REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE:	25 SEP 2024	DAY. WEDNESDAY
TABLED BY:	DEPUTY MAJORITY LEADER HON. OWEN BAYA	
CLERK-AT THE-TABLE:	JOYCE L.	

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA POST OFFICE SAVINGS BANK

FOR THE YEAR ENDED 31 DECEMBER, 2022

KENYA POST OFFICE SAVINGS BANK

POSTBANK

My Bank, My Choice, My Future

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2022

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

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CORPORATE INFORMATION

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

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

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

Directors

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

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

CORPORATE INFORMATION (CONTINUED)
PRINCIPAL BANKERS

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

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

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

INDEPENDENT AUDITOR

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

PRINCIPAL LEGAL ADVISORS

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

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

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

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

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

BOARD OF DIRECTORS

Mr. Ntoros Baari Ole Senteu
Chairman

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

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

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

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

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

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

BOARD OF DIRECTORS (CONTINUED)

Henry Mutwiri

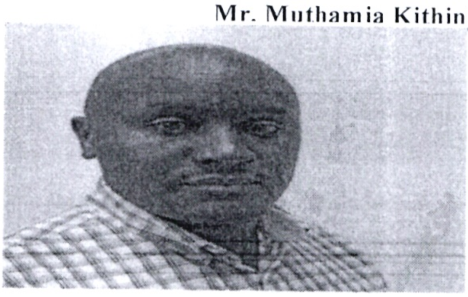
Alternate to Cabinet Secretary, The National Treasury

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

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

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

Mr. Muthamia Kithinji



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

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

BOARD OF DIRECTORS (CONTINUED)

Mr. Clement Museve

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

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

Hawo Shanko Abdullah

Ms. Hawo Shanko Abdullah holds a Bachelor of Education in Early Childhood and Primary Education and a Master's in Public Administration and Management. Prior to her appointment as board member, she worked as County Executive Committee Member (CECM) at Marsabit County. Ms. Shanko is a champion of peace ambassador at Marsabit County. She has been a strong voice outside her career advocating for women and children empowerment by mentoring widows and orphans to build hope, healing and growth in the society

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

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

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

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

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

SENIOR MANAGEMENT

Mr. Raphael M Lekolool
Managing Director

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

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

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

CHAIRMAN'S STATEMENT

I am pleased to present the Annual Report and Financial Statements of Kenya Post Office Savings Bank (Postbank) for the year ended 31st December 2022.

While the year 2021 was largely defined by increased resilience and perhaps most importantly, continued economic recovery from the ravages of the global COVID-19 pandemic, year 2022 continued to test the resilience of Kenyans on various fronts on account of the spiraling cost of living, August General Elections and the ravaging effects of climate change.

REVIEW OF ECONOMIC PERFORMANCE

Global and Regional Economy

Whilst the worst effects of the COVID-19 pandemic appeared to have eased in year 2022, various arising issues created several challenges in the year. These include new waves of the pandemic which led to lockdowns in China, major disruptions to world supply-chains as well as the ongoing Russia-Ukraine war which has led to a surge in prices across energy related commodities.

Higher energy prices were expected to lower real incomes, raise production costs, tighten financial conditions, and constrain macroeconomic policy especially in energy importing countries. As a result, global growth slumped from 5.7% in 2021 to an estimated 3.2% in 2022.

Economic growth in Sub-Saharan Africa is estimated to have fallen to 3.2% in 2022, on the back of weakened external demand, soaring inflation (exacerbated by the ongoing Russia-Ukraine war) and tightened global financial conditions.

Kenyan Economy

On the domestic scene, Kenya continued to be resilient to internal and external economic shocks, notably the COVID-19 pandemic in 2021.This was helped by targeted containment measures and progress on vaccination. However, the country is now facing potentially large economic shocks from the war in Ukraine.

Kenya's economy remained strong and resilient in the first three quarters of 2022, growing by an average of 5.3 percent . The growth was mainly supported by service and industry sectors. However, growth was dampened by the subdued performance in the agricultural sector due to unfavorable weather conditions, spiraling cost of living and the August 2022 General Election. The electioneering period has traditionally led to depressed economic activities occasioned by heightened political tensions and a "wait and see" approach by investors.
Inflation rate eased to 9.1 percent in December 2022 which was higher than the 5.7 percent recorded in December 2021.

