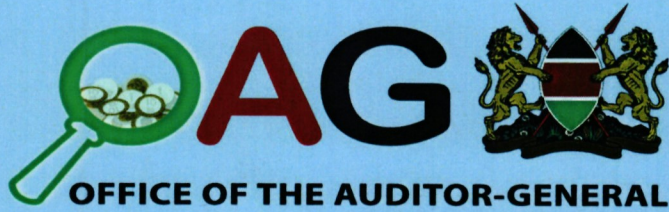


REPUBLIC OF KENYA



Enhancing Accountability

THE NATIONAL ASSEMBLY

REPORT

DATE: 09 NOV 2022

Wednesday - Afternoon

PARLIAMENT
OF KENYA
LIBRARY

TABLED
BY:

Hon. Kimani Ichungwa MP
Leader of majority

CLERK-AT
THE-TABLE:

Mainah Wangari

OF

THE AUDITOR-GENERAL

ON

KENYA POST OFFICE SAVINGS BANK

FOR THE YEAR ENDED

31 DECEMBER, 2019

KENYA POST OFFICE SAVINGS BANK



My Bank, My Choice, My Future

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2019

**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 2019

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*Kenya Post Office Savings Bank
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For the year ended 31 December 2019*

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

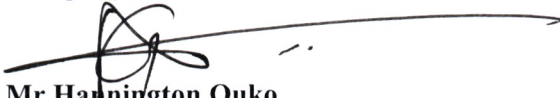
Principal Activities

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 5.

Company Secretary


for **Mr Hannington Ouko**
Company Secretary
P. O. Box 30311- 00100,
Nairobi

*Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2019*

CORPORATE INFORMATION (CONTINUED)

PRINCIPAL BANKERS

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

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

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

INDEPENDENT AUDITOR

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

PRINCIPAL LEGAL ADVISORS

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

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

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

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

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

BOARD OF DIRECTORS

**Mr. Ntoros Baari Ole Senteu
Chairman**

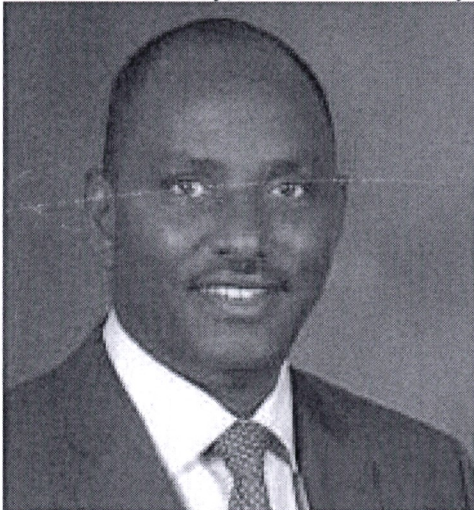


Mr. Ntoros Baari Ole Senteu holds a Master of Arts degree in Rural Development from the University of Reading, UK. Prior to his appointment as Postbank Chairman, he served as the Board Chairman for Kenya Meat Commission between 2017 and 2019.

Mr. Baari has many years of experience in corporate governance having served in various Boards. He also has vast experience coordinating, implementing and evaluating public policies to address government requirements.

Mr. Baari has attended many local & International conferences. He has participated, championed and provided leadership in community mobilization, involvement and participation

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



Hon. Amb. Ukur Yatani Kanacho has over 27-year experience in public administration, politics, diplomacy and governance in public sector since 1992, and was appointed as Treasury Secretary on January 14, 2020. Prior to his appointment, he was the Cabinet Secretary for Labour and Social Protection from 2018. Between the years 2006-2007 while Member of Parliament for North Horr constituency, he also served as an Assistant minister for science and technology. At the height of his career (March 2013-August 2017), he served as a pioneer Governor of Marsabit County, the largest County in the Republic of Kenya. Between June 2009 and October 2012, he served as Kenya's Ambassador to 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. Between 1992—2015, he served in different positions in Kenya's Public Administration including a District Commissioner, where sharpened his management and administrative skills. He has Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, 2005; and Bachelor of Arts in Economics, Egerton University, Kenya, 1991.

BOARD OF DIRECTORS (CONTINUED)

Mr. Henry Mutwiiri

Alternate to Cabinet Secretary, The National Treasury



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

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

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

Mr. Moses Banda

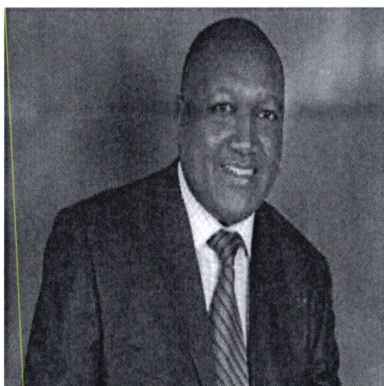


Moses Banda holds a Bachelor of Arts (BA) degree in Microfinance and Economic Community Development from Uganda Martyrs Catholic University and a Master of Business Administration (MBA) degree in Banking and Finance with specialization in Microfinance from Moi University. He has unrivalled experience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

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

Mr. Banda has served as a director of several national and international organizations. He is a widely sought after public speaker, resource person and financial advisor.

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).

BOARD OF DIRECTORS (CONTINUED)

Ms. Mercy Luseno



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

Mercy has been a strong voice outside her academic career advocating for women empowerment.

Mr. George Ombua
Alternate to Inspector General State Corporations

Ms. Anne Waiyego Karanja
Managing Director



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

Mr. Hannington Ouko
Head of Legal, Security & Investigations /Company Secretary



Mr. Hannington O. Ouko is the Head of Legal, Security & Investigations/Company Secretary-He has unrivalled experience in Banking & Finance. Mr. Ouko acquired extensive conventional commercial banking experience in Key departments such as - Operations, Customer Service and Credit Departments and in the legal practice having acquired over 14 years' experience in Commercial Law, Conveyancing Law, Banking Law Legal Advisory Services in Commercial Banks in Kenya and In East Africa including: Diamond Trust Bank of Kenya Limited, Kenya Post Office Savings Bank, Chase Bank of Kenya Limited, Equity Bank Kenya Ltd., Equity Bank South Sudan Limited and Co-operative Bank of South Sudan Limited.

Mr. Ouko holds a Master of Laws and Bachelor of Laws from the University of Nairobi. He has also earned reputable certifications key among them Certified AML Specialist by INTELLISYS (2016) and Certified Systems Auditor by BERA VERITA

SENIOR MANAGEMENT



Ms. Anne Waiyego Karanja
Managing Director



Mr. I.J.S Obuon
Chief Operations Officer



Simon Njoroge
Head Banking services



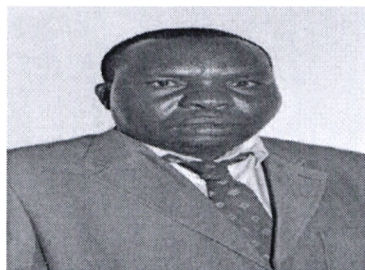
Jacinta Kasingiu
Head Special Projects



Isaac M. Mutua
Head Information and Communication
Technology



Hannington Ouko
Head Legal/ Company Secretary



Dr. Calistus W. Waswa
Head Audit



Thomas K. Bett
Head Human Resource
Administration & Property
Management



Evelyn Tsimanji Madigu
Head Finance & Accounting



Ms. Sabina Oyatsi
Head Corporate Banking

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 2019

REVIEW OF ECONOMIC PERFORMANCE

Global and Regional Economy

Global economic growth is projected to ease against a backdrop of a less favorable international trade environment and low investment. The slowdown is underpinned by escalating trade and technology tensions among major economies (US-China tariff hikes and uncertainty of the UK-EU trade relationship). These events have resulted in weaker than anticipated global trade and manufacturing, and eroded investor confidence. Further, limited fiscal space among emerging and developing economies (EMDEs) is likely to lower public investment.

The sub-Saharan Africa (SSA) region is projected to continue growing albeit, at a much slower pace. The region's economy is expected to expand from 2.5 percent in 2018 to 2.6 percent in 2019 due to negative spillover from dampened global growth prospects and falling commodity prices. Growth in the non-resource rich countries remains steady, buoyed by ongoing public sector investments (although limited fiscal space is raising questions on the sustainability of this growth model).

Kenyan Economy

Kenya continues to experience steady economic growth, with real GDP expanding on average by about 5.6 percent over the last five years (2014-2018). While challenges in agriculture account for a significant drag to growth, private investment has also accounted for a share of the deceleration. The weakening of private investment partly reflects crowding out from widening fiscal deficits and relatedly limited access to credit by the private sector. The macroeconomic environment remains broadly stable with low inflation and a manageable current account deficit, but interest rate caps have constrained the operating environment for the banking sector and reduced the effectiveness of monetary policy. Despite very low core inflation, well anchored inflation expectations, and subdued demand pressures, the flexibility of monetary policy to respond to the slack in the economy has been constrained, and profitability as well as asset quality for the small and medium sized banks have been affected in the context of the interest rate caps regime.

