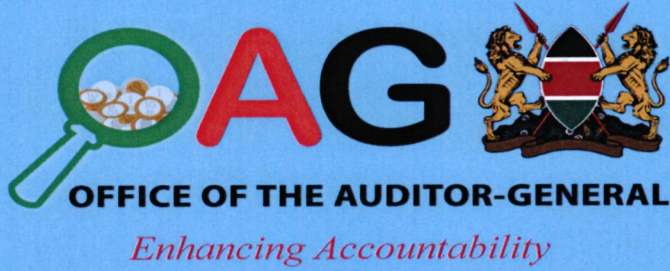


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REPORT

THE NATIONAL ASSEMBLY PAPERS LAID	
DATE: 14 JUN 2023	DAY: WEDNESDAY AM
TABLED BY:	Hon. Naomi Wago MP Deputy Majority Party Whip
CLERK AT THE TABLE:	A. Shubuko

THE AUDITOR-GENERAL

ON

KENYA POST OFFICE SAVINGS BANK

**FOR THE YEAR ENDED
31 DECEMBER, 2021**

KENYA POST OFFICE SAVINGS BANK



My Bank, My Choice, My Future

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2021

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

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Table of Contents	PAGE
CORPORATE INFORMATION	1
BOARD OF DIRECTORS	3
SENIOR MANAGEMENT	8
CHAIRMAN'S STATEMENT	9
MANAGING DIRECTOR'S STATEMENT	11
CORPORATE GOVERNANCE STATEMENT	12
MANAGEMENT DISCUSSION AND ANALYSIS	15
CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT	17
REPORT OF THE DIRECTORS	19
STATEMENT OF DIRECTORS RESPONSIBILITIES	20
REPORT OF THE INDEPENDENT AUDITORS	21
STATEMENT OF PROFIT OR LOSS	22
STATEMENT OF FINANCIAL POSITION	23
STATEMENT OF CHANGES IN EQUITY	24
STATEMENT OF CASH FLOWS	25
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL	26
NOTES TO THE FINANCIAL STATEMENTS	27-66
APPENDIX I: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS	

CORPORATE INFORMATION

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

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

Principal Activities

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

Directors

The members of the Board of Directors who served during the year are shown on page 3 to 7.



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

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

CORPORATE INFORMATION (CONTINUED)

PRINCIPAL BANKERS

Kenya Commercial Bank Ltd Kencom House – 6 th 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
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INDEPENDENT AUDITOR

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

PRINCIPAL LEGAL ADVISORS

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

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

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

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

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

BOARD OF DIRECTORS
Mr. Ntoros Baari Ole Senteu
Chairman



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

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



Hon. Ambassador Ukur Kanacho Yatani is the Cabinet Secretary, National Treasury & Planning Ministry. He was confirmed in office on January 14, 2020, having been appointed by President Uhuru Kenyatta as the Ministry's acting CS in July 2019. Prior to the current appointment, Hon. Yatani served as Cabinet Secretary for Labour and Social Protection. CS Yatani has rich experience in public administration, politics, diplomacy and governance, acquired from working in various sectors of the Public Sector since joining the Civil Service in 1992.

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

During the period 2006-2007 while serving Member of Parliament for North Horr constituency, CS Yatani also served as an Assistant minister for Science and Technology. At the height of his political career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya.

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

BOARD OF DIRECTORS (CONTINUED)

Henry Mutwiri

Alternate to Cabinet Secretary, The National Treasury



Mr. Henry Mutwiri Riungu is a financial professional with over fifteen years' experience. He holds an MBA in Finance from Maseno University, a Bachelor of Commerce degree from the University of Nairobi and a Post Graduate Diploma in Finance from KCA University

Top on the list of his vast experience is a fourteen-year tenure at National Treasury in various capacities as Senior Finance Officer, Deputy Head of the World Bank Division and the most recent roles being Chief Investment Officer and Chief Intergovernmental Fiscal Relations Officer. During his tenure at the National Treasury.

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

Mr. Muthamia Kithinji



Mr. Muthamia Kithinji holds a Bachelors of Commerce degree, with a speciality in Marketing from Daystar University. He started his career as a Marketing Executive progressing through various roles and currently serves as Head of Business Development at Norken International. Mr. Kithinji has over 17 years of experience in diverse areas that include: Business Planning, Program & Project Management, Strategy Formulation, Implementation and Operations, Business Development, Tender development, Bid Negotiations and Budget Formulation. He also possesses vast experience in local and international engagement; having prepared winning tenders for multi-disciplinary donor-funded projects for the government with top development partners that include: World Bank, JICA, AfDB, EU, IFAD, IFC, CDTF, NDFC, CIDA UN Agencies amongst others.

Mr. Kithinji has been trained on Quality Management Systems Internal Auditor and Leadership, Transformative Leadership, Executive Customer Care, Budget Formulation, Implementation, Management & Control, Quality Management and Risk Management. He is currently pursuing a Master of Arts degree in Project Management and Management at the University of Nairobi and Chartered Institute of Marketing (CIM) certification.

BOARD OF DIRECTORS (CONTINUED)

Mr. Clement Museve



Mr. Clement Museve is a graduate of the University of Nairobi - Supply Chain Management and the Kenya Polytechnic. He is an exceptional professional and accomplished executive personal assistant. He is well-versed with over thirteen years of extensive experience in overseeing logistics and managing complex and professional schedule for high profile ministers and skilled at balancing their work and personal life. He is goal oriented with ability to meet long term goals through organizing, providing accuracy and managing multiple priorities to achieve results. He is a professional procurement officer and Accounts Associate. Adept in utilizing excellent interpersonal and organizational skills and perform well in a fast-paced environment.

His prior engagements include Executive Personal assistant – Ministry of sports and culture (2018-2019), Executive Personal assistant to the late Hon. Soita Shitanda – Ministry of Housing (2006-2012), Procurement officer – University of Nairobi (2002-2006), Account Associate– University of Nairobi (1984-1992) and Cashier’s Supervisor (Payee system) – University of Nairobi (1992-1995).

Ms. Mercy Luseno



Mercy S. Luseno holds a Bachelor of Education (Arts), in Mathematics and Business studies. She has previously worked as a Physics, Mathematics and Business Studies teacher. As a graduate of Moi University, Mercy left a huge impression organizing and supporting anti-cancer campaigns. Her main focus was creating breast and prostate cancer awareness. Ms. Luseno has been instrumental in creating awareness on environmental matters in an effort to enhance action for the protection of the environment. Mercy has been a strong voice outside her academic career advocating for women empowerment. She Retired from the Board on 19 September 2021

*Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021*

BOARD OF DIRECTORS (CONTINUED)

Mr. Moses Banda



Moses Banda holds a Bachelor of Arts (BA) degree in Microfinance and Economic Community Development from Uganda Martyrs Catholic University and a Master of Business Administration (MBA) degree in Banking and Finance with specialization in Microfinance from Moi University. He has unrivalled experience in Microfinance, spanning over two decades. Prior to joining the Bank, Mr. Banda was lead Managing Director at Rosmo Limited, a founder employee of K-rep (now Sidian) Bank, and a Director at Susu Microfinance Bank-Nigeria.

He is hands on and has gained practical experience in leadership, governance, transformation, policy formulation, fundraising and lobbying. He is also a member of Association of Microfinance.

Mr. Banda has served as a director of several national and international organizations. He is a widely sought after public speaker, resource person and financial advisor.
He Retired from the Board on 19 September 2021

Mr. Samuel Bunei



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

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

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

He Retired from the Board on 20th December 2021.

BOARD OF DIRECTORS (CONTINUED)

Mr. Raphael M Lekoolool
Managing Director



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

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

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

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

SENIOR MANAGEMENT



Mr. Raphael M Lekolool
Managing Director

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



Isaac Mumina Mutua
Head of ICT & Alternative Channels

He holds a Bachelor of Science in Mathematics and Computer Science, Masters in Business Administration MIS/Strategic Management. He holds a number of ICT professional Certifications. He is a member of Kenya Institute of Management (KIM), Fellow of the Computer Society of Kenya (CSK)



Dr. CPA Calistus Wekesa (PhD)
Head Audit

He holds PhD (Finance), MSc (Finance) and B.Ed. (Accounting and Economics). He also holds a Diploma in HRM (KIM), Financial Risk Certification Programme (UK) and is a member of ICPAK.

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 2021.

While the year 2020 remained one of the most challenging to date, year 2021 was largely defined by increased resilience and perhaps most importantly, continued economic recovery from the ravages of the global COVID-19 pandemic.

REVIEW OF ECONOMIC PERFORMANCE

Global and Regional Economy

The global economy is emerging from the collapse triggered by the COVID-19 pandemic. According to World Bank estimates, the global economy showed positive signs of recovery and grew by 5.5 percent in 2021.

This growth momentum was however dampened by the resurgence of various COVID-19 variants, slower vaccination progress particularly in Emerging market and developing economies (EMDEs) and various supply bottlenecks.

Kenyan Economy

On the domestic scene, Kenya's economy in 2021 was projected to grow by 5 per cent, buoyed by a strong growth of 9.9 percent in the third quarter of the year 2021.

This strong growth was mainly attributed to the easing of various COVID-19 containment measures, which lifted performance in the education, accommodation and food serving activities, transportation and storage, manufacturing and insurance activities that had been battered by the lockdowns. However, the agricultural sector was yet to pick up as evidenced by the decline in fruit exports, cane deliveries, tea production and coffee exports during this period.

Continued economic recovery will be supported by the stable macroeconomic environment, the ongoing implementation of the strategic priorities of the Government under the "Big Four" Agenda and Economic Recovery Strategy as well as favorable weather supporting positive agricultural output.

Outlook for 2022

While global economic growth is largely expected to remain stable in 2022, World Bank estimates project that overall growth will drop to 4.1 percent from 5.5 percent on account of the persisting COVID-19 pandemic, reduced policy support for various interventions as well as disruptions to supply chains.

Growth in the emerging Market and Developing Economies (EMDES) is expected to decline to 4.6 percent in 2022, largely on the back of the withdrawal of macroeconomic policy support and moderation of external demand.

Kenya's economic growth rate is expected to rise to 5.9 percent in year 2022. While the country has kept some of its key indicators in check including inflation which stood at 5.8 percent in November 2021, there are however various underlying risks which could hamper recovery efforts including the ongoing pandemic and the relatively low vaccination rates, unpredictable weather conditions given that Kenya is largely an agricultural country, the pace of the overall global economic recovery and the looming general elections in August 2022.

It is expected that continued economic recovery of the Kenyan economy will be supported by a stable macroeconomic environment, the ongoing implementation of the strategic priorities of the Government under the "Big Four" Agenda and Economic Recovery Strategy as well as favorable weather supporting positive agricultural output.

CHAIRMAN'S STATEMENT (CONTINUED)

Compliance with Statutory Requirements

During the period under review, the Bank honored all of its statutory obligations by remitting all required deductions within statutory time lines.

Strategic Plan 2021-2025

The Bank developed a Strategic Action Plan for the year 2021 based on the long term 5-year strategic Plan 2021-2025. The same has formed the basis of performance contracting negotiations with the Government of Kenya for the year 2022. This plan is based on the following Key Result Areas (KRAs) i.e. Market Focus, Financial Sustainability, Human Capital Development, Business Efficiencies and Governance and Leadership.

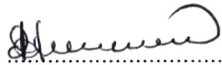
Cost Management

The management has continued to address areas of cost management through staff rationalization, re-negotiation of branch rent leases, online training, rationalization of travel, review of service contracts amongst other areas. Through partnerships, management is enhancing business ties with the Government and Private sector, especially for disbursement of Government Social funds and stipend, salaries and wages and provision of banc assurance services, to name a few.

Following the approved sale of Postbank Training School in Muthaiga North in December 2016 by The National Treasury to partly fund staff restructuring, the Bank realized proceeds of this sale, which contributed to its improved performance in year 2021.

Appreciation

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



DIRECTOR

March 2023

MANAGING DIRECTOR'S STATEMENT

I wish to present the Bank's Annual Report and the Financial Statements for the year ended 31st December 2021.