Outlook for 2023

According to World Bank estimates, global economic growth is projected to fall from an estimated 3.4 percent in 2022 to 2.9 percent in 2023. Increase in central bank rates to tame the rising tide of inflationary pressures and the ongoing Russia-Ukraine war continue to cast a shadow on economic activity. While the continued spread of COVID-19 in China dampened growth in 2022, the outlook is positive, with the recent reopening of the country. Global inflation is expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024.

CHAIRMAN'S STATEMENT (CONTINUED)

The National Treasury estimates that Kenya's economy is projected to grow by 5.5 percent in 2023 and above 6.0 percent over the medium term. This growth will be reinforced by the Government's Bottom-Up Economic Transformation Agenda geared towards economic turnaround and inclusive growth in five key sectors envisaged to have the largest impact on the economy as well as on household welfare. These include Agriculture, Micro, Small and Medium Enterprise (MSME), Housing and Settlement, Healthcare and Digital Superhighway and Creative Industry

Compliance with Statutory Requirements

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

Strategic Plan 2021-2025

The Bank developed a Strategic Action Plan for the year 2023 based on the long term 5-year strategic Plan 2021-2025. The same has formed the basis of performance contracting negotiations with the Government of Kenya for the year 2023.This plan is based on the following Key Result Areas (KRAs) i.e. Market Focus, Financial Sustainability, Human Capital Development, Business Efficiencies and Governance and Leadership

Cost Management

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

Appreciation

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

……………………………

DIRECTOR

________ **March 2023**

MANAGING DIRECTOR'S STATEMENT

I wish to present the Bank's Annual Report and the Financial Statements for the year ended 31st December 2022.
While the macroeconomic environment in 2021 was largely defined by various interventions geared towards recovery from the effects of the COVID-19 pandemic which led to depressed GDP growth, the year 2022 continued to test the resilience of Kenyans on various fronts on account of the spiraling cost of living, the August General Elections and the ravaging effects of climate

Financial Performance

Postbank's financial performance for the period ended 31st December 2022 was a loss of Kshs 701 million. This was a dip in performance compared to a loss of Kshs 311 million in FY 2021, with the latter driven by gain realized of Kshs 554 million on disposal of Investment Property.

Total incomes in FY 2022 were Kshs 1.84 billion compared to Kshs. 2.23 billion in 2021, representing a decline of 17%. An increase in the cost of living affected the propensity to save by Kenyans, thus affecting the Bank's deposit mobilization efforts and related investment incomes earned on these deposits

The August 2022 General Elections also affected business activities due to the heightened political tensions.
Interest expense declined marginally by 1 % , reducing effective cost of deposits /funds to 1.22 % from 1.93 % in 2021.
The Bank's Customer Deposits increased by 4.7 % to stand at Kshs 25.28 billion as at 31st December 2022, from Kshs 24.15 billion for the same period in year 2021.

Some of the key business growth initiatives the Bank undertook in 2022 include the following
a) Signing of a new partnership for branchless banking with Credit Bank. We also entered into partnership with Maersk Kenya.
b) Marketing and promotional campaigns targeting Kenya Defense Forces (KDF), boda boda riders, jua kali artisans, hotels, health workers, students /staff in polytechnics, Mchama womens groups amongst others.
c) We undertook a tariff review aimed at aligning the Bank's tariffs with the market and thus making them more competitive.
d) Running corporate campaigns in the media to raise the awareness of the Bank emphasizing on the corporate attributes that include the tax-free benefit on interest earned, wide network, deposit guarantee by Government among other benefits.

MANAGING DIRECTOR'S STATEMENT (CONTINUED)

e) Refocus of the Bank's service delivery channels to digital banking through Project "Jumuisha". This project will provide the following benefits to customers:

i. Improve the customer journey by offering self-service that is simplified and efficient

ii. Improved product offering by allowing customer-centric and value adding solutions that allow opening accounts, self-registration on digital platforms and transacting from their mobile/desktop devices without having to visit a physical branch.

iii. Added security features that safeguard customer data and transactions

f) The Bank participated in the Company of the Year (COYA)/ Organizational Performance Index (OPI) assessment for the year 2022. This assessment provides an opportunity for the Bank to benchmark with other organizations on management best practices across a wide range of thematic areas.