Outlook for 2020

Over the medium term, however, global GDP is projected to pick up to 2.7 percent in 2020 and 2.8 percent in 2021. The Sub-Saharan region's growth is projected to rise to 3.1 percent in 2020 and 3.2 percent in 2021, supported by strengthening domestic demand even as the external environment is expected to be difficult.

Kenya's medium-term outlook remains stable, despite drought challenges and a less favorable external environment. This is despite emerging drought challenges and a less favorable external environment. Reflecting emerging drought challenges, GDP growth is projected to slow down to 5.7 percent in 2019 before recovering to 5.9 and 6.0 percent, respectively in 2020, and 2021. Growth is supported by ongoing key investment to support implementation of the "Big 4" Development Agenda and improved business environment.

CHAIRMAN'S STATEMENT (continued)

Strategic Planning

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

Business Review

In November 2019, the Bank commenced on a business review whose main objective is to identify interventions that will lead to accelerated business growth and sustainability of the Bank's operations.

The business review will address the business operations, delivery channels, ICT systems and infrastructure, human resources capacity and process reengineering.

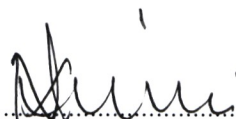
Strategic Partnerships

The Bank continues to maintain strategic partnerships with key organizations which allows for Postbank to network, gain knowledge and share experiences with other members within the partnerships. These are:

1. Association of Savings Bank of East Africa (ASBEA)
2. World Savings Banks Institute (WSBI)
3. Association of Micro- Finance Institutions (AMFI)
4. Kenya Bankers Association (KBA)
5. Kenya Institute of Bankers (KIB)

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 2020

MANAGING DIRECTOR'S STATEMENT

I wish to present the Bank's Annual Report and the Financial Statements for the year ended 31st December 2019.

Financial Performance

Postbank's financial performance for the period ended 31st December, 2019 was a loss of Kshs.1.40 billion recording an improved performance of 12 % from loss of Kshs 1.589 billion in FY 2018.

Total assets grew by 2.85 % to Kshs 14.48 billion in FY 2019 from Kshs. 14.08 billion in the financial year 2018, mainly due to increased Investment in Treasury Bonds. Customer deposits increased by 8.8 % to stand at Kshs 21.78 billion in the financial year from Kshs 20 billion in year 2018.

Business partnerships and other interventions

In 2019, the Bank increased its business partnerships by entering into strategic alliance with Diamond Trust Bank (DTB) to offer credit to the Bank's customers. The Bank continued to partner with the Kenya Defense Forces (KDF) to recruit customers. An aggressive campaign was carried out with the Kenya Police Service to recruit the police officers as well as National Service Police recruits in various police colleges countrywide.

We are constantly engaging Kenyans in financial literacy encouraging them to save and create wealth.

The business review will provide a roadmap on what products and services the Bank will offer as we also adopt technological innovations to provide convenience to customers through digital platforms


MS. ANNE W. KARANJA
MANAGING DIRECTOR

March 2020

CORPORATE GOVERNANCE STATEMENT

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

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

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

Board of Directors

The Board is made up of six (7) Directors of whom 6 are non-executive including the Chairman. The Chairman was appointed on 16th October 2019, four other Directors were appointed in 2018, two in 2019 and one retired in 2019.

Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance requirements. The day-to-day running of Postbank has been delegated to the Managing Director. The Board retains responsibility for establishing and maintaining the internal control over the strategic, financial, operational and compliance issues. The Board is responsible of ensuring succession planning and facilitates recruitment of the Managing Director. The Bank is complying with the Mwongozo “the code of governance for state corporations” and all the Directors have undergone training on the code organised by the State Corporation Advisory Committee (SCAC).

Board Meetings

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

Code of Ethics

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

CORPORATE GOVERNANCE STATEMENT (continued)

Communication with Shareholder

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

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the Year 2019 is disclosed in Note 12 to the Financial Statements. There were no loans given to sitting Directors at any time during the year.

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2019

CORPORATE GOVERNANCE STATEMENT (continued)

Board and Board Committees Attendance

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

Type of Meeting	No. of Meetings	Mr. Ntoros B. Ole Senteu	Mr. Moses Banda	Ms. Mercy Luseno	Mr. Samuel Bunci	Mr. Solomon Kitungu	Mr. Henry Riungu	Mr. George Ombua	Ms. Anne Karanja
Main Board Meeting	5	2	5	5	5	4	1	1	5
Special Board Meeting	3	-	3	3	3	3	-	-	2
Audit and Risk Board Committee	9	-	4	9	6	9	-	-	-
Staff Board Committee	11	-	11	11	11	11	-	-	6
ICT Operations and Credit Committee	6	-	6	4	6	6	-	-	3
Strategy and Finance Board Committee	16	-	16	16	16	16	-	-	-
ALCO Board Meeting	1	-	-	-	1	1	-	-	1
Board Induction Meeting	1	-	-	-	1	-	-	-	1
Board Strategy Retreat	2	-	2	2	2	2	-	-	2
Board Induction with Zamara Pension Scheme	1	-	1	1	1	1	-	-	-
GOK Performance Evaluation	1	1	1	-	-	-	-	-	-
Training for E-board Demonstration & Corporate Governance Briefing	1	-	1	1	1	1	-	-	-
TOTALS	57	3	50	52	53	54	1	1	20

DIRECTOR

MANAGING DIRECTOR

March 2020

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2019

MANAGEMENT DISCUSSION AND ANALYSIS

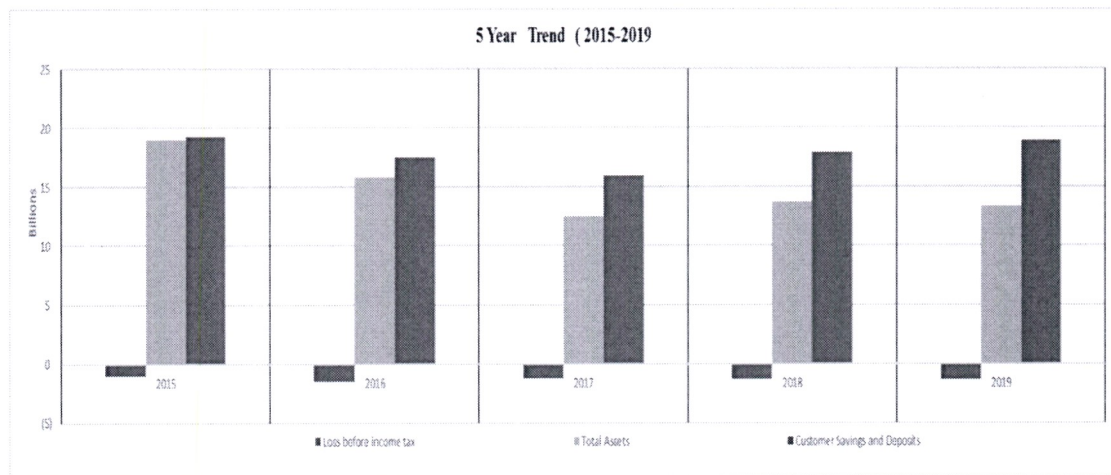
Financial Performance

The Bank’s financial performance for period ended 31st December was a loss of Kshs.1.40 billion recording an improved performance 12 % from loss of Kshs 1.589 billion in FY 2018. Top-line growth was subdued, an indication of the tough business environment we operated in.

Net interest income increased to Kshs 188 million compared to Kshs 53 million over the same period in 2018 due to reduction in interest expense during the period. The Bank continues to focus on cost discipline.

Total assets grew by 2.85 % to at Kshs 14.48 billion in FY 2019 from Kshs. 14 billion in the financial year 2018, mostly driven by additional investments in Treasury Bonds during the year.

Customer deposits grew by 9% year on year with Bidii Savings Account, Pension accounts and Premium Plus Accounts accounting for 82 % of total deposits.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Compliance with Statutory Requirement

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

Strategic Plan 2016 -2020

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

Major Risk Facing Postbank

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

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

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

The National Treasury approved the sale of the Postbank Training School in Muthaiga North in December 2016 to partly fund the staff restructuring. This will reduce the cost income ratio. The Bank had budgeted for Kshs 230 million Gain on Sale of Training School in FY 2019 which was not realized.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

INTRODUCTION

The Bank's Corporate Social Responsibility Report highlights our efforts to promote philanthropic investments that address immediate and long-term community needs and our customer focused- initiatives. As part of the wider community in which we exist, the bank collaborates with various stakeholders involved in poverty eradication, advancement of education, inadequate access to health and financial services and various other activities addressing local challenges.

