | 5,911,229 | 67,362,180 | | 0 | 161,232,208 |
| **Depre.31.12.19** | **0** | **411,000,299** | **6,500,000** | **38,113,214** | **303,539,924** | **257,414,472** | **80,224,657** | **725,011,830** | **0** | **0** | **1,821,804,397** |
| **NBV 31.12.2019** | **805,000,000** | **1,111,085,831** | **0** | **26,321,792** | **96,640,064** | **58,966,114** | **17,768,651** | **123,798,434** | **13,713,609** | **9,993,587** | **2,263,288,081** |
| **NBV 31.12.2018** | **805,000,000** | **1,150,276,314** | **0** | **19,361,255** | **112,611,386** | **72,342,348** | **20,220,880** | **166,399,313** | **4,055,693** | **9,993,587** | **2,360,260,775** |

26 **Land & Buildings**

| Cost / Valuation | Land | Buildings | Show Stand | 2020 | 2019 |
|---|---|---|---|---|---|
| | Kshs | Kshs | Kshs | Kshs | Kshs |
| Long-term leasehold | 760,000,000 | 1,090,000,000 | 0 | 1,850,000,000 | 1,850,000,000 |
| Short-term leasehold | 45,000,000 | 105,000,000 | 6,500,000 | 156,500,000 | 156,500,000 |
| | | | | | |
| | **805,000,000** | **1,195,000,000** | **6,500,000** | **2,006,500,000** | **2,006,500,000** |

Included in short-term leasehold land and buildings is a property purchased in Mombasa. It was revalued downwards in 2017 from Kshs 125 million to Kshs.50 million

| 27 **Intagible Assets** | **2020** **Kshs** | **2019** **Kshs** |
|---|---|---|
| Cost | | |
| At 1 January | 593,827,829 | 591,786,337 |
| Additions | 0 | 2,041,492 |
| Prior year adjustment | 9,729,345 | 0 |
| **At 31 December** | **603,557,174** | **593,827,829** |
| Amortisation | | |
| At 1 January | 547,279,252 | 528,505,479 |
| Amortization for the year | 20,882,187 | 18,773,773 |
| Prior year adjustment | 1,198,222 | 0 |
| At 31 December | 569,359,661 | 547,279,252 |
| Carrying Amount | | |
| At 31 December | **34,197,513** | **46,548,577** |

The intangible assets are in respect of Internet and mobile banking software

| 28 Customer Savings and Deposits | 2020 Kshs | 2019 Kshs |
|---|---|---|
| Bidii Savings Account | 8,846,819,725 | 8,766,726,286 |
| Step Account | 961,865,988 | 894,357,467 |
| Pension accounts (BSG) | 6,077,291,278 | 5,202,736,305 |
| Premium Savings Scheme | 2,914,824 | 1,569,028 |
| Premium Plus Account | 4,095,584,222 | 3,821,054,970 |
| Fixed Deposit Account | 12,233,583 | 13,908,649 |
| Save-As-You-Earn | 1,137,747,453 | 994,051,399 |
| Staff Salary Account | 80,477,662 | 69,135,387 |
| Salary Account | 287,208,140 | 278,888,828 |
| Postbank Junior Account | 16,780,139 | 16,076,893 |
| Corporate Clients | 498,851,435 | 526,925,084 |
| Smata Account | 295,137,407 | 270,280,461 |
| Pamoja Chama Account | 96,400,251 | 92,897,036 |
| Mzalendo Account | 81,145 | 105,889 |
| Waridi Account | 783,243,206 | 625,935,534 |
| Independent Agent Accounts | 259,237 | 262,633 |
| M-chama Savings Account | 111,823,832 | 102,273,450 |
| Mobile Savings Account | 13,548,829 | 3,595,359 |
| Akiba Account | 1,468,789 | 1,432,103 |
| Inua Jamii | 98,619,948 | 63,422,793 |
| Agent control | 21,018,843 | 20,413,726 |
| ATM Retracted cash | 14,595,576 | 13,253,226 |
| | 23,453,971,509 | 21,779,302,505 |