RAPHAEL LEKOLOOL
MANAGING DIRECTOR

________ **March 2023**

CORPORATE GOVERNANCE STATEMENT

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

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

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

Board of Directors

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

	Name	Position Held	Date Of Appointment
1	Ntoros B. Ole Senteu	Chairman	Retired on 15 October 2022
2	Muthamia M Kithinji	Director	6 October 2021
3	Clement Museve	Director	6 October 2021
4	Hawo Shanko Abdullah	Director	14 April 2022
5	Henry Mutwiri Riungu	Alternate Director – CS National Treasury	
6	Raphael Lekolool	Managing Director	

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Code of Ethics

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

Communication with Shareholder

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

Directors' Emoluments and Loans

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

Board Meetings

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Board and Board Committees Attendance

Type of Meeting	No. of Meetings	Mr. Ntoros B. Ole Senteu	Mr. Henry R. Mutwiri	Mr. Gerald Mwangi	Ms. Hawo Shanko	Mr. Muthamia M. Kithinji	Mr. Clement Museve	Mr. Raphael Lekolool
Main Board Meeting	4	3	3	3	3	4	4	4
Special Board Meeting	6	2	4	4	3	4	4	4
BARC Review Meeting	1	0	0	0	0	0	1	0
Audit and Risk Board Committee	4	0	2	2	2	0	4	0
Staff Board Committee	4	0	4	4	2	4	0	4
ICT Operations & Credit Committee	4	0	4	0	1	0	4	4
Strategy and Finance Board Committee	6	0	6	3	1	0	0	6
Strategy & Workshop - Action Plan	1	1	1	1	1	1	1	1
Board self Evaluation FY 2021	1	0	1	1	1	1	1	1
TOTALS	**31**	**6**	**25**	**18**	**14**	**14**	**19**	**24**

DIRECTOR ....

________ **March 2023**

MANAGEMENT DISCUSSION AND ANALYSIS

2022 marked the second reporting year under our 2021-2025 strategy themed "Setting the Base for KPOSB's Growth and Sustainability". This plan broadly outlines the various strategies and initiatives the Bank will pursue over the next 5 years i.e. 2021-2025, that are crucial for the Bank's long-term growth and sustainability.

The strategy is premised on five Key Result Areas (KRAs)/Pillars namely:
i) Market Focus.
ii) Business Efficiencies.
iii) Human Capital Development
iv) Financial Sustainability.
v) Governance and Leadership.

The Bank's financial performance for period ended 31st December 2022 ended with a loss of Kshs 701 million, the loss increased from loss of kshs 311 million reported in FY 2021. (This was a dip in performance is due to a gain realized of Kshs 554 million on disposal of Investment Property in FY 2021.). Key performance milestones in FY 2022 were;

i) 10 % growth in interest income largely driven by better yields from Government securities, good returns from placements with commercial banks and growth in interest income from staff loans and Credit Partners -Shared Interest Income.

(ii) Foreign Exchange Income was Kshs 133 million, 20% growth from FY 2021 -Kshs 111 million .The Kenyan Shilling continues to weaken against the dollar. This is advantageous to the Bank since it is a net seller of dollars earned from MTS business.

(iii) Fees and commissions from transactions grew by 2 % to Kshs 451 million in FY 2022 , in FY 20221 the bank earned 442 million .•Key driver for this line was growth in Mobile banking fee and indication that mobile banking is being embraced by our customers.

Total assets at the end of the year was Kshs 15.41 billion
The Bank's Customer Deposits increased by 5 % to stand at Kshs 25.28 billion as at 31st December 2022, from Kshs 24.15 billion for the same period in year 2021.

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Major Risk Facing Postbank

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

The Board and the management have been in consultation with the Government through the National Treasury with a view to injecting capital to defray the accumulated losses as provided in the Kenya Post Office Savings Bank Act, cap 493B, section 13(I).
The management is also addressing areas of cost management and through staff rationalization and closing unprofitable branches. Customers will still be served through the Mashinani Agency Network, Mobile Banking and Internet Banking. Management is enhancing business Partnership's with the Government and Private sector especially for disbursement of Government Social funds and stipend, salaries and wages.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

Postbank is committed to conducting business in a socially responsible and sustainable manner. The Bank's Corporate Social Responsibility (CSR) initiatives are aligned with its core values and business strategy, aimed at creating value for all stakeholders.