While the macroeconomic environment in 2020 was largely defined by the COVID-19 pandemic which led to depressed GDP growth, there were encouraging signs of recovery and growth in 2021, driven in part by the lifting of various COVID-19 containment measures in the second half of the year which had been put in place by the Government to address the pandemic.

Financial Performance

Postbank's financial performance for the period ended 31st December 2021 was a loss of Kshs 311 million. This was an improvement of 72 % compared to loss of Kshs 1.1 billion in FY 2020, driven by gain realized of Kshs 554 million on disposal of Investment Property in the year.

Total income grew to Kshs. 2.22 billion in 2021 (2020-Kshs 1.48 billion) driven by a 28 % growth in interest income largely because of interest from Government securities which increased to Kshs. 6.93 billion , a 16 % growth compared to 2020.

Interest expense declined by 1 % , reducing effective cost of deposits /funds to 1.92 % from 2.1% in 2020.

The Bank's Customer Deposits increased by 3 % to stand at Kshs 24.15 billion as at 31st December 2021, from Kshs 23.45 billion for the same period in year 2020.

Some of the key business growth initiatives the Bank undertook in 2021 include the following:

- a) Signing of new partnerships for branchless banking with ABSA, money transfer service with First Community Bank, State Department for Youth Affairs(SDYA) partnership and Akiba na Afya with BRITAM.
- b) Marketing and promotional campaigns targeting Kenya Defense Forces (KDF), Chamare Cooperative Society (Molo), youth forums in coast region as well as marketing drives in various institutions countrywide amongst others.
- c) Product review and categorization aimed at making the Bank's products market driven and thus more competitive.
- d) Running corporate campaign in the media to raise the awareness of the Bank emphasizing on the corporate attributes that include the tax-free benefit on interest earned, wide network, deposit guarantee by Government among other benefits.
- e) Recruitment of Inua Jamii customers using the Customer On-Boarding system.



**RAPHAEL LEKOLOOL
MANAGING DIRECTOR**

_____ **March 2023**

CORPORATE GOVERNANCE STATEMENT

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

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

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

Board of Directors

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

Name	Position Held	Date Of Appointment
Ntoros B. Ole Senteu	Chairman	Appointed on 16 October 2019
Muthamia M Kithinji	Director	Appointed on 1 October 2021
Clement Museve	Director	Appointed on 1 October 2021
Mercy Luseno	Director	Retired on 19 September 2021
Moses Banda	Director	Retired on 19 September 2021
Sammuel k. Bunei	Director	Retired on 20 December 2021
Henry Mutwiri Riungu	Alternate Director – CS National Treasury	
Raphael Lekolool	Managing Director	

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Code of Ethics

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

Communication with Shareholder

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

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the Year 2021 is disclosed in Note 12 to the Financial Statements. There were no loans given to sitting Directors at any time during the year.

Board Meetings

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

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board and Board Committees Attendance

Type of Meeting	No. of Meetings	Mr. Ntoros B. Ole Senteu	Mr. Henry R. Mutwiri	Mr. Moses Banda	Ms. Mercy Luseno	Mr. Samwel K. Rono	Prof. Dulacha Barako	Mr. Muthamia M. Kithiani	Mr. Clement Museve	Mr. Raphael Lekolool
Main Board Meeting	5	5	3	3	4	5	2	1	1	5
Special Board Meeting	6	6	3	3	3	6	1	2	2	6
Adhoc Meeting	3	3	3	3	3	3	0	0	0	3
Audit and Risk Board Committee	5	0	3	4	0	5	1	0	1	0
Staff Board Committee	4	0	2	0	3	4	2	1	0	4
ICT Operations and Credit Committee	4	0	2	0	3	4	2	0	1	4
Strategy and Finance Board Committee	4	0	2	3	3	1	2	1	0	4
Meeting with Director General Nairobi County & Presentation of Gift to BM/Kawangware	1	1	0	0	0	0	0	0	0	1
Meeting with the Governor Nairobi County and PS Ministry of Interior	1	1	0	0	0	0	0	0	0	1
Performance Contract Evaluation FY 2020	1	1	0	0	0	0	0	0	0	0
Meeting with PS State Dept.	1	1	0	0	0	0	0	0	0	1
TOTALS	35	18	18	16	19	28	10	5	5	29

DIRECTOR 

March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

2021 marked the first reporting year under our 2021-2025 strategy themed “Setting the Base for KPOSB’s Growth and Sustainability”. This plan broadly outlines the various strategies and initiatives the Bank will pursue over the next 5 years i.e. 2021-2025, that are crucial for the Bank’s long-term growth and sustainability.

The strategy is premised on five Key Result Areas (KRAs)/Pillars namely

- i) Market Focus.
- ii) Business Efficiencies.
- iii) Human Capital Development
- iv) Financial Sustainability.
- v) Governance and Leadership.

The Bank’s financial performance for period ended 31st December ended with a loss of Kshs 311 million, recording a growth of 72 % from loss of Kshs 1.101 billion in FY 2020. This was mainly driven by;

- i) 27 % growth in interest income largely because of interest from Government securities which increased to Kshs. 6.93 billion , a 16 % growth compared to 2020.
- ii) gain realized of Kshs 554 million on disposal of Investment Property in the year. All proceed from sale of investment property were invested in Treasury Bonds.

Fees and commissions from transactions were 4 % down (FY 2021-Kshs 442 million ,FY 2020 Kshs 460 million) driven by general decline in business transactions.

Total assets at the end of the year was Kshs 15.483 billion

Customer deposits grew by 3 % during the year to Kshs 24.15 billion from Kshs 23.45 billion in year 2020 with Bidii Savings Account, Pension accounts and Premium Plus Accounts accounting for more than 82 % of total deposits.

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Major Risk Facing Postbank

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

The Board and the management have been in consultation with the Government through the National Treasury with a view to injecting capital to defray the accumulated losses as provided in the Kenya Post Office Savings Bank Act, cap 493B, section 13(I).

The management is also addressing areas of cost management and through staff rationalization and closing unprofitable branches. Customers will still be served through the Mashinani Agency Network, Mobile Banking and Internet Banking. Management is enhancing business Partnership's with the Government and Private sector especially for disbursement of Government Social funds and stipend, salaries and wages.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

Postbank has a long-term vision to contribute towards sustainable development in the country. It achieves this by giving back to the society in which it operates. The Bank has been involved in various Corporate Social Responsibilities (CSR) initiatives aimed at positively impacting the lives of people in communities. Its CSR activities are focused on four pillars; Education, Environment, Health, and Response to distress calls. To augment these efforts, Postbank also implements sponsorship activities towards vulnerable groups and takes part in Corporate Social Investment (CSI) initiatives that are focused on broadening access to financial services for communities, particularly in rural areas.

In the year 2021, CSR activities were carried out across the bank's operational areas to create more impact on the communities around its areas of business.

i. HEALTH

Critical areas in enhancing health and nutrition were identified. To this end, the Bank donated foodstuff to the vulnerable members of the community in Homabay, Murang'a, Nairobi, and Mombasa.

Through concerted efforts with like-minded institutions, the Bank also sponsored the 2021 Mt. Kenya annual half-marathon for the abled differently. The institution's contribution will go a long way in alleviating the current and pressing needs of people living with disability as well as assist to end the stigma. Children with heart ailments from economically disadvantaged backgrounds were also supported through the Mater Hospital's cardiac program.

ii. EDUCATION

In an effort to empower the community through education, we sponsored the renovation of toilet facilities at Nkeju-Emuny Primary School in Maralal to create a conducive and hygienic learning environment.

The Bank also donated assorted foodstuff to the Caretakers Children's orphanage located in Korogocho - an institution that provides education to children from underprivileged backgrounds in Nairobi. The donation was geared towards providing nutritional support, hence a conducive environment for the children to learn and realize their full potential.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT (CONTINUED)

iii. ENVIRONMENT

The Bank partnered with other institutions to increase the country's forest cover. Postbank undertook a tree planting/growing program under its CSR environmental pillar in collaboration with National Youth Service (NYS) afforestation programs and the County Government of Machakos in Masii Sub-County.

iv. FINANCIAL LITERACY/INCLUSION

Having been charged with the responsibility of mobilizing resources for national development, Postbank also supports community-driven social and development activities aimed at creating solutions conducive for individuals, groups and the community's improvement.

In a deliberate move to promote financial literacy, savings education sessions were conducted to young people both in school and out of school. For in school, the Bank was actively involved in conducting financial literacy sessions in high schools, campuses, Technical Vocational Education and Training (TVETs) colleges, youth centers, and institutions of higher learning. The Bank also held Global Money Week and World Savings Day celebrations, events held to increase money awareness and inculcate a savings culture.

DIRECTOR 

_____ March 2023

REPORT OF THE DIRECTORS

Principal activities

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

Results

The results for the year are as set out on pages **22 to 26**

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of Postbank in accordance with the Article 229 of the Constitution of Kenya and Public Audit Act 2015 for the period ended 31st December 2021.

By order of the Board.



Ms. Grace Maina
Ag. Company Secretary

_____ **March 2023**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on 31st December 2021

This responsibility includes:

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


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


The Directors are of the opinion that the Postbank's financial statements give a true and fair view of the state of Postbank's transactions during the financial year ended December 31st, 2021, and of the Bank's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Bank, which have been relied upon in the preparation of the Bank's financial statements as well as the adequacy of the systems of internal financial control.

Approval of the financial statements

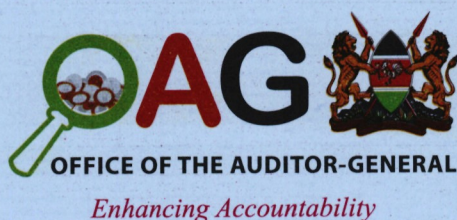
The Bank's financial statements were discussed and approved by the Board on _____ 2022 and signed on its behalf by:


Managing Director
Raphael Lekool
ICPAK Member No. 5481


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


Director

REPUBLIC OF KENYA



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

REPORT OF THE AUDITOR-GENERAL ON KENYA POST OFFICE SAVINGS BANK FOR THE YEAR ENDED 31 DECEMBER, 2021

PREAMBLE

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

- A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Kenya Post Office Savings Bank set out on pages 22 to 81, which comprise the statement of financial position as at 31 December, 2021, and the statement of profit or loss and other comprehensive

income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Kenya Post Office Savings Bank as at 31 December, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Public Finance Management Act, 2012.

Basis for Qualified Opinion

1. Property and Equipment

The statement of financial position reflects a balance of Kshs.2,132,157,196 in respect to property and equipment. However, the following unsatisfactory issues were noted:

1.1 Lack of Title Deed and Encroachment of Land

As disclosed in Note 28 to the financial statements, the property and equipment balance of Kshs.2,132,157,196 includes an amount of Kshs.805,000,000 in respect of land, out of which Kshs.5,000,000 related to a parcel of land located within Nairobi. However, and as reported in the previous year, the land had remained unfenced and had since been encroached by informal settlers. Although Management explained the measures put in place to secure the land and obtain a title deed, full and actual possession of the land had not been obtained as at the time of audit.

1.2 Unknown Ownership Status of Land in Dispute

Over the years, the Bank has been embroiled in a dispute for a parcel of land in Nairobi, Milimani Area. The land was registered in the name of the Bank and valued at Kshs.550,000,000 in December, 2017 but had its title deed encumbered. Review of information provided indicated that the matter between the Bank and a claimant has been in Court since 1995. The outcome of the case had not been determined at the time of the audit and Management did not disclose this as a contingent liability in the financial statements.

1.3 Motor Vehicle Without a Logbook

Included in the reported property and equipment balance of Kshs.2,132,157,196 is Kshs.8,778,669 relating to motor vehicles. However, and as reported in the previous year, the logbook for one motor vehicle valued at Kshs.400,000 had not been issued to the Bank by the National Transport and Safety Authority (NTSA) since November, 1997. This was despite the Bank having paid the requisite duty to register the vehicle in its own name.

1.4 Incomplete Asset Register

The fixed asset register maintained by the Bank and provided for audit review lacked the minimum general and accounting information required by The National Treasury Guidelines on Asset and Liability Management in the Public Sector, 2020. The asset description, serial number, tag number, model, location, acquisition cost, depreciation rate, net book value, asset condition among other details were not indicated in the assets register.