The Bank is guided by an existing policy and a common purpose and to empower the community live better through the power of every connection. We deliver on this through a focus on responsible growth and environmental, social and governance leadership. Through these efforts, we drive growth to foster economic mobility and address societal challenges. The Bank commits a budgetary allocation each year to CSR initiatives. The Bank's CSR efforts focuses on the following three key areas:

1. Education
2. Health
3. Environment
4. Emergency Response

In 2019, Postbank supported different causes aligned to our strategic plan and participated in a range of community activities.

EDUCATION

The Bank strongly believes that education is an investment for the country's future and supports initiatives that promote conducive learning environment to students across all levels i.e. primary, secondary, tertiary and university. During the year under review, the Bank participated in the following initiatives;

- 1 Donated trophies to St. Vincent Maragi Secondary School during their Prize Giving Day. The Bank believes in motivating students to fully realize their potential. During the donation, the Bank also participated in mentoring the students with the aim of empowering them realize their academic dreams.
- 2 Donated text books to Voi Community Library(Taita Taveta County). The donation was in partnership with the County Government aimed at improving the reading culture and habits of children at the primary level in order to enhance learning, increase access to storybooks, and improve literacy.
- 3 The Bank also sponsored a charity golf tournament to support the equipping libraries at selected schools in Mathare slums (Nairobi County) and in Samburu County.
- 4 The Bank also sponsored the 7 Aside soccer tournament in support of the boy child where teenagers are taught healthy life choices that promote peace across gender and ethnic divides in Murang'a County.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT (Continued)

Financial Literacy

Postbank believes that a higher level of financial literacy and savings education not only enriches the life of the individual but also contributes to healthy economic growth in the society. We believe that if Kenyans are empowered with financial knowledge, they are better positioned to make sound financial decisions that will go a long way in improving their economic wellbeing.

The Bank believes that access to finance is vital for poverty alleviation and social harmony and has therefore put financial inclusion as one of its priority focus areas. In the year, the Bank was able to undertake grass root initiatives and provided financial literacy sessions to various groups in the society ranging from youth groups and teaching staff in schools, colleges and universities, small and medium sized entrepreneurs to the county’s disciplined forces.

Health

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

Environment

In line with the National Tree Planting Campaign dubbed ‘Panda Miti, Penda Kenya’, Postbank mobilized and planted over 13,000 trees in 2019. The Bank believes that through concerted efforts the country will increase forest cover from 6% to 10% in 5 years for the sake of future generations. We believe that every tree planted contributes to positive change within the environment. Through our greening efforts, Postbank took every opportunity to plant trees to mark special events for the Bank. The Bank planted trees in partnership with the National Youth Service, Naruwasco and 88 Artillery Battalion in the following areas;

REGION	LOCATIONS
Nairobi south	Nairobi Holding Unit ,NYS Headquarters
Western	NYS Turbo
Rift Valley	Gilgil (NYS Tumaini Camp),Naruwasco in Nakuru
Mt. Kenya	Kirimun (Samburu) ,88 Artillery Battalion (Isiolo)
Coast	NYS Training College(Mombasa)
Nairobi North	NYS Yatta Station (Machakos)

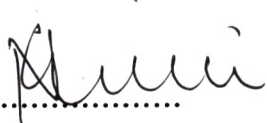
CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT (Continued)

Environment (Continued)

In addition, Postbank actively encourages staff in various locations to recycle and conduct environmentally friendly activities. In this regard, the Bank organized an ongoing donation of old newspapers and magazines to City Primary School - Autism Unit who recycle them for creative use.

Emergency Response

Postbank recognises the importance of being a responsible corporate citizen and strives to support initiatives that improves the well-being of the underprivileged and carries out various social responsibility activities aimed at addressing the needs of the community. During the year under review, the Bank donated assorted foodstuff and toiletries to Nyabondo Rehabilitation Centre (Oyugis, Homa Bay County), Murang'a main prison and Caretakers Children's Home in Kariobangi(Nairobi County).

DIRECTOR


MANAGING DIRECTOR


_____ March 2020

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2019

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended December 31, 2019, which show the state of the Bank's affairs.

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 **19 to 62**

Directors

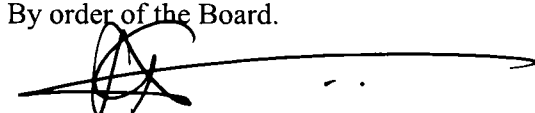
The members of the Board of Directors who served during the year are shown on page 3 and 4

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 2019.

By order of the Board.

for


Mr. Hannington Ouko
Company Secretary

Nairobi

Date:.....

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 2019

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;
- ii Designing, implementing and maintaining internal controls relevant to the preparation and i 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.

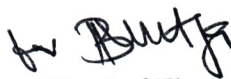
The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgment's and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by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

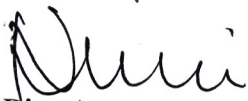
The Directors are of the opinion that the Postbank's financial statements give a true and fair view of the state of Postbank's transactions during the financial year ended December 31st, 2019, and of the Bank's financial position as at that date. The Directors further confirm the completeness of the 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 _____ 2020 and signed on its behalf by:


Managing Director
Ms. Anne W Karanja


Head of Finance
Evelyn T Madigu
ICPAK Member No 6915


Director

REPUBLIC OF KENYA

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Enhancing Accountability

HEADQUARTERS
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P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA POST OFFICE SAVINGS BANK FOR THE YEAR ENDED 31 DECEMBER, 2019

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of the Kenya Post Office Savings Bank set out on pages 21 to 65, which comprise the statement of financial position, as at 31 December, 2019, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the 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, 2019, 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. Overstatement in Stocks Balances

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

Consequently, the accuracy of stocks balance of Kshs.3,247,794 as at 31 December, 2019 could not be confirmed.

2. Variance in Customer Savings and Deposits

The statement of financial position and as disclosed in Note 28 to the financial statements, reflects customer's savings and deposits balance of Kshs.21,779,302,505; (2018 - Kshs.20,018,428,733). However, the supporting schedules provided reflects a

balance of Kshs.20,124,809,988 resulting to an unexplained and unreconciled variance of Kshs.1,760,873,773.

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

Account Type	Financial Statements Balance (Kshs.)	System Balance (Kshs.)	Variance (Kshs.)
Bidii Savings Account	8,766,726,286	8,735,821,024	30,905,262
Step Account	894,357,467	896,448,151	(2,090,684)
Pension Accounts (BSG)	5,202,736,305	5,238,588,249	(35,851,944)
Premium Savings Scheme	1,569,028	1,837,115	(268,088)
Premium Plus Account	3,821,054,970	3,818,760,657	2,294,313
Fixed Deposit Account	13,908,649	15,075,955	(1,167,306)
Save-As-You-Earn	994,051,399	1,013,547,236	(19,495,837)
Staff Salary Account	69,135,387	58,697,199	10,438,187
Salary Account	278,888,828	288,503,395	(9,614,567)
Postbank Junior Account	16,076,893	731,519	15,345,373
Corporate Clients	526,925,084	553,749,846	(26,824,762)
Smata Account	270,280,461	270,546,126	(265,665)
Pamoja Chama Account	92,897,036	92,914,959	(17,923)
Mzalendo Account	105,889	105,889	-
Waridi Account	625,935,534	627,881,132	(1,945,598)
Independent Agent Accounts	262,633	241,746	20,887
M-chama Savings Account	102,273,450	101,664,935	608,516
Mobile Savings Account	3,595,359	3,596,119	(760)
Akiba Account	1,432,103	1,432,603	(500)
Inua Jamii	63,422,793	63,410,793	12,000
Agent Control	20,413,726	21,044,286	(630,560)
ATM Retracted Cash	13,253,226	847,766	12,405,460
Total	21,779,302,505	21,805,446,701	(26,144,196)

The unreconciled variances points to the weaknesses in internal controls on accuracy of data maintained in the two systems.

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

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

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

Emphasis of Matter

Material Uncertainty in Relation to Going Concern

The statement of comprehensive income for the year reflects a loss of Kshs.1,400,244,912; (2018-Kshs.1,589,099,239), a slight improvement from the prior year. The loss continued to impact negatively on the revenue reserves worsening further to negative Kshs.14,027,788,796;(2018-Kshs.12,588,190,816). The Bank continued to record a negative shareholder's equity of Kshs.10,606,330,604; (2018 – Kshs.9,192,821,813). The Bank's dependence on government to defray these losses is uncertain and the bank's ability to continue as a going concern is doubtful.