**29**

| **Accounts Payables and Accruals** | | **2020 Kshs** | **2019 Kshs** |
|---|---|---|---|
| Trade creditors | | 80,012,655 | 39,550,411 |
| PCK Service s Rendered - GoK Pension | (i) | 534,409,387 | 534,409,387 |
| PCK Encashed Warrants Payable | (ii) | 462,078,751 | 462,078,751 |
| PCK- Pension Warrants | (iii) | 170,953,266 | 170,953,266 |
| GoK Pension Payroll | (iv) | 1,020,007,886 | 1,080,340,943 |
| Accrued Expenses | | 370,875,908 | 206,063,208 |
| Other creditors | | 1,389,247,293 | 749,626,912 |
| | | 4,027,585,146 | 3,243,022,878 |

(i) PCK Services rendered- GOK Pension/others refers to amount payable to Postal Corporation of Kenya for services offered to our pensioners/regular customers for normal banking services.

(ii) PCK Encashed warrant payable refers to amount claimable by Postal Corporation of Kenya on disbursement of pension to pensioners. The amount of Kshs.462,078,751 which been outstanding since year 2007 will be settled once the reconciliations are agreed on.

(iii) PCK -GoK Warrant is the un-accounted amount to pensioners account held by PCK. The amount of Kshs.170,953,266 which has been outstanding since year 2007 will be settled once we agree on reconcilitions

(iv) GoK Pension Payroll is the un-applied amount to pensioners account held by PCK

| **30 GOK Pension Reserve Fund** | **2020 Kshs** | **2019 Kshs** |
|---|---|---|
| Amount | 58,741,315 | 68,911,268 |

These are pension funds from the Government for distribution.

**31 Capital Grants**

| | | |
|---|---|---|
| Western Union Product | 2,013,211 | 2,013,211 |
| Bidii Product | 3,706,728 | 3,706,728 |
| Visa EMV Project | 229,458 | 229,458 |
| Smata, Mchama & Agency Expansion Projects | 17,619,377 | 14,831,150 |
| | 23,568,774 | 20,780,547 |

During the year the Bank spent Kshs 7,599,41 of capital grant for Mchama/smata expansion

| 32 CASH AND CASH EQUIVALENTS | 2020<br>Kshs | 2019<br>Kshs |
|---|---|---|
| Bank and cash balances (note 18 ) | 292,874,146 | 350,527,345 |
| Depositsin banks and Financial Institutions (note 19) | 267,597,631 | 64,879,148 |
| Treasury Bills and Bonds (note 20 -a) | 5,978,144,001 | 4,834,249,567 |
| | 6,538,615,778 | 5,249,656,060 |

## 33 RELATED PARTY TRANSACTIONS

The Banks main related parties are the Board members, key management personnel and staff. The following transactions were carried out with related parties

| | 2020 | 2019 |
|---|---|---|
| i) Directors Remuneration | | |
| Directors Honoraria | 960,000 | 202,082 |
| Directors Allowances | 10,522,672 | 13,204,267 |
| | 11,482,672 | 13,406,349 |
| **(ii) Key management remuneration** | | |
| Salaries and wages | 11,234,787 | 9,371,586 |
| (iii) Loans to staff | | |
| Welfare loans | 615,255,961 | 769,980,304 |
| Personal development Loan | 75,720,530 | 116,231,349 |
| | 690,976,491 | 886,211,653 |

Interest income on staff loans was Kshs 34,986,660 (2019-41,730,646). The effective interest rate for welfare loans is 5% while for personal development loan is 14%. Staff mortgages and car loans are secured by charging the related property to the Bank

(iv) Loans to Directors

No loan was issued to directors in the year under review. However, outstanding loan balance of Kshs 3,327,044 relates to loans advanced to former directors

## 34 LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period as at 31 December 2020 to the contractual maturity date.