Postbank's CSR efforts are focused on key thematic areas, Health, Environment, Education, and Emergency Response. During the year in review, the Bank undertook a number of initiatives in these areas, with the aim of making a positive impact in the communities it serves

Additionally, the Bank's efforts were focused on broadening access to financial services as it recognizes that financial inclusion is key to promoting economic growth, reducing poverty, and building sustainable communities.

We are committed to working with local organizations and governments to build capacity, foster innovation, and improve the overall ecosystem for financial inclusion. We believe that collaboration is key to achieving our goals and have established partnerships with organizations and stakeholders across the financial services industry.

With the Bank's presence in 42 counties comprising of 96 branches and over 500 Postbank Mashinani Agents, our initiatives were guided by the unique community needs. Our footprint reflects our focus towards community development and philanthropic efforts.

Under the key thematic areas as outlined in the Corporate Social Responsibility policy, the Bank supported causes that reflected its commitment to sustainable business as follows:

1. Emergency Response:

The Bank donated of assorted foodstuff to Caretakers Orphans Education Center; a Center that provides care and support to vulnerable and underprivileged children from the sprawling slums of Korogocho in Nairobi. Additionally, the Bank donated foodstuff to vulnerable members in Makueni County in partnership with Kilome Youth Digital. The donations was were geared towards uplifting the health status of the children thatwould enable them to learn and realize their full potential.

2. Environment:

The Bank is committed to environmental sustainability and recognizes that its long term success is closely linked to its ability to minimize the negative impact on the environment. As such, the Bank partnered with traders of City Market in a clean exercise around the market and sponsored the installation of litter bins at its environs. This initiative is aimed at promoting environmental conservation and reducing littering in public spaces. The Bank also partnered with the Kenya Recruits Training School, Moi Barracks in a tree planting initiative that sought to contribute towards increasing the forest cover from the current 7.2 per cent to 10 per cent by 2022 as envisioned in Vision 2030. Collectively, the Bank donated 5,000 seedlings towards this course.

CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT (CONTINUED)

3. Education

The Bank donated text books to Oriwo Primary School in Homa Bay. This helped to improve access to education and learning outcomes for the children in this school. The Bank also partnered with the National Youth Service through donation of sports equipment to their various sports teams. This initiative promotes youth development through sports.

4. Health

The Bank partially sponsored the Mater Heart Run, an annual event aimed at raising funds to support children with heart conditions in Kenya. The support contributed towards improving access to medical treatment for children with heart conditions from economically disadvantaged backgrounds.

The sponsorships undertaken by the Bank were solely for the purpose of establishing networks, uplifting the lives of communities and enhancing goodwill with stakeholders.

DIRECTOR ………………

________ **March 2023**

REPORT OF THE DIRECTORS

Principal activities

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

Results

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

Directors

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

Auditors

The Auditor General is responsible for the statutory audit of Postbank in accordance with the Article 229 of the Constitution of Kenya and Public Audit Act 2015 for the period ended 31st December 2022.

By order of the Board.

Ms. Grace Maina
Ag. Company Secretary

________ **March 2023**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial year (period) ended on 31st December 2022

This responsibility includes:

i Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;

ii Maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;

iii Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; 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, 2022, 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 ______________ 2023 and signed on its behalf by:

Managing Director	Brutuga **Ag. Head of Finance**	**Director**
Raphael Lekolool	**Benard Musyoki**	
ICPAK Member No. 5481	**ICPAK Member No .2881**	

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA POST OFFICE SAVINGS BANK FOR THE YEAR ENDED 31 DECEMBER, 2022

PREAMBLE

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

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment and the internal controls, developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

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

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

REPORT ON THE FINANCIAL STATEMENTS

Adverse Opinion

I have audited the accompanying financial statements of the Kenya Post Office Savings Bank set out on pages 22 to 82, which comprise the statement of financial position as at 31 December, 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of my report, the financial statements do not present fairly, the financial position of Kenya Post Office Savings Bank as at 31 December, 2022, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and do not comply with the Public Finance Management Act, 2012 and the Kenya Post Office Savings Bank Act, Cap 493B.

