

REPUBLIC OF KENYA

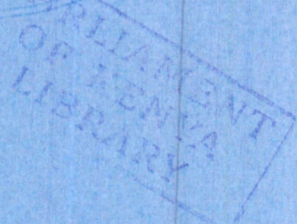


OFFICE OF THE AUDITOR-GENERAL



*Paper laid
By Hon. Aden Duale, MP (Leans)
on Thurs. 23.08.2018 (11:55)
MM*

REPORT



OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
KENYA POST OFFICE SAVINGS BANK**

**FOR THE YEAR ENDED
31 DECEMBER 2016**



KENYA POST OFFICE

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

- 7 AUG 2018

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My Bank, My Choice, My Future

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

31ST DECEMBER 2016

ANNUAL REPORT AND FINANCIAL STATEMENTS 31ST DECEMBER 2016

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BOARD OF DIRECTORS

The Kenya Post Office Savings Bank consists of a team of experienced and qualified professionals who provide leadership in matters relating to decision making in the Bank. The Board is appointed by the Minister of Finance and is made up of the Chairman and four Directors and the Managing Director. The Board provides guidance and direction to the Management. 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 controls over the strategic, financial, operational and compliance issues. The Board is responsible of ensuring succession, planning and recruitment of the CEO. The Board is made up of the following;

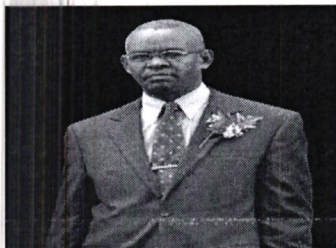
BOARD OF DIRECTORS



Hon. Fred Kapondi
Chairman

Hon. Fred Kapondi Chesebe holds a Bachelor of Arts degree (Hons) from the University of Nairobi. Prior to his appointment as Postbank Chairman, he served as the Member of Parliament for Mt. Elgon Constituency between 2008 and 2012. He has vast experience serving in various Parliamentary Committees and was the Chairman of the Parliamentary Committee on Administration and National Security between 2008 and 2012. Hon. Kapondi also served as a Member of the Parliamentary Committee on Budget 2008-2012; Member Parliamentary Committee on Equal Opportunities 2010-2012; Member Parliamentary House Privileges Committee and also Member, Liaison Committee. Hon. Kapondi is trained in Corporate Governance and has attended many local & International conferences. He was appointed as chairman of Kenya Post Office Savings on 10th January 2014. Hon, Fred Kapondi is forty seven (47) years old.

PRINCIPAL SECRETARY/ NATIONAL TREASURY



DR. KAMAU THUGGE, CBS

Dr. Kamau Thugge is currently the Principal Secretary at the National Treasury. He has previously worked in the Ministry of Finance as head of Fiscal and Monetary Affairs Department, Economic Secretary and as Senior Economic Advisor. Before joining the Ministry of Finance, he worked with the International Monetary Fund (IMF) as Economist, Senior Economist and Deputy Division Chief. Dr. Thugge has played a major role in influencing the design of Kenya's current fiscal decentralization system and has coordinated the formulation of legislation for implementing devolution, including the Public Finance Management Act, 2012; The Commission on Revenue Allocation Act, 2011; The Independent Officers (Appointment) Act, 2012; The County Government PFM Transition Act 2013; The County Allocation of Revenue Bill 2013; and, The Division of Revenue Bill 2013/2014.

Dr. Thugge is widely published and holds a Bachelor of Arts (Economics) degree from Colorado College, USA; Master's degree in Economics from John Hopkins University, USA; and a Doctor of Philosophy (PhD) degree in Economics also from John Hopkins University.

Board of Directors (continued)



Nzomo Mutuku
Board Member

Alternate to PS The National Treasury

Nzomo Mutuku is since June 2013 the Senior Advisor, Financial Sector, at The National Treasury of Kenya where he advises on policy matters relating to Pensions, Insurance, Capital Markets, Banking and other financial services. Previously, he was the Chief Manager Research & Development at the Retirement Benefits Authority in Kenya. He worked at the Authority for over 12 years having previously worked in the Research Department of the Central Bank of Kenya. Mr. Mutuku holds a Masters of Arts degree in Economics as well as a first class honours Bachelor of Arts (Economics) degree from the University of Nairobi. He has also undertaken training in pensions and financial markets in various countries including the UK and Canada and at the Harvard University and Wharton Business School in the United States. He has authored a number of papers on financial sector issues including "the *case for consolidated Financial Sector Supervision in Kenya* and *the impact of the Global Financial Crisis on the Pensions Sector in Kenya*" which are widely quoted in the region. He was a member of the High Level Task Force that negotiated the East Africa Community Monetary Union Protocol. Mr. Mutuku is forty eight (48) years.



Ms. Jane Marwa
Board Member

Ms. Jane Moronge Marwa holds a Post Graduate Masters of Education specializing in education and a Bachelor's Degree in Education both from the University of Nairobi. She has been a teacher for over 20 years before becoming a Director of Kuria Women of Valor Organization where she spearheads the recruitment and orientation of new members as well as assist in management of resources. She is the founder and Director of Elite Junior Academy in Isebania – Kuria. Ms. Moronge has been instrumental in formation and development of Radio Lessons in Kenya Institute of Education and has empowered the Girl Child and vulnerable children in Kuria District. Ms. Moronge was a candidate for 2013 elections. Jane Moronge is forty nine (49) years old and is currently studying PhD in Education Foundation at the University of Nairobi.

Board of Directors (continued)



Dr. Urbanus Kioko
Board Member

Dr. Kioko holds a Doctorate in Economics of the University of Nairobi (2008), Mphil (Health Economics) of the University of Cape Town (2000), MA (Econ) of the University of Nairobi (1994) and Bed (Business and Economics) of the University of Nairobi (1992). He is currently a steering committee member of the out-put-based approach (OBA) programme in the Ministry of Health, a coordinator for the MSc in Health Economics and Policy, member of the College Health and Safety Committee, Chair, Health Economics committee, School of Economics, University of Nairobi. Dr. Kioko is fifty one (51) years old.



Mr. Lawrence Tanui
Board Member

Mr. Lawrence Tanui has over 15 years' experience in business, insurance and accountancy. He is currently studying PhD in Business Management at Moi University, Mr. Tanui Holds an MBA in strategic management (UON), Bcom (accounting) and he is a Certified public Accountant (CPAK). He has developed his career in Finance and Accounts and is currently the Finance Manager at Africa Merchant Assurance Company Ltd (AMACO LTD). Mr. Tanui is forty (40) years old.



Ms. Anne Karanja
Managing Director

Anne has a Masters degree in Business Administration specializing in Strategic Management and a Bachelor's degree in Economics and Sociology. She has vast experience in banking, auditing and finance. Prior to joining Kenya Post Office Savings Bank, Anne was an Auditor with the Controller and Auditor General. She has previously headed several departments in the bank including Finance & Accounts, Administration and Money Transfer Services. Anne has proven leadership, project and business management skills and has a passion for service excellence. She has also steered several business projects with remarkable success. Ms. Ann Karanja is fifty eight (59) years old.

Board of Directors (continued)

Ag. Head of Legal & Property Management/ Company Secretary- Mr. Peter Kioni



Peter Kioni is an Advocate of the High Court of Kenya and holds a Master of Laws degree (LLM) from the University of Nairobi and a Bachelor of Laws degree from Moi University. He also has a Postgraduate diploma from the Kenya School of Law. Mr. Kioni has over 10 years working experience in the Legal field. He was Assistant Manager Legal Services prior to his current appointment. He has experience in Credit from Diamond Trust Bank Limited where he worked for more than two years

SENIOR MANAGEMENT

Anne Waiyego Karanja—Managing Director



Anne has a Masters degree in Business Administration specializing in Strategic Management and a Bachelor's degree in Economics and Sociology. She has vast experience in banking, auditing and finance. Prior to joining Kenya Post Office Savings Bank, Anne was an Auditor with the Controller and Auditor General. She has previously headed several departments in the bank including Finance & Accounts, Administration and Money Transfer Services. Anne has proven leadership, project and business management skills and has a passion for service excellence. She has also steered several business projects with remarkable success

Chief Operations Officer—Mr. Sylvester Obuon



Sylvester holds B.A and M.A degrees in Economics from the University of Nairobi. He is the Chief Operating Officer since 1st November 2016. Prior to this appointment, Mr. Obuon was the Ag. Director Banking Services & Marketing. He has headed Retail Banking, Administration, Procurement and Property management departments. Mr. Obuon has also previously worked as a Products Manager, Bank's Economist and Head of Planning and Research. Before joining the bank, Sylvester served as a Research Economist at the then Ministry of Finance and Planning and Kenya Industrial Research and Development Institute (KIRDI) respectively. He is an Honorary Fellow of the Kenya Institute of Bankers (HFKIB) and is currently the chairman of KIB, Nairobi Local Centre. He has previously served as the Vice- Chair of the Kenya Credit and Debit Card Association.

Head of Banking Services - Mr. Simon Njoroge



Simon Njoroge holds a Masters of Commerce from the University of Shivaji in India and a Bachelor of Commerce from the University of Mysore in India. He also has a Diploma in Micro Finance from Strathmore University. He has over 13 years of professional experience in Business Process Reengineering, People Management and Customer support services. He has been involved in many projects including the roll out of Western Union Translink system, MoneyGram, Delta works and Postbank Express. Mr. Njoroge also has expertise in franchise contracting, franchise management and business development of the 3 leading money remittance international brands.

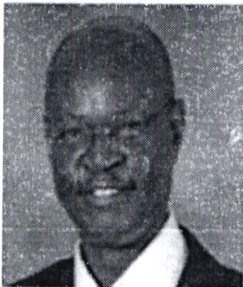
SENIOR MANAGEMENT (continued)

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Head of Information & Communication Technology Department – Mr. Henry Omumia



Henry Kenozwa Omumia joined the Bank in year 2001 and has helped the bank implement customer centric solutions. He is an ICT executive with extensive experience and track record in the field having started his career in Ernest and Young an international professional audit firm. He also worked for Cirio Del Monte a large International Pineapple growing and Canning Company prior to joining the bank. Kenozwa has a Bachelor of Science degree from the University of Nairobi and is a Fellow of the Computer Society of Kenya (FCSK). He has also attended Project Management, Change Management and General Management courses and workshops both in Kenya and abroad.

Head Marketing and Business Development - Mr. David Gatawa



A First Class Honours graduate of Civil Engineering with an MBA from Leicester University UK, David is an internationally experienced senior management professional with over 19 years of Corporate, retail and microfinance banking and project management experience in the banking industry. He has also previously been a Lead Business Consultant with the World Savings Bank Institute (WSBI) implementing a Bill & Melinda Gates funded project in Lesotho Postbank. Prior to joining Postbank, he worked for the Global UK Bank and Barclays Bank for 12 years. David is also an ACCA and ACIB (UK) finalist.

SENIOR MANAGEMENT (continued)

Head Human Resources - Ms. Ursula Sabina Oyatsi



Ursula Sabina Oyatsi is the Head of Human Resources with effect from **1st December 2014**. She holds a Masters degree from Esami and Bachelors of Commerce from University of Nairobi. Sabina has massive experience in Marketing and Customer Service having worked in various departments in the Bank such as Money Transfer Services, Card Services, Marketing and Customer Relations. Prior to this position, Sabina was Head Corporate Banking, Money Transfer and Card Services. She also served as Manager Customer Relations where she was instrumental in developing customer service standards for the Bank. She has attended various management courses locally and internationally. Before joining the bank she worked for Bata Shoe Company.

Head of Finance and Accounts - Everlyn Tsimanji Madigu



Everlyn holds Masters Degree in Business Administration specializing in Finance from Kenyatta University and Bachelor of Commerce (Accounting Option). She is a qualified Certified Public Accountant (CPA-K). She joined the bank in December 2016. Prior to joining the bank, Everlyn worked in HFC Bank. She has vast experience in Finance, Customer Service and Operations. She has implemented various projects with great success the latest being implementation of the Core Banking System, Treasury module and the ERP systems.

Head of Projects - Ms. Jacinta Nzisa Kasingiu



Ms. Jacinta N. Kasingiu joined the Bank as Head of Projects in 2016 and has an MBA in Strategic Management from the University of Nairobi, a Bachelor of Arts degree holder in Philosophy and Sociology from the University of Nairobi. She also holds a Post Graduate Diploma in Human Resource from the IPMK. Her experience in banking spans over 22 years having previously worked in Retail Banking, Strategy development and implementation, Change and Project Management with Postbank. Prior to her appointment as Head of Projects, she was a senior consultant at Millennial HR. Through the course of her career, Ms. Kasingiu has been recognized and commended for her role in implementing the Banks automation project and the Postbank's agency banking project towards the Bank's business growth.