Further, the statement of financial position for the year ended 31 December, 2019 reflects customers' savings and deposits of Kshs.21,779,302,505 which exceeds the total assets of the bank of Kshs.14,484,906,047 by Kshs.7,294,396,458. This reflects a low liquidity ratio of the Bank thus, rendering it technically insolvent unless the Government supports their operation by extending credit facilities and assisting the Bank to manage its fixed costs which the Management has not been able to manage in the past.

My opinion is not qualified 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 Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report and financial statements, but does not include the financial statements and my audit report thereon.

My opinion on the bank financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

Other Matter

Prior Year Matters

1. Overdue Accounts Receivable

As reported previously and as disclosed under Note 24 to the financial statements, the statement of financial position reflects accounts receivable balance of

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

In the circumstances, the accuracy of the accounts receivable balance of Kshs.73,000,353 as at 31 December, 2019 could not be confirmed.

2. Loss of Cash Through Fraud/Cash Loss

2.1 Fraud

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

2.2 Cash Shortage

Further, included in Note 25 pre-payments and other assets balance of Kshs.2,531,312,171 is Kshs.35,228,987 being cash shortages attributable to working cashiers. The Human resource policy of the Bank requires such cash shortages to be made good within forty-eight (48) hours by the concerned.

Under the circumstances, the Board and Management has not implemented the policy to safeguard the customers' savings & deposits.

3. Property and Equipment

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

3.1 Encroached Land without Title Deed

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

In the circumstances, the security and ownership of the parcel of land by the Bank could not be confirmed.

3.2 Land in Dispute

Disputed land reference No. 209/11908(I.R No.59328) in Nairobi, Upper Hill, Mara Road, is registered in the name of the Bank valued at Kshs.550,000,000 but has its title deed encumbered (The encumbrance was registered vide a caveat dated 15 August, 2014 claiming interest absolutely). Review of information indicates that this dispute relates to an ongoing court case No.2834 of 1995 between the Bank and a plaintiff. The outcome of the case had not been determined as of the date of my audit report. However, Management has not disclosed this by way of contingent liability in the financial statements.

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

3.3 Motor Vehicle without a Log Book

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

In the circumstances, the accuracy of motor vehicles balance of Kshs.19,361,255 as at 31 December, 2019 could not be confirmed.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

1. Anomalies in Employee Expenses

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

In the circumstances, the Management failed to comply with the provisions of the law.

2. Staff Over-Establishment

The approved staff establishment for the Bank is six hundred and ten (610) officers, while the actual staff in post are six hundred and seventy-four (674) exceeding the staff establishment by sixty-four (64) employees. This has contributed to high cost of compensation to staff and hence, the Bank continued to record operating deficits. The Management failed to comply with the approved staff establishment for the year.

3. Unassessed Contingency Liability over Legal Cases

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

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

Lack of Updated Business Continuity Policy

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

Consequently, the Bank's recoverability of operations and assets in the event of disruption could not be confirmed.

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

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

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are 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 the 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 control 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 control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 control that are identified during the audit.

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


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

29 June, 2022

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2019

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2019 Kshs	2018 Kshs
Interest income	4	739,827,426	733,734,014
Interest expense	5	(551,816,959)	(680,513,100)
Net interest income		188,010,467	53,220,914
Fees and commission income	6	435,024,516	361,434,549
Fees and commission expense	7	(43,550,092)	(30,241,588)
Net Fees and commission income		391,474,424	331,192,961
Net trading income		579,484,891	384,413,874
Foreign exchange income	8	90,597,632	86,244,958
Other Operating income	9	103,122,610	112,924,272
Net Operating Income		773,205,133	583,583,104
Operating Costs			
Impairment loss on loans and advances	10	(29,000,000)	(12,000,000)
Employee expenses	11	(1,153,873,508)	(1,185,075,279)
Board expenses	12	(13,406,349)	(1,707,706)
Operating expenses	13	(400,784,218)	(402,037,162)
Depreciation expenses	26	(161,232,208)	(178,300,037)
Amortisation cost-Intangible Assets	27	(18,773,773)	(19,436,076)
Amortisation cost- Treasury Bonds	14	(15,698,518)	(17,569,116)
Other expenses	15	(380,681,471)	(356,556,968)
Total Operating Costs		(2,173,450,045)	(2,172,682,343)
Loss before income tax		(1,400,244,912)	(1,589,099,239)
Income tax expense*		0	0
Loss for the period		(1,400,244,912)	(1,589,099,239)

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

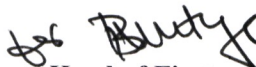
Kenya Post Office Savings Bank
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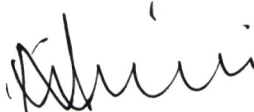
STATEMENT OF FINANCIAL POSITION

	Notes	2019 Kshs	2018 Kshs
ASSETS			
Cash	18	1,113,656,262	1,031,719,792
Funds on Call and Short Notice	19	64,879,148	62,707,843
Investment in Treasury Bills and Bonds	20	4,834,249,567	4,489,136,467
Investment Property	21	1,002,390,225	1,002,390,225
Stocks	22	14,145,662	13,147,187
Other Investments	23	4,100,500	3,986,875
Accounts Receivables	24	2,610,326,854	2,637,847,618
Prepayments & Other Assets	25	2,531,321,171	2,419,230,925
Property and Equipment	26	2,263,288,081	2,360,260,775
Intangible Assets	27	46,548,577	63,280,858
Total Assets		14,484,906,047	14,083,708,567
LIABILITIES			
Customer Savings and Deposits	28	21,779,302,505	20,018,428,733
Accounts Payables & Accruals	29	3,243,022,878	3,084,806,475
GOK Pension Reserve Fund	30	68,911,268	173,295,172
Total Liabilities		25,091,236,651	23,276,530,380
SHAREHOLDERS' EQUITY			
Capital Grants	31	20,780,547	28,379,957
Revaluation Reserves		3,271,360,210	3,271,360,210
Change in Fair Value for Bonds AFS	20b	129,317,436	95,628,836
Revenue Reserves		(14,027,788,796)	(12,588,190,816)
Total Shareholders' Equity		(10,606,330,604)	(9,192,821,813)
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		14,484,906,047	14,083,708,567

The financial statements on pages 19 to 65 were approved and authorised for issue by the Board of Directors on _____ 2020 and were signed on its behalf by:


Managing Director
Ms. Anne W Karanja


Head of Finance
Evelyn T Madigu
ICPAK Member No 6915


Director

Kenya Post Office Savings Bank
Annual report and financial statements
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STATEMENT OF CHANGES IN EQUITY

	Capital Grants		Revaluation	Change in Fair		Revenue Reserves	TOTALS
	Kshs	Kshs	Reserves	value	Kshs	Kshs	Kshs
At 1st January 2018	12,907,037	2,388,250,796		49,026,696	(11,020,457,848)	(8,570,273,319)	(8,570,273,319)
Loss for the year					(1,589,099,239)	(1,589,099,239)	
Additions during the year	15,472,920					15,472,920	
Revaluation surplus-Property and Equipment		883,109,414				883,109,414	
Change during the year -AFS				46,602,140		46,602,140	
Prior year adjustments					21,366,271	21,366,271	
At 31st December 2018	28,379,957	3,271,360,210		95,628,836	(12,588,190,816)	(9,192,821,813)	(9,192,821,813)
At 1st January 2019	28,379,957	3,271,360,210		95,628,836	(12,588,190,816)	(9,192,821,813)	(9,192,821,813)
Loss for the year					(1,400,244,912)	(1,400,244,912)	
Change during the year -AFS				33,688,600		33,688,600	
Additions during the year (i)	(7,599,410)					(7,599,410)	
Prior year adjustments (ii)					(1,303,500)	(1,303,500)	
Prior year adjustments (iii)					(2,521,796)	(2,521,796)	
Prior year adjustments (iv)					(35,579,128)	(35,579,128)	
Prior year adjustments (v)					666	666	
Prior year adjustments (iv)					50,690	50,690	
At 31st December 2019	20,780,547	3,271,360,210		129,317,436	(14,027,788,796)	(10,606,330,604)	(10,606,330,604)

- (i) Expense relates to WSBI Grant
- (ii) Prior year adjustment of Kshs 1,303,500 relates to receipts from a Tenant
- (iii) Tenant rent treated as other income (hire of Karura) adjustment Nairobi chapel
- (iv) Prior years Excise duty and Tax penalties paid to KRA on unremitted excise duty
- (v) Bank charges overstated -closed bank account(visa 33)
- (vi) Reversal of excess excise duty charges-(CBA -Mpesa account)