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

2. Customers' Savings and Deposit Accounts

The statement of financial position reflects customers' savings and deposit accounts totalling Kshs.24,152,756,542. However, the component amounts disclosed in Note 31 to the financial statements are at variance with the customer listing schedule provided as detailed below;

Item	Amount as per the Financial Statements (Kshs.)	Amount as per Supporting Schedule (Kshs.)	Variance (Kshs.)
Retail Customers	907,897,069	910,535,267	2,638,198
Term Deposits	4,850,549,242	4,852,394,675	1,845,433
Savings and Current Accounts	10,616,380,483	10,587,676,951	(28,703,532)
Corporate Customers	7,739,914,897	7,802,149,649	62,234,752
Others	38,014,850	-	(38,014,850)

Although Management explained that the differences arose from accounts for minors which change to step accounts or any other account of their preference when they attain maturity age while some clients opted to open multiple accounts, no harmonization has been made between the core banking system and the financial management system.

Further, included under Others amount of Kshs.38,014,850 are independent agent accounts of Kshs.200,919, agent control of Kshs.21,769,581 and ATM retracted cash of Kshs.15,645,476 whose supporting schedules were not provided for audit review. In addition, no explanation was provided on why the retracted cash was not immediately rolled back to the respective customers' accounts.

It was also noted that there were overdrawn customer accounts to the tune of Kshs.32,035,507 which is against the customer savings rules. Further, approvals from the respective customers were not provided for audit review.

In the circumstances, the accuracy and completeness of customers' savings and deposit accounts balance of Kshs.24,152,756,542 could not be confirmed.

3. Cash and Cash Equivalents

The statement of financial position reflects a cash balance of Kshs.352,118,680 which, as disclosed in Note 20 to the financial statements, includes amounts of Kshs.299,087,064 and Kshs.53,031,615 in respect to cash on hand and cash at bank, respectively. However, the reported cash in hand balance of Kshs.299,087,064 differed with the balance of Kshs.300,622,237 reflected in the Board of Survey report with a variance of Kshs.1,535,173 which was not reconciled. Further, included in the cash at bank balances of Kshs.53,031,615 were twenty- five (25) overdrawn accounts (cash book overdrafts) totalling to Kshs.143,502,392 which were offset against other bank balances contrary to International Accounting Standards Paragraph 1.32 which requires that assets and liabilities, and income and expenses, may not be offset unless required or permitted by International Financial Reporting Standards.

In the circumstances, the accuracy of the cash and cash equivalents balance of Kshs.352,118,680 could not be confirmed.

4. Accounts Payables and Accruals

The statement of financial position reflects a balance of Kshs.3,041,707,106 in respect to accounts payables and accruals which, as disclosed in Note 32 to the financial statements, includes Kshs.114,769,656, Kshs.1,018,632,353 and Kshs.407,050,681 relating to trade creditors, GoK Pension Payroll and other creditors, respectively. However, review of the ledger balances and balances reported in the financial statement revealed variances as detailed below:

Item	Amounts as per General Ledger (Kshs.)	Amounts as per Financial Statements (Kshs.)	Variance (Kshs.)
Trade Creditors	114,681,635	114,769,656	(88,021)
GoK Pension Payroll	1,020,007,886	1,018,632,353	1,375,533
Other Creditors	683,361,107	407,050,681	276,310,426

Further, an ageing analysis of payables was not provided to support the balances.

In the circumstance, the accuracy of the accounts payables and accruals balance of Kshs.3,041,707,106 as at 31 December, 2021 could not be confirmed.

5. Long Outstanding Receivables

As reported in the previous report, the statement of financial position reflects net accounts receivables balance of Kshs.2,589,012,121 which, as disclosed in Note 26 to the financial statements, includes gross account receivables of Kshs.3,392,635,846. The balance includes Kshs.405,231,629 and Kshs.268,553,158 relating to GOK – Kenya Post and Telecommunication Corporation and GOK Pension Cheques Receivables – Postal Corporation of Kenya, respectively which had been outstanding for more than fourteen (14) years. Although Management cited commitment from the concerned parties including The National Treasury to settle the debts, as at the time of audit, the amounts were still outstanding. In addition, although a provision of

Kshs.803,623,725 had been made against bad and doubtful debts, the adequacy of the provision could not be confirmed.

In the circumstances, the full recoverability of the net accounts' receivables balance of Kshs.2,589,012,121 could not be confirmed.

6. Intangible Assets

The statement of financial position reflects a balance of Kshs.29,586,493 in respect to intangible assets as at 31 December, 2021 which includes additional assets acquired during the year amounting to Kshs.13,270,096. Audit review of the software register revealed the following:

- i. The date of acquisition of software amounting to Kshs.3,881,552 was 28 January, 2020 and hence may not qualify as additions during the financial year ended 31 December, 2021.
- ii. The useful life for the assets was not indicated to ascertain the correctness of the amortization charge and netbook value.
- iii. The payment vouchers for the two acquisitions of software worth Kshs.13,270,105 were not provided.
- iv. Review of the records indicates that most of the software is fully amortized and may be past the useful life or could be obsolete and not take into consideration the current circumstances e.g., safeguards against fraud.

In the circumstances, the accuracy of the intangible assets balance of Kshs.29,586,493 as at 31 December, 2021 could not be confirmed.

7. Unsupported Prior Year Adjustments

The statement of changes in equity reflects prior year adjustments balance of Kshs.88,031,919 relating to correction of errors affecting various prior year balances. Further, the statement of cashflows reflects a prior year adjustment balance of Kshs.91,834,389 while the property and equipment schedule reflects a prior year adjustment balance of Kshs.3,802,470. However, the prior year adjustments were not restated retrospectively in the comparative year contrary to the requirements of Paragraph 42(a) of the International Accounting Standard No. 8 – Accounting Policies, Changes in Accounting Estimates and Errors, which states that, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery, by restating the comparative amounts for the prior period(s) presented in which the error occurred. Further, the journal vouchers supporting the prior year adjustments were not provided for audit.

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

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

ethical responsibilities in accordance with the ISSAI and other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of Matter

Material Uncertainty Relating to Going Concern

As previously reported, the bank reported a loss of Kshs.311,248,432 (2020: Kshs.1,101,020,895) increasing the accumulated loss from Kshs.15,247,741,860 as at 31 December, 2020 to Kshs.15,365,358,373 as at 31 December, 2021. Further, the bank's current liabilities of Kshs.27,619,772,408 exceeded the current assets balance of Kshs.12,967,431,149 resulting to a negative working capital of Kshs.14,652,341,259 (2020: Kshs.14,118,525,552). The Bank was therefore unable to meet its financial obligation when due. As disclosed under Note 2(e) (i) to the financial statements, the Bank was technically insolvent and its continued operation as a going concern will depend on continued support from the Government and creditors.

My opinion is not modified in respect of this matter.

Key Audit Matters

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

Other Matter

Budgetary Control and Performance

The statement of comparison of budget and actual amounts reflects final receipts budget and actual receipts on a comparable basis of Kshs.1,675,421,263 and Kshs.1,720,615,859 respectively, resulting to an over-funding of Kshs.45,194,596 or 3% of the budget.

Similarly, the Bank expended Kshs.2,004,180,234 against an approved budget of Kshs.2,300,592,593 resulting to an under-expenditure of Kshs.296,412,359 or 13% of the budget.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that,

nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

Loss of Cash

The statement of financial position reflects prepayments and other assets balance totalling Kshs.2,479,011,596 which, as disclosed in Note 27 to the financial statements, includes Kshs.841,995,534 for other assets and prepayments. The supporting schedules provided for audit revealed that an amount totalling Kshs.94,862,173 (2020: Kshs.76,378,627) related to loss of money through fraud. As previously reported, evidence of the banks effort to recover the money was not provided.

Further, cash shortages from working cashiers totalling Kshs.40,723,667 had not been recovered by the end of the year. This is despite the provisions of the Bank's Human Resource Policy that such cash shortages be made good within forty-eight (48) hours by the concerned staff.

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

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

Responsibilities of Management and Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal controls as Management determines is necessary to

enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Bank or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal controls in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes

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


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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Bank to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

28 April, 2023

*Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021*

STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

For the year ended 31 December

	Notes	2021 Kshs	2020 Kshs
Interest income	4	1,003,256,519	795,322,120
Interest expense	5	(466,383,874)	(472,278,582)
Net interest income		536,872,645	323,043,538
Fees and commission income	6	441,653,585	460,494,065
Fees and commission expense	7	(42,816,171)	(42,079,795)
Net Fees and commission income		398,837,414	418,414,270
Net trading income		935,710,059	741,457,808
Foreign exchange income	8	110,607,321	107,675,788
Other Operating income	9	674,298,479	120,041,225
Net Operating Income		1,720,615,859	969,174,821
Operating Costs			
Impairment loss on loans and advances	10	(45,000,000)	(40,000,000)
Employee expenses	11	(1,155,761,379)	(1,171,018,104)
Board expenses	12	(6,735,158)	(11,482,672)
Operating expenses	13	(278,681,721)	(403,703,543)
Depreciation and Amortisation	14	(239,400,133)	(157,136,748)
Amortisation cost- Treasury Bonds	15	(15,687,843)	(15,583,146)
Other expenses	16	(262,914,001)	(271,271,503)
Total Operating Costs		(2,004,180,234)	(2,070,195,716)
Loss before income tax		(283,564,375)	(1,101,020,895)
Income tax expense*	17	(27,684,057)	-
Loss for the period		(311,248,432)	(1,101,020,895)
Other Comprehensive Income			
Items that may be subsequently reclassified to profit or loss			
Financial assets at fair value through other comprehensive income			
Gain/(loss) from fair value re-measurement		(73,128,164)	(2,258,365)
Total other comprehensive income for the year		(73,128,164)	(2,258,365)
Total comprehensive income for the year		(384,376,596)	(1,103,279,260)

*The tax expense relates to Capital gain tax on disposal of assets.


Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

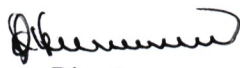
STATEMENT OF FINANCIAL POSITION

As at 31 December		2021	2020
ASSETS	Notes	Kshs	Kshs
Cash	20	352,118,677	1,193,792,381
Funds on Call and Short Notice	21	570,267,115	267,597,631
Investment in Treasury Bonds	22	6,928,049,337	5,978,144,001
Investment Property	23	32,390,225	1,002,390,225
Stocks	24	12,291,676	11,312,331
Other Investments	25	4,290,401	4,145,167
Accounts Receivables	26	2,589,012,121	2,537,263,931
Prepayments & Other Assets	27	2,479,011,597	2,427,126,751
Property and Equipment	28	2,132,157,196	2,258,574,234
Right of use Assets	29	353,505,105	0
Intangible Assets	30	29,586,493	34,197,513
Total Assets		15,482,679,942	15,714,544,164
LIABILITIES			
Customer Savings and Deposits	31	24,152,756,542	23,453,971,509
Accounts Payables & Accruals	32	3,041,707,106	4,027,585,146
GOK Pension Reserve Fund	33	67,739,974	58,741,315
Lease Liabilities	34	357,568,786	0
Total Liabilities		27,619,772,408	27,540,297,970
SHAREHOLDERS' EQUITY			
Deferred Revenue	35	8,574,791	23,568,774
Revaluation Reserves		3,165,760,210	3,271,360,210
Fair Value Reserve	22 (b)	53,930,907	127,059,071
Revenue Reserves		(15,365,358,373)	(15,247,741,860)
Total Shareholders' Equity		(12,137,092,466)	(11,825,753,806)
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		15,482,679,942	15,714,544,165

The financial statements on pages 22 to 66 were approved and authorised for issue by the Board of Directors on _____ 2023 and were signed on its behalf by:


Managing Director
Raphael Lekool
ICPAK Member No. 5481


Ag. Head of Finance
Benard Musyoki
ICPAK Member No 2881


Director

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2021

	Deferred Revenue		Revaluation Reserves		Fair value Reserve		Revenue Reserves		TOTALS	
	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
At 1st January 2021	23,568,774	3,271,360,210	127,059,071	(15,247,741,860)	(11,825,753,806)	(311,248,432)	105,600,000	(73,128,164)	(14,993,983)	88,031,919
Loss for the year										
Revaluation surplus transfer		(105,600,000)	(73,128,164)							
Change during the year	(14,993,983)									
Charge for the year										
Prior year adjustments (ii)										
At 31st December 2021	8,574,791	3,165,760,210	53,930,907	(15,365,358,373)	(12,137,092,466)	(1,101,020,895)	88,031,919	(118,932,169)	(11,825,753,806)	529,862
At 1st January 2020	20,780,547	3,271,360,210	129,317,436	(14,027,788,796)	(10,606,330,604)	(1,101,020,895)	(118,932,169)	(11,825,753,806)	(11,825,753,806)	(11,825,753,806)
Loss for the year										
Additions during the year	2,788,227		(2,258,365)							
Prior year adjustments										
At 31st December 2020	23,568,774	3,271,360,210	127,059,071	(15,247,741,860)	(11,825,753,806)	(1,101,020,895)	(118,932,169)	(11,825,753,806)	(11,825,753,806)	(11,825,753,806)
Prior year adjustment of Kshs 88,031,920 in year 2021 arose from:			Kshs							
1) Excess Service charge			(2,536,270)							
2) Mobile banking expenses			3,583,068							
3) Appraisal fee and disbursement fee from Premier Credit			(10,989,912)							
4) Pos fees receivable from Kentswath			(8,231,732)							
5) Petty cash expenses			20,239							
6) Agency Income			(1,961,011)							
7) Rental expenses			1,364,333							
8) Computer & Generator repairs			1,552,782							
9) Inua Jamii commission			(28,194,807)							
10) Pension Commission			(40,296,900)							
11) Licenses			3,925,949							
12) Karura expenses(advertising & valuation)			(775,260)							
13) House loan adj (Principle & interest)			1,479,507							
14) Accumulated depreciation adjustment			(496,653)							
15) Other Income			(11,660,260)							
16) Loss on MTS			724,488							
17) Retained earning opening balance adjustment			4,460,520							
Total			(88,031,920)							

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

STATEMENT OF CASH FLOWS

For the year ended 31 December

	Note	2021 Kshs	2020 Kshs
Profit/(Loss) for the year		(283,564,375)	(1,101,020,895)
Adjustments for:-			
Depreciation of property and equipment		133,142,741	136,254,561
Amortisation of right of use assets-Leased		88,376,276	-
Amortisation of intangible assets		17,881,116	20,882,187
(Gain) on disposal of fixed assets		(556,698,767)	
Appreciation/Diminution in value of quoted investments	9	(145,233)	(44,668)
Income tax paid		(27,684,057)	
Prior year adjustments		91,834,389	(114,288,420)
Operating profit/(loss) before working capital changes		(536,857,910)	(1,058,217,235)
(Increase)/ Decrease in Accounts Receivables & Prepayments	26 & 27	(103,633,036)	177,257,344
(Increase)/Decrease in stocks		(979,347)	2,833,332
(Increase)/Decrease in Right of use Assets		(441,881,381)	
Increase/(Decrease) in Accounts Payables & Accruals		(985,878,040)	784,562,268
Increase/(Decrease) Customer Savings and deposits		698,785,033	1,674,669,004
Increase/(Decrease) GOK Pension Reserve fund account		8,998,659	(10,169,953)
Increase/(Decrease) Lease Liabilities		357,568,786	
Net cash flows from operating activities		(1,003,877,236)	1,570,934,760
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property and Equipment	28 & 30	(24,248,642)	(144,715,586)
Proceeds from disposal of assets		1,527,149,140	
Change in Fair Value Reserve	22b	(73,128,164)	(2,258,365)
Net cash flows from investing activities		1,429,772,334	(146,973,951)
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from WSBI	35	(14,993,983)	2,788,227
Net cash flows from financing activities		(14,993,983)	2,788,227
Net increase in cash and cash equivalents		410,901,116	1,426,749,037
Cash and cash equivalents at the beginning of the year	36	7,439,534,013	6,012,784,977
Cash and cash equivalent at the end of the year	36	7,850,435,130	7,439,534,013

The notes on pages 27 to 66 form an integral part of these financial statements.

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
For the year ended 31 December 2021

	Actual	Budget	Variance	
	Kshs	Kshs	Kshs	%
Interest income	1,003,256,519	952,621,434	50,635,085	5%
Interest expense	(466,383,874)	(571,303,507)	104,919,633	-18%
Net interest income	536,872,645	381,317,927	155,554,718	41%
Fees and commission income	441,653,585	569,724,322	(128,070,737)	-22%
Fees and commission expense	(42,816,171)	(50,863,636)	8,047,465	-16%
Net Fees and commission income	398,837,414	518,860,686	(120,023,272)	-23%
Net trading income	935,710,059	900,178,613	35,531,446	4%
Foreign exchange income	110,607,321	127,240,688	(16,633,367)	-13%
Other Operating income	674,298,479	648,001,962	26,296,517	4%
Net Operating Income	1,720,615,859	1,675,421,263	45,194,596	3%
Operating Costs				
Impairment loss on loans and advances	(45,000,000)	(45,000,000)	-	0%
Employee expenses	(1,155,761,379)	(1,243,114,024)	87,352,645	-7%
Board expenses	(6,735,158)	(15,611,000)	8,875,842	-57%
Operating expenses	(278,681,721)	(395,442,025)	116,760,304	-30%
Depreciation and Amortisation	(239,400,133)	(144,769,318)	(94,630,815)	65%
Amortisation cost- Treasury Bonds	(15,687,843)	(15,638,316)	(49,527)	0%
Other expenses	(262,914,001)	(441,017,910)	178,103,909	-40%
Total Operating Costs	(2,004,180,234)	(2,300,592,593)	296,412,359	-13%
Loss before income tax	(283,564,375)	(625,171,330)	341,606,955	-55%
Income tax expense*	(27,684,057)	-	(27,684,057)	-
Loss for the period	(311,248,432)	(625,171,330)	313,922,898	-50%

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Notes to the Financial Statements

1 GENERAL INFORMATION

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Accounting Standards (IAS). The financial statements were authorised for issue by the Board on 25th March 2022.

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

b) Basis of Measurement

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

c) Functional and Presentation Currency

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

d) Use of Estimates and Judgment's

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Assumptions and Estimation of Uncertainties

(i) Going concern

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

However, the Bank's future performance is dependent on restructuring and government support in defraying the incurred losses from the year 2012 to 2021 amounting to Kshs. (15,365,358,373) in accordance with KPOSB Act cap 493B section 13 (1).

Note 10- Impairment loss on deposits, loans and advances

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

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

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

- . Credit quality
- . Portfolio size
- . Concentrations
- . Economic factors

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Changes in accounting policies and disclosures

New standards and interpretations not yet adopted

IFRS 16: Leases

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

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

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

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

a) Leases in which the Bank is a lessee

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

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

As at 31 December 2021, the Bank's future minimum lease payments under non-cancellable operating leases amounted to Kshs 94 million

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Changes in accounting policies and disclosures (continued)

New standards and interpretations not yet adopted

b) Transition

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

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

New and amended standards adopted by the Bank

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Changes in accounting policies and disclosures (continued)

New and amended standards adopted by the Bank (Continued)

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

The five steps in the model are as follows:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

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

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

IFRS 9 - Financial Instruments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2-Principal accounting policies

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

Revenue Recognition

Income is recognized on an accrual basis

i) Interest

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

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

Interest income and expense presented in the statement of comprehensive income include:

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

ii) Fees and commission income

Fees and commission income and expense are recognized 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 recognized as the related services are performed

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Foreign currency transactions

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

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

c) Employee benefits

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

d) Property, plant and equipment

(i) Investment Property

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Property, plant and equipment

(ii) Revaluation and Cost Model

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

(iii) Property and Equipment and Depreciation

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

The following depreciation rates are used:

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

(e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

g) Stocks

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

h) Cash and cash equivalents

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Fixed interest investments (bonds)

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

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

k) Trade and other receivables

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

l) Taxation

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

m) Trade and other payables

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

n) Retirement benefit obligations

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Short term employee benefits

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

p) Foreign Currency Transactions

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the bank operates), which is Kenya Shillings. Foreign currency transactions during the year are converted into Kenya shilling equivalent at rates ruling at the transaction date.

Assets and liabilities at the statement of financial position date which are expressed in foreign currency are translated into Kenya shillings at the rates ruling at the transaction date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

q) Revaluation Reserve

The revaluation reserve relates to property and equipment. The reserve is non-distributable.

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

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

r) Revenue Reserve

This represents undistributed profits/accumulated losses from current and previous years including prior year adjustments. The accumulated loss as at 31st December 2021 is Kshs (15,365,358,373).

s) Contingent Liabilities

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

The significant claims are described below:

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Contingent Liabilities (Continued)

- (i) PostBank - vs - Simiyu Wasike: The land in dispute involves Postbank and Simiyu Wasike. It is in Upper Hill. (The value of the property was Kshs. 550 million as per revaluation done in December 2017) but carried at book value of Kshs 27,390,225 .The Bank lost the matter at the High Court and filed an Appeal.
- (ii) Kshs 625 million arising out of adverse judgement and Actuarial Valuation issued on disputed matter involving KPOSB Staff Retirement Scheme property (Karen/Langata) adopted by the Board for settlement as per RBA Guidelines. Of this amount the Bank had paid Kshs 156,275,000 as of 31 December 2021, leaving amount payable as Kshs 468,814,000
- iii) The former heads of department sued the bank under the Employment and labour relations court for unfair termination when the Bank failed to renew their contracts. Amount claimed is Kshs 106,826,167. The matter was referred for arbitration

t) Budget

The Budget for FY 2021 was partially approved by the National Treasury on 19th May 2021 where the recurrent expenditure was approved while the CAPEX was deferred. Partial approval of CAPEX was done on 10th September 2021.

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 analyzed for its needs and costs. Budgets are then built around what is needed for the upcoming period. This allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization, where costs can be first grouped and then measured against previous results and current expectations. At the end of every month actual and budgeted amount is compared to obtain variances. The presentation of budget information in Financial Statements is done as per International Public Sector Accounting Standard (IPSAS) 24.

A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.4 Financial instruments

a) Recognition

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

b) Classification

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

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

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

ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. These include advances to staff, Visa credit to customers and placements with other banks. Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized 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 recognized on trade-date, the date on which the Bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Financial assets are derecognized 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.

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

iv) Available-for-sale (continued)

Available-for-sale financial assets and financial assets are carried at fair value through profit or loss. Loans and receivables and held-to-maturity investments are carried at amortized 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 recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity should be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the statement of comprehensive income.

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

v) Identification and Measurement of Impairment of Financial Assets

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

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

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

Impairment losses on assets carried at amortized 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 recognized in the statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized 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 recognized by transferring the difference between the amortized 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 recognized directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

vi) Derecognition

The Bank derecognizes 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 derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognized 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 derecognized from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

vii) Impairment for Non-Financial Assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated. An impairment loss is recognized 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 recognized in the statement of comprehensive income. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

viii) Budget Accounting Policy

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

3 FINANCIAL RISK MANAGEMENT

a) Principles

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Principles (Continued)

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

- The Board of Directors assumes the ultimate responsibility for the level of risks taken by the Bank and is responsible to oversee the effective implementation of the risk strategies.
- The organizational risk structure and the functions, tasks and powers of the employees, committees and departments involved in the risk processes are continuously being reviewed to ensure clarity of their roles and responsibilities.
- Risk issues are taken into consideration in all business decisions. Measures are in place to develop risk-based performance measures and this is being supplemented by setting risk limits at the overall Bank and divisional levels, as well as by enforcing consistent operating limits for individual business activities.
- Risk management is increasingly being linked to management processes such as strategic planning, annual budgeting and performance measurement.
- Identified risks are reported in a transparent and timely manner and in full to the responsible senior management.
- Appropriate and effective controls exist for all processes entailing risks.