| A. Assets | Matured | Matured in less than a month | 1 months less than 3 months | 3 months less than 6 months | 6 months less than 1 year | 1 year less than 3 years | 3 years less than 5 years | over 5 years | Totals |
|---|---|---|---|---|---|---|---|---|---|
| Bank and Cash Balances | 1,193,792,381 | | | | | | | | 1,193,792,381 |
| Investment in T/bills + Bonds | | 514,178,489 | 684,653,954 | 782,424,084 | 570,708,482 | 697,373,652 | 979,643,792 | 1,749,161,549 | 5,978,144,001 |
| Funds on call and short notice | | 267,597,631 | | | | | | | 267,597,631 |
| Investment Property | | | | | | 105,600,000 | | 896,790,225 | 1,002,390,225 |
| Other Investment | | | 4,145,167 | | | | | | 4,145,167 |
| Other Assets | 458,699,418 | 907,528,153 | 747,732,439 | 792,198,137 | 645,049,609 | 673,906,821 | 750,588,437 | 0 | 4,975,703,013 |
| Property and Equipment | 0 | 0 | 13,975,855 | 0 | 29,502,885 | 685,564,985 | 331,206,533 | 1,198,323,975 | 2,258,574,234 |
| Intangible Assets | | | 8,931,530 | 9,210,803 | 10,067,515 | 5,987,666 | | | 34,197,513 |
| **Total Assets** | **1,652,491,799** | **1,689,304,272** | **1,459,438,944** | **1,583,833,023** | **1,255,328,491** | **2,168,433,124** | **2,061,438,762** | **3,844,275,749** | **15,714,544,165** |
| | | | | | | | | | |
| Other Liabilities | 385,354,219 | 674,854,422 | 558,491,549 | 603,487,465 | 468,703,573 | 549,196,598 | 687,827,061 | 99,670,259 | 4,027,585,146 |
| Customers' Savings and Deposit accounts | 321,401,742 | 2,853,669,952 | 2,373,156,120 | 2,335,394,628 | 2,829,398,228 | 2,441,590,743 | 2,631,485,043 | 7,667,875,053 | 23,453,971,509 |
| Gok Pension Reserve Fund Account | 58,741,315 | | | | | | | | 58,741,315 |
| Capital Grants | | | | | | 6,873,510 | 5,788,227 | 10,907,037 | 23,568,774 |
| Revaluation Reserves | | | | | | 883,109,414 | | 2,388,250,796 | 3,271,360,210 |
| Change un Fair value for Bonds | 55,277,617 | 22,422,551 | 22,299,832 | 27,059,071 | | | | | 127,059,071 |
| Retained Earnings | | | | | | | | (15,247,741,860) | (15,247,741,860) |
| **Total Liabilities and Reserves** | **820,774,893** | **3,550,946,925** | **2,953,947,501** | **2,965,941,164** | **3,298,101,801** | **3,880,770,265** | **3,325,100,331** | **(5,081,038,715)** | **15,714,544,165** |
| **A- B Liquidity GAP** | **831,716,906** | **(1,861,642,653)** | **(1,494,508,556)** | **(1,382,108,141)** | **(2,042,773,310)** | **(1,712,337,141)** | **(1,263,661,569)** | **8,925,314,464** | |

Customers' Savings and deposits accounts relate to Savings and fixed account balances. Although classified under this band, previous experience has shown these to be stable and of long term in nature

## 35 CONSOLIDATION

Consolidated Accounts are not prepared as the Bank's wholly owned subsidiary, Postbank Credit Limited, is under liquidation

## 36 COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to reporting under IFRS

## 37 EMPLOYEES

The average number of employees during the year was 630 (2019-658).

## 38 SUBSEQUENT EVENTS

There have been no events subsequent to the financial year end with significant impact on the financial statements for the year ended December 31, 2020

## 39 NETWORK OF POSTBANK BRANCHES

The total number of branches during the year was 97.

## PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

### 1 Overstatement in Stock Balances

The statement of financial position and as disclosed in Note 22 to the financial statements, reflects stocks and drugs of Kshs.14,145,662. Included in stocks and drugs is Kshs.3,247,794 in respect of drugs. However, the supporting physical stock count in respect of drugs revealed stock values of Kshs.317,626 as resulting to an overstatement of Kshs.2,930,166 in the balances reflected in the Statement.

Consequently, the accuracy of stocks balance of Kshs.14,145,662 as at 31 December 2019 could not be confirmed

### Management comment

The bank maintains a sub system to record drugs (CMS) dispensed at the clinic. However, the sub system is a standalone which is not integrated to the accounting system the Microsoft dynamic application. This requires manual adjustment to recognize the drugs dispensed and adjust the stock value at hand.