Basis for Adverse Opinion

1. Anomalies in the Property and Equipment Balance

The statement of financial position reflects property and equipment balance of Kshs.2,039,708,225 as disclosed in Note 28(a) to the financial statements. The following anomalies were noted;

i) The net book values as at 31 December, 2022 in relation to five classes of assets differ from the corresponding recomputed balances in the fixed assets register as detailed below;

Asset Class	Balance as per Financial Statements (Kshs)	Recomputed Balance as per Fixed Assets Register (Kshs)	Variance (Kshs)
Motor Vehicles	2,819,581	2,660,959	158,622
Furniture and Fittings	48,438,564	30,244,290	18,194,274
Electronic Office Equipment	22,028,408	11,781,552	10,246,856
Computer Hardware	56,314,043	46,231,321	10,082,722
Non-Electronic Office Equipment	7,091,599	1,465,847	5,625,752

ii) Further, the property and equipment movement schedule reflects cost values for six (6) classes of assets which differ from the corresponding balances shown in the fixed assets register as detailed below;

Asset Class	Balance as per Financial Statements (Kshs)	Balance as per the Assets Register (Kshs)	Variance (Kshs)
Motor Vehicles	38,816,158	38,155,352	660,806
Furniture and Fittings	408,999,303	408,934,799	64,504
Electronic Office Equipment	331,966,384	333,357,706	(1,391,322)
Non-Electronic Office Equipment	99,884,711	98,821,497	1,063,214
Capital Work in Progress	77,626,874		77,626,874
Fixed Asset Clearing Account	27,876,201		27,876,201

iii) Review of the Fixed Assets Management Policy revealed that the expected lifespan for computer hardware and computer software is three (3) years which implies a depreciation rate of 33.3%. The policy is therefore not consistent with the depreciation rate of 20% on straight line basis assigned to the two classes of assets.

iv) Review of fixed assets register revealed that details such as land reference number and motor vehicle registration number were not indicated in the register while logbook for one motor vehicle with a cost value of Kshs.400,000 was not provided for audit and the assets were not tagged.

v) The fixed assets register revealed that motor vehicles valued at Kshs.11,993,749 had been fully depreciated but continued to be useful to the organization and incurred repairs, maintenance and service costs though not revalued. Further, furniture and fittings, computer hardware, non-electronic equipment and electronic equipment with costs of Kshs.358,535,198, Kshs.818,712,999, Kshs.91,539,942 and Kshs.304,923,446 respectively, had been fully depreciated as at 31 December, 2022 and were yet to be disposed or revalued. This was contrary to International Accounting Standards (IAS) 16.31 which states that revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

In the circumstances, the accuracy and completeness of property and equipment balance of Kshs.2,039,708,225 could not be confirmed.

2. Inaccuracies in Cash and Cash Equivalents Balance

The statement of financial position reflects cash and cash equivalents balance of Kshs.444,983,904 as disclosed in Note 20 to the financial statements. Review of cash books and bank reconciliation statements revealed the following anomalies;

i) Included in the balance, are balances totalling Kshs.1,260,451,777 in respect of payments in the cash books but not reflected in the bank statements for twelve (12) bank accounts as at 31 December, 2022 with some dating back to the year 2011.

ii) The balance excludes amounts totalling Kshs.406,625,131 in respect of receipts in bank but not posted in the cash books for twenty-five (25) bank accounts. No explanation was provided why receipts that were made directly to the bank had gone without being posted to the cash books for a long time.

iii) The balance also excludes amounts totalling Kshs.12,560,596,742 in respect of payments in the bank but not posted in the cash books for seventeen (17) bank accounts. No explanation was provided why payments were made directly from the bank without being posted in the cash book and why it had taken long time to post the payments in the cash book.

iv) The balance includes amounts totalling Kshs.13,384,856,202 being receipts in the cash books not in the bank statements for eleven (11) bank accounts that have been long outstanding.

v) Further, the balance includes cash balance of Kshs.110,318,564 in respect of one hundred and twelve (112) branch accounts. However, review of respective bank reconciliation statements revealed that the cash book balances totalled Kshs.106,613,952, resulting to an unexplained variance of Kshs.3,704,612.

In the circumstances, the accuracy of cash and cash equivalents balance of Kshs.444, 983,904 could not be confirmed.

3. Discrepancy in Depreciation and Amortization

The statement of profit or loss and other comprehensive income reflects depreciation and amortisation costs of Kshs.219,673,446 as disclosed in Note 14 to the financial statements. However, review of the assets register and re-computation of the depreciation and amortization revealed an amount of Kshs.57,399,149 resulting in an unreconciled variance of Kshs.162,274,297.