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

(b) Credit risk

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(i) Management of Credit Risk

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

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

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

(ii) Write-off Policy

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

(c) Liquidity Risk

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

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (continued)

Exposure to liquidity Risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month.

The board has approved a policy to effectively manage liquidity at all times to meet depositors demand, and unexpected outflow. The investment undertakes statement of financial position liquidity and scenario analysis as per the policy on bi-monthly basis.

The bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with range maturities, in addition the bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(d) Market Risk

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

(i) Management of market Risk

Overall responsibility for management of market risk rests with a management committee of the Bank, the Asset and Liability Committee (ALCO). The risk department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

Regular monitoring of Postbank's risk profile against risk appetite limits e.g. foreign exposure and risk limits, liquidity and solvency ratios which are contained in the market risk framework incorporating market and country risk policies approved by the board.

ii) Exposure to Interest Rate Risk

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

3 FINANCIAL RISK MANAGEMENT(CONTINUED)

(e) Operational Risk

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

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

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

Risk measurement and control

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

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Notes to the Financial Statements

	2021	2020
	Kshs	Kshs
4 Interest Income		
Government securities		
Amortised cost	468,236,804	362,167,660
Fair value through OCI	337,865,659	266,102,203
Interest on Term deposits	31,880,626	15,373,227
Interest on Staff Loans	24,714,753	34,986,660
Interest on Visa Balances	1,922,437	2,999,922
Credit Partners -Shared Interest Income	138,636,240	113,692,448
	<u>1,003,256,519</u>	<u>795,322,120</u>
5 Interest expense		
Interest on deposits	456,807,468	472,278,582
Interest on lease liabilities	9,576,406	0
	<u>466,383,874</u>	<u>472,278,582</u>
6 Fees & Commissions Income		
Inactivity Fees	21,544,458	26,840,506
Salary Crediting Fees	53,435,564	75,157,141
Premature withdrawal Fees	40,673,448	13,316,743
Withdrawal Fees	62,735,847	62,525,585
Visa Fees	3,002,821	3,578,144
Card Fees	46,623,539	26,987,130
Western Union - MTS Commission	29,751,156	39,534,103
Citibank Commission	582,680	732,650
Pension Commission	59,088,200	60,375,400
Inua Jamii Commission	26,309,780	36,983,564
Money Transfer Commission (Others)	14,914,289	16,538,751
ATM withdrawal Fees	39,739,880	44,783,644
Bills Commission-Water & Electricity	13,647,147	16,290,334
Forfeited Interest & Bonus-SAYE Income	11,520,550	27,855,105
Miscellaneous Fees & Commission (others)	18,084,226	8,995,265
	<u>441,653,585</u>	<u>460,494,065</u>
7 Fees and Commissions Expense		
Shared Costs Adjustments	6,130,498	7,344,978
Commission Expense-MoneyGram	3,808,165	2,364,062
Premium Paid Commission on Purchase of	0	161,817
Bonus Paid-SAYE Expense	3,665,174	1,690,303
Commissions & Agency Fee	15,492,510	14,975,539
Mobile banking Expenses	6,060,766	9,633,791
Commission paid on deposit mobilization	7,659,058	5,909,305
	<u>42,816,171</u>	<u>42,079,795</u>

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Notes to the Financial Statements

	2021	2020
	Kshs	Kshs
8 Foreign Exchange Income		
Realized Gain/Loss On Sale Of Forex From MTS	16,094,015	26,180,132
Forex Gain On Money Transfer Transactions -WU	79,919,139	66,356,219
Forex Gain On Transactions -Money Gram	14,594,167	15,139,437
	<u>110,607,321</u>	<u>107,675,788</u>
9 Other Operating Income		
	2021	2020
	Kshs	Kshs
Rental Income	57,745,490	66,051,745
Dividend income	115,568	0
Interest on Bank accounts	2,203,171	5,320,138
Tender fees	179,055	5,200
Appreciation/Diminution in value of quoted	145,233	44,668
Mobile Banking Fee	44,341,267	28,402,631
Capital Gain on Sale of Investments	0	9,147,664
Commission Income on Foreign Visa	279,500	236,550
Gain on Sale of Assets	3,017,627	0
Sale of Boarded Items (Unserviceable goods)	1,350,951	0
Gain on Sale of Investment Property	553,681,140	0
Sundry income	11,239,478	10,832,629
	<u>674,298,479</u>	<u>120,041,225</u>
10 Impairment Loss on Deposits, Loans and Advances		
	2021	2020
	Kshs	Kshs
General Provisions-Including Staff loans	45,000,000	40,000,000
	<u>45,000,000</u>	<u>40,000,000</u>

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Notes to the Financial Statements

	2021	2020
	Kshs	Kshs
11 Employee Expenses		
Salaries and Wages	708,321,186	737,126,957
Pensions and Provident Fund contr.	228,196,316	193,917,264
Medical expenses	36,210,080	40,828,321
Staff training	7,438,459	1,456,731
Other staff expenses	175,595,338	197,688,831
	<u>1,155,761,379</u>	<u>1,171,018,104</u>
12 Board Expenses		
Directors Honoraria	960,000	960,000
Directors Allowances	5,731,838	10,460,652
Directors Allowances Telephone	43,320	62,020
	<u>6,735,158</u>	<u>11,482,672</u>
13 Operating Expenses		
Security expenses	101,965,841	105,551,099
Insurances	19,232,862	15,678,402
Office rent	0	98,463,761
Office relocation costs	2,389,807	0
Land rent and rates	1,054,393	409,457
Repairs and maintenance	25,769,926	47,300,422
Service charge	13,752,360	13,752,360
Licenses	89,514,640	99,185,234
Grounds maintenance	991,800	1,322,400
Agency Fees	23,781,992	20,283,997
Agency Expansion Project Expenses	228,100	1,756,411
	<u>278,681,721</u>	<u>403,703,543</u>
14 Depreciation and Amortisation		
Depreciation of property and equipment (Note 27)	133,142,741	136,254,561
Amortisation of right of use assets-Leased (Note 28)	88,376,276	
Amortisation of intangible assets (Note 29)	17,881,116	20,882,187
	<u>239,400,133</u>	<u>157,136,748</u>

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Notes to the Financial Statements

15 Amortization for Bonds Trading Cost	2021	2020
	Kshs	Kshs
Amortization	<u>15,687,843</u>	<u>15,583,146</u>
This relates to Treasury Bonds Premiums amortized during the period		
16 Other Expenses	2021	2020
	Kshs	Kshs
Operating Stationery	3,303,536	4,348,963
ATM Card Cost	18,687,357	15,716,940
Travel and Subsistence allowances	6,823,439	11,080,488
Newspapers and Periodicals	250,665	362,955
Printing and stationery	4,610,787	4,931,406
Debt collection	45,079	84,517
Postage & telephone	65,973,691	78,085,214
Computer expenses	8,958,026	10,617,959
Motor Vehicle Expenses	4,416,525	5,586,510
Audit fees	4,500,000	4,500,000
Donations and subscriptions	4,616,496	5,321,702
Legal and professional fees	20,279,076	8,020,236
Electricity and water	21,831,204	21,708,459
Cleaning, Sanitation & Messengerial	17,775,718	19,976,334
Special Projects Launching	17,958,089	1,683,992
Procurement Costs	292,107	303,839
Bank Charges	10,550,529	9,030,480
Selling & Marketing expenses	33,333,133	50,955,671
Hire of Motor Vehicles	3,545,502	6,256,140
Research & Development	0	200,000
Retail Banking-Search fee	12,760	18,015
Integrated Reimbursement fee	15,150,285	12,481,683
	<u>262,914,001</u>	<u>271,271,503</u>

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Notes to the Financial Statements

17 Income tax expense	2021	2020
	Kshs	Kshs
Capital gain Tax on sale of Asset	27,684,057	0
	<u>27,684,057</u>	<u>0</u>

ii)The Finance Act 2014 amended the Eighth Schedule of the Income Tax Act ("ITA") and as a consequence, 'Capital Gains Tax (CGT) was reintroduced with effect from 1 January 2015

18 Profit (Loss) For The Year	Note	2021	2020
		Kshs	Kshs
The loss for the year is stated after charging:			
Directors emoluments	12	6,735,158	11,482,672
Audit fees	16	4,500,000	4,500,000
Depreciation/amortization intangible asset expense	28	239,400,133	157,136,748
Bonds amortization cost	15	15,687,843	15,583,146
Pension scheme contribution	11	228,196,316	193,917,264
and after crediting: -			
Dividends	9	115,568	0
Appreciation/Diminution in value of quoted	9	145,233	44,668

19 Explanation of Material Variance on The Statement of Comparison of Budget and Actual for The Twelve Months Ending 31 December 2021

Income	Actual Kshs	Budget Kshs	Variance Kshs	%
a) Interest income	1,003,256,519	952,621,434	50,635,085	5%
b) Fees and commission income	441,653,585	569,724,322	(128,070,737)	-22%
c) Other Operating income	674,298,479	648,001,962	26,296,517	4%

a) Interest income for the period was Kshs 1.003 billion against budget of Kshs 953 million giving favorable variance of Kshs 50 million i.e., 5%.

(i) The Bank earned Kshs. 806 million as Investment Income from TBs against a budget of Kshs. 719 million (This was due to a better rate of return on the TB's investment portfolio. The above return represents a weighted performance rate of 12.92% against a target of 12.50%.)

(ii) The Bank earned Kshs. 32 million from placement in Commercial Banks against a budget of Kshs. 19 million. During the period, the Bank held an average placement of Kshs. 465 million to manage liquidity.

b) Fees and commission income for the period was below budget because of non attainment of key revenue lines e.g. GOK Pension Commission due to declining number of pension accounts, decline in MTS revenue (Money Transfer Services).

c) Included in other operating income is Gain on sale of Assets (Post Bank Training school) was Kshs 554 million realized in 2021.

Direct Expenses	Actual	Budget	Variance	%
d) Interest expense	(466,383,874)	(571,303,507)	104,919,633	-18%

Interest expense for the period was Kshs 466 million, 18% lower than budget of Kshs 571 million. This is partly explained by non-achievement of deposits target set in the year

Recurrent Expenses	Actual	Budget	Variance	%
e) Board expenses	(6,735,158)	(15,611,000)	8,875,842	-57%
f) Operating expenses	(278,681,721)	(395,442,025)	116,760,304	-30%
g) Depreciation and Amortisation	(239,400,133)	(144,769,318)	(94,630,815)	65%
h) Amortisation cost- Treasury Bonds	(15,687,843)	(15,638,316)	(49,527)	0%

Cost control measures put in place contributed to low expenditures compared to budget.

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Notes to the Financial Statements

20 Cash and Cash Equivalents	2021	2020
	Kshs	Kshs
Cash on Hand	299,087,064	292,874,146
Cash at Bank	53,031,612	900,918,235
	<u>352,118,677</u>	<u>1,193,792,381</u>

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

21 Funds on Call and Short Notice	2021	2020
	Kshs	Kshs
CitiBank	10,935,004	10,935,004
Co-operative Bank	0	50,000,000
NCBA	466,567,573	16,103,009
National Bank of Kenya	11,859,336	161,331,296
Kenya Commercial Bank of Kenya	80,905,202	29,228,322
	<u>570,267,115</u>	<u>267,597,631</u>

The Bank has placed some of its funds in call accounts with commercial banks as as listed above. The funds are lien for clearing settlements.