The 2019 drugs dispensed were not posted during the year as the sub system was being implemented and had teething problem with integration. However, posting into the GL was done via three journal entries number 511 (Ksh424,115.89) October to December 2019, JE 516 (Ksh700,449) January to April 2019 and JE 540 (Ksh1,558,916) June to December 2018 amounting to Ksh2,683,481 all posted in FY2020 as showing in summary below.

| **Closing Balance GL as at 31.12.2019** | **Batch No** | **3,247,794** |
|---|---|---|
| **Less Drugs dispensed posted In FY 2020** | | |
| Je 540 Drugs dispensed CMS Jul-Dec18 | BN5104814 | (1,558,916) |
| **Je 516Drugs dispensed CMS Jan-Apr19** | BN5104733 | (700,449) |
| Je 511Drugs dispensed CMS Oct-2019 | BN5104846 | (187,887) |
| **Je 511Drugs dispensed CMS Nov-2019** | BN5104847 | (154,476) |
| Je 511Drugs dispensed CMS Dec-2019 | BN5104848 | (81,753) |
| **Total drugs Dispensed Posted (01/12/2020)** | | **(2,683,481)** |
| **Expected drugs balances as at 31st December,2019** | | 564,313 |
| Physical stock as at 31st December,2019 | | 317,626 |
| **Variance** | | **246,687** |

### 2 Variance in Customer Savings and Deposits

The statement of financial position and as disclosed in note 28 to the financial statements, reflects customer's savings and deposits balance of Kshs.21,779,302,505; (2018 - Kshs.20,018,428,733). However, the supporting schedules provided reflects a balance of Kshs.20,124,809,988 resulting to an unexplained and unreconciled variance of Kshs.1,760,873,773.

Further, the bank operations of customer's savings and deposits system maintained indicated a net variance of Kshs.26,144,196 in comparison with the reported balances in the financial systems as analyzed below: -

**PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

**2 Variance in Customer Savings and Deposits ( Continued)**

| Account Type | Financial Statements Balance (Kshs) | System Balance (Kshs) | Variance (Kshs) |
|---|---|---|---|
| Bidii Savings Account | 8,766,726,286 | 8,735,821,024 | 30,905,262 |
| Step Account | 894,357,467 | 896,448,151 | (2,090,684) |
| Pension Accounts (BSG) | 5,202,736,305 | 5,238,588,249 | (35,851,944) |
| Premium Savings Scheme | 1,569,028 | 1,837,115 | (268,087) |
| Premium Plus Account | 3,821,054,970 | 3,818,760,657 | 2,294,313 |
| Fixed Deposit Account | 13,908,649 | 15,075,955 | (1,167,306) |
| Save-As-You-Earn | 994,051,399 | 1,013,547,236 | (19,495,837) |
| Staff Salary Account | 69,135,387 | 58,697,199 | 10,438,188 |
| Salary Account | 278,888,828 | 288,503,395 | (9,614,567) |
| Postbank Junior Account | 16,076,893 | 731,519 | 15,345,374 |
| Corporate Clients | 526,925,084 | 553,749,846 | (26,824,762) |
| Smata Account | 270,280,461 | 270,546,126 | (265,665) |
| Pamoja Chama Account | 92,897,036 | 92,914,959 | (17,923) |
| Mzalendo Account | 105,889 | 105,889 | 0 |
| Waridi Account | 625,935,534 | 627,881,132 | (1,945,598) |
| Independent Agent Accounts | 262,633 | 241,746 | 20,887 |
| M-chama Savings Account | 102,273,450 | 101,664,935 | 608,515 |
| Mobile Savings Account | 3,595,359 | 3,596,119 | (760) |
| Akiba Account | 1,432,103 | 1,432,603 | (500) |
| Inua Jamii | 63,422,793 | 63,410,793 | 12,000 |
| Agent Control | 20,413,726 | 21,044,286 | (630,560) |
| ATM Retracted Cash | 13,253,226 | 847,766 | 12,405,460 |
| **Total** | **21,779,302,506** | **21,805,446,700** | **(26,144,194)** |

Ordinarily, the figures reflected in the financial statements and those analyzed in the operations and financial reporting should agree. The unreconciled variances points to the weaknesses in internal controls on accuracy of data maintained in the two systems

Consequently, the accuracy of customers' savings and deposits balance of Kshs. 21,779,302,505 reflected in the Statement as at 31 December 2019 could not be confirmed

**Management comment**

ICT (Banking reports) reports for depositors' liability do not include money market deals that are rolled over to the next financial year. The report only recognizes deposits that have matured as at 31st Dec and exclude running deals that were rolled over to subsequent years. Note Money Market application is a stand -alone system and Funds locked in the MM system are excluded in CBS reports

## PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

### 2 Variance in Customer Savings and Deposits ( Continued)

The notable difference of Kshs 26,144,196 between the banking system (CBS) and accounting system Microsoft GP application is because of backdating transaction in CBS system which does not terminate in the accounting system as the period in reference is closed. Also, this balance has been caused by mapping issues between GP and CBS that existed in prior years which is being addressed

This has since been arrested by doing daily reconciliation between CBS and GP before and after integration. Exceptions are picked up and resolved immediately hence reducing the variance

### 3 Material Uncertainty in Relation to Going Concern

The statement of comprehensive income for the year reflected a loss of Kshs. 1,400,244,912; (2018- Kshs.1,589,099,239) indicative of a slight improvement from the prior year. The loss continued to impact negatively on the Retained Earnings worsening further to negative Kshs.14,027,788,796;(2018-kshs.2,588,190,816). The bank continued therefore to record a negative shareholder's equity of Kshs. 10,606,330,604; (2018 – Kshs.9,192,821,813). The bank's dependence on the government to defray these losses is uncertain and this makes the bank's ability to continue as a going concern doubtful.

Further the statement of financial position for the year ended 31 December 2019 reflects customers savings and deposits of Kshs.21,779,302,505 which exceeds the total assets of the bank of Kshs.14,484,906,047 by 7,294,396,458. This therefore means a low liquidity ratio of the bank and rendering the bank technically insolvent unless the Government supports its operation by extending credit facilities and assisting the bank to manage its fixed costs which the bank management have not been able to manage in the past.
My opinion is not qualified in respect of this matter.

**Management Response**

Point of correction on 2018 comparative figure of Kshs 2,588,190,816 first paragraph should read Kshs 12,588,190,816 i.e. 'The loss continued to impact negatively on the Retained Earnings worsening further to negative Ksh14,027,788,796 (2018 Ksh12,588,190,816)'

Several turn- around strategies aimed at returning the bank to profitability are in the various stages of implementation

KPMG Business review is done and report with recommendations finalized and submitted to The National Treasury for approval /adoption for turnaround of Postbank. The review will address the following.

a) Optimization of the ICT infrastructure
b) Human capital
c)current product offerings with a view of recommending a sustainable business model

Human Resources instruments have been done and submitted to The National Treasury for approval /adoption to ensure the Bank is strategically structured

**PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

**3 Material Uncertainty in Relation to Going Concern (continued)**

Several turns around strategies aimed at returning the bank to profitability are in the various stages of implementation, key among them are.

a)Reduction of interest rates paid to Customer Savings and Deposits this led to a drop in Interest expense by 19%.

b)Tariff review on fees and commissions charges by the bank in FY 2019 which led to 20% increase in fees and commission from Kshs 361 million in FY 2018 to Kshs 435 million in FY 2019.

c)Various cost cutting measures are being implemented

d)Branch rationalization and merger of loss-making branches

e)Migration of branches into nearby Postal Corporation of Kenya premises whose rental cost are cheaper (this will cut down on rental costs)

f)Product rationalization and greater focus on clients and products as well as streamlining existing products to meet customers' requirements/demand.

g)Enhanced Partnership with Government institutions to offer financial services

h)Working on staff rationalization which will lead to reduction of staff cost

i)Enhance alternate banking channels to target more customers in rural Kenya

As per Kenya Post Office Savings Bank Act Cap 493B, Section 13(A) Surplus and deficits-Without prejudice to paragraph (f) of section 4, if in any year the revenue of the Bank is insufficient to defray the interest due to depositors and all expenses under this Act, such deficiency shall be charged upon and paid out of the Consolidated Fund.

The bank has made several applications for losses incurred to the National Treasury for Government support /in defraying the incurred losses from the year 2012 to 2018. Defrayment of losses to close the gaping hole in the balance sheet is one of the sure ways of returning the Bank to profitability

**4 Overdue Accounts Receivable**

As reported previously and as disclosed under Note 24 to the financial statements, the statement of financial position reflects accounts receivable balance of Kshs.2,610,326,854;(2018-Kshs.2,637,847,618). Included in the amount is rent receivables balance of Kshs.73,000,353 of which Kshs.47,113,844 is owed by tenants who have since vacated the Bank's premises without recourse as provisioned for in the lease agreements being exercised. The likelihood of the amount being collected is doubtful, and adjustments necessary by way of provisions for the uncertainty have not been incorporated in the financial statements.