In the circumstances, the accuracy and completeness of the depreciation and amortisation costs of Kshs.219,673,446 could not be confirmed.

4. Doubtful Long Outstanding Accounts Receivable

The statement of financial position reflects accounts receivable balance of Kshs.2,989,839,855 as disclosed in Note 26 to the financial statements. The following anomalies were noted;

i) The balance includes an amount of Kshs.111,485,448 in respect of rent receivable. Analysis of the supporting schedule revealed that an amount of Kshs.62,998,449 relates to former tenants. However, Management did not show how it intends to recover the amount as there was no security held by the Bank. Further, rent receivable balance of Kshs.111,485,448 differed from the balance of Kshs.129,406,230 reflected in the ledger. The variance of Kshs.17,920,782 has not been explained or reconciled.

ii) The balance includes an amount of Kshs.404,924,920 posted as fixed deposits in ailing financial institutions whose recovery is doubtful resulting to overstatement of accounts receivable by the same amount.

iii) The balance is net of an amount of Kshs.1,255,548,644 in respect of provision for bad and doubtful debts. However, Management did not provide analysis of how the provision for bad and doubtful debts was arrived at.

iv) The balance includes an amount of Kshs.2,605,597,615, or 61% of the total accounts receivable that has been outstanding for more than 15 years. Although Management cited commitment from the concerned parties including The National Treasury to settle the debts, the balance remained outstanding.

v) The balance includes an amount of Kshs.75,751 which relates to staff imprest. However, documents showing the staff list of un-surrendered imprest and the aging analysis to support the amount reported in the financial statements were not provided for review.

vi) Nineteen (19) debtors who owed the Bank a total balance of Kshs.31,305,353 that were requested to confirm the outstanding receivables, none responded, therefore casting doubt on the existence, completeness and accuracy of the accounts receivable balance reported in the financial statements.

In the circumstances, the valuation and completeness of the accounts receivable balance of Kshs.2,989,839,855 could not be confirmed.

5. Prepayments and Other Assets

The statement of financial position reflects prepayments and other assets balance of Kshs.1,983,086,885 which as disclosed in Note 27 to the financial statements includes an amount of Kshs.679,380,864 for other assets and prepayments. Review of the supporting schedules provided revealed that an amount of Kshs.148,592,998 related to suspected losses of money through fraud and cash shortages that had not been recovered by the end of the year. This was despite the provisions of the Bank's Human Resource Policy that such cash shortages be made good within forty-eight (48) hours by the concerned staff.

In the circumstances, the valuation of prepayments and other assets balance of Kshs.1,983,086,885 could not be confirmed.

6. Investment Property in Dispute

The statement of financial position reflects investment property balance of Kshs.32,390,225 which as disclosed in Note 23 to the financial statements includes a parcel of land valued at Kshs.5,000,000 located within Nairobi Region which was allotted to the Bank in 1993. Site visit during the month of June, 2024 revealed that the property is already encroached by informal settlers and is also not secured with a perimeter fence.

Further, the balance includes value of another parcel of land located within Nairobi Region and registered in the name of the Bank and with a market value at

Kshs.550,000,000 as at December, 2017, but carried at a book value of Kshs.27,390,225 though its title deed is encumbered. The encumbrance was registered vide a caveat dated 15 August, 2014 claiming interest absolutely. Available information indicates that the encumbrance relates to an ongoing court case between the Bank and another party. The outcome of the case had not been determined as at the date of the audit. However, Management has not disclosed by way of a Note to the financial statements as a contingent liability in the financial statements contrary to Paragraph 86 of the IAS 37 which states that, unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable, an estimate of its financial effect, measured under paragraphs 36–52, an indication of the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.

In the circumstances, the ownership, accuracy and completeness of the investment property balance of Kshs.32,390,225 could not be confirmed.

7. Obsolete Stocks

The statement of financial position reflects stocks balance of Kshs.15,450,616 as disclosed in Note 24 to the financial statements. However, physical verification of inventories held in the Bank's stores revealed obsolete inventory valued at Kshs.3,009,637. No explanation was provided why the items were not utilized or written off.

In the circumstances, the valuation of the stocks balance of Kshs.15,450,616 could not be confirmed.