SENIOR MANAGEMENT (continued)
Head of Audit – Ms. Lydia Alum



Lydia holds an MBA Finance Option, and Bachelor of Commerce in Accounting & Business Administration and is a member of the Professional bodies ICPAK, ACCA, IIA and ISACA. She is also a Certified Internal Auditor and passed the CISA (Certified Information Systems Auditor) exams.

Lydia has over 18 years' Private and public sector experience in the financial services industry. Her experience spans Bank operations, Recoveries, Finance and Internal Audit. Prior to joining the Bank she was with Women Enterprise Fund. She joined the bank in December 2016 as the Head of Internal Audit.

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

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.

Principal Banks

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

CORPORATE INFORMATION [Continued]

Principal Legal Advisers

J. Louis Onguto Advocates
City House, 3rd Floor, Wabera Street
P.O Box 41376-00100
NAIROBI

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

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 2016.

REVIEW OF ECONOMIC PERFORMANCE

Global Economy

The global economy remains on a gradual recovery path, although the growth momentum weakened in the fourth quarter of 2016 as a result of an uneven recovery path in world economies. In advanced economies, growth was subdued while in emerging economies, prospects differ sharply across countries and regions. Emerging economies in general in Asia and India in particular showed robust growth while Sub-Saharan Africa experienced a sharp slowdown.

Three key transitions continue to influence the global outlook:

- a) The gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services.
- b) Lower prices for energy and other commodities and
- c) A gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery as several other major advanced economy Central Banks continue to ease monetary policy.

The International Monetary Fund (IMF) reports that the global economy grew at 3.1 per cent in 2016, 0.1 percentage points lower than in 2015.

In 2016, Britain voted to leave the European Union. While this may impact existing trade relations with other countries, the full impact of this move is yet to be established in the global economies.

Kenyan Economy

The Kenyan economy expanded at 5.7 per cent in the third quarter of 2016 compared to 6.0 per cent in a similar period the previous year. Data released by the Kenya National Bureau of Statistics indicates that the growth was supported by expansion of activities in sectors such as accommodation and restaurants; transport and storage; wholesale and retail trade; information and communication and health sectors. The growth was dragged by the agriculture, forestry and fishing sector which slowed to 3.9 percent compared to a growth of 5.5 during the same quarter in 2015. In addition, activities of the manufacturing and the construction industries recorded notable slowdown in growths. The World Bank estimates that the Kenyan economy grew at 5.9 percent in 2016 and is projected to grow at 6.0 per cent in 2017. The slowdown in credit to the private sector is attributed to the capping of interest rates which has led to Commercial Banks to 'shun' lending because of the reduced margins and channel their investments to Government securities which are risk free and less expensive to manage.

Inflation

Kenya's inflation rate remained in the range of 6 per cent. In December 2016, it stood at 6.35 percent, November at 6.68 percent, and October at 6.47 percent. Inflationary pressures came from electricity, house rents and kerosene prices but inflation was held at almost constant by declining cooking gas and certain foodstuff prices. Inflation continues to be within the Monetary Regulator's target of 2.5% to 7.5%.

CHAIRMAN'S STATEMENT (continued).

The Exchange rate

The exchange rate came under pressure in the month of December after holding steady for the first 11 months of the year. A decision by the Federal Reserve Bank 2016 (American Monetary Regulator) to increase the domestic base rate had a global effect of making the dollar dearer as investors shifted their funds to the American economy putting pressure on other currencies, the Kenyan Shilling included.

Interest rates

Yields on benchmark Government Treasury Bills were stable during the quarter. The rates oscillated between 7.89% and 8.56% for the 91-day Treasury bill, 10.467% and 10.568% for the 182-day Treasury bill and 10.599% to 11.053% for the 364-day Treasury bill. Stability in the interest rate regime reduces uncertainty in decision making and ultimately reduces the premium when pricing risk.

Year 2016 Results

During the year 2016, Postbank's net operating income reduced by 14.42% from Kshs. 933,043,491 in 2015 to Kshs. 798,464,083 in 2016. On customer's deposit, the Bank achieved Kshs.17.945 billion against a target of Ksh.20.98 billion which translates to 85.5% achievement. The market has become very competitive with many new players entering the market and offering credit facilities which are more attractive to customers.

Corporate Governance

The Board continued to play its role within the tenets of good governance principles. However, for the big part of the year 2015, the Board was not fully constituted, hence posing a big challenge especially in business policy formulation and corporate oversight. As a matter of fact the advisory committees namely: Audit and Risk, and Human Resources only met once whereas Strategy and Development committee did not meet.

2017 OUTLOOK

The slowdown in credit growth is expected to spill over to the year 2017 compromising economic growth. The economy grew at 5.9 percent in 2016 and is projected to grow at 6.0 per cent in 2017. This performance can be attributed to four main drivers:

- a) The decline in oil prices eased the pressure on the external account and improved the net exports position;
- b) Good agriculture performance and supportive monetary policy which contained inflation within target;
- c) Ongoing innovations in the ICT sector provided a platform for growth in services; and
- d) Ongoing infrastructure investments stimulated growth and employment in the construction sector and the completion of energy projects resulted in a gradual reduction in the cost of electricity.

However, this growth outlook is subject to substantial downside risks. These include:

- a) Security threats,
- b) The rebalancing of the Chinese economy,
- c) The subdued prices of coffee and tea.

CHAIRMAN'S STATEMENT (continued).

- d) The recent hike in the US Fed rate could reverse the direction of short term flows which finance Kenya's external account.
- e) The '*wait and see approach*' for the 2017 elections by private investors could slow down investment.

From the above scenario,

Interest Rates -

While the Government has managed its borrowing program admirably in the recent past, the decision to drop external borrowing may put a strain on the local interest rates levels. The weakening of the Kenyan Shilling against the dollar may lead the Central Bank to adopt a tight Monetary Policy in a bid to support the local currency. This could lead to a rise in the interest rate level in the local market. For Postbank, the challenge posed is double edged since customers may require higher rates for deposits while accessing liquidity for operational purposes may also prove a challenge. The Monetary Policy Committee (MPC) meeting scheduled towards the end of January is expected to give direction of the interest rates regime in the coming months.

Inflation

Inflation is expected to come under pressure in the year with the possibility of breaching the upper limit target of 7.5%. The failed short rains have led to a drought and this is expected to adversely affect food production leading to a spike in the price of food, which is a major component in determining the level of inflation. Additionally, energy prices have trended upwards in the last month of 2016 and January 2017 and this is expected to further put inflationary pressures in the economy.

Exchange Rate

The global strengthening of the dollar is expected to put pressure on the local currency as investors exit the Kenyan market wary of booking exchange losses on their investments. The drought in the country is expected to adversely impact agricultural production of key exports such as tea reducing the expected dollar receipts on the sale of the crop. Less dollar receipts from tea will further put a strain on the local exchange rate. The Bank will continue to carefully scan the business environment and align its strategies accordingly to take advantage of emerging opportunities as well as address risks that may impact on its business model.

Strategic Planning

In the year 2016, the Bank commenced on the implementation of the first year of its 5 year strategic Plan – 2016-2020. During the year, the Bank carried out a midterm review of its Action Plan 2016 and also developed the Action Plan for the year 2017. This Strategic Planning process was followed by a budgeting process for the year 2017. The Action Plan and Budget 2017 together formed the basis of performance contracting with the Government of Kenya for the year 2017.

Performance Contracting

In December 2015, the Bank signed its annual performance contract with the Government of Kenya for the financial year 2016. The contract was then cascaded to all levels within the Bank. Quarterly performance monitoring and evaluation was carried out.

CHAIRMAN'S STATEMENT (continued).

An evaluation of the Bank's performance for 2015 was carried out by the independent Government assessors and the Bank attained an overall rating under the "FAIR" category.

Strategic Partnerships

The Bank continues to maintain strategic partnerships with key organizations which allows Postbank to network, gain knowledge and share experiences with other members within the partnerships. These are: Association of Savings Bank of East Africa (ASBEA); World Savings Banks Institute (WSBI); Association of Micro- Finance Institutions (AMFI) and Kenya Bankers Association (KBA). Of significance is the support that has been received from WSBI in sharing customer service experiences and product developments.

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.

LAWRENCE TANUL.....



DIRECTOR

31ST MARCH 2017

MANAGING DIRECTOR'S STATEMENT

I wish to present the Bank's Annual Report and the Financial Statements for the year ended 31st December 2016.

Financial Performance

The financial performance (profit / loss) for the period ended 31st December, 2016 increased to Kshs.1.287 billion loss recording a negative growth of 2.55% from 2015 figure of Kshs.1.255 billion. Total assets increased by 9.42% to stand at Kshs 13.738 from Kshs. 12.555 billion in the financial year 2015, mainly due to growth in investments. Customer deposits increased to stand at Kshs 17.945 billion a 12.23% positive change compared to financial year 2015. The decline in performance was occasioned by:

- Lack of credit which has resulted to accounts falling into dormancy. A number of accounts were closed in the year due to lack of activity for over seven years and the accounts had zero balance.
- Reduced revenues due to reduced active accounts.
- Reduces investment due to declining deposits.

Affiliations

During the Year 2016, the Bank maintained its affiliations with various organisations including but not limited to the World Savings and Retail Banking Institute (WSBI), Association of Savings of Banks of East Africa (ASBEA) and the Association of Micro Finance Institutions (AMFI) Kenya; Kenya Bankers Association (KBA) and The Kenya Banking Institute (KBI).

In all these affiliations, the Bank continued to participate in the Organisations' organised / sponsored meetings, seminars and other activities. Specifically, the WSBI supported the Bank in the following activities;

- Customer centricity training
- Research on causes of dormancy of accounts with youth accounts
- Strategies to handle dormancy
- Global money week
- Development of the Mchama platform for group savings
- Research on enhancing the potential of the Postbank Mashinani agency

For ASBEA, the Bank participated in the annual general meetings in which the ASBEA Strategic Plan 2016-2020 was discussed and the ASBEA payment systems Interconnectivity project among the three countries. AMFI provided capacity training opportunities for the Bank while KBA sensitised the Bank on the various advocacy assignments that the institution is undertaking.

Performance Contracting

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MANAGING DIRECTOR'S STATEMENT (continued).

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ANNE W. KARANJA
MANAGING DIRECTOR

31ST MARCH 2017

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST DECEMBER 2016

The Board of Directors have the pleasure to submit the annual report and audited financial statements for the year ended 31st December 2016 in accordance with the International Financial Reporting Standards, which discloses the state of affairs of the Bank.

Principal activities

The principal activities of the Bank during the year under review was 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 498B.

Results

The results for the year are as set out on pages 29 to 66

Directors

The Directors who served during the year to the date of this report were: -

Name	Title	Appointment Date	Retirement Date
Hon. Fred Chesebe Kapondi	Chairman	10-01-2014	In Service
Dr. Kamau Thugge	PS, National Treasury	15-05-2013	In Service
Mr. Nzomo Mutuku	Alt. Representing P.S The National Treasury	24-09-2014	In Service
Dr. Urbanus Kioko	Director	19-01-2015	In Service
Ms Jane Moronge	Director	02-10-2015	In Service
Mr. Lawrence Tanui	Director	02-10-2015	In Service
Ms Anne W. Karanja	Managing Director	01-07-2014	In service

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 2016.

By order of the Board.



COMPANY SECRETARY

31ST MARCH 2017

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 six (6) Directors of whom 5 are non-executive including the Chairman. During the early part of the year, there were a total of four (4) Directors in service. However on 2nd October 2015, two Directors were appointed. 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 Bank is complying with the Mwangozo “the code of governance for state corporations” and all the Directors have undergone training on the code organised by the State Corporation Advisory Commission.

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.

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 there-under by the Government.

CORPORATE GOVERNANCE STATEMENT [Continued]

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the Year 2016 is disclosed in Note 22 to the Financial Statements. There were no loans given to sitting Directors at any time during the year.

Board and Board Committees Attendance

The following table gives the record of Postbank's Board and Committee Meetings for the year ended December 31st 2016.