Kenya Post Office Savings Bank
Annual report and financial statements
For the year ended 31 December 2019

STATEMENT OF CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES	Note	2019 Kshs	2018 Kshs
Profit/(Loss) for the year		(1,400,244,912)	(1,589,099,239)
Adjustments for:-			
Depreciation		180,005,981	197,736,113
Rental Income	9	(70,883,387)	(73,651,146)
Dividend income	9	(80,137)	(7,363)
Appreciation/Diminution in value of quoted investments	9	(113,625)	137,125
Prior year adjustments		(39,353,069)	21,366,271
Operating profit/(loss) before working capital changes		(1,330,669,149)	(1,443,518,239)
(Increase)/ Decrease in Accounts Receivables & Prepayments		(84,569,481)	100,471,185
(Increase)/Decrease in stocks		(998,475)	(154,106)
Increase/(Decrease) in Accounts Payables & Accruals		158,216,403	53,724,601
Increase/(Decrease) Customer Savings and deposits		1,760,873,771	1,117,325,957
Increase/(Decrease) GoK Pension Reserve fund account		(104,383,904)	247,676,399
Net cash flows from operating activities		398,469,166	75,525,797
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property and Equipment	26	(66,301,006)	(62,624,630)
Change in fair Value for Bonds AFS	20	33,688,600	46,602,140
Rental income		70,883,387	73,651,146
Dividend Income		80,137	7,363
Net cash flows from investing activities		38,351,118	57,636,019
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from WSBI	31	(7,599,410)	15,472,920
Net cash flows from financing activities		(7,599,410)	15,472,920
Net increase in cash and cash equivalents		429,220,874	148,634,736
Cash and cash equivalents at the beginning of the year	32	5,583,564,103	5,434,929,367
Cash and cash equivalent at the end of the year	32	6,012,784,977	5,583,564,103

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

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL

	Actual Kshs	Budget Kshs	Variance Kshs	%
Interest income	739,827,426	1,024,483,040	(284,655,614)	-28%
Interest expense	(551,816,959)	(568,298,448)	16,481,488	-3%
Net interest income	188,010,467	456,184,592	(268,174,125)	-59%
Fees and commission income	435,024,516	630,713,402	(195,688,886)	-31%
Fees and commission expense	(43,550,092)	(42,001,642)	(1,548,450)	4%
Net Fees and commission income	391,474,424	588,711,760	(197,237,336)	-34%
Net trading income	579,484,891	1,044,896,352	(465,411,461)	-45%
Foreign exchange income	90,597,632	95,137,920	(4,540,288)	-5%
Other Operating income	103,122,610	442,174,025	(339,051,415)	-77%
Net Operating Income	773,205,133	1,582,208,297	(809,003,164)	-51%
Operating Costs				
Impairment loss on loans and advances	(29,000,000)	(29,000,000)	(0)	0%
Employee expenses	(1,153,873,508)	(1,190,044,016)	36,170,508	-3%
Board expenses	(13,406,349)	(14,095,112)	688,763	-5%
Operating expenses	(400,784,218)	(440,921,976)	40,137,758	-9%
Depreciation expenses	(161,232,208)	(209,879,562)	48,647,354	-23%
Amortisation cost-Intangible Assets	(18,773,773)	(42,131,966)	23,358,193	-55%
Amortisation cost- Treasury Bonds	(15,698,518)	(17,826,046)	2,127,528	-12%
Other expenses	(380,681,471)	(779,326,176)	398,644,705	-51%
Total Operating Costs	(2,173,450,045)	(2,723,224,855)	549,774,810	-20%
Loss before income tax	(1,400,244,912)	(1,141,016,559)	(259,228,353)	23%
Income tax expense*	0	0	0	-
Loss for the period	(1,400,244,912)	(1,141,016,559)	(259,228,353)	23%

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

1 GENERAL INFORMATION

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Accounting Standards (IAS). The financial statements were authorised for issue by the Board on 21st January, 2019.

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

b) Basis of Measurement

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

c) Functional and Presentation Currency

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

d) Use of Estimates and Judgment's

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Assumptions and Estimation of Uncertainties

(i) Going concern

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

However, the Bank's future performance is dependent on restructuring and government support in defraying the incurred losses from the year 2012 to 2018 amounting to Kshs. (12,588,190,816) 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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Changes in accounting policies and disclosures

New standards and interpretations not yet adopted

IFRS 16: Leases

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

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

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

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

a) Leases in which the Bank is a lessee

The Bank has completed an initial detailed assessment of the potential impact on its consolidated financial statements. The actual impact of applying IFRS 16 on the financial statements for the financial year ending 31 December 2019 will depend on:

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

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

As at 31 December 2019, the Bank's future minimum lease payments under non-cancellable operating leases amounted to Shs 106 million

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Changes in accounting policies and disclosures (continued)

New standards and interpretations not yet adopted

IFRS 16: Leases (continued)

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

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Changes in accounting policies and disclosures (continued)

New and amended standards adopted by the Bank (Continued)

IFRS 15 revenue from Contracts with Customers (IFRS 15)

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

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods.

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

2.2-Principal accounting policies

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

a) Revenue Recognition

Income is recognised on an accrual basis

i) Interest

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

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

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

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

ii) Fees and commission income

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

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

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.

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Property, plant and equipment

(ii) Revaluation and Cost Model

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

(iii) Property and Equipment and Depreciation

Leasehold properties for which the lease has 99 years or more to run are stated at cost or valuation and are not depreciated. Other assets are stated and depreciated at cost.

Depreciation is calculated on a straight-line basis, at rates estimated to write off the assets over their expected useful lives.

The following depreciation rates are used:

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

(e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

g) Stocks

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

h) Cash and cash equivalents

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

j) Quoted investments

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

k) Trade and other receivables

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

l) Taxation

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

m) Trade and other payables

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

n) Retirement benefit obligations

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Short term employee benefits

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

p) Foreign Currency Transactions

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

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

q) Revaluation Reserve

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

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

r) Revenue Reserve

This represents undistributed profits/accumulated losses from current and previous years including prior year adjustments. The accumulated loss as at 31st December 2019 is Kshs (14,027,788,796).

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:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Contingent Liabilities (Continued)

(i) PostBank - vs - Simiyu Wasike: The land in dispute involves Postbank and Simiyu Wasike. It is in Upper Hill. (as per revaluation done in December 2017) but carried at book value of Kshs 27,390,225 .The Bank lost the matter at the High Court and filed an Appeal , hearing is scheduled for June 2020.

(iii) Kshs 625 million arising out of adverse judgement and Actuarial Valuation issued on disputed mater involving KPOSB Staff Rerirement Scheme property (Karen/Langata) adopted by the Board for settlement as per RBA Guidelines.

t) Budget information

The original budget for FY 2019 was approved by the National Treasury on 9th May 2019. Subsequent budget reallocation for FY 2019 was approved by The National Treasury on 18th October 2019.

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.4 Financial instruments

a) Recognition

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

b) Classification

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

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

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

ii) Loans and Receivables

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

iii) Held-to-maturity

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

iv) Available-for-sale

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

iv) Available-for-sale (continued)

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

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

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

v) Identification and Measurement of Impairment of Financial Assets

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

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

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

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

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

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

vi) Derecognition

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

vii) Impairment for Non-Financial Assets

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

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

viii) Budget Accounting Policy

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

3 FINANCIAL RISK MANAGEMENT

a) Principles

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Principles (Continued)

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

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

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

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

(b) Credit risk

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

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

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	2019	2018
	Kshs	Kshs
4 Interest Income		
Interest on Treasury Bills/Bonds	578,273,546	602,887,634
Interest on Term Deposits	6,109,746	4,282,160
Interest on Staff Loans	41,730,646	37,920,725
Interest on Visa Balances	2,998,800	6,241,731
Credit Partners -Shared Interest Income	110,714,688	82,401,764
	<u>739,827,426</u>	<u>733,734,014</u>

Credit Partners -Shared Interest Income was reclassified from fees and commission income to interest income.