For the year under review, the funds were invested at the following interest rates

BANK	RATE
NCBA	9.0%
Citibank	4.0%
National Bank of Kenya	4.0%
Kenya Commercial Bank(K)	7.3%

22 Investment in Treasury Bonds	2021	2020
	Kshs	Kshs
Fixed rate Treasury bonds - FVOCI	2,645,699,837	2,718,828,001
Jamii Bora Bond - FVOCI	199,500	199,500
Fixed rate Treasury bonds – amortised cost	4,282,150,000	3,259,116,500
	<u>6,928,049,337</u>	<u>5,978,144,001</u>
Treasury bonds maturing after 360 days from date of acquisition	<u>6,928,049,337</u>	<u>5,978,144,001</u>

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021
Notes to the Financial Statements

22 (a) Investment in Treasury Bonds/Others

The movement in Treasury bonds – FVOCI was as follows:

	2021 Kshs	2020 Kshs
At start of year	2,718,828,001	2,074,533,567
Additions during the year	-	1,077,998,577
Maturities and disposals	-	(447,625,078)
Changes in fair value	(73,128,164.0)	13,920,935
At end of year	<u>2,645,699,837</u>	<u>2,718,828,001</u>
Jamii Bora Bond - FVOCI	<u>199,500</u>	<u>199,500</u>

The movement in Treasury bonds at amortised cost was as

At start of year	3,259,116,500	2,759,516,500
Additions during the year	1,025,000,000	500,000,000
Maturities and disposals	(1,966,500)	(400,000)
At end of year	<u>4,282,150,000</u>	<u>3,259,116,500</u>

22 (b) Fair Value Reserve

Changes in fair value of financial Instruments at FVOCI

	2021 Kshs	2020 Kshs
At start of year	127,059,071	129,317,436
Changes in fair value of FVOCI financial instruments	(73,128,164)	(2,258,365)
	<u>53,930,907</u>	<u>127,059,071</u>

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Notes to the Financial Statements

	2021	2020
	Kshs	Kshs
23 Investment Property		
Cost		
At 1 January	1,002,390,225	1,002,390,225
Disposal	<u>(970,000,000)</u>	<u>0</u>
At 31 December	<u><u>32,390,225</u></u>	<u><u>1,002,390,225</u></u>

Included in the investment Property is

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

(ii) Dandora Plot with a value of Kshs 5,000,000.

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

(iii) Karura Training & Sports Complex which was valued at Kshs 970,000,000 was sold in FY -2021

	2021	2020
	Kshs	Kshs
24 Stocks & Drugs		
Stationery	10,710,783	10,566,417
Drugs	1,580,892	745,914
	<u>12,291,676</u>	<u>11,312,331</u>
25 Other Investments		
	2021	2020
	Kshs	Kshs
Quoted investments (cost)	2,055,637	2,055,637
Unquoted investment	<u>13,540,000</u>	<u>13,540,000</u>
	15,595,637	15,595,637
Less: Provision for diminution in market value of quoted	<u>(11,305,237)</u>	<u>(11,450,470)</u>
	<u><u>4,290,401</u></u>	<u><u>4,145,167</u></u>

(i) Quoted investments were valued at Kshs.2,936,400 (2020 Kshs.2,791,168) 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 Sha	Market price	Value as at	
			31.12.2021	31.12.2020
Kakuzi Ltd	6,500	385	2,502,500	2,372,500
Total Kenya Ltd	15,000	25	375,000	360,000
Bamburi Cement Ltd	1,550	38	58,900	58,668
			<u>2,936,400</u>	<u>2,791,168</u>

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

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Notes to the Financial Statements

26 Accounts Receivables	2021	2020
	Kshs	Kshs
Postal Corporation of Kenya-Excess Deposits	780,394,108	780,394,108
GOK -KP&TC (i)	405,231,629	405,231,629
Commission Receivable from GOK for pension	132,045,027	72,956,827
Prepaid GOK Pension – PCK Payroll	634,463,707	634,246,507
GoK Pension Cheques Receivable – PCK (ii)	268,553,158	268,553,158
PCK Overdrawn Claimable	44,953,868	44,953,868
Restitution (PCK)	58,592,238	58,161,703
Directors Loans	3,327,044	3,327,044
Inua Jamii Commission Receivable	18,799,018	11,246,550
Staff Loans	616,588,150	615,255,961
Staff debtors – Personal Development Loan	62,694,342	75,720,530
Interest Receivable -PDL	115,539,155	116,213,941
Rent Receivables	96,614,257	85,762,433
Staff Imprest	4,040,268	4,778,433
Trade Debtors	150,799,877	119,084,964
	<u>3,392,635,846</u>	<u>3,295,887,656</u>
Provision for bad and doubtful debts	<u>(803,623,725)</u>	<u>(758,623,725)</u>
	<u>2,589,012,121</u>	<u>2,537,263,931</u>

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

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

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021
Notes to the Financial Statements

26 Account Receivable

31st December 2021	TOTAL	0 to 30 Days	31 to 60 Days	61 to 90 Days	91 and over Days
PCK Excess Deposits	780,394,108	0	0	0	780,394,108
KP&TC Excess Deposits	405,231,629	0	0	0	405,231,629
GoK Pension Cheques Receivable from PCK	132,045,027	4,088,200	14,542,637	54,092,300	59,321,890
Prepaid GoK Pension (Payroll) – PCK	634,463,707	5,358,709	5,849,352	6,209,845	617,045,801
GoK Pension Cheques Receivable – PCK	268,553,158	0	0	0	268,553,158
PCK Overdrawn Claimable	44,953,868	0	0	0	44,953,868
Restitution (PCK)	58,592,238	0	494,440	1,313,903	56,783,895
Directors Loans	3,327,044	0	0	0	3,327,044
Inua Jamii Commission Receivable	18,799,018	937,213	9,426,894	2,811,639	5,623,272
Staff Loans	616,588,150	430,593,896	1,332,189	9,391,022	175,271,043
Staff Debtors PDL	62,694,342	10,337,781		1,973,812	50,382,749
Interest Receivable PDL	115,539,155	14,318,842		0	101,220,313
Rent Receivables	96,614,257	12,643,129	2,523,340	6,274,775	75,173,013
Staff Imprest	4,040,268		258,671	2,142,579	1,639,018
Trade Debtors	150,799,877	38,236,411	605,684	16,268,822	95,688,960
TOTAL RECEIVABLES	3,392,635,846	516,514,181	35,033,207	100,478,697	2,740,609,762
Provision for bad debts	(803,623,725)	(2,416,667)	(49,416,667)	(7,416,667)	(744,373,725)
NET RECEIVABLES	2,589,012,121	514,097,514	-14,383,459	93,062,030	1,996,236,038

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

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Notes to the Financial Statements

27	Prepayments and Other Assets	2021	2020
		Kshs	Kshs
	Accrued interest on Treasury Bonds	208,869,490	141,210,483
	Discount on Treasury Bonds	61,357,524	65,433,129
	Fixed deposits in ailing financial institutions	406,138,379	406,138,379
	Transitorial Accounts - Postbank (i)	1,117,482,151	1,108,044,371
	Premium on Treasury Bonds (Prepaid)	249,306,899	258,165,241
	Other Assets and Prepayments	841,995,534	854,273,527
		<u>2,885,149,976</u>	<u>2,833,265,130</u>
	Provision for bad and doubtful debts:	<u>(406,138,379)</u>	<u>(406,138,379)</u>
		<u>2,479,011,597</u>	<u>2,427,126,751</u>

(i) Kshs. 1,128,094,024 under Transitorial accounts relates to balances held in accounts used by the Bank to process internal payments. Therefore, the balance is not a realizable asset.

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021
Notes to the Financial Statements

28 a) Property & Equipment
As at 31 December 2021

	Land	Building	Leasehold	Motor Vehicles	Furniture & Fittings	Electronic Office Eqpmnt	Non Electronic Office Eqpmnt	Computer Hardware	Fixed Asset Clearing Account	Capital Work In Progress	Total
Cost or Valuation											
At 1 Jan. 2021	805,000,000	1,522,086,130	6,500,000	64,435,006	408,999,303	338,057,696	99,816,710	861,334,028	17,972,889	95,876,957	4,220,078,719
Additions						123,500	68,001	46,975,437	(17,938,308)	(18,250,083)	10,978,547
Disposals				(25,618,848)							(25,618,848)
Cost 31.12.2021	805,000,000	1,522,086,130	6,500,000	38,816,158	408,999,303	338,181,196	99,884,711	908,309,465	34,581	77,626,874	4,205,438,417
Depreciation											
Depreciation 1.1.2021	0	450,190,782	6,500,000	47,005,342	326,142,314	278,401,735	85,038,810	768,225,501	0	0	1,961,504,485
Charge for the year	0	39,691,197		8,200,621	17,975,215	20,751,952	4,186,329	42,337,427	0	0	133,142,741
Disposals				(25,168,474)							(25,168,474)
Prior year adjustment								3,802,470			3,802,470
Depreciation 31.12.21	0	489,881,979	6,500,000	30,037,489	344,117,528	299,153,688	89,225,139	814,365,398	0	0	2,073,281,221
NBV 31.12.2021	805,000,000	1,032,204,151	0	8,778,669	64,881,774	39,027,508	10,659,571	93,944,067	34,581	77,626,874	2,132,157,196
NBV 31.12.2020	805,000,000	1,071,895,348	0	17,429,664	82,856,989	59,655,961	14,777,899	93,108,527	17,972,889	95,876,957	2,258,574,234

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021
Notes to the Financial Statements

28 b) Property & Equipment
As at 31 December 2020

	Land	Building	Leasehold	Motor Vehicles	Furniture & Fittings	Electronic Office Eqmpt	Non Electronic Office Eqmpt	Computer Hardware	Fixed Asset Clearing Account	Capital Work In Progress	Total
Cost or Valuation											
At 1 Jan. 2020	805,000,000	1,522,086,130	6,500,000	64,435,006	400,179,987	316,380,586	97,993,308	848,810,265	13,713,609	9,993,587	4,085,092,478
Additions	0	0	0	0	103,600	21,298,950	68,400	2,911,464	4,259,281	85,883,370	114,525,064
Revaluation surplus					8,715,715	378,160	1,755,002	9,612,299			20,461,177
Prior year adjustment					408,999,303	338,057,696	99,816,710	861,334,028	17,972,889	95,876,957	4,220,078,719
Cost 31.12.2020	805,000,000	1,522,086,130	6,500,000	64,435,006	408,999,303	338,057,696	99,816,710	861,334,028	17,972,889	95,876,957	4,220,078,719
Depreciation											
Depreciation 1.1.2020	0	411,000,299	6,500,000	38,113,214	303,539,924	257,414,472	80,224,657	725,011,830	0	0	1,821,804,397
Charge for the year	0	39,190,483		8,892,128	20,435,096	20,961,155	4,772,081	42,003,618		0	136,254,561
Prior year adjustment					2,167,294	26,108	42,072	1,210,053			3,445,527
Depreciation 31.12.2020	0	450,190,782	6,500,000	47,005,342	326,142,314	278,401,735	85,038,810	768,225,501	0	0	1,961,504,485
NBV 31.12.2020	805,000,000	1,071,895,348	0	17,429,664	82,856,989	59,655,961	14,777,899	93,108,527	17,972,889	95,876,957	2,258,574,234
NBV 31.12.2019	805,000,000	1,111,085,831	0	26,321,792	96,640,064	58,966,114	17,768,651	123,798,434	13,713,609	9,993,587	2,263,288,081

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021
Notes to the Financial Statements

28 (c) Land & Buildings

Cost / Valuation	Land	Buildings	Show Stand	2021	2020
	Kshs	Kshs	Kshs	Kshs	Kshs
Long-term leasehold	760,000,000	1,090,000,000	0	1,850,000,000	1,850,000,000
Short-term leasehold	45,000,000	105,000,000	6,500,000	156,500,000	156,500,000
	805,000,000	1,195,000,000	6,500,000	2,006,500,000	2,006,500,000

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

	2021	2020
	Kshs	Kshs
29 Right of use Assets		
At 1 January	-	-
Impact on initial application of IFRS16	441,881,381	-
Depreciation charge for the year	(88,376,276)	-
Net book value	353,505,105	-

Right of use assets relate to leased premises that are presented within Right of Use Assets.