BOARD ATTENDANCE REGISTER 2016

Type of Meeting	No. of Meetings	Hon. Fred Kapondi	Dr. Urbanus Kioko	Mr. Nzomo Mutuku	Ms. Jane Moronge	Mr. Lawrence Tanui	Ms. Anne Karanja
Main Board Meeting	5	5	5	5	5	5	5
Special Board Meeting	8	8	7	8	8	7	8
Audit and Risk Board Committee	3	N/A	3	3	N/A	3	N/A
Staff Board Committee	4	N/A	4	N/A	4	N/A	4
Strategy and Development Board Committee	11	N/A	N/A	11	11	11	11
Ad hoc Staff Committee	11	6	11	7	11	N/A	11
Attendance %	100%	100%	87.5%	100%	100%	87.5%	100%

DIRECTOR 

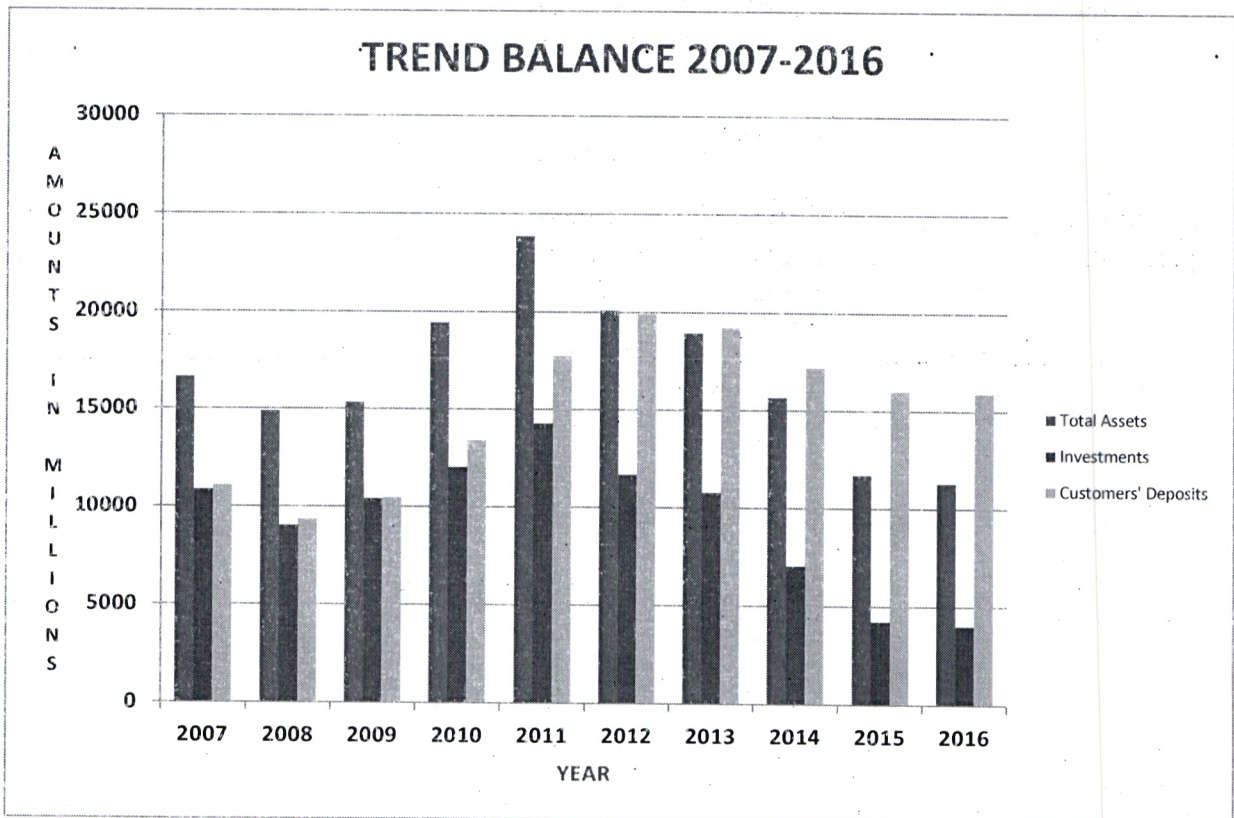
MANAGING DIRECTOR

31ST MARCH 2017

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

The financial performance (profit / loss) for the period ended 31st December, 2016 increased to Kshs.1.287 billion loss recording a negative growth of 2.55% from 2015 figure of Kshs.1.255 billion. Total assets increased by 9.42% to stand at Kshs 13.738 from Kshs. 12.555 billion in the financial year 2015, mainly due to growth in investments. Customer deposits increased to stand at Kshs 17.945 billion a 12.23% positive change compared to financial year 2015 as given in trend analysis below.



Deposit Rates

The average deposit rate increased marginally to 6.78 percent in June 2016 from 6.64 percent in June 2015. The increase was reflected in the '0-3 months and 'over 3 months deposit categories.

Compliance with Statutory Requirement

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

Major Risk Facing Postbank

Major risk facing the organization is lack of one stop shop banking solution for customers compared to the competition. The bank is a saving 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.

MANAGEMENT DISCUSSION AND ANALYSIS [Continued]

Major Debtors

The Bank is owed Kshs 405.232 million by the defunct KP&TC.

In the year 2011, the Cabinet approved that during the Bank's restructuring, the debt be settled by Postal Corporation of Kenya. In the past, there was a request to convert the debt to a bond to ensure the Bank earns a return. This debt is yet to be settled.

Postal Corporation of Kenya (PCK)

The Bank is owed Kshs 1.934 billion by PCK and in turn the Bank owes PCK Kshs 995.135 million giving a net outstanding figure of Kshs 939.261 million. Management shall continue to pursue settlement of the same including setting off arrangement.

Strategic Plan 2016 -2020

In the year 2016, the Bank commenced on the implementation of the first year of its 5 year strategic Plan – 2016-2020. During the year, the Bank carried out a midterm review of its Action Plan 2016 and also developed the Action Plan for the year 2017. This Strategic Planning process was followed by a budgeting process for the year 2017. The Action Plan and Budget 2017 together formed the basis of performance contracting with the Government of Kenya for the year 2017

A review of the Bank shows that the Bank is not achieving its targets for all the key performance indicators. Overall, the Bank is characterized with:

- a) A declining market share in all its key business parameters i.e. deposits and accounts.
- b) Dwindling incomes from both investment and non-investment incomes.

The Bank is still awaiting facilitation by the Government on the implementation of the identified special projects and on the restructuring of the Bank. To improve on the performance, special projects have been identified but implementation should be facilitated by the Government.

Sale of Key Strategic Assets

The National Treasury approved in December 2016 sale of Postbank Training School to assist in restructuring of the bank. This will assist in reducing staff costs by reducing the cost income ratio. The management will be looking at modalities of disposal in the year 2017.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

INTRODUCTION

Our Corporate Social Responsibility initiatives focus on broadening access to financial services for communities, particularly in rural areas. The Bank partners with groups that work to create value in their contribution to the economy. Our objective is to create and maintain credibility by working in partnership with the people in addressing problems perceived by the society as crucial.

SOCIAL IMPACT

The Bank engaged in activities that engaged local communities in our efforts to improve access to financial services and our philanthropic investments. Ultimately, our aim is to bring the breadth of the bank's capabilities to the community and amplify their impact on the social, environmental and economic challenges.

CSR PRIORITY AREAS

Our long term vision is to contribute to the sustainable development in the country. This is achieved through giving back to society through our four key pillars which are:

- Education
- Financial Literacy
- Environment
- Health
- Water & Sanitation
- Emergency Response

The key highlights and achievements during the period under review included investment in communities through various projects aimed at enriching and empowering people through basic education, health and poverty reduction.

1. HEALTH

Provision of adequate and satisfactory health services remains a challenge especially in the rural areas. The proposal is for the Bank to support critical areas in enhancing the health of customers in our areas of operation.

POSTBANK PARTNERS WITH ZAMBEZI HOSPITAL IN CANCER AWARENESS

Postbank partnered with Zambezi Hospital to increase awareness on cancer as it has been identified as a silent killer in our communities especially because of low level of awareness, late presentation and diagnosis and lack of affordable facilities for cancer management.

The event entailed a 5km cancer walk dubbed "Relentless in our commitment to fight Cancer together" in fighting the cancer endemic. The sponsorship facilitated;

- a) Screening persons for cancer.
- b) Examination and consultancy for cancer patients.
- c) Cancer education.
- d) Cancer survivors counseling and support.

POSTBANK MARKS 2016 WORLD KIDNEY DAY

To commemorate World kidney Day, Postbank partnered with the Kenya Renal Association and embarked on a campaign to educate and remind Kenyans of the various avenues of support available to assist those living with renal related illnesses and prevention.

The Bank acknowledges that a healthy nation is a productive nation and hence undertakes activities that enhance the country's well-being.

2. FINANCIAL INCLUSION.

CELEBRATING GLOBAL MONEY WEEK

Global Money Week brings together the efforts which focus on financial education, financial access, and entrepreneurship for youth.

In the spirit of Global Money Week, Postbank, through all her 104 branches conducted savings education in schools, tertiary learning institutions, colleges and universities.

WORLD SAVINGS DAY

This year, Postbank celebrated World Savings Day in grand style. Coupled with service excellence, the activities included Postbank's pledge to customers. Postbank has made it a solid tradition to encourage savings through empowering the public on the importance of Savings for thrift mobilization.

3. EDUCATION.

In 2016, the theme was promoting mentorship and a savings culture among the youth through the following programmes;

JOB SHADOW

A group of High School students got to experience what life is like at Postbank for a day as part of job shadow.

Part of the program involved students visit to Postbank Head Office Branch. Students were exposed to most aspects and departments of Postbank to get first-hand look at the work place. The Job Shadow program is aimed at making a powerful impact on a student's impression of different professions within the Bank.

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.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT [Continued]

POSTBANK SUPPORTS THE COIN-CHAIN- FOR EDUCATION ACTIVITY

In the spirit of achieving our mandate of mobilizing savings for national development, Postbank sponsored "The JA Coin - Chain" that sought to raise funds for e-learning toolkits to support entrepreneurship and financial skills training to 50 secondary schools.

Currently, the Bank has partnered with Junior Achievement Kenya through provision of financial literacy, mentorship and job-shadow programmes. During the Coin Chain for education activity, Postbank was recognized as the most creative organization. The event provided a great team-building opportunity for staff, provided an opportunity to showcase Postbank products as well as exposure to potential customers.

4. GROUP EMPOWERMENT

Postbank's cornerstone is focused on social and environmental responsibility as a prerequisite to conducting our business. The Bank thrives in mobilization of savings for national development and her economic activities focus on savings. To remain competitive, relationship banking has been very pivotal in customer retention and acceptance of new products and services.

Our vision is aligned towards enhancing the lives of our customers, staff, stakeholders and the community. Postbank collaborates with organized groups, schools and institutions to develop and strengthen our impact within the social and environmental field.

During the year in review, the Bank supported the following groups;

- Wamagana Farmers Self Help Group in Murang'a, Mt. Kenya Region. The group received a donation of 5,000 litres water tank to support their farming initiatives. The group of 25 farmers is involved in chicken rearing and tomato farming. The Bank also conducted savings education to the farmers.
- Hatua Likoni; a community NGO in Coast Region that seeks to promote education and employment among the youth. The Bank donated 100 chairs as requested by the Institution. The Bank in turn conducted savings education.
- Kikao Self Help Group in Rift Valley. The Bank donated 100 plastic seats. The Bank empowered the group's economic activities of lending.

5. WATER AND SANITATION

Postbank's 2016 CSR project focusing on sanitation involved donation of water tanks to schools and groups/chamaa's within her areas of operation in response to the needs of the community.

This project sought to alleviate water problems to needy schools and groups namely;

- Matongo Secondary School in Nyamira County.
- Kanyakwar Community Based Group in Kisumu.
- Jasho youth group in Uthiru
- Dawuka Youth Bunge Group

DIRECTOR.....

MANAGING DIRECTOR.....

31STMARCH 2017

STATEMENT OF DIRECTORS RESPONSIBILITIES

The State Corporations' Act Section 14 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 2016.