5 Interest expense

Interest on:-		
Bidii Savings Account	179,526,195	243,111,383
Step Account	16,659,093	20,586,561
Pension Account	90,426,361	115,469,203
Premium Savings Account	53,104	64,514
Premium Plus Account	225,894,784	263,405,820
Fixed Deposit Account	231,808	928,599
Save As You Earn Account	14,837,404	7,480,783
Staff Salary Account	1,015,164	1,387,516
Salary Account	4,923,790	6,780,019
Postbank Junior Account	17,535	34,256
Pamoja Account	1,798,555	2,440,440
Bidii Junior Trustee Account	152,788	225,188
Smata Youth Save	3,923,740	5,659,632
Waridi Account	9,860,847	11,014,849
M-Chama Account	1,916,606	1,693,732
Mobile Savings Account	41,607	42,541
Akiba Account	24,119	42,427
Inua Jamii	513,460	145,637
	<u>551,816,959</u>	<u>680,513,100</u>

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	2019	2018
	Kshs	Kshs
6 Fees & Commissions Income		
Inactivity Fees	70,575,447	16,703,338
Salary Crediting Fees	35,445,389	22,956,015
Premature withdrawal Fees	37,398,246	31,363,100
Withdrawal Fees	65,089,061	59,633,865
Visa Fees	4,077,544	3,439,506
Card Fees	22,148,344	26,851,121
Western Union - MTS Commission	40,222,482	35,368,224
Citibank Commission	995,670	534,240
Pension commission	61,588,900	65,639,800
Inua Jamii Commission	5,146,020	0
Money Transfer Commission (Others)	19,461,727	25,858,745
ATM withdrawal Fees	41,066,261	38,322,270
Bills Commission-Water & Electricity	22,621,503	26,723,584
Miscellaneous Fees & Commission (others)	9,187,922	8,040,742
	<u>435,024,516</u>	<u>361,434,549</u>
7 Fees and Commissions Expense		
Shared Costs Adjustments	13,942,512	8,926,416
Commission Expense-MoneyGram	2,003,535	2,739,755
Premium Paid Commission on Purchase of T/Bonds	0	356,880
Commissions & Agency Fee	10,436,082	47,418
Mobile banking Expenses	8,377,680	8,804,120
Commission paid on deposit mobilisation	8,790,283	9,366,999
	<u>43,550,092</u>	<u>30,241,588</u>
8 Foreign Exchange Income		
Realised Gain/Loss On Sale Of Forex From Wu	11,764,984	2,828,508
Forex Gain On Money Transfer Transactions	62,239,014	64,234,292
Forex Gain On Transactions(Money Gram)	16,593,635	19,182,158
	<u>90,597,632</u>	<u>86,244,958</u>

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	2019	2018
	Kshs	Kshs
9 (a) Other Operating Income		
Rental Income	70,883,387	73,651,146
Dividend income	80,137	7,363
Interest on bank accounts	14,734	12,253
Tender fees	68,200	56,200
Appreciation/Diminution in value of quoted investments	113,625	-137,125
Mobile Banking Fee	20,245,496	14,861,515
Capital Gain on Sale of Investments	0	10,441,714
Commission Income on Foreign Visa	801,000	1,252,000
Sundry income	10,916,031	12,779,206
	<u>103,122,610</u>	<u>112,924,272</u>

Disclosure note

(b) Extra Ordinary Income

The Extra Ordinary Income is made up of the following:

Receipt from Ailing Institution – Trust Bank	0	10,868,671
Recovery of NSSF contribution from Pension Scheme	0	10,497,600
Total	<u>0</u>	<u>21,366,271</u>

10 Impairment Loss on Deposits, Loans and Advances

Customers deposit	0	5,000,000
Visa card debtors	9,280,000	2,000,000
General Provisions-Including Staff loans	19,720,000	5,000,000
	<u>29,000,000</u>	<u>12,000,000</u>

11 Employee Expenses

Salaries and Wages	765,046,102	773,969,986
Pensions and Provident Fund contr.	90,420,500	90,502,123
Medical expenses	39,372,533	47,815,073
Staff training	16,820,496	18,917,424
Other staff expenses	242,213,877	253,870,673
	<u>1,153,873,508</u>	<u>1,185,075,279</u>

12 Board Expenses

Directors Honoraria	202,082	0
Directors Allowances	13,166,047	1,665,366
Directors Allowances Telephone	38,220	42,340
	<u>13,406,349</u>	<u>1,707,706</u>

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	2019	2018
	Kshs	Kshs
13 Operating Expenses		
Security expenses	106,091,008	102,230,233
Insurances	14,412,970	11,246,709
Office rent	103,001,101	111,446,045
Land rent and rates	425,147	1,720,041
Repairs and maintenance	53,150,096	59,958,603
Service charge	16,460,437	14,279,385
Agency fees – MTS	19,760,406	16,897,768
Licenses	82,282,394	81,458,237
Grounds maintenance	1,228,820	1,259,993
Agency Expansion Project	3,971,839	1,540,148
	<u>400,784,218</u>	<u>402,037,162</u>
14 Amortisation for Bonds Trading Cost		
Amortisation	<u>15,698,518</u>	<u>17,569,116</u>
This relates to Treasury Bonds Premiums amortised during the period		
15 Other Expenses		
Travel and Subsistence allowances	30,438,492	23,156,172
Printing and stationery	8,778,758	6,818,641
Debt collection	1,078,731	1,250,000
Postage & telephone	75,207,916	78,803,585
Computer expenses	11,113,791	12,407,221
Motor Vehicle Expenses	7,790,809	7,282,959
Audit fees	4,500,000	7,945,666
Donations and subscriptions	6,291,171	7,563,694
Legal and professional fees	16,808,278	19,219,888
Electricity and water	26,447,784	24,766,116
Cleaning, Sanitation & Messengerial	19,908,763	20,630,131
Special Projects Launching	6,535,179	252,185
Newspapers and Periodicals	707,736	801,106
Procurement Costs	939,588	340,259
Excise Duty	2,379,806	15,743,374
Bank Charges	12,011,706	6,789,954
Selling & Marketing expenses	91,622,855	59,769,240
Operating Stationery	1,287,705	1,981,118
Hire of Motor Vehicles	11,677,292	12,510,597
ATM Card Cost	35,034,248	40,091,017
Research & Development	200,000	170,300
Retail Banking-Search fee	54,184	26,771
Integrated Reimbursement fee	9,866,679	8,236,974
	<u>380,681,471</u>	<u>356,556,968</u>

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16 Profit (Loss) For The Year	Note	2019 Kshs	2018 Kshs
The loss for the year is stated after charging:			
Directors emoluments	12	13,406,349	1,707,706
Audit fees	15	4,500,000	7,945,666
Depreciation/amortization intangible asset expense	26	180,005,981	197,736,113
Bonds amortisation cost	14	15,698,518	17,569,116
Pension scheme contribution	11	90,420,500	90,502,123
and after crediting: -			
Dividends	9	80,137	7,363
Diminution in value of quoted investment	9	113,625	(137,125)

17 Explanation Of Material Variance on The Statement of Comparison of Budget and Actual for The Twelve Months Ending 31 December 2019

Income	Actual Kshs	Budget Kshs	Variance Kshs	%
a) Interest income	739,827,426	1,024,483,040	(284,655,614)	-28%
b) Fees and commission income	435,024,516	630,713,402	(195,688,886)	-31%
c) Other Operating income	103,122,610	442,174,025	(339,051,415)	-77%

Decline in interest rate in Government securities from 13 % in 2018 to 12.7 % in 2019 , low investment levels in Treasury Bond and maturity of two Corporate Bonds-Kengen Kshs 29.8 million in Q-2 and Jamii Bora Kshs 18 million in Q-3,2019 and two Treasury Bonds worth Kshs 40.5 million (Q-2 Kshs23.5 and Q3 Kshs 17milllion).

Fees and commission income for the period was below budget because of non attainment of key revenue lines eg. GoK Pension Commission due to declining number of pension accounts ,decline in MTS revenue (money transfer servises). To improve fees and commission income, new tariffs were implemented in June 2019 resulting in notable increase in fees and commission income in Q3 & Q4-2019

On other income , the Bank had budgeted for Kshs 230 million Gain on Sale of Training School in FY 2019 which was not realized

Direct Expenses	Actual	Budget	Variance	%
d) Interest expense	(551,816,959)	(568,298,448)	16,481,488	-3%

Down ward revision of interest rates paid to depositors in the year

Recurrent Expenses	Actual	Budget	Variance	%
e) Board expenses	(13,406,349)	(14,095,112)	688,763	-5%
f) Operating expenses	(400,784,218)	(440,921,976)	40,137,758	-9%
g) Depreciation expenses	(161,232,208)	(209,879,562)	48,647,354	-23%
h) Amortisation cost-Intangible Assets	(18,773,773)	(42,131,966)	23,358,193	-55%

Cost control management and lower purchase of assets than anticipated

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18 Cash and Cash Equivalents	2019 Kshs	2018 Kshs
Cash on Hand	350,527,345	294,152,161
Cash at Bank	763,128,917	737,567,631
	<u>1,113,656,262</u>	<u>1,031,719,792</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