In the circumstances, the accuracy of the accounts receivable balance of Kshs.2,610,326,854 as at 31 December 2019 could not be confirmed

**Management comment**

Provision of Bad and doubtful debts of Kshs19,720,000 on Rent Receivable had been made in FY 2019 accounts which includes among others amount held by tenants who have vacated equivalent to Ksh47,113,844.

Most of the rental debts outstanding have been forwarded to legal department for recovery measures which include us of debt collectors and auctioneers. The Bank applied rent deposit paid by these rent debtors to offset/reduce the amount due from them

## PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

### 5 Loss of cash through Fraud/Cash Loss

**i)Fraud**

As reported previously and as disclosed under Note 25, included in the prepayments & Other Assets figure of Kshs.2,531,312,171 is an amount of Kshs.81,128,628 indicated as fraud customers and fraud others. The money was lost through fraud and no meaningful efforts have been undertaken by management to recover the money so far. This is indicative of failure on part of the management to recover the lost money

**Management comment**

The Bank is following up reported fraud cases with insurance and other relevant organization for recovery.

**ii) Cash shortage**

Further, included in Note 25. pre-payments and other assets were a value of Kshs. 35,228,987 being cash shortages attributable to working cashiers. The Human resource policy of the bank requires such cash shortages to be made good within forty-eight (48) hours by the concerned. Evidently the board /management has not been keen to implement the policy to safeguard the customer's savings & deposits

**Management Response**

Recoveries are being made from staff who have encountered cash shortage. Included in this balance is fraud balances that occurred in various branches amounting to Kshs 24,138,516 over period these errors are being resolved through the ongoing balance sheet clean up exercise. Currently all shortages are being recovered promptly as per policy

### 6 Property and Equipment

As reported in the previous year and as disclosed under Note 26 to the financial statements, the statement of financial position reflects property and equipment balance of Kshs.2,263,288,081;(2018-Kshs.2,360,260,775). The following unsatisfactory issues were however observed:

**6.1- Encroached Land without Title Deed**

Included in the Land balance of Kshs.805,000,000, is a parcel of land valued at Kshs.5,000,000 located in Dandora Phase II allotted to the Bank in 1993. Physical visit to the land during the audit revealed that it continues to remain unfenced and has since been encroached on by informal settlers. There is no evidence of actions taken by management to secure the land and obtain a title deed. The Bank's ability to access the land in the future as its rightful owner is doubtful.

**Management Response**

The Bank leased out the plot to Safaricom for installation of a communication mast (The Bank earns Kshs 450,000 per year as rental income) as acquisition of the title deed is ongoing.
The Bank's Advocates, Ataka Kimori, advised that there is an ongoing titling process being conducted by the Nairobi Metropolitan Service (NMS). Once the process is concluded, a report will be generated, which will assist in obtaining the title deed.

## PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

### 6 Property and Equipment (continued)

**6.2-Land in Dispute**

Disputed Land Reference No. 209/11908(I.R No.59328) in Nairobi, Upper Hill, Mara Road, and registered in the Name of the Bank valued at Kshs.550,000,000 has its title deed encumbered (The encumbrance was registered vide a caveat dated 15 August 2014 claiming interest absolutely). Available information indicates that this relates to an ongoing court case No.2834 of 1995 between the Bank and another. The outcome of the case had not been determined at of the date of the financial statements, however management has not disclosed this by way of contingent liability in the financial statements.

In the circumstance, the absolute ownership to the two parcels of land by the Bank could not be confirmed.

**Management Response**

The land in dispute involves Postbank and Simiyu Wasike. It is in Upper Hill, as per revaluation done in December 2017 it was valued at Kshs 550 million but carried at book value of Kshs 27,390,225. The Bank lost the matter at the High Court and filed an Appeal. A hearing date on the parties' submissions will be issued on notice. The Bank is waiting for this notice for submission.

Also included in the property and equipment balance of Kshs.2,263,288,081 as of 31 December 2019 are motor vehicles valued at Kshs.19,361,255. As reported previously, the motor vehicles schedule includes a motor vehicle registration number KAJ 078Y valued at Kshs.400,000 whose logbook has not been issued to the Bank by the National Transport and Safety Authority (NTSA). This is despite the Bank having paid the requisite duty to register the vehicle in its own name in November 1997.