	2021	2020
	Kshs	Kshs
30 Intangible Assets		
Cost		
At 1 January	603,557,174	593,827,829
Additions	13,270,096	-
Prior year adjustment	-	9,729,345
At 31 December	616,827,270	603,557,174
Amortization		
At 1 January	569,359,661	547,279,252
Amortization for the year	17,881,116	20,882,187
Prior year adjustment	-	1,198,222
At 31 December	587,240,777	569,359,661
Carrying Amount		
At 31 December	29,586,493	34,197,513

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

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021
Notes to the Financial Statements

	2021	2020
	Kshs	Kshs
31 Customers' Savings and Deposit Accounts		
Retail customers	907,897,069	1,328,968,096
Term deposits	4,850,549,242	5,248,480,082
Savings and Current accounts	10,616,380,483	10,165,562,559
Corporate customers:	7,739,914,897	6,674,762,661
Others	38,014,850	36,198,112
	<u>24,152,756,542</u>	<u>23,453,971,509</u>

	2021	2020
	Kshs	Kshs
32 Accounts Payables and Accruals		
Trade creditors	114,769,656	80,012,655
PCK Service s Rendered - GoK Pension (i)	534,376,156	534,409,387
PCK Encashed Warrants Payable (ii)	462,078,751	462,078,751
PCK- Pension Warrants (iii)	170,953,266	170,953,266
GoK Pension Payroll (iv)	1,018,632,353	1,020,007,886
Accrued Expenses	333,846,242	370,875,908
Other creditors	407,050,681	1,389,247,293
	<u>3,041,707,106</u>	<u>4,027,585,146</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 been outstanding since year 2007 will be settled once the reconciliations are agreed on.
- (iii) PCK -GoK Warrant is the un-accounted amount to pensioners account held by PCK. The amount of Kshs.170,953,266 which has been outstanding since year 2007 will be settled once we agree on reconciliations
- (iv) GoK Pension Payroll is the un-applied amount to pensioners account held by PCK

	2021	2020
	Kshs	Kshs
33 GOK Pension Reserve Fund		
Amount	<u>67,739,974</u>	<u>58,741,315</u>

These are pension funds from the Government for distribution.

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021
Notes to the Financial Statements

	2021	2020
	Kshs	Kshs
34 Lease Liabilities		
At 1 January	-	-
Impact on initial application of IFRS16	441,881,381	-
Interest expense in the year	9,576,406	-
Lease Liability debits (Rent paid) in the year	(93,889,001)	-
	<u>357,568,786</u>	<u>-</u>
Comprised of:		
Current	88,376,276	-
Non-current	265,128,828	-
Net book value - 31 December 2021	<u>353,505,105</u>	<u>-</u>
35 Deferred Revenue		
	2021	2020
	Kshs	Kshs
Western Union Product	2,013,211	2,013,211
Bidii Product	3,706,728	3,706,728
Visa EMV Project	229,458	229,458
Smata, Mchama & Agency Expansion Projects	2,625,394	17,619,377
	<u>8,574,791</u>	<u>23,568,774</u>
During the year the Bank spent Kshs 14,993,983 of Income grant for Mchama/smata expansion		
36 CASH AND CASH EQUIVALENTS		
	2021	2020
	Kshs	Kshs
Bank and cash balances (note 19)	352,118,677	1,193,792,381
Deposits in banks and Financial Institutions (note 20)	570,267,115	267,597,631
Treasury Bills and Bonds (note 21 -a)	6,928,049,337	5,978,144,001
	<u>7,850,435,128</u>	<u>7,439,534,013</u>

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2021

Notes to the Financial Statements

37 RELATED PARTY TRANSACTIONS	2021	2020
	Kshs	Kshs
i) Directors Remuneration		
Directors Honoraria	960,000	960,000
Directors Allowances	5,775,158	10,522,672
	<u>6,735,158</u>	<u>11,482,672</u>
(ii) Key management remuneration		
Salaries and wages	<u>10,251,816</u>	<u>9,371,586</u>
(iii) Loans to staff		
Welfare loans	616,588,150	615,255,961
Personal development Loan	62,694,342	75,720,530
	<u>679,282,492</u>	<u>690,976,491</u>

Interest income on staff loans was Kshs 24,714,753 (2020-34,986,660). The effective interest rate for welfare loans is 5% while for personal development loan is 10%. 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.

38 LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period as at 31 December 2021 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	352,118,677								352,118,677
Investment in T/bills + Bonds	464,083,825	934,653,954	782,424,084	1,070,708,482	697,373,652	1,229,643,792	1,749,161,549		6,928,049,337
Funds on call and short notice	570,267,115								570,267,115
Investment Property									
Other Investment			4,290,400					32,390,225	32,390,225
Other Assets	458,699,418	907,528,153	747,732,439	792,198,137	645,049,609	673,906,821	443,730,355		4,290,400
Property and Equipment	0	0	13,975,855	0	29,502,885	605,564,985	321,862,445		5,433,820,499
Intangible Assets			7,321,530	2,210,803	8,822,567	11,231,593	1,161,251,026		2,132,157,197
Total Assets	810,818,095	1,941,879,092	1,707,974,177	1,576,833,023	1,754,083,543	1,988,077,051	3,386,533,155		15,482,679,942
Other Liabilities	385,354,219	674,854,422	558,491,549	603,487,465	468,703,573	518,984,153	62,246,575		3,399,275,892
Customers' Savings and Deposit accou	321,401,742	2,853,669,952	2,373,156,120	2,335,394,628	2,829,398,226	2,441,590,743	3,331,111,333		24,152,756,542
GOK Pension Reserve Fund Account	67,739,974								67,739,974
Capital Grants						2,786,564			2,786,564
Revaluation Reserves						883,109,414			883,109,414
Change in Fair value for Bonds	9,208,524	22,422,551	22,299,831						53,930,906
Revenue Reserves									
Total Liabilities and Reserves	783,704,459	3,550,946,925	2,953,947,500	2,938,882,093	3,298,101,799	3,846,470,874	3,399,146,135		(15,365,358,373)
A-B Liquidity GAP	27,113,636	(1,609,067,833)	(1,245,973,322)	(1,362,049,070)	(1,544,018,256)	(1,858,393,823)	(1,082,604,330)	8,675,052,998	15,482,679,942

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

39 CONSOLIDATION

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

40 COMPARATIVES

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

41 EMPLOYEES

The average number of employees during the year was 601 (2020-630).

42 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, 2021

43 NETWORK OF POSTBANK BRANCHES

The total number of branches during the year was 97.

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
1	Long Outstanding Receivables	The statement of financial position reflects net accounts receivable balance of Kshs.2,537,263,931 which, as disclosed in Note 24 to the financial statements, includes gross accounts receivable of Kshs.3,295,887,656. The balance includes Kshs.405,231,629 and Kshs.268,553,158 relating to GOK - Kenya Post and Telecommunication Corporation and Gok Pension Cheques Receivable - Postal Corporation of Kenya, respectively, which had been outstanding for more than thirteen (13) years. Although Management cited commitment from the concerned parties including The National Treasury to settle the debts, as at the time of audit, the amounts were still outstanding. In addition, although a provision of Kshs.758,623,725 had been made against bad and doubtful debts, the adequacy of the provision could not be confirmed.	<p>i) Amount owing from Postal Corporation of Kenya (PCK) - Kshs. 268,553,156 - Discussions and Reconciliations towards settlement have been ongoing between Postbank and PCK. The technical teams of the two organizations reached an agreement and a second sign-off was done on 5th August 2021. Reconciliations are ongoing to clear up the outstanding issues.</p> <p>ii) Amount owing from KP&TC - Kshs. 405,231,629 - A Cabinet decision on Strategy to reform KPOSB (Ref ZZ.27/71/01-Dated 2nd November 2011 was approved and among the issues approved decision was that the Government settles the debt owned by the defunct KP&TC (Kshs 405.2 million) to KPOSB. The Bank has been following up with The National Treasury to facilitate recovery.</p>	Ag Head of Finance	On-going	Subject to availability of PCK team and Funds availability at The National Treasury

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
2	Cash and Cash Equivalents	In the circumstances, full recoverability of net accounts receivable balance of Kshs.2,537,263,931 could not be confirmed The statement of financial position reflects a cash and cash equivalents balance of Kshs. 1,193,792,381 which as disclosed in Note 18 to the financial statements, includes amounts of Kshs.292,874,146 and Kshs.900,918,235 in respect of cash in hand and cash at bank, respectively. However, the bank reconciliation statements for the month of December 2020 reflected a total cash book balance of Kshs.897,631,956 resulting into a variance of Kshs.3,286,279. Although Management attributed the variance to the exclusion of ledger balances for closed branches from the bank reconciliation statements, no evidence was provided to support this assertion. Further, the reported cash in hand balance of Kshs.292,874,146 differed with the balance of Kshs.301,176,953 reflected in the board of survey report with a variance of Kshs.8,302,807 which was not reconciled.	The exclusion of ledger balances for closed branches amounting to ksh3,286,279 from the bank reconciliation statements, caused the difference of balance in FS and the balance shown in the reconciliation as cashbook balance. The balances in the closed branches will be transferred to Retained Earnings in 2023 The reported cash in hand balance of Kshs. 292,874,146 differed with the balance of Kshs.301,176,953 reflected in the board of survey report with a variance of Kshs.8,302,807 which was not reconciled. One of the causes of the difference was Kilifi fraud of 3.9m which has since been posted into 2021FY. The other balance is due to ATM timing differences	Ag Head of Finance	On-going Kilifi issue resolved	End of Q2 2023

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
3	Property and Equipment					
3.1	Lack of Title Deed and Encroachment of Land	The statement of financial position reflects a net book value of Kshs.2,258,574,234 for property, plant and equipment which as disclosed at Note 26 to the financial statements, included a value of Kshs.805,000,000 for land of which Kshs.5,000,000 related to a parcel of land located within Nairobi. However, the land had remained unfenced and had since been encroached by informal settlers. Although Management explained the measures, they had put in place to secure the land and obtain a title deed, as at the time of audit, full and actual possession of the land had not been obtained.	<p>i) Management has since addressed a letter to the Provincial Administration through the area Chief on the intention of the Bank to fence the Dandora Spine Plot No.81 by constructing a perimeter wall and consequently a meeting has held with the area chief on the same. The Area Chief has assured the Bank of his support towards the activities to obtain the title and development of the property- (See copy of the letter and acknowledgment attached).</p> <p>ii) Meanwhile, the Bank has leased out the plot to Safaricom for installation of a communication mast (The Bank earns Kshs 450,000 per year as rental income) as acquisition of the title deed is ongoing.</p> <p>iii) Ataka Kimori Advocates are processing procurator of the Title Deed. There is a progress report on the process to procure the Title Deed. However, as is ordinarily the case with properties situate in Eastlands where ownership is evidenced with an Allotment Letter, the process of</p>	Ag. Company Secretary	On-going	NA

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
3.2	Unknown Ownership Status of Land in Dispute	Over the years, the Bank has been embroiled in a dispute for a parcel of land in Nairobi, Milimani Area. The land was registered in the name of the Bank and valued at Kshs.550,000,000 but had its title deed encumbered. Review of information provided, indicated that the matter between the Bank and a claimant has been in Court since 1995. The outcome of the case had not been determined at the time of the audit.	The land in dispute involves Postbank and Simiyu Wasike. It is in Upper Hill, as per revaluation done in December 2017 it was valued at Kshs 550 million but carried at book value of Kshs 27,390,225. The Bank lost the matter at the High Court and filed an Appeal. A hearing date on the parties' submissions will be issued on notice. The Bank is waiting for this notice for submission	Ag. Company Secretary	On-going	NA
3.3	Motor Vehicle Without a Logbook	Included in the reported property and equipment balance of Kshs.2,258,574,234 is Kshs.17,429,664 relating to motor vehicles. However, the logbook for one motor vehicle valued at Kshs.400,000 had not been issued to the Bank by the National Transport and Safety Authority (NTSA) since November 1997. This was despite the Bank having paid the requisite duty to register the vehicle in its own name. In the circumstances, the ownership of the two parcels of land and the motor vehicle could not be confirmed.	The Board guided management to dispose the vehicle as scrap to the National Youth Service in line with The Public Procurement and Asset Disposal Act (transfer to another public entity).	Ag. Manager Procurement	On-going	NA