19 Funds on Call and Short Notice

Commercial Bank of Africa	10,935,004	10,900,000
Citibank	15,589,200	15,027,001
National Bank of Kenya	11,048,544	10,608,296
Kenya Commercial Bank of Kenya	27,306,400	26,172,545
	<u>64,879,148</u>	<u>62,707,843</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
Commercial Bank of Africa	7%
Citibank	7%
National Bank of Kenya	7%
Kenya Commercial Bank(K)	7%

20 Investment in Treasury Bills & Bonds /Others

Treasury Bonds-Available For Sale	2,074,533,567	1,609,407,467
Kengen Infrastructure Bond	0	59,712,500
Jamii Bora Bond	199,500	20,000,000
Government of Kenya Treasury Bonds	2,759,516,500	2,800,016,500
	<u>4,834,249,567</u>	<u>4,489,136,467</u>

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

ASSET	Balance On 01.01.2019	Additions In The Year 2019	Increase/ Decrease Revaluation Adjustment In Year 2019	Disposal/ Redemption In Year 2019	Balance On 31.12.2019
	Kshs	Kshs	Kshs	Kshs	Kshs
KENGEN Infrastructure Bond	59,712,500			(59,712,500)	0
Jamii Bora Bond	20,000,000			(19,800,500)	199,500
GOK Treasury Bonds-Held to maturity	2,800,016,500			(40,500,000)	2,759,516,500
GOK Treasury Bonds- Available for sales	1,609,407,467	431,437,500	33,688,600		2,074,533,567
Total	4,489,136,467	431,437,500	33,688,600	(120,013,000)	4,834,249,567

20 (b) Change in Fair Value for Bonds AFS

Balance On 01.01.2019	Revaluation Increase	Balance On 31.12.2019
Kshs	Kshs	Kshs
95,628,836	33,688,600	129,317,436

Capital gains figure on sale of bonds will be adjusted

The effective weighted average rate of interest in respect to the above investments in year 2019 was

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

* Increase in Revaluation of Available-For-Sale in year 2019 is Kshs 33,688,600

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	2019	2018
	Kshs	Kshs
21 Investment Property		
At 1 January	1,002,390,225	896,790,225
Revaluation surplus	0	105,600,000
At 31 December	<u>1,002,390,225</u>	<u>1,002,390,225</u>
Amortisation		

Included in the investment Property is

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

The property is a piece of land with a building taken over from Thabiti Finance Ltd in lieu of deposits held for the Bank

(ii) Karura Training & Sports Complex valued at Ksh 970,000,000 as per the latest valuation report undertaken by Realty Valuers East Africa Limited as at 29th December 2017

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

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

	2019	2018
	Kshs	Kshs
22 Stocks & Drugs		
Stationery	10,897,868	9,336,165
Drugs	3,247,794	3,811,022
	<u>14,145,662</u>	<u>13,147,187</u>

23 Other Investments

Quoted investments (cost)	2,055,637	2,055,637
Unquoted investment	13,540,000	13,540,000
	<u>15,595,637</u>	<u>15,595,637</u>
Less: Provision for diminution in market value of quoted /unquoted investments	<u>(11,495,137)</u>	<u>(11,608,762)</u>
	<u>4,100,500</u>	<u>3,986,875</u>

(i) Quoted investments were valued at Kshs.2,746,500 (2018 Kshs.2,632,875) 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	
			31.12.2019	31.12.2018
Kakuzi Ltd	6,500	340.00	2,210,000	2,015,000
Total Kenya Ltd	15,000	27.50	412,500	412,500
Bamburi Cement Ltd	1,550	80.00	124,000	205,375
			2,746,500	2,632,875

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

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24 Accounts Receivables	2019	2018
	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	63,414,190	62,072,890
Prepaid GoK Pension – PCK Payroll	689,709,306	608,037,586
GoK Pension Cheques Receivable – PCK (ii)	268,553,158	268,553,158
PCK Overdrawn Claimable	44,953,868	47,540,581
Restitution (PCK)	57,278,335	56,748,615
Directors Loans	3,327,044	3,327,044
Staff loans	690,341,617	769,980,304
Staff debtors – Personal Development Loan	97,545,301	116,231,349
Interest Receivable -PDL	104,790,693	104,794,405
Rent Receivables	73,000,353	66,069,753
Staff Imprest	2,015,593	6,013,379
Trade Debtors	48,395,384	32,476,540
	<u>3,328,950,579</u>	<u>3,327,471,343</u>
Provision for bad and doubtful debts	<u>(718,623,725)</u>	<u>(689,623,725)</u>
	<u><u>2,610,326,854</u></u>	<u><u>2,637,847,618</u></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

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Notes to the Financial Statements*

24 Accounts Receivables

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

31ST DECEMBER 2018	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	62,072,890	10,797,800	10,332,800		40,942,290
Prepaid GoK Pension (Payroll) – PCK	608,037,586	8,404,567	8,404,367	8,447,533	582,781,119
GoK Pension Cheques Receivable – PCK	268,553,158	0	0	0	268,553,158
PCK Overdrawn Claimable	47,540,581	0	0	0	47,540,581
Restitution (PCK)	56,748,615	0	0	0	56,748,615
Directors Loans	3,327,044	0	0	0	3,327,044
Staff loans	769,980,304	547,731,913			222,248,391
Staff Debtors PDL	116,231,349	55,759,530			60,471,819
Interest Receivable PDL	104,794,405				104,794,406
Rent Receivables	66,069,753	2,041,960		14,499,127	49,528,666
Staff Imprest	6,013,379	1,471,324			4,542,055
Trade Debtors	32,476,540		16,132,264		16,344,276
TOTAL RECEIVABLES	3,327,471,343	626,207,094	34,869,431	22,946,660	2,643,448,156
Provision for bad debts	(689,623,725)	(1,000,000)	(1,000,000)	(1,000,000)	(686,623,725)
NET RECEIVABLES	2,637,847,618	625,207,094	33,869,431	21,946,660	1,956,824,432

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25 Prepayments and Other Assets	2019	2018
	Kshs	Kshs
Accrued interest on Treasury Bonds	81,598,740	78,285,174
Discount on Treasury Bonds	61,166,159	54,452,463
Fixed deposits in ailing financial institutions	406,138,379	406,138,379
Transitorial Accounts - Postbank (i)	1,121,957,220	1,078,128,969
Premium on Treasury Bonds (Prepaid)	273,748,387	289,445,895
Other Assets and Prepayments	992,850,665	918,918,425
	<u>2,937,459,550</u>	<u>2,825,369,305</u>
Provision for bad and doubtful debts:		
Amounts due from subsidiary and deposits	<u>(406,138,379)</u>	<u>(406,138,379)</u>
	<u>2,531,321,171</u>	<u>2,419,230,925</u>

- (i) Kshs. 1,121,957,220 under Transitorial accounts relates to balances held in accounts used by the Bank to process internal payments. Therefore, the balance is not a realisable asset.

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26 (a) Property and Equipment

As at 31 December 2019

	Land	Building	Leasehold	Motor Vehicles	Furniture & Fittings	Electronic Office Eqpmt	Non Electronic Office Eqpmt	Computer Hardware	Fixed Asset Clearing Account	Capital Work In Progress	Total
Cost or Valuation											
At 1 Jan. 2019	805,000,000	1,522,086,130	6,500,000	51,310,000	395,465,735	307,838,541	94,534,308	824,048,964	4,055,693	9,993,587	4,020,832,964
Additions	0	0	0	13,125,000	4,714,252	8,542,045	3,459,000	24,761,301	9,657,916	0	64,259,514
Revaluation surplus											0
Cost 31.12.2019	805,000,000	1,522,086,130	6,500,000	64,435,000	400,179,987	316,380,586	97,993,308	848,810,265	13,713,609	9,993,587	4,085,092,478
Depreciation											
Depre.01.01.19	0	371,809,816	6,500,000	31,948,751	282,854,350	235,496,193	74,313,428	657,649,650	0	0	1,660,572,189
Charged 2019	0	39,190,483		6,164,463	20,685,574	21,918,279	5,911,229	67,362,180		0	161,232,208
Depre.31.12.19	0	411,000,299	6,500,000	38,113,214	303,539,924	257,414,472	80,224,657	725,011,830	0	0	1,821,804,397
NBV 31.12.2019	805,000,000	1,111,085,831	0	26,321,792	96,640,064	58,966,114	17,768,651	123,798,434	13,713,609	9,993,587	2,263,288,081
NBV 31.12.2018	805,000,000	1,150,276,314	0	19,361,255	112,611,386	72,342,348	20,220,880	166,399,313	4,055,693	9,993,587	2,360,260,775