This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the entity; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

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

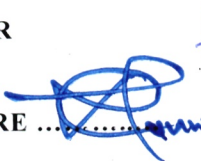
The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended December 31st, 2016, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity'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 approved by the Board on 31st March 2017 and signed on its behalf by:

DIRECTOR

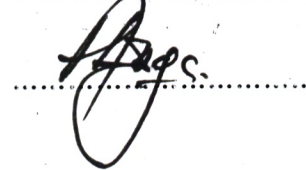
SIGNATURE



for HEAD OF FINANCE
ICPAK MEMBER NO.6915



MANAGING DIRECTOR



31ST MARCH 2017

**REPORT OF THE AUDITOR GENERAL ON KENYA POST OFFICE SAVINGS BANK
FOR THE YEAR ENDED 31ST DECEMBER 2016**

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST DECEMBER 2016

	Notes	2016 December Kshs	2015 December Kshs
Interest Income -In	14	672,598,189	726,117,981
Interest Expense	15	-562,788,544	-459,833,282
Net Interest Income		<u>109,809,645</u>	<u>266,284,699</u>
Fees and Commissions Income	16	512,241,968	517,167,880
Fees and Commissions Expense	17	-20,005,767	-34,964,814
Net Fees and Commissions Income		<u>492,236,201</u>	<u>482,203,066</u>
Net Trading Income		<u>602,045,846</u>	<u>748,487,765</u>
Foreign Exchange Income	18	76,675,558	85,951,687
Other Operating Income	19 (a)	119,742,679	98,604,039
Net Operating Income		798,464,083	933,043,491
Impairment loss on loans and advances	20	20,000,000	25,000,000
Employee Expenses	21	1,152,426,662	1,156,081,790
Board Expenses	22	8,937,011	3,404,896
Operating Expenses	23	388,576,495	406,963,242
Depreciation	36(b)	109,338,125	112,794,295
Amortization Intangible Assets	37	18,107,403	21,508,191
Amortization for Bonds Trading Cost	24	34,692,599	86,402,632
Other Expenses	25	353,407,767	376,498,212
Total Operating Costs		<u>2,085,486,062</u>	<u>2,188,653,258</u>
Profit/(Loss) before income tax		-1,287,021,979	-1,255,609,767
Income tax expense *		0	0
Profit/(Loss) for the Period	26	-1,287,021,979	-1,255,609,767

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

Disclosure Note

Extra ordinary Income 19 (b) **10,975,743**

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2016

2015

	Notes	2016 Kshs	2015 Kshs
ASSETS			
Cash	28	571,762,339	662,922,538
Funds on Call and Short Notice	29	33,608,117	32,466,482
Investment in Treasury Bills and Bonds	30	4,848,850,219	4,205,931,262
Investment Property	31	896,790,225	896,790,225
Stocks	32	16,798,864	17,346,696
Other Investments	33	3,692,401	3,959,501
Accounts Receivables	34	2,873,129,934	2,349,660,894
Prepayments & Other Assets	35	2,621,365,249	2,497,082,084
Property and Equipment	36(b)	1,787,523,677	1,847,334,222
Intangible Assets	37	<u>84,772,604</u>	<u>41,699,607</u>
Total Assets		13,738,293,629	12,555,193,511
LIABILITIES			
Customer Savings and Deposits	38	17,944,664,853	15,989,249,677
Accounts Payables & Accruals	39	2,780,782,181	2,285,589,054
GoK Pension Reserve Fund	40	<u>183,942,031</u>	<u>204,348,685</u>
Total Liabilities		20,909,389,065	18,479,187,416
SHAREHOLDERS' EQUITY			
Capital Grants	41	12,907,037	30,570,479
Revaluation Reserves	11	2,388,250,796	2,388,250,796
Change in Fair Value for Bonds AFS	30	27,098,028	0
Revenue Reserves	12	<u>-9,599,351,297</u>	<u>-8,342,815,180</u>
Total Shareholders' Equity		-7,171,095,436	-5,923,993,905
Total Liabilities & Shareholders' Equity		13,738,293,629	12,555,193,511

The Financial statements on pages 29 to 33 were approved by the Directors on 31st March, 2017 as a draft and signed on its behalf by:



.....
DIRECTOR

31ST MARCH 2017



.....
DIRECTOR

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2016

	Capital Grants	Revaluation Reserves	Change in Fair value	Revenue Reserves	TOTALS
	Kshs	Kshs	Kshs	Kshs	Kshs
At 1 st January 2015	30,813,139	2,388,250,796	-	-7,089,451,153	-4,670,387,218
Profit/(Loss) for the year	-		-	-1,255,609,767	-1,255,609,767
Additions during the year	-242,660	-		-	-242,660
Prior year adjustment		-		2,245,740	2,245,740
At 31 st December 2015 (Note ii)	30,570,479	2,388,250,796	-	-8,342,815,180	-5,923,993,905
At 1 st January 2016	30,570,479	2,388,250,796	-	-8,342,815,180	-5,923,993,905
Profit/(Loss) for the year				-1,287,021,979	-1,287,021,979
Additions during the year -AFS			27,098,028		27,098,028
Transfer of grant utilised during the year (Note i)	-17,663,442				-17,663,442
Prior year adjustment (Note ii)				9,889,533	9,889,533
Prior year adjustment (Note iii)				-1,293,876	-1,293,876
Prior year adjustment (Note iv)				1,086,209	1,086,209
Prior year adjustment (Note v)				20,803,996	20,803,996
At 31 st December 2016	<u>12,907,037</u>	<u>2,388,250,796</u>	<u>27,098,028</u>	<u>-9,599,351,297</u>	<u>-7,171,095,436</u>

(i) A transfer of Ksh17,624,542 received from Visa International in year 2013 and Ksh38,900 for Mchama was made during the year upon utilisation in FY 2016.

(ii) Prior year adjustment of Ksh.9,889,533 relates to receipts from ailing Institutions –Trust Bank during the year.

(iii) Prior year adjustment of Kshs.1,293,876 relates payment of audit fees to KENAO for period 2014 which was under budgeted.

iv). Prior year adjustment of Ksh.i,086,209 relates to correction of overstated commission in year 2012.

v). Prior year adjustment of Ksh.20,803,996 relates to correction of over accrued expenses in year 2014.

REPUBLIC OF KENYA

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P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA POST OFFICE SAVINGS BANK FOR THE YEAR ENDED 31 DECEMBER 2016

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of Kenya Post Office Savings Bank set out on pages 32 to 66, which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I 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 effects of the matter described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya post office savings bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenya post office savings bank Act 493B of the law(s) of Kenya.

In addition, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Qualified Opinion and Other Matter sections of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1. Going Concern

As noted similarly in the previous year, the bank reported a loss of Ksh.1,287,021,979 (year 2015 loss Kshs.1,255,609,767) and an increase in revenue reserve deficit to Kshs.9,599,351,297 (year 2015 Kshs.8,342,815,180). The bank also reported a negative total shareholders' equity of Kshs.7,171,095,436 as of 31 December 2016 (year 2015 Kshs.5,923,993,905). In view of the above circumstances, the bank's ability to continue operating on a going concern basis and deliver on its mandate both in the short and long run is dependent on the support of the depositors and the Government.

2.0 Cash and Bank

The cash and bank balances of Kshs.571,762,339 reflected in the statement of financial position as at 31 December 2016 and as disclosed in Note 28 includes cash on hand of Kshs.331,554,969 (year 2015 Kshs.370,456,515). As reported in the previous year, the

cash count certificates were availed to support the Kshs.370,456,515 but on review the certificate availed supported Kshs.375,465,302 leaving an unexplained difference of Kshs.5,008,787. In the circumstances, the correctness of the comparative figure for cash and bank balance of Kshs.662,922,538 cannot be confirmed.

3.0 Account Receivables and Prepayments

The statement of financial position reflects accounts receivable and prepayment net balance of kshs.2,873,129,934 as at 31 December 2016 and as disclosed in Note 34 after a provisions of doubtful debt of kshs.664,623,725. The basis of the provision of Kshs.662,922,538 has not been provided for review.

3.1 Long Outstanding Balances

The Accounts Receivables includes long outstanding balances totaling Kshs.1,910,859,696 which is made of excess deposits - Kshs.780,399,108, GOK pension (KP & TC) - Kshs.405,231,629, prepaid GOK pension (payroll) - Kshs.456,675,801 and GOK pension cheques receivable Kshs.268,553,158 owed over the years by Postal Corporation of Kenya and the defunct Kenya Posts and Telecommunications Corporations. The accounts receivables and prepayments balances also includes loan advances to two former directors totaling Kshs.3,327,044 that has similarly been outstanding over the years. It has not been possible therefore to ascertain the recoverability of these long outstanding balances and directors' loans of Kshs.1,910,859,696 and Kshs.3,327,044 respectively.

3.2 Trade Debtors

The statement of financial position reflect accounts receivables of Kshs.2,873,129,934 which includes trade debtors' of Kshs.219,927,482 as at 31 December 2016. As reported in the year 2014 and 2015, the opening balance of Kshs.172,623,647 was taken into consideration in arriving at the 2015 closing account of Kshs.138,481,371. The closing balance of trade debtors Kshs.172,623,647 as at 31 December 2014 has not yet been reconciled to the 2014 debtors' schedules which reflected a balance of Kshs.213,134,700 , thus resulted to a difference of Kshs.40,511,053 which has remained unexplained by 31 December 2016.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Post Office Savings Bank in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide basis for my qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements of the current year. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, a description of how the audit addressed the matter is provided in that context.

Key Audit Matter	How the audit addressed the key audit matter
Information Technology (IT) Systems and Controls of Financial Reporting	
<p>The bank operates two IT systems one core banking system and Financial reporting system. These systems are again integrated with many other banking related financial systems. There is a risk that the controls around the integration of these systems may not operate effectively. Under Note 38 to the financial statements reflects customer savings and deposits balance of Kshs.17,944,644,853 while the core banking system (CBS) reflects a balance of Kshs.17,927,788,031. The difference of Kshs.6,856,822 has not been explained or reconciled and therefore the accuracy of the customers' savings and deposits account balance could not be confirmed.</p> <p>In the statement of Comprehensive Income for the year then ended, is Interest expense amounting to Kshs.562,788,544. The Core banking system has Kshs.554,235,080 thus differing by Kshs.8,553,464. Due to the inherent nature of the banking operations and the reporting systems, this was considered a key audit matter.</p>	<p>We assessed and tested the financial reports generated from these systems where various differences in the reports were observed. Within the scope of our audit we performed reliance on key controls and substantive procedures to assess the reliance placed on completeness and accuracy of system generated information.</p>

Other Matter

Prior Year Issues

1.0 Misstatement of Customers' Savings and Deposits

The statement of financial position reflects customers' savings and deposits balance of Kshs.17,944,664,853 as at 31 December 2016. As reported in the year 2014 the opening balance of Kshs.17,503,279,455 on customers savings and deposits was not reconciled with the ledger balance as at 31 December 2014. Also in the year 2014, the customers savings and deposits balance of Kshs.17,503,279,455 differed with the core banking system (CBS) balance of Kshs.17,515,289,299 by Kshs.12,009,845 as at 31 December 2014. The difference of Kshs.12,009,845 remained unexplained as at 31 December 2015 and 2016.

2.0 G.O.K. Pension Reserve Fund

The statement of financial position and as disclosed in note 40 reflects GOK Pension Reserve Fund balance of Kshs.183,942,031 (2015 Kshs.204,348,685). The balance is made up of inactive accounts, accounts for deceased cases, Books on hand (BOH) and suspected fraud cases over the years which should be remitted back to The National Treasury upon confirmation. The amount of Kshs.183,942,031 has not been remitted back to exchequer at The National Treasury. No explanation has been provided as to why the corporation has not remitted the balance of kshs.183,942,031 to the Exchequer.

3.0 Interest Expense

The statement of comprehensive income and as disclosure in Note 15 reflect interest expense of Kshs.562,788,544. As reported in the year 2014 the interest expense of Kshs.1,086,132,043 excluded CBS interest from Money Market of Kshs.656,264,332 and the manual interest adjustments of Kshs.31,897,660.50. The corporation has so far demonstrated that the money market interest of Kshs.656,264,332 and manual interest adjustment of Kshs.28,760,305 was included and figures have been supported and reviewed leaving only a balance Kshs.3,137,356 as unexplained difference. However the comparative value for the year 2015 of Kshs.459,833,282 has not been restated, further the unexplained difference of Kshs.3,137,356 has not been explained/clarified thus the correctness of the comparative value of Kshs.459,833,282 could not be ascertained.

Responsibility of Management and Those charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with international Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 the management either intends to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

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.

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

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

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 of Kenya. 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.

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

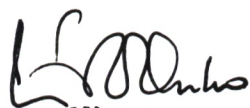
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting 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 control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, and for the purpose of giving an assurance on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on 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 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 control that are identified during the audit.

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



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

Nairobi

03 July 2018

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2016

CASH FLOWS FROM OPERATING ACTIVITIES	2016	2015
	Kshs	Kshs
Profit/(Loss) for the year	-1,287,021,979	-1,255,609,767
Adjustments for:-		
Depreciation	127,445,528	134,302,486
Rental Income	-81,136,604	-67,378,284
Dividend income		-50,801
Gain/ (Loss) on Disposal of Property and Equipment	-242,768	222,320
Appreciation/Diminution in value of quoted investments	267,100	-824,000
Prior year adjustments	30,485,862	2,245,740
Operating profit/(loss) before working capital changes	-1,210,202,861	-1,187,092,306
(Increase)/ Decrease in Accounts Receivables & Prepayments	-647,752,204	154,009,634
(Increase)/Decrease in stocks	547,832	1,566,568
Increase/(Decrease) in Accounts Payables & Accruals	495,193,125	-227,896,138
Increase/(Decrease) Customer Savings and deposits	1,955,415,177	-1,514,029,778
Increase/(Decrease) GoK Pension Reserve fund account	-20,406,654	-301,701,722
Net cash flows from operating activities	572,794,415	-3,075,143,742
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase/Sale of Property and Equipment	-110,707,980	-75,034,293
Proceeds from sale of assets	-	-
Gain/ (Loss) on Disposal of Property and Equipment	242,768	-222,320
Change in fair Value for Bonds AFS	27,098,028	0
Rental income	81,136,604	67,378,284
Dividend Income	0	50,801
Net cash flows from investing activities	-2,230,580	-7,827,528
CASH FLOWS FROM FINANCING ACTIVITIES		
Receipts from WSBI	-17,663,442	-242,660
Net cash flows from financing activities	-17,663,442	-242,660
Net increase in cash and cash equivalents	552,900,393	-3,083,213,930
Cash and cash equivalents at the beginning of the year	4,901,320,282	7,984,534,212
Cash and cash equivalent at the end of the year (Note 42)	5,454,220,675	4,901,320,282

The notes set out on pages 34 to 66 form an integral part of these financial statements.