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
4	Unsupported Intangible Assets	The statement of financial position reflects an amount of Kshs.34,197,513 in respect of intangible assets. However, the supporting schedule provided for audit review reflected intangibles amounting to Kshs.30,464,527 resulting to an unexplained variance of Kshs.3,732,986. In the circumstances, the accuracy of the intangible assets balance of Kshs.34,197,513 could not be confirmed	The issue was to do with accumulated amortization that was not picked well from the system. Reconciliation is ongoing to ensure fixed assets register and the GL agree.	Ag Head of Finance	On-going	End of FY 2023
5	Loss of Cash Through Fraud and Cash Shortages	The statement of financial position reflects prepayments and other assets balance of Kshs.2,427,126,751 which, as disclosed under Note 25 to the financial statements, includes an amount of Kshs.854,273,527 in respect of other assets and prepayments. The supporting schedule provided for audit reflected receivables totaling to Kshs.76,378,627 (2019: Kshs.81,128,628) being money lost through fraud. As reported previously, evidence of the effort by Management to recover the money was not provided for audit. In addition, the schedule reflected Kshs.40,686,118 (2019: Kshs.35,228,987) being cash	<p>a) The Bank is following up reported fraud cases with insurance and other relevant organization for recovery.</p> <p>b) Journals will be passed to regularize shortage account where fraud transaction are recorded in the shortage account e.g., Kakamega, Kehancha and Bussia fraud.</p> <p>c) Recoveries are being made from staff who have encountered a cash shortage. Included in this balance is various branches that occurred in Kshs 24,138,516 over period these errors are being resolved through the ongoing balance sheet clean up exercise.</p> <p>Currently all shortages are being recovered promptly as per policy</p>	<p>Asst Manager Investigation & security</p> <p>Asst Manager financial Accounting & Reporting</p> <p>Ag. Head HR & Admin</p>	<p>On-going</p> <p>On-going</p> <p>On-going</p>	<p>End of FY 2023</p> <p>End of Q2 2023</p>

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
6	Irregular Setting Off of Account Balances	<p>shortages attributable to working cashiers. This is despite the provisions of the Bank's Human Resource Policy that such cash shortages be made good within forty-eight (48) hours by the concerned staff. As previously reported, Management had not implemented the Policy to safeguard customers' savings and deposits. Under the circumstances, the recoverability of the amounts could not be confirmed</p>	<p>This is due to wrong mapping of the GL which is currently being corrected by the ongoing balance sheet clean up, in effect the final figures shown in the Financial Statements will not change</p>	Ag Head of Finance	On-going	June 2023

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
		<p>of accounts payables and accruals which as disclosed in Note 29 to the financial statements, included a balance of Kshs.1,389,247,293 in respect of other creditors. However, the supporting schedule provided for review revealed that the other creditors balance includes debit balances of Kshs.26,187,563, Kshs.2,707,781, Kshs.162,942 and Kshs.5,156,038 in respect of mobile internet transactions, money gram creditors, payroll remittances and VAT on supplies, respectively, and which were un-procedurally set off against the other accounts payable balances. This is contrary to the provisions Paragraph 32 of the International Accounting Standard No. 1 – Presentation of Financial Statements, which provides that assets and liabilities, and revenues and expenses shall not be offset unless permitted by an International Financial Reporting Standard.</p> <p>In the circumstances, it could not be confirmed that the accounts receivable and accounts payable balances had been fairly stated</p>				

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
7	Unsupported Prior Year Adjustments	<p>The statement of changes in equity reflects the prior- year adjustments balance of Kshs. 118,932,169 relating to correction of errors affecting various prior year balances. However, the prior year adjustments were not restated retrospectively in the comparative year contrary to the requirements of Paragraph 42(a) of the International Accounting Standard No. 8 – Accounting Policies, Changes in Accounting Estimates and Errors, which states that, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery, by restating the comparative amounts for the prior period(s) presented in which the error occurred. Further, the journal vouchers supporting the prior year adjustments were not provided for audit.</p> <p>In the circumstances, the accuracy and validity of the prior year adjustment could not be confirmed.</p>	<p>Key prior year adjustments relate to</p> <p>a) The KRA tax arrears arose due to an assessment of Excise duty for FY 2013 to were from year 2013 to 2018.</p> <p>b) Drugs adjustment relate to 2018 due to system integration challenges this has since been recertified.</p> <p>c) The rest related to batched that hang during integration of GP with the other systems. This has since been addressed.</p> <p>All Prior year adjustment schedule was provided to the audit team for sample selection of Journal for verification.</p> <p>As per International Accounting Standard 8-Accounting Policies, Changes in Accounting Estimates and Errors-</p> <p><i>Limitations on retrospective restatement paragraph 44, which states</i></p> <p><i>When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities, and equity for the earliest period for which retrospective restatement is practicable (which may be the current period). Reason for posting these prior year adjustments in the current year.</i></p>	Ag Head of Finance	Partially Resolved	
	Emphasis of Matter					

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
8	Material Uncertainty in Relation to Going Concern	<p>The bank reported a loss of Kshs.1,101,020,895 (2019); Kshs.1,400,244,912) increasing the accumulated loss from Kshs.14,027,788,796 as at 31 December, 2019 to Kshs.15,247,741,860 as at 31 December, 2020. Further, the bank's current liabilities balance of Kshs.27,540,297,970 exceeded the current assets balance of Kshs.13,421,772,418 resulting to a negative working capital of Kshs.14,118,525,552 (2019); Kshs.12,916,167,262). The Bank was, therefore, unable to meet its financial obligations when due. As disclosed at Note 2(e)(i) to the financial statements, the Bank was technically insolvent and its continued operations as a going concern will depend on the continued support from the government and creditors. My Opinion is however, not modified on the effect of this matter.</p>	<p>The Bank operates with the intention of being in business in the next 12 months and in the foreseeable future. The management runs the day-to-day activities by ensuring that assets are realized, and liabilities honored in the normal course of business. However, the Bank's future performance is dependent on restructuring and government support in defraying the incurred losses from the year 2012 to 2019 amounting to Kshs. (14,027,788,796) in accordance with KPOSB Act cap 493B section 13 (1).</p> <p>In addition to above Several turn-around strategies aimed at returning the bank to profitability are in the various stages of implementation.</p> <p>1. KPMG Business review is done and report with recommendations finalized and submitted to The National Treasury for approval /adoption for turnaround of Postbank. The review will address the following: a) optimization of the ICT infrastructure b) human capital c) current product offerings with a view of recommending a sustainable business model.</p>	CEO	Ongoing	Continuous

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
			<p>2. Human Resources instruments have been done and submitted to The National Treasury for approval /adoption to ensure the Bank is strategically structured.</p> <p>3. Several turns around strategies aimed at returning the bank to profitability are in the various stages of implementation, key among them,</p> <p>a) Reduction of interest rates paid to Customer Savings and Deposits this led to a drop in Interest expense by 19%.</p> <p>b) Tariff review on fees and commissions charges by the bank in FY 2019 which led to 20% increase in fees and commission from Kshs 361 million in FY 2018 to Kshs 435 million in FY 2019.</p> <p>c) Various cost cutting measures are being implemented</p> <p>d) Branch rationalization and merger of loss-making branches.</p> <p>e) Migration of branches into nearby Postal Corporation of Kenya premises whose rental cost are cheaper (this will cut down on rental costs)</p> <p>f) Product rationalization and greater focus on clients and products as well as streamlining existing products to meet customers' requirements/demand.</p>			

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
			<p>g) Enhanced Partnership with Government institutions to offer financial services h) Working on staff rationalization which will lead to reduction of staff cost i) Enhance alternate banking channels to target more customers in rural Kenya As per Kenya Post Office Savings Bank Act Cap 493B, Section 13(A) Surplus and deficits- Without prejudice to paragraph (f) of section 4, if in any year the revenue of the Bank is insufficient to defray the interest due to depositors and all expenses under this Act, such deficiency shall be charged upon and paid out of the Consolidated Fund. The bank has made several applications for losses incurred to the National Treasury for Government support /in defraying the incurred losses from the year 2012 to 2018. Defrayment of losses to close the gaping hole in the balance sheet is one of the sure ways of returning the Bank to profitability. Over the years banks performance has been improving</p>			
Other Matters						

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
9	Budgetary Control and Performance	<p>The statement of comparison of budget and actual amounts reflects final receipts budget and actual receipts on a comparable basis of Kshs. 1,630,565,313 and Kshs. 969,174,821 respectively, resulting to an under-funding of Kshs. 661,390,492 or 40% of the budget. Similarly, the Bank expended Kshs. 2,070,195,716 against an approved budget of Kshs. 2,610,753,047 resulting to an under-expenditure of Kshs. 540,557,331 or 21% of the budget.</p> <p>The under-funding and under-performance affected the planned activities and may have impacted negatively on service delivery to the public</p>	<p>The Bank missed its income targets for the year because of</p> <p>a) The year 2020 was characterized by low interest rates due to Government interventions to boost the economy during the COVID-19 pandemic. This led to yields on Treasury Bonds to drop leading to purchase of investments with low yields in the Primary Auction Markets. This negatively impacted on the Bank's target investment return of 13%. (Average yield for the year was 10.52%)</p> <p>b) Rental income for the period was Kshs 66 million, 24% lower than the target of Kshs 90 million due to low occupancy level. The decline is attributed to ongoing COVID-19 pandemic which has resulted in reduced demand for office spaces as businesses restructure their operations leading to the scaling down by some firms while others adopt working from home strategies. On Expenses</p> <p>The Bank implemented cost-cutting measures that contributed to savings in expenses recorded in FY 2020. It through these cost cutting measures that helped the bank improved its performance from a loss of Kshs 1.4</p>	Ag Head of Finance	Partially Resolved	

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
10	Late Submission of Financial Statements and Non-compliance with Financial Reporting Guidelines	Management submitted the bank's financial statements for the year ended 31 December 2020 to the Office of the Auditor-General for audit on 14 April 2021 two weeks after the statutory date of 31 March, 2021. This is contrary to Section 81(4)(a) of the Public Finance Management Act, 2012 which states that not later than three months after the end of each financial year, the Accounting Officer for the entity shall submit the entity's financial statements to the Auditor-General and a copy of the statement to the Controller of Budget, The National Treasury, and the Commission on Revenue Allocation. Late submission of financial statements is not only in breach of law but also hampers the Office of the Auditor-General from completing the audit as stipulated by the statutes. In addition, the financial statements submitted for audit did not include appendices showing the progress on follow-up of auditor's recommendations and other details as required by the financial reporting guidelines issues by the	billion in FY 2019 to a loss of Kshs 1.1 billion in FY 2020. The Bank Communicated both verbally and via email to the OAG of the anticipated delay in submitting Accounts in time due to challenges with the Board not being able to meet due to quorum issues brought about by Covid affecting members. In which we asked for extension of two weeks for Board meeting to be held and approve the accounts before submitting to OAG.	Ag Head of Finance	Resolved	N/A

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
11	Non-Compliance with Fiscal Responsibility Principles	Public Sector Accounting Standards Board. The statement of profit or loss and other comprehensive income reflects an amount of Kshs.1,171,018,104 in respect of employee expenses which represents 121% of the reported total revenue of Kshs.969,174,821. This is contrary to the provisions of Regulation 26(1)(a) of the Public Finance Management (National Government) Regulations on fiscal discipline which states that National Government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35% of the revenues generated by the entity. In addition, as previously reported, the approved staff establishment for the Bank was six hundred and ten (610) officers, while the actual staff in post were six hundred and seventy-four (674) exceeding the staff establishment by sixty-four (64) employees. Review of the status in the year under audit, indicated that the actual staff in post had reduced to six hundred and forty-seven (647) exceeding the staff establishment by thirty-seven (37) employees. This has continued to contribute to high cost of compensation to staff and hence,	a) The Bank developed HR instruments which have been forwarded to The National Treasury and State Corporation Advisory Committee (SCAC) for approval. On approval and implementation this will regularize above anomaly and reduce staff costs and improve the loss-making position and improve on productivity of the Bank. On implementation of the proposed new HR instruments this will save the bank Kshs 160 million annually. b) As at end of FY 2020, staff count was 629 the number has since reduced to a staff count of 601 at end of FY 2021 against approved staff establishment of 610.	Ag. Head HR & Admin	Ongoing	Subject to approval of HR instruments

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
		the Bank continued to record operating deficits. In the circumstances, Management was in breach of the law.				