26 (b) Property and Equipment

As at 31 December 2018

Cost or Valuation	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
At 1 Jan. 2018	854,500,000	1,053,550,000	6,500,000	29,123,656	319,072,378	245,743,573	74,550,057	622,560,251	-18,278,713	9,949,122	3,197,270,324
Additions	0	0	0	10,711,350	1,849,712	1,617,624	0	9,495,669	22,334,406	44,465	46,033,226
Revaluation surplus	-49,500,000	468,536,130	0	11,475,000	74,543,646	60,477,343	19,984,251	191,993,044	0	0	777,509,414
Cost 31.12.2018	805,000,000	1,522,086,130	6,500,000	51,310,006	395,465,735	307,838,541	94,534,308	824,048,964	4,055,693	9,993,587	4,020,832,964
Depreciation	0	0	0	0	0	0	0	0	0	0	0
Depre-01.01.18	0	332,619,333	6,500,000	29,123,656	254,188,075	210,295,590	66,013,896	583,531,602	0	0	1,482,272,152
Charged 2018	0	39,190,483	0	2,825,095	28,666,275	25,200,603	8,299,532	74,118,048	0	0	178,300,037
Depre.31.12.18	0	371,809,816	6,500,000	31,948,751	282,854,350	235,496,193	74,313,428	657,649,650	0	0	1,660,572,189
NBV 31.12.2018	805,000,000	1,150,276,314	0	19,361,255	112,611,386	72,342,348	20,220,880	166,399,313	4,055,693	9,993,587	2,360,260,775
NBV 31.12.2017	854,500,000	720,930,667	0	0	64,884,303	35,447,983	8,536,161	39,028,649	-18,278,713	9,949,122	1,714,998,172

Land, Buildings, Motor Vehicles, Furniture & Fittings, Electronic Office Equipment's and Computer Hardware were revalued 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.

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26 (C) Land and Buildings

Cost / Valuation	Land	Buildings	Show Stand	2019	2018
	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 from Kshs 125 million to Kshs.50 million

27 Intangible Assets	2019	2018
	Kshs	Kshs
Cost		
At 1 January	591,786,337	575,214,934
Additions	2,041,492	16,571,403
At 31 December	593,827,829	591,786,337
Amortisation		
At 1 January	528,505,479	509,069,403
Amortization for the year	18,773,773	19,436,076
At 31 December	547,279,252	528,505,479
Carrying Amount		
At 31 December	46,548,577	63,280,858

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

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28 Customers' Savings and Deposit Accounts	2019	2018
	Kshs	Kshs
Bidii Savings Account	8,766,726,286	8,565,064,833
Step Account	894,357,467	827,600,685
Pension accounts (BSG)	5,202,736,305	4,468,396,742
Premium Savings Scheme	1,569,028	3,288,376
Premium Plus Account	3,821,054,970	3,626,054,719
Fixed Deposit Account	13,908,649	25,948,052
Save-As-You-Earn	994,051,399	801,824,982
Staff Salary Account	69,135,387	63,176,219
Salary Account	278,888,828	244,692,571
Postbank Junior Account	16,076,893	15,978,135
Corporate Clients	526,925,084	478,573,349
Smata Account	270,280,461	255,359,924
Pamoja Chama Account	92,897,036	88,266,500
Mzalendo Account	105,889	90,617
Waridi Account	625,935,534	466,489,063
Independent Agent Accounts	262,633	8,975,083
M-chama Savings Account	102,273,450	62,985,169
Mobile Savings Account	3,595,359	2,303,157
Akiba Account	1,432,103	1,406,628
Inua Jamii	63,422,793	11,953,928
Agent control	20,413,726	0
ATM Retracted cash	13,253,226	0
	<u>21,779,302,505</u>	<u>20,018,428,732</u>

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		2019	2018
29	Accounts Payables and Accruals	Kshs	Kshs
	Trade creditors	39,550,411	66,745,055
	PCK Services rendered- GoK Pension (i)	534,409,387	534,420,585
	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)	1,080,340,943	999,323,179
	Accrued Expenses	206,063,208	205,648,962
	Other creditors	749,626,912	645,636,676
		<u>3,243,022,878</u>	<u>3,084,806,475</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 reconcilitions

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

	2019	2018
30 GOK Pension Reserve Fund	Kshs	Kshs
Amount	<u>68,911,268</u>	<u>173,295,172</u>

These are pension funds from the Government for distribution.

31 Capital Grants

Western Union Product	2,013,211	2,013,211
Bidii Product	3,706,728	3,706,728
Visa EMV Project	229,458	229,458
Smata, Mchama & Agency Expansion Projects	<u>14,831,150</u>	<u>22,430,560</u>
	<u>20,780,547</u>	<u>28,379,957</u>

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

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	2019	2018
	Kshs	Kshs
32 CASH AND CASH EQUIVALENTS		
Bank and cash balances (note 18)	1,113,656,262	1,031,719,792
Deposits in banks and Financial Institutions (note 19)	64,879,148	62,707,843
Treasury Bills and Bonds (note 20 -a)	4,834,249,567	4,489,136,467
	<u>6,012,784,977</u>	<u>5,583,564,103</u>

33 RELATED PARTY TRANSACTIONS

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

i) Directors remuneration

Directors Honoraria	202,082	0
Directors Allowances	13,204,267	1,707,706
	<u>13,406,349</u>	<u>1,707,706</u>

(ii) Key management remuneration

Salaries and wages	9,371,586	7,752,968
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(iii) Loans to staff

Welfare loans	690,341,617	769,980,304
Personal development Loan	97,545,301	116,231,349
	<u>787,886,918</u>	<u>886,211,653</u>

Interest income on staff loans was Kshs 41,730,646 (2018-37,920,725). The effective interest rate for welfare loans is 5% while for personal development loan is 14%. Staff mortgages and car loans are secured by charging the related property to the Bank

(iv) Loans to Directors

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

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LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period as at 31 December 2019 to the contractual maturity date.

A. Assets	Matured	Matured in less than a month	1 months less than 3 months	3 months less than 6 months	6 months less than 1 year	1 year less than 3 years	3 years less than 5 years	over 5 years	Totals
Bank and Cash Balances	1,113,656,262								1,113,656,262
Investment in T/bills + Bonds		312,595,455	484,653,954	552,424,084	270,708,482	697,373,652	933,643,792	1,549,161,549	4,800,560,967
Funds on call and short notice		64,879,148							64,879,148
Investment Property						105,600,000		896,790,225	1,002,390,225
Other Investment			4,100,500						4,100,500
Other Assets	558,699,418	987,528,153	747,732,439	792,198,137	660,049,609	673,906,821	735,679,111	0	5,155,793,687
Property and Equipment	0	0	20,023,401	0	29,502,885	745,564,985	239,872,835	1,228,323,974	2,263,288,081
Intangible Assets			8,931,530	12,210,803	15,220,357	10,185,888			46,548,577
Total Assets	1,672,355,680	1,365,002,755	1,265,441,823	1,356,833,023	975,481,333	2,232,631,346	1,909,195,738	3,674,275,748	14,451,217,447
B. Liabilities and Reserves									
Other Liabilities	185,354,219	474,854,422	458,491,549	603,487,465	438,703,573	394,304,589	687,827,061	0	3,243,022,878
Customers' Savings and Deposit accounts	251,401,742	2,553,669,952	2,073,156,120	2,331,394,628	2,829,398,228	2,440,990,743	2,631,416,040	6,667,875,052	21,779,302,505
Gok Pension Reserve Fund Account	68,911,268								68,911,268
Capital Grants						7,873,510		12,907,037	20,780,547
Revaluation Reserves									
Change in Fair value for Bonds	53,277,617	20,422,551	21,928,668			883,109,414		2,388,250,796	3,271,360,210
Revenue Reserves									95,628,836
Total Liabilities and Reserves	558,944,846	3,048,946,925	2,553,576,337	2,934,882,093	3,268,101,801	3,726,278,256	3,319,243,101	(14,027,788,797)	(4,958,755,912)
A-B Liquidity GAP	1,113,410,834	(1,683,944,170)	(1,288,134,513)	(1,578,049,070)	(2,292,620,468)	(1,493,646,910)	(1,410,047,363)	8,633,031,659	14,451,217,447

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

35 CONSOLIDATION

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

36 COMPARATIVES

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

37 EMPLOYEES

The average number of employees during the year was 682 (2018-674).

38 SUBSEQUENT EVENTS

There have been no events subsequent to the financial year end with significant impact on the financial statements for the year ended December 31, 2019

39 NETWORK OF POSTBANK BRANCHES

The total number of branches during the year was 98.