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AS AT 31ST DECEMBER
2016**

	ACTUAL TOTAL Shs	BUDGET TOTAL Shs	VARIANCE TOTAL Shs	VARIANCE TOTAL %
Interest income	672,598,189	696,127,977	23,529,788	3
Interest expense	- 562,788,544	-650,000,000	-87,211,456	13
Net interest income	109,809,645	46,127,977	(63,681,668)	(1.38)
Fees and commissions income	512,241,968	882,174,517	369,932,549	42
Fees and commissions expense	-20,005,766	-46,611,367	-26,605,601	57
Net fees and commissions income	492,236,201	835,563,150	343,326,948	41
Net trading income	602,045,846	881,691,127	279,645,280	32
Foreign exchange income	76,675,558	71,730,000	(4,945,558)	(7)
Other operating income	119,742,679	158,443,265	38,700,587	24
Operating income	798,464,083	1,111,864,392	313,400,309	28
Impairment loss on loans and advances	20,000,000	20,000,000	0	0
Employee expenses	1,152,426,662	1,342,940,758	190,514,096	14
Board expenses	8,937,011	8,478,000	(459,011)	(5)
Operating expenses	388,576,495	455,855,437	67,278,942	15
Depreciation expenses	109,338,125	134,164,377	24,826,252	19
Amortisation cost- Intangible Assets	18,107,403	40,555,451	22,448,048	55
Amortisation cost- Treasury bonds	34,692,599	89,782,404	55,089,805	61
Other expenses	353,407,767	399,997,872	46,590,105	12
Total Operating Costs	2,085,486,062	2,491,774,300	406,288,238	16
Profit before income tax	(1,287,021,979)	(1,379,909,908)	(92,887,929)	7
Income tax expense				
Profit for the period	(1,287,021,979)	(1,379,909,908)	(92,887,929)	7
Special Projects				
Income from Special Projects	0	2,148,911,872	2,148,911,872	100
Expenses for Special Project	0	865,866,667	865,866,667	100
Total Income from Special Projects	0	1,283,045,205	1,283,045,205	100
Profit for the period Including Special projects	(1,287,021,979)	(96,864,703)	1,190,157,276	(12.25)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

The main budget variance is due to lack of implementation of the Special Projects as seen above on Statement of Comparison of Budget and Actual As At 31st December 2016. The National Treasury which is the key mandated body that approves the special projects were still in the process of reviewing the projects during the year.

There was an overall savings on expenditure of Kshs 122.837 million 16% between actual and budget on direct expenses mainly attributed by Interest on Customer Deposits. However, this was as a result of non-achievement of targeted deposits.

The actual cost on staff was Kshs 1,167.587 million against the budget of Kshs 1,359.145 million hence a saving of Kshs 191.557 million (14%).

Additional notes are set out on pages 34 to 67 form an integral part of these financial statements.

1. BASIS OF PREPARATION

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 of Directors on 31st March, 2017.

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 has not revalued any property.

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 judgements

The preparation of financial statements requires management to make judgements, 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:

i) Assumptions and estimation of uncertainties

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 honoured 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 2016 amounting to Kshs.

(9,599,351,297) in accordance with KPOSB Act cap 493B section 13 (1).

Note 20- Impairment loss on deposits, loans and advances

Note 13- Recognitions and measurement of contingencies: Key assumption about the likelihood and magnitude of an outflow of resources

ii) Critical judgement in applying the entity's accounting policies

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

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

- Credit quality
- Portfolio size
- Concentrations
- Economic factors

Note 5- 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. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements have been applied consistently over the years.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

(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.

(iii) 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. The resulting differences from conversion and translation are dealt with in the statement of comprehensive income in which they arise.

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.

(vi) 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.

vii) New standards, amendments and interpretations effective and adopted during the year. Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are highly correlated, or when the intangible asset is expressed as a measure of revenue. The amendments apply prospectively for annual periods beginning on or after 1 January 2016. The adoption of these changes did not have a significant impact on the financial statements of the Bank.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendment applies for annual periods beginning on or after 1 January 2016 and early application is permitted. The adoption of these changes does have a significant impact on the financial statements of the Bank.

Disclosure Initiative (Amendments to IAS 7)

The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to

changes in financial assets if they meet the same definition. The amendments state that one way to fulfil the new disclosure requirement is to provide reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities. The amendments are effective for annual periods beginning on or after 1 January, 2017, with early application permitted. Since the amendments are being issued less than one year before the effective date, entities need not provide comparative information when they first apply the amendments.

The Bank is assessing the potential impact on the financial statements resulting from the application of IAS 7.

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IAS 9.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different.

In addition, the IFRS 9 impairment model has been changed from an “incurred loss” model from IAS 39 to an “expected credit loss” model.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted. The Bank is assessing the potential impact on the financial statements resulting from the application of IFRS 9.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB’s project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (‘lessee’) and the supplier (‘lessor’). The standard defines a lease as a contract that conveys to the customer (‘lessee’) the right to use an asset for a period of time in exchange for consideration.

A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time. The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

- a) Assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.
- b) Depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term;

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for

(a) Short-term leases (i.e. leases of 12 months or less) and;

(b) Leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January, 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The adoption of these changes will affect the amounts and disclosures of the Bank's financial statements. The Bank is assessing the potential impact on the financial statements resulting from the application of IFRS 16.

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 ASSETS AND LIABILITIES

a) Recognition

The Bank initially recognises loans and 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.

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. 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

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.

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 judgement 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.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

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.

4). 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. 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. The section below provides the various risks faced by the Bank and describes the methods used by management to control risk. The most important types of financial risks to which the Bank is exposed are credit risk, liquidity risk and market risk mainly interest risk and operational risk.

(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.

(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.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

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.

(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.

(5) **PROPERTY AND EQUIPMENT**

(a) **INVESTMENT PROPERTY**

The Bank has classified some of its Properties according to IAS 40 –Investment Properties. The standard recognizes properties which are solely held for rental purposes or capital appreciation in the long term or both. For mixed use property, those partly occupied by the owner and partly rented out, the percentage of occupation determines its classification as per the IAS 40.10. If the percentage is significant then it falls under Plant, Properties and Equipment (PPE) but where insignificant it falls under Investment Properties.

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 centre, Upper Hill properties and Dandora Plot is insignificant, hence classified under Investment

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

Properties contrary to owner occupation at 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.

(b) 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.

(c) 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 %

(d) INTANGIBLE ASSETS

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

(6) STOCKS

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

(7) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

(8) 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.

(9) EMPLOYMENT BENEFIT

(a) POST-EMPLOYMENT 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. Before year 2011, the Bank and employees were not making any contribution to the National Social Security Fund (NSSF). This resulted to a penalty, hence a liability to the Bank of Kshs. 297,490,025, payable in three years from August 2014. The amount paid as at 31st December 2016 is Kshs 245,429,271

(b) 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.

(10) PROVISION FOR DOUBTFUL DEBTS

Provision is made on debtors that are considered to be doubtful. Bad debts are written off when all reasonable steps to recover them have been taken without success.

(11) 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 Kshs 2,388,250,796

(12) REVENUE RESERVE

This represents undistributed profits from current and previous years including prior year adjustments for Kshs -9,599,351,297.

(13) 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 FOR THE YEAR ENDED 31ST DECEMBER 2016

- (i) Banking Insurance and Finance Union (BIFU) -vs-PostBank: Estimated to be Kshs. 37,074,833.35 based on the Board approval of 10% increment pending Salaries and Remuneration Commission (SRC) and National Treasury approval.
- (ii) Adella Kavisa & 73 others -vs-PostBank: Kshs. 166,084,453/= pension claim from retirees. It is not expected to be finalized next year.
- (iii) PostBank - vs - Simiyu Wasike: The land in dispute involves Postbank and Simiyu Wasike. It is in Upper Hill. The value of the property was Kshs. 319,200,000 in the year 2011.
- (iv) Other staff suits against the Bank sums to Kshs 19,928,087.00

(14) INTEREST INCOME

	2016	2015
	Kshs	Kshs
Interest on Treasury Bills/Bonds	554,273,675	593,760,411
Interest on Term Deposits	2,953,142	18,752,203
Interest on Staff Loans	110,972,806	102,076,668
Interest on Visa balances	<u>4,398,566</u>	<u>11,528,699</u>
	<u>672,598,189</u>	<u>726,117,981</u>

(15) INTEREST EXPENSE

	2016	2015
	Kshs	Kshs
Interest on:-		
Postbank Savings Accounts	0	209,211
Bidii Savings Account	211,578,174	134,739,415
Step Account	14,887,493	8,609,370
Pension Account	70,807,037	38,188,764
Premium Savings Account	69,549	31,797,166
Premium Plus Account	236,862,994	233,862,094
Fixed Deposit Account	1,959,934	1,848,242
Save As You Earn Account	9,406,518	1,194,628
Staff Salary Account	1,338,149	860,605
Salary Account	4,899,417	2,958,701
Postbank Junior Account	6,668	3,231
Pamoja Account	1,585,224	1,007,098
Bidii Junior Trustee Account	157,544	113,649
Smata Youth Save	3,922,745	2,406,154
Waridi Account	5,123,765	2,002,495
M-Chama Account	132,139	15,943
Mobile Savings Account	13,544	4,834
Cheque Account	0	1,403
Akiba Account	<u>37,650</u>	<u>10,279</u>
	<u>562,788,544</u>	<u>459,833,282</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

(16) FEES & COMMISSIONS INCOME

	2016	2015
	Kshs	Kshs
Inactivity Fees	74,764,358	81,235,852
Salary crediting fees	15,437,631	14,094,460
Premature withdrawal fees	26,532,786	23,847,280
Withdrawal fees	46,090,955	51,605,683
Visa fees	6,167,413	23,779,249
Card fees	59,716,930	12,310,332
Western Union - MTS commission	50,070,658	54,825,951
Citibank commission	1,209,457	1,633,919
Pension commission	69,475,590	69,428,900
Money Transfer commission (Others)	31,818,887	37,753,450
ATM withdrawal fees	48,497,684	50,521,326
Bills commission-Water & Electricity	36,031,838	39,770,338
AAR Loan commission	36,341,171	36,779,869
Encashment fee	2,103,909	2,396,658
Miscellaneous fees & commission (others)	<u>7,982,701</u>	<u>17,184,613</u>
	<u>512,241,968</u>	<u>517,167,880</u>

(17) FEES AND COMMISSIONS EXPENSE

	2016	2015
	Kshs	Kshs
Shared Costs Adjustments	2,907,401	3,080,983
Commission Expense-Money gram	2,839,101	2,967,149
Premium Paid Commission on Purchase of T/Bonds	555,009	7,911,978
Commission-Independent Agent	140,355	645,610
Mobile banking Expenses	4,755,144	3,415,028
Commission paid on deposit mobilisation	8,808,757	<u>16,944,066</u>
	<u>20,005,767</u>	<u>34,964,814</u>

(18) FOREIGN EXCHANGE INCOME

	2016	2015
	Kshs	Kshs
Forex gain on WU-MTS Transactions/Forex sale	51,669,786	62,423,481
Forex gain on MoneyGram Transactions	<u>25,005,772</u>	<u>23,528,206</u>
	<u>76,675,558</u>	<u>85,951,687</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

(19)(a) OTHER OPERATING INCOME

	2016	2015
	Kshs	Kshs
Rental Income	81,136,604	67,378,284
Dividend income	52,155	50,801
Interest on bank accounts	13,658	20,821
Tender fees	30,300	530,120
Development Levy	-	6,000,000
Appreciation/Diminution in value of quoted investments	- 267,100	824,000
Gain/(Loss) on sale of Property & equipment	-242,768	222,320
Mobile Banking Fee	10,133,377	8,893,185
Capital Gain on Sale of Investments	-	5,334,750
Commission Income on Foreign Visa	3,174,963	3,409,950
Sundry income	25,711,490	5,939,808
	<u>119,742,679</u>	<u>98,604,039</u>

Disclosure Note

19.b Extra Ordinary Income

10,975,743

The Extra Ordinary Income is made up of the following:

Receipt from Ailing Institution – Trust Bank	9,889,533
Expenditure double posted in 2012 corrected	1,086,210
Total	<u>10,975,743</u>