In the circumstances, the accuracy of property and equipment balance of Kshs.2,263,288,081 as of 31 December 2019 could not be confirmed.

**Management Response**

The Board guided management to dispose the vehicle as scrap to the National Youth Service in line with The Public Procurement and Asset Disposal Act (transfer to another public entity).

## PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

### 7 Anomalies in Employee Expenses

The statement of comprehensive income reflects employees' expenses of Kshs. 1,153,873,508 which is approximately 53% of the total expenditure of the Bank for the year under. This is above the set limit of 35% as stipulated in Section 26(a) of PFMA regulations 2015. Further, contrary to the provisions of Section 19(3) of the Employment Act, 2007, four hundred and twenty-eight (428) (65.5%) employees of the Bank out of the total six hundred and seventy-four (674) employees earned less than a third (1/3) of their basic pay. In the circumstances the bank failed to comply with the provisions of the law. No explanation has been provided for the anomaly

**Management Response**

a)The Bank developed HR instruments which have been forwarded to The National Treasury and State Corporation Advisory Committee (SCAC) for approval. On approval and implementation this will regularize above anomaly and reduce staff costs and improve the loss-making position and improve on productivity of the Bank.

b)The number of employees earning less than 1/3 has been looked and the Bank in 2020 introduced cheaper internal staff welfare loans and takeover of the expensive external Bank loans to assist staff comply with the 1/3 rule

### 8 Staff establishment

Whereas the approved staff establishment for the bank is six hundred and ten (610) officers, the actual count of officers in post was six hundred and seventy-four (674) implying excess staffing by sixty-four (64) employees. This has contributed to high costs of compensation to staff and hence the bank continued recording operating deficits. The bank failed to comply with the approved staff establishment for the year.

**Management Response**

The staff establishment was approved bearing in mind that restructuring was to be carried out in the year 2019 which did not happen as it was pegged on sale of Postbank Training School in the same year.
Human Resources instruments have been done and submitted to The National Treasury for approval /adoption to ensure the Bank is strategically structured
The on-going Bank re-organization and process will be able to address the above observation by releasing staff from service. The Bank will transfer staff who have attained the needed qualifications to the areas of need which will help in balancing the staff establishment. As at end of FY 2021 the staff count was 600 in complince with approved staff establishment.

### 9 Unassed Contingency Liability over legal cases

During the year under review, the bank made provisions of Kshs.1 billion in the books in respect of the anticipated crystallization of numerous legal cases against the bank. Based on the information available, the bank management believe that at the determination of all the cases, the bank is not likely to suffer any financial loss. The land dispute case between Postbank and a plaintiff has taken so long to be conclude. The contingency liability risk should be properly assessed and seriously addressed by management.

## PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

### 9 Unassed Contingency Liability over legal cases ( continued)

**Management Response**

The bank is pursuing early hearing dates at various court registries for ongoing court matters for quick closure. Additionally, the bank is also pursuing out of court settlements through Alternative Dispute Resolution methods for some of the court cases with a view to fast track the resolution of the cases and minimize financial exposure to the bank.

However, the Bank believes, based on the information currently available, that the ultimate resolution of these legal proceeding's claims would not likely have a material effect on its operations

Kshs 625 million arising out of adverse judgement and Actuarial Valuation deficit issued on disputed matter involving KPOSB Staff Retirement Scheme property (Karen/Langata) was adopted by the Board for settlement as per RBA Guidelines. The remedial plan was registered, and the Bank committed to settling the amount by year 2024. As at end of 2021 the bank had paid Kshs 156,275,000.

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank adjusts the accounts for any adverse effects which the claim may have on its financial standing.

### 10 Lack of Business Continuity policy

A review of business continuity policy revealed that the Bank is not well prepared to adapt to disruptions incidents that may occur in order to maintain continuous operations and to protect its assets. The bank continues to use an outdated business continuity policy and backups which have not been tested to ensure recoverability in the event of disruption. Consequently the Bank's recoverability of operations and assets in the event of disruption could not be confirmed

**Management comment**

The Bank now has a well working Disaster Recovery and the BCP plan has been documented and updated to capture the latest developments.

The Bank has also invested in upgrading the Backup Solution from tape to Disk Library and data can now be backup and restored seamlessly