(20) IMPAIRMENT LOSS ON DEPOSITS, LOANS AND ADVANCES

	2016	2015
	Kshs	Kshs
Customers deposit	15,000,000	15,000,000
Visa card debtors	3,000,000	8,000,000
General Provisions-Including Staff loans	<u>2,000,000</u>	<u>2,000,000</u>
	<u>20,000,000</u>	<u>25,000,000</u>

(21) EMPLOYEE EXPENSES

	2016	2015
	Kshs	Kshs
Salaries and Wages	764,478,508	769,071,179
Pensions and Provident Fund contr.	92,337,581	94,538,016
Medical expenses	66,083,983	48,312,713
Staff training	6,122,334	9,608,672
Other staff expenses	223,404,256	234,551,210
	<u>1,152,426,662</u>	<u>1,156,081,790</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

22) BOARD EXPENSES	2016	2015
	Kshs	Kshs
Directors Honoraria	960,000	960,000
Directors Allowances	7,926,311	2,444,896
Directors Allowances Telephone	<u>50,700</u>	<u>0</u>
	<u>8,937,011</u>	<u>3,404,896</u>

(23) OPERATING EXPENSES

	2016	2015
	Kshs	Kshs
Security expenses	96,637,243	96,797,486
Insurances	13,279,175	12,115,675
Office rent	116,468,285	107,090,717
Land rent and rates	4,497,453	1,526,689
Repairs and maintenance	66,840,695	94,348,003
Service charge	9,328,829	6,691,710
Agency fees – MTS	13,561,058	11,839,563
Licences	66,449,358	75,509,448
Grounds maintenance	1,084,159	606,999
Agency Expansion Project (WSBI)	<u>430,240</u>	<u>436,952</u>
	<u>388,576,495</u>	<u>406,963,242</u>

(24) AMORTISATION FOR BONDS TRADING COST

The amount of Kshs 34,692,599 relates to Treasury Bonds Premiums amortised monthly from 1.1.2016 to 31.12.2016

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

(25) OTHER EXPENSES

	2016	2015
	Kshs	Kshs
Travel and Subsistence allowances	14,848,844	16,857,389
Printing and stationery	6,802,667	12,255,229
Debt collection	634,160	866,098
Postage & telephone	88,602,874	90,863,791
Computer expenses	8,309,892	7,547,442
Motor Vehicle Expenses	3,110,451	2,910,857
Audit fees	3,791,667	2,232,824
Donations and subscriptions	5,940,142	4,950,142
Legal and professional fees	13,294,062	11,393,342
Electricity and water	31,463,833	31,772,559
Cleaning, Sanitation & Messengerial	16,568,029	18,162,392
Special Projects Launching	1,659,100	6,246,198
Newspapers and Periodicals	566,752	586,651
Transportation Costs	20,000	440,800
Procurement Costs	1,046,060	627,630
Excise Duty	16,827,585	12,627,106
Financial expenses	8,945,158	16,285,352
Selling & Marketing expenses	96,570,029	76,800,041
Operating Stationery	3,415,013	1,984,526
ATM processing charges	1,447,020	5,222,709
Hire of Motor Vehicles	8,366,457	11,786,407
ATM Card Cost	17,406,318	44,020,768
Research & Development	354,000	30,000
Miscellaneous expenses	3,417,654	27,959
	<u>353,407,767</u>	<u>376,498,212</u>

(26) PROFIT (LOSS) FOR THE YEAR

	2016	2015
	Kshs	Kshs
The profit (loss) for the year is stated after charging:		
Directors emoluments	8,937,011	3,404,896
Audit fees	3,791,667	2,232,824
Depreciation/amortization expense	127,445,528	134,302,486
Bonds amortisation cost	34,692,599	86,402,632
Provident fund contribution	0	0
Pension scheme contribution	92,337,581	94,538,016
and after crediting: -		
Dividends	52,155	50,801
Diminution in value of quoted investment	(267,100)	824,000

Note. The Audit fees is based on budgeted amount during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

(27) EXPLANATION OF MATERIAL VARIANCE ON THE STATEMENT OF COMPARISON OF BUDGET AND ACTUAL FOR THE TWELVE MONTHS ENDING 31 DECEMBER 2016

INCOME

	ACTUAL	BUDGET	VARIANCE	VARIANCE
a) Fees and commissions income	512,241,968	882,174,517	369,932,549	42
b) Other operating income	119,742,679	158,443,265	38,700,587	24
c) Operating income	798,464,083	1,111,864,392	313,400,309	28

Non achievement of target

DIRECT EXPENSES

	ACTUAL	BUDGET	VARIANCE	VARIANCE
d) Fees and commissions expense	20,005,766	46,611,367	26,605,601	57
e) Interest expense	562,788,544	650,000,000	87,211,456	13

Non achievement of target leading to low spending

RECURRENT EXPENSES

	ACTUAL	BUDGET	VARIANCE	VARIANCE
f) Employee expenses	1,152,426,662	1,342,940,758	190,514,096	14
g) Operating expenses	388,576,495	455,855,437	67,278,942	15
h) Depreciation expenses	109,338,125	134,164,377	24,826,252	19
i) Amortisation cost-Intangible Assets	18,107,403	40,555,451	22,448,048	55
j) Amortisation cost-Treasury bonds.	34,692,599	89,782,404	55,089,805	61
k) Other expenses	353,407,767	399,997,872	46,590,105	12

Non achievement of target and lower purchase of assets than anticipated.

SPECIAL PROJECTS

	ACTUAL	BUDGET	VARIANCE	VARIANCE
l) Income from Special Projects	0	2,148,911,872	2,148,911,872	100
m) Expenses for Special Project	0	865,866,667	865,866,667	100

Special projects not undertaken

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

(28) CASH AND CASH EQUIVALENTS

	2016	2015
	Kshs	Kshs
Cash on Hand	331,554,969	370,456,515
Cash at Bank	<u>240,207,370</u>	<u>292,466,023</u>
	<u>571,762,339</u>	<u>662,922,538</u>

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

(29) FUNDS ON CALL AND SHORT NOTICE

	2016	2015
	Kshs	Kshs
Commercial Bank of Africa	13,407,044	12,452,788
Citibank	10,000,000	10,000,000
National Bank of Kenya	9,632,298	9,470,177
Kenya Commercial Bank of Kenya	<u>568,775</u>	<u>543,517</u>
	<u>33,608,117</u>	<u>32,466,482</u>

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

BANK	RATE
Commercial Bank of Africa	4.03%
Citibank	9.00%
National Bank of Kenya	1.71%
Kenya Commercial Bank(K)	7.00%

(30) INVESTMENT IN TREASURY BILLS & BONDS

	2016	2015
	Kshs	Kshs
Treasury Bonds-Available For Sale	1,495,230,050	0
Kengen Infrastructure Bond	179,137,500	238,850,000
Jamii Bora Bond	20,000,000	20,000,000
Funds under management (STANLIB)	25,740,169	290,753,762
Government of Kenya Treasury Bonds	<u>3,128,742,500</u>	<u>3,656,327,500</u>
	<u>4,848,850,219</u>	<u>4,205,931,262</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

ASSET	BALANCE ON 01.01.2016	ADDITIONS IN THE YEAR 2016	REVALUATION/ INTEREST LOADED IN THE YEAR 2016	DISPOSAL/ REDEMPTION IN YEAR 2016	BALANCE ON 31.12.2016
	In Kshs	In Kshs		In Kshs	In Kshs
KENGEN Infrastructure Bond	238,850,000	-	-	-59,712,500	179,137,500
Jamii Bora Bond	20,000,000	-	-	-	20,000,000
Funds Under Management	290,753,762	-	3,771,407.00	-268,785,000	25,740,169
GOK Treasury Bonds-Held to maturity	3,656,327,500	300,000,000	-	-827,585,000	3,128,742,500
GOK Treasury Bonds-Available for sales	-	1,672,805,022	27,098,028	(204,673,000.00)	1,495,230,050
Total	4,205,931,262	1,972,805,022	30,869,435	-1,360,755,500	4,848,850,219

The effective rate of interest in respect of the investments above in the year 2016 was:

KENGEN Infrastructure Bond	-12.50%
Jamii Bora Bond	-13.30%
Government of Kenya Treasury Bonds-HTM	-12.62%
Government of Kenya Treasury Bonds-AFS	-12.93%

(31) INVESTMENT PROPERTY

	2016 Kshs	2015 Kshs
Investment property	896,790,225	896,790,225

Included in the investment Property is-

- (i) Upper Hill Property whose market value is Ksh.319,200,000 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 allottees interest absolutely. The matter is in court and the Bank expects a favourable 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 & Sports Complex valued at Ksh 864,400,000 as per the latest valuation report undertaken by Transcountry Valuers Limited in October 2013.

- (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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER
2016

(32) STOCKS & DRUGS

	2016 Kshs	2015 Kshs
Stocks of Stationery & Drugs	<u>16,798,864</u>	<u>17,346,696</u>
	<u>16,798,864</u>	<u>17,346,696</u>

(33) OTHER INVESTMENTS

	2016 Kshs	2015 Kshs
Quoted investments (cost)	2,055,637	2,055,637
Unquoted investment	<u>13,540,000</u>	<u>13,540,000</u>
	<u>15,595,637</u>	<u>15,595,637</u>
Less: Provision for diminution in market value of quoted /unquoted investments	<u>11,903,236</u>	<u>11,636,136</u>
	<u>3,692,401</u>	<u>3,959,501</u>

Note

- (i) Quoted investments were valued at Kshs.2,338,400 (2015 Kshs.2,605,000) using the Nairobi Securities Exchange market price at the close of the year.

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

Company	No. of Shares	Market price	Value	Value
			31.12.2016	31.12.2015
Kakuzi Ltd	6,500	281.00	1,826,500.00	2,060,500.00
Total Kenya Ltd	15,000	17.80	267,000.00	273,750.00
Bamburi Cement Ltd	1,550	158.00	244,900.00	271,250.00
			<u>2,338,400.00</u>	<u>2,605,500.00</u>

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

(34) ACCOUNTS RECEIVABLES

	Notes	2016 Kshs	2015 Kshs
Postal Corporation of Kenya-Excess Deposits		780,399,108	780,397,908
GOK-(KP&TC)	(i)	405,231,629	405,231,629
Commission Receivable from GoK		63,447,990	34,967,100
Prepaid GoK Pension – PCK Payroll		456,675,801	16,823,161
GoK Pension Cheques Receivable – PCK (ii)		268,553,158	268,553,158
PCK Overdrawn Claimable		50,430,637	44,587,964
Restitution (PCK)		56,911,716	56,416,881
Directors Loans		3,327,044	3,327,044
Staff loans		923,995,293	994,598,182
Staff debtors – Personal Development Loan		150,876,889	176,289,022
Interest Receivable -PDL		106,157,285	63,854,741
Rent Receivables		50,618,767	54,500,447
Staff Imprest		1,200,860	3,610,571
Trade Debtors	(iii)	219,927,482	138,481,371
		3,537,753,659	3,041,639,179
Provision for bad and doubtful debts:			
Trade Debtors		-664,623,725	-691,978,285
		<u>2,873,129,934</u>	<u>2,349,660,894</u>

- (i) The 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) The amount of 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

(i) AGEING ANALYSIS RECEIVABLES

2016	TOTAL	0 to 30 Days	31 to 60 Days	61 to 90 Days	91 and over Days
PCK EXCESS DEPOSITS	780,399,108	-		-	780,399,108
KPTC - EXCESS DEPOSITS	405,231,629	-	-	-	405,231,629
PCK PREPAID GOK PENSION	456,675,801	347,139,017	(27,823,823)	8,904,312	128,456,296
PCK OVERDRAWN CLAIMABLE	50,430,636	-	9,703	40	50,420,893
STAFF DEBTORS PDL	150,876,889	(5,806,225)	(181,000)	(188,973)	157,053,087
INTEREST RECEIVABLE PDL	106,157,285	4,548,617.80	4,453,460.04	4,506,833.39	92,648,373.82
DIRECTOR LOAN	3,327,044	-	-	-	3,327,044
STAFF LOANS	923,995,293	843,908,237			80,087,056
STAFF IMPREST	1,200,860	(1,803,375)	-	-	3,004,235
COMMISSION RECEIVABLE - GOK	63,447,990	6,110,800	5,733,600	5,733,600	45,869,990
RESTITUTION -PCK	56,911,716	-	-	-	56,911,716
RENT RECEIVABLE	50,618,766	8,255,413	(8,336,453)	(12,197,841)	62,897,647
GOK PENSION CHEQUES RECEIVABLE	268,553,158	-	-	-	268,553,158
TRADE DEBTORS	219,927,482	6,616,559	(4,848,488)	11,801,598	206,357,813
TOTAL RECEIVABLES	3,537,753,659	1,208,969,044	(30,993,001)	18,559,570	3,275,460,121
PROVISION FOR BAD DEBTS	(664,623,725)	(1,666,667)	(1,666,667)	(1,666,667)	(659,623,725)
NET RECEIVABLES	2,873,129,934	1,207,302,378	(32,659,667)	16,892,903	2,615,836,397

(ii) TRADE DEBTORS AGEING ANALYSIS - 2015

2015	TOTALS	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 and Over
MTS	10,637,267	-42,476,928	11,240,703	-2,900,288	44,773,780
RIA	58,106	-1,665,663	-56,219	665,533	1,114,455
VISA	158,547,454	1,115,219	502,833	-2,921,124	159,850,526
MONEY GRAM	-30,761,456	5,527,427	-4,105,132	-5,155,556	-27,028,195
TOTALS	138,481,371	-37,499,945	7,582,185	-10,311,435	178,710,566

(iii) TRADE DEBTORS AGEING ANALYSIS - 2016

	TOTALS	0 - 30 Days	31 - 60 Days	61 - 90 Days	91 and Over
MTS	94,813,976	12,772,168	3,052,389	16,207,461	62,781,958
RIA	1,186,948	286,002	(602,020)	(347,833)	1,850,799
VISA	146,666,054	(4,961,490)	(1,059,288)	(3,020,376)	155,707,208
MONEY GRAM	(22,739,495)	(1,480,120)	(6,239,569)	(1,037,654)	(13,982,152)
TOTALS	219,927,483	6,616,560	(4,848,488)	11,801,598	206,357,813

**NOTES TO THE FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31ST DECEMBER 2016**

(35) PREPAYMENTS AND OTHER ASSETS

	Note	2016 Kshs	2015 Kshs
Accrued interest on Treasury Bonds		95,510,898	104,576,846
Discount on Treasury Bonds		41,025,070	31,383,030
Fixed deposits in ailing financial institutions		479,083,542	479,083,542
Transitorial Accounts - Postbank	(i)	1,277,890,113	1,110,740,856
Premium on Treasury Bonds (Prepaid)		329,137,919	363,830,518
Other Assets and Prepayments		<u>877,801,249</u>	<u>886,550,834</u>
		3,100,448,791	2,976,165,626
Provision for bad and doubtful debts:			
Amounts due from subsidiary and deposits		<u>-479,083,542</u>	<u>-479,083,542</u>
		<u>2,621,365,249</u>	<u>2,497,082,084</u>

(i) The amount of Kshs. 1,277,890,113 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2015

36. (a) PROPERTY AND EQUIPMENT

	LAND	BUILDING	LEASE HOLD	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. 2015	854,500,000	1,053,550,000	6,500,000	34,833,657	304,231,251	191,427,120	76,522,067	555,911,263	-1,077,243	20,881,322	3,096,379,437
ADDITIONS	0	0	0	0	15,766,676	39,233,209	2,109,040	58,022,636	-24,132,395	-18,361,240	72,637,926
CAPITALISED WORKS	0	0	0	0	0	0	0			0	0
DISPOSALS ADJUSTMENT	0	0	0	-5,710,000	-1,028,171	0	-1,184,348	-5,445,088		0	-13,367,607
COST 31.12.2015	854,500,000	1,053,550,000	6,500,000	29,123,657	318,969,756	230,660,329	77,446,759	607,588,811	-25,209,638	2,520,082	3,155,649,756
DEPRECIATION											
DEPRE.01.01.15	0	253,603,083	6,500,000	31,364,387	208,021,530	156,777,702	62,937,684	489,169,230		0	1,208,373,616
CHARGED 2015	0	26,338,750	0	2,087,563	19,326,468	22,162,071	2,926,789	40,014,559		0	112,856,200
WRITE BACK	0	0	0	0	0	0	0	0		0	0
DISPOSALS	0	0	0	-5,710,000	-441,917	-285,202	-1,076,737	-5,400,426		0	-12,914,282
DEPRE.31.12.15	0	279,941,833	6,500,000	27,741,950	226,906,082	178,654,571	64,787,736	523,783,363		0	1,308,315,534
NBV 31.12.2015	854,500,000	773,608,167	0	1,381,707	92,063,674	52,005,759	12,659,023	83,805,448	-25,209,638	2,520,082	1,847,334,222
NBV 31.12.2014	854,500,000	799,946,918	0	3,469,270	96,209,720	34,649,419	13,584,384	65,842,033	-1,077,243	20,881,322	1,888,005,823

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

36. (b) PROPERTY AND EQUIPMENT

	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. 2016	854,500,000	1,053,550,000	6,500,000	29,123,656	318,969,756	230,660,330	77,446,759	607,588,811	(25,209,638)	2,520,082	3,155,649,756
ADDITIONS	0	0	0	0	2,298,807	12,976,338	501,752	25,572,532	6,527,549	1,650,602	49,527,580
CAPITALISED WORKS	0	0	0	0	0	0	0	0		0	0
DISPOSAL A/C	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0		0	0
DISPOSALS ADJ	0	0	0	0	(6,847,892)	(1,517,025)	(4,124,877)	(16,800,367)		0	(29,290,161)
COST 31.12.2016	854,500,000	1,053,550,000	6,500,000	29,123,656	314,420,671	242,119,643	73,823,634	616,360,976	(18,682,089)	4,170,684	3,175,887,175
DEPRECIATION											
DEPRE.01.01 16	0	279,941,833	6,500,000	27,741,950	226,906,081	178,654,571	64,787,736	523,783,363		0	1,308,315,534
CHARGED 2016	0	26,338,750	-	2,074,651	18,359,178	19,296,755	2,840,523	40,428,268		0	109,338,125
WRITE BACK	0	0	0	0	0	0	0	0		0	0
DISPOSALS	0	0	0	0	(6,847,892)	(1,517,025)	(4,124,877)	(16,800,367)		0	(29,290,161)
DEPRE.31.12 16	0	306,280,583	6,500,000	29,816,601	238,417,367	196,434,301	63,503,382	547,411,264		0	1,388,363,498
NBV 31.12.2016	854,500,000	747,269,417	0	-692,944	76,003,303	45,685,342	10,320,252	68,949,712	(18,682,089)	4,170,684	1,787,523,677
NBV 31.12.2015	854,500,000	773,608,167	-	1,381,707	92,063,674	52,005,759	12,659,023	83,805,448	(25,209,638)	2,520,082	1,847,334,222

*Overstated depreciation charge to the year will be adjusted

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

36. (c) LAND AND BUILDINGS

COST OR VALUATION	Land Kshs	Buildings Kshs	Show Stand Kshs	2016 Total Kshs	2015 Total Kshs
Long-term leasehold	732,000,000	977,750,000	-	1,709,750,000	1,709,750,000
Short-term leasehold	<u>122,500,000</u>	<u>75,800,000</u>	<u>6,500,000</u>	<u>204,800,000</u>	<u>204,800,000</u>
	<u>854,500,000</u>	<u>1,053,550,000</u>	<u>6,500,000</u>	<u>1,914,550,000</u>	<u>1,914,550,000</u>

Included in short-term leasehold land and buildings is a property purchased in Mombasa. It was valued at Kshs.198.30 million subject to extension of lease period by another 45 years from the current 10 years. Initiative towards extension of the lease is in progress.

The figures used in the fixed assets schedule relate to 2013 valuation report carried out by Trans country Valuers Limited and approved by the Board in October 2013.

37. INTANGIBLE ASSETS

	2016 Kshs	2015 Kshs
Cost		
At 1 January	514,034,535	511,122,935
Additions	61,180,400	2,911,600
At 31 December	575,214,935	514,034,535
Amortisation		
At 1 January	472,334,928	450,826,737
Amortization for the year	18,107,403	21,508,191
At 31 December	490,442,331	472,334,928
Carrying Amount		
At 31 December	<u>84,772,604</u>	<u>41,699,607</u>

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

(38) CUSTOMERS' SAVINGS AND DEPOSIT ACCOUNTS

	2016	2015
	Kshs	Kshs
Bidii Savings Account	8,217,019,123	7,970,571,319
Postbank Cheque Account	0	426,467
Junior Trust Account	9,937,631	10,623,187
Step Account	715,707,653	652,011,898
Pension accounts (BSG)	3,197,666,008	2,715,948,309
Premium Savings Scheme	6,865,356	881,205,823
Premium Plus Account	3,658,036,444	1,869,062,923
Fixed Deposit Account	83,833,838	104,010,292
Save-As-You-Earn	717,151,012	633,912,490
Staff Salary Account	75,731,287	61,830,227
Salary Account	230,136,497	196,484,556
Postbank Junior Account	7,687,403	6,858,393
Corporate Clients	432,018,719	435,146,912
Smata Youth Save Account	212,831,033	198,183,079
Pamoja Chama Account	71,812,219	56,682,866
Mzalendo Account	107,897	1,047,560
Waridi Account	276,787,964	179,182,885
Independent Agent Accounts	21,447,577	12,673,801
M-chama Savings Account	6,857,357	988,439
Mobile Savings Account	1,207,100	1,071,593
Akiba Account	1,822,735	<u>1,326,658</u>
	<u>17,944,664,853</u>	<u>15,989,249,677</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

(39) ACCOUNTS PAYABLES AND ACCRUALS

	Notes	2016 Kshs	2015 Kshs
Trade creditors		42,536,218	78,161,640
PCK Services rendered- GoK Pension/others	(i)	533,056,749	531,789,218
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)	848,668,153	408,815,513
Accrued Expenses		194,371,584	174,086,862
NSSF Liability		52,060,754	141,307,762
Other creditors		477,056,706	318,396,042
		<u>2,780,782,181</u>	<u>2,285,589,054</u>

(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 has been outstanding since year 2007 will be settled along with expected amounts from PCK .

(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 along with expected amounts from PCK.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

(40) GOK PENSION RESERVE FUND

	2016 Kshs	2015 Kshs
Amount	<u>183,942,031</u>	<u>204,348,685</u>

These are pension funds from the Government for distribution into the Paying agent accounts. Un-applied funds from PCK are also held there.

(41) CAPITAL GRANTS

Capital grants were given to the Bank to support the following projects;

	2016 Kshs	2015 Kshs
Western Union Product	2,013,211	2,013,211
Bidii Product	3,706,728	3,706,728
Visa EMV Project	229,458	17,854,000
Smata, Mchama & Agency Expansion Projects	<u>6,957,640</u>	<u>6,996,540</u>
	<u>12,907,037</u>	<u>30,570,479</u>

(42) CASH AND CASH EQUIVALENTS

	2016 Kshs	2015 Kshs
Bank and cash balances	571,762,339	662,922,538
Deposits in banks and Financial Institutions	33,608,117	32,466,482
Treasury Bills and Bonds	<u>4,848,850,219</u>	<u>4,205,931,262</u>
	<u>5,454,220,675</u>	<u>4,901,320,282</u>

(43) 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.

	2016 Kshs	2015 Kshs
(i) Directors remuneration		
Directors Honoraria	960,000	960,000
Directors Allowances	<u>7,926,311</u>	<u>2,444,896</u>
	<u>8,886,311</u>	<u>3,404,896</u>

	2016 Kshs	2015 Kshs
(ii) Key management remuneration		
Salaries and wages	8,309,063	3,317,109
(iii) Loans to staff		
Welfare loans	923,995,293	994,598,182
Personal development Loan	<u>150,876,889</u>	<u>176,289,022</u>
	<u>1,074,872,182</u>	<u>1,170,887,204</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2016

Interest income on these loans was Kshs110,972,806 (2015 - 102,076,668). 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2016

(44) LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period as at 31 December 2016 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	571,762,339	-	-	-	-	-	-	-	571,762,339
Investment in T/bills + Bonds	-	311,541,203.00	453,213,229.00	516,586,940.00	253,146,940.00	652,133,264	1,213,565,112.00	1,448,663,531	4,848,850,219
Funds on call and short notice	-	33,608,117.00	-	-	-	-	-	-	33,608,117
Investment Property	-	-	-	-	-	-	-	896,790,225	896,790,225
Other Investment	-	-	3,692,401.00	-	-	-	-	-	3,692,401
Other Assets	587,315,202	1,168,287,703	759,510,186	860,894,053	749,095,118	662,722,349	723,469,436	-	5,511,294,047
Property and Equipment	-	-	20,881,322	-	30,766,964	31,234,547	250,150,411	1,454,490,433	1,787,523,677
Intangible Assets	-	-	18,142,044	45,227,151	21,403,409	-	-	-	84,772,604
Total Assets	1,159,077,541	1,513,437,023	1,255,439,182	1,422,708,144	1,054,412,431	1,346,090,160	2,187,184,959	3,799,944,189	13,738,293,629
B. Liabilities and Reserves									
Other Liabilities	92,482,145	375,661,324	366,123,256	574,045,299	343,132,144	375,067,768	654,270,245	-	2,780,782,181
Customers' Savings and Deposit accounts	1,105,052,455	1,719,829,244	1,802,132,879	1,726,611,924	1,959,511,623	1,804,367,826	2,287,411,603	5,539,747,299	17,944,664,853
Gok Pension Reserve Fund Account	68,252,118	49,477,003	66,212,910	-	-	-	-	-	183,942,031
Capital Grants	-	-	-	-	-	-	-	12,907,037	12,907,037
Revaluation Reserves	-	-	-	-	-	-	-	2,388,250,796	2,388,250,796
Change in Fair value for Bonds	-	27,098,028	-	-	-	-	-	-	27,098,028
Revenue Reserves	-	-	-	-	-	-	-	-9,599,351,297	-9,599,351,297
Total Liabilities and Reserves	1,265,786,718	2,172,065,599	2,234,469,045	2,300,657,223	2,302,643,767	2,179,435,594	2,941,681,848	-1,658,446,165	13,738,293,629
A 0 B Liquidity GAP	-106,709,177	-658,628,576	-979,029,863	-877,949,079	-1,248,231,336	-833,345,434	-754,496,889	5,458,390,354	-

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.

(45) CONSOLIDATION

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

(46) TAXATION

Kenya Post Office Savings Bank is exempt from Corporation Tax under Income Tax Act Cap 470 of the laws of Kenya.

(47) COMPARATIVES

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

(48) EMPLOYEES

The average number of employees during the year was 720 (2015-763).

(49) 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, 2016.

(50) NETWORK OF POSTBANK BRANCHES

The total number of branches during the year was 104.

NETWORK OF POSTBANK BRANCHES

HEAD OFFICE

Postbank House
Banda Street
P.O. Box 30311 – 00100
Tel: (020) 2229551-6 Ext. 155 Fax 341557
NAIROBI

NAIROBI NORTH REGION

Eastleigh Branch:
P.O. Box 30313 - 00100
Tel: (020) 6761892 Fax 6761892
NAIROBI

Kikuyu Branch:
P.O. Box 30311 - 00100
Tel: (066) 51630 Fax 31630
KIKUYU

Ruiru Branch:
P.O. Box 190
Tel: (067) 54320 Fax 55441
RUIRU

Karuri Branch
P.O. Box 30311 – 00100
Tel: (066) 51683 Fax 51685
NAIROBI

KARIOBANGI
P.O. Box 30313 – 00100
Tel: (020) 2229551-6 341557

NAIROBI SOUTH REGION

Afya Centre Branch:
Tom Mboya Street
P.O. Box 30311 - 00100
Tel: (020) 229551-6 Ext. 322, 340-2, 330-1
NAIROBI

Jogoo Road Branch:
P.O. Box 30313 – 00100
Tel: (020) 2229551-6, 552027 Fax 552027
NAIROBI

Machakos Branch
P.O. Box 944
Tel: (044) 20261 Fax 24112
MACHAKOS

Tom Mboya Branch:
P.O. Box 30313 - 00100
Tel: (020) 2230428 Fax 230428
NAIROBI

Wote - Makuani Branch:
P.O. Box 944
Tel: (044) 33371, Fax 33388
MAKUANI
P.O. Box 944

Emali
P.O. Box 30313-00100
Tel: (020) 2445490
NAIROBI

Garissa Branch:
P.O. Box 745
Tel: (046) 2169 Fax 3194
GARISSA

Limuru Branch:
P.O. Box 170
Tel: (066) 71293 Fax 72278
LIMURU

Uthiru Branch:
P.O. Box 30313 - 00100
Tel: (020) 631927 Fax 631927
NAIROBI

Matuu Branch
P.O. Box 30311 - 00100
Tel: (067) 4355282 Fax 4355283
NAIROBI

Cannon House Branch:
Parliament Road
P.O. Box 30311 - 00100
Tel: (020) 2229551-6 Ext. 239, 319
NAIROBI

Karen Branch:
P.O. Box 30313 - 00100
Tel: (020) 884547 Fax 884548
NAIROBI

Nacico Branch:
P.O. Box 30311 - 00100
Tel: (020) 344078
NAIROBI

Viwandani Sub Branch:
P.O. Box 30311 - 00100
Tel: (020) 2229551-6 Fax 553356
NAIROBI

Ngong Branch:
P.O. Box 30311 – 00100
Tel: (045) 41047 Fax 41048
NAIROBI

Dandora
P.O. Box 30313-00100
Tel: (020) 2405489
NAIROBI

Githurai Branch:
P.O. Box 30311- 00100
Tel: (020) 811032 Fax 811032
NAIROBI

Mwingi Branch:
P.O. Box 510
Tel: (044) 22308 Fax 22308
MWINGI

Westland Branch:
P.O. Box 30313- 00100
Tel: (020) 4440581, 4450965
NAIROBI

Uchumi Ngong Road Branch
P.O. Box 30311 – 00100
Tel: (020) 2229551-6
NAIROBI

Enterprise Road Branch:
P.O. Box 30311 - 00100
Tel: (020) 2229551-6 Ext. 270
NAIROBI

Kenyatta Market Branch:
P.O. Box 30313 - 00100
Tel: (020) 2719582,
NAIROBI

Ngong Hills Sub Branch:
P.O. Box 41047
Tel: (045) 212876
NGONG

Kangundo Branch:
P.O. Box 30311
Tel: (044) 621150, Fax 621148
KANGUNDO

Ongata Rongai Branch
P.O. Box 30311 – 00100
Tel: (045) 24178 Fax 24179
NAIROBI

Mlolongo
P.O. Box 30313 - 0100
Tel: (045) 2445491
NAIROBI

Kiambu Branch:
P.O. Box 145
Tel: (066) 22913 Fax 22914.
KIAMBU

Ngara Branch:
P.O. Box 30313 - 00100
Tel: (020) 3744837 Fax 3744837
NAIROBI

Thika Branch:
P.O. Box 1819
Tel: (067) 31193 Fax 30076
THIKA

Customer Service Centre
P.O. Box 30311 – 00100
Tel: (020) 2229551-6 Fax 210593
NAIROBI

Kitengela Branch:
P.O. Box 30311 - 00100
Tel: (045) 22526 Fax 22518
NAIROBI

Kitui Branch:
P.O. Box 668
Tel: (044) 22993 Fax 23046
KITUI

Ronald Ngara Branch:
P.O. Box 30313 - 00100
Tel: (020) 2229551-6 Ext. 269, 349
NAIROBI

Kajiado
P.O. Box 30313-00100
Tel: (020) 2455105
NAIROBI

Kibwezi Branch
P.O. Box 30311 - 00100
Tel: (044) 3500422 Fax 3500432
NAIROBI

Kawagware Branch

NETWORK OF POSTBANK BRANCHES (continued)

MT. KENYA REGION

Chuka Branch:
P.O. Box 616
Tel: (064) 630443 Fax 630064
CHUKA

Embu Branch:
P.O. Box 1245
Tel: (068) 30740 Fax 30727
EMBU

Karatina Branch:
P.O. Box 246
Tel: (061) 72537 Fax 72977
NYERI

Kerugoya Branch:
P.O. Box 1020
Tel: (060) 21893 Fax 21833
KERUGOYA

Meru Branch:
P.O. Box 3270
Tel: (064) 30381 Fax 32573
MERU

Murang'a Sub- Branch:
P.O. Box 122
Tel: (060) 31083 Fax 31038
MURANG'A

Nanyuki Branch:
P.O. Box 416
Tel: (062) 32210 Fax 32820
NANYUKI

Nyeri Branch:
P.O. Box 246
Tel: (061) 2034348 Fax 2032189
NYERI

Waruguru Branch
P.O. Box 1245
Tel: (060) 48236 Fax 48081
EMBU

Maua Branch
P.O. Box 767
Tel: (064) 21150
MAUA

Isiolo Branch
P.O. Box 696
Tel: (064) 52355
ISIOLO

Marsabit Branch
Tel: 0775 475925
MARSABIT

COAST REGION

Chaani Branch:
P.O. Box 90563
Tel: (041) 3434077 Fax 3433485
MOMBASA

Likoni Branch:
P.O. Box 90563
Tel: (041) 2451070 Fax 2451017
MOMBASA

Kilifi Branch:
P.O. Box 90563
Tel: (041) 522399 Fax 522399
MOMBASA

Malindi Branch:
P.O. Box 5196
Tel: (042) 30599 Fax 20512
MALINDI

Moi Avenue, Mombasa, Branch:
P.O. Box 90563
Tel: (041) 2230969, Fax 2230945
MOMBASA

Mtwapa Branch:
P.O. Box 90563
Tel: (041) 5486939 Fax 5486470
MOMBASA

Kisauni Branch:
P.O. Box 90563
Tel: (041) 474000 Fax 474333
MOMBASA

Mariakani Branch:
P.O. Box 90563
Tel: (041) 33425, Fax 33430
MOMBASA

Voi Branch:
P.O. Box 452
Tel: (043) 30253 Fax 30253
VOI

Savani House, Mombasa, Branch:
Digo Road
P.O. Box 90563
Tel: (041) 2314424 Fax 2223771
MOMBASA

Ukunda Branch:
P.O. Box 90563
Tel: (040) 3203248 Fax 3203248
MOMBASA

Taita Taveta
Tel: (043) 5352228
Fax: (043) 5352124
MOMBASA

Watamu
P.O. Box 90563
Tel: (041) 200115
MOMBASA

RIFT VALLEY REGION

Gilgil Branch:
P.O. Box 30313
Tel: (050) 4002143, Fax 4002144
GILGIL

Eldoret Branch:
P.O. Box 2270
Tel: (053) 2062295 Fax 2063025
ELDORET

Kabarnet Branch:
P.O. Box 442
Tel: (053) 22354 Fax 21130
KABARNET

Nyahururu Branch
P.O. Box 342
Tel: (065) 32251 Fax 32857
NYAHURURU

Kapsabet Branch:
P.O. Box 800
Tel: (053) 52535 Fax 62497
KAPSABET

Kitale Branch:
P.O. Box 821
Tel: (054) 30394 Fax 31297
KITALE

Molo Branch:
P.O. Box 4199
Tel: (051) 721561 Fax 721097
MOLO

Narok Branch:
P.O. Box 634
Tel: (050) 22030 Fax 222425
NAROK

Naivasha Branch
P.O. Box 675
Tel: (050) 2021335 Fax 2020200
NAIVASHA

Nakuru Branch:
P.O. Box 4199
Tel: (051) 2215710 Fax 2211400
NAKURU

Nandi Hills Branch:
P.O. Box 321
Tel: (053) 643146 Fax 643146
NANDI HILLS

Iten Branch

Maralal Branch
P.O. Box
Maralal

Kapenguria
P.O. Box 614
Kapenguria

Lodwar
P.O. Box
Lodwar

Eldama Ravine Branch
P.O. Box
Eldama Ravine

NETWORK OF POSTBANK BRANCHES (continued)

WESTERN REGION

Bungoma Branch:
P.O. Box 944
Tel: (055) 30418 Fax 30318
BUNGOMA

Kisii Branch:
P.O. Box 740
Tel: (058) 30800 Fax 30341
KISII

Suna - Migori Branch:
P.O. Box 1059
Tel: (059) 20857 Fax 20034
MIGORI

Keroka
P.O. Box 138
Tel: (058) 520037 Fax 520037
KEROKA

Bondo Branch
P.O. Box 183
BONDO

Busia Branch:
P.O. Box 183
Tel: (055) 22278 Fax 22157
BUSIA

Kisumu Branch:
P.O. Box 183
Tel: (057) 2023955 Fax 2021358
KISUMU

Luanda Branch:
P.O. Box 859
Tel: (057) 351230 Fax 351232
LUANDA

Bomet Branch:
P.O. Box 778
Tel: (051) 22439 Fax 22440
LITEIN

Kehancha Branch
P.O. Box 207
Kehancha

Homa Bay Branch:
P.O. Box 203
Tel: (054) 22388 Fax 21466
HOMA BAY

Mumias Branch:
P.O. Box 523
Tel: (056) 641410 Fax 641233
MUMIAS

Webuye Branch:
P.O. Box 1014
Tel: (055) 41027 Fax 41025
WEBUYE

Kericho Branch:
P.O. Box 1031
Tel: (052) 30378 Fax 32115
KERICHO

Nyamira Branch
PO Box 364
Nyamira

Kakamega Branch:
P.O. Box 2444
Tel: (056) 30630 Fax 31069
KAKAMEGA

Siaya Branch:
P.O. Box 203
Tel: (057) 321213 Fax 321213
SIAYA

Sare Awendo
P. O. Box 183
Tel: (059) 43417 Fax 43417
AWENDO

MBITA BRANCH

Oyugis Branch
P.O. Box 1986
Oyugis