8. Unsupported Accounts Payable and Accruals

The statement of financial position reflects accounts payables and accruals balance of Kshs.2,816,095,504 as disclosed in Note 32 to the financial statements. Included in the balance is trade creditors, accrued expenses and other creditors balances of Kshs.71,082,477, Kshs.293,899,780 and Kshs.266,948,824 respectively, that were not supported with aging analysis. Further, the amount includes balances totalling Kshs.2,184,164,423 that had been outstanding since 2007.

In the circumstances, the accuracy and completeness of the accounts' payables and accruals balance of Kshs.2, 816,095,504 could not be confirmed.

9. Anomalies in Loans to Staff and Directors

The statement of financial position reflects accounts receivable balance of Kshs.2,989,839,855 which, as disclosed in Note 26 to the financial statements includes staff loans, staff debtors-personal development loans and Directors' loans of balances of Kshs.699,682,242, Kshs.52,059,658 and Kshs.3,327,044 respectively, all totalling Kshs.755,068,944. Review of the loans register and related records revealed the following anomalies;

i) The loan portfolio includes outstanding loan balances totalling Kshs.81,009,283 whose maturity dates had lapsed and had been outstanding for over one year with some being in arrears since 2015. Evidence of Management effort to recover the loans from either sale of collateral or legal action on borrowers was not provided.

ii) The loan schedules revealed that the directors' loans comprise of loans to two Directors balance of Kshs.2,024,403 and Kshs.1,302,641 for the purchase of a car and a house, respectively. The loans have been defaulted and have been in arrears since the year 2012. However, no explanation has been given on whether the loans were charged on the assets acquired and if so, why the collateral had not been sold to recover the outstanding loan balance.

iii) The balance also includes an amount of Kshs.94,151,735 in respect of interest receivable on personal development loans. However, the aging analysis with details of the debtors was not provided for audit.

iv) The statement of profit or loss and other comprehensive income reflects impairment loss on loans and advances totalling Kshs.47,000,000 as disclosed in Note 10 to the financial statements. However, there was no evidence provided to indicate that the expected credit losses were measured as required by Paragraph 5.5.17 of the International Financial Reporting Standards (IFRS) which states that, an entity shall measure expected credit losses of a financial instrument in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date, about past events, current conditions and forecasts of future economic conditions. Further, the basis and reasons for the increase from Kshs.45,000,000 in the previous year was not provided.

In the circumstances, the valuation and completeness of the loans to staff and directors totalling Kshs.755,068,944 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 adverse opinion.

Emphasis of Matter

1. Material Uncertainty Relating to Going Concern

As previously reported, the bank reported a loss of Kshs.701,006,236 (2021: Kshs.311,248,432), increasing the accumulated loss from Kshs.15,365,358,373 as at 31 December, 2021 to Kshs.16,081,263,325 as at 31 December, 2022 after incorporating a balance of Kshs.14,898,716 in respect of prior year adjustments, as reflected in the statement of changes in equity. Further, the Bank's current liabilities balance of Kshs.28,260,282,172 exceeded the current assets balance of Kshs.13,088,588,326 resulting to a negative working capital balance of Kshs.15,171,693,846 (2021: Kshs.14,652,341,259). The Bank was therefore unable to meet its financial obligations as and when they fell due. As disclosed under Note 2(e)(i) to the financial statements, the Bank was technically insolvent and its continued operation as a going concern depends on continued support from the Government and creditors.

2. Budgetary Control and Performance

During the year under review, the bank anticipated to realize an amount of Kshs.1,689,983,177 in income while the actual revenue realized was an amount of Kshs.1,312,275,233, resulting in under collection of Kshs.377,707,944, or 22% of the budget. However, the bank's total expenditure for the year amounted to Kshs.2,013,281,469 against actual collections balance of Kshs.1,312,275,233 resulting in an over-expenditure of Kshs.701,006,236, or 53% above the actual receipts.

The revenue shortfall affected the planned activities and may have impacted negatively on service delivery to the public.

My opinion is not modified in respect of these matters.

Key Audit Matters

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

Other Matter

Unresolved Prior Year Audit Matters

In the previous year's audit report, several issues were raised under the Report on the Financial Statements, Report on Lawfulness and Effectiveness in Use of Public Resources and Report on Effectiveness of Internal Controls, Risk Management and Governance which remained unresolved as at 31 December, 2022.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources sections of my report, I confirm that public resources have not been applied lawfully and in an effective way.

Basis for Conclusion

1. Non-Compliance with Human Resources Regulations

The statement of profit or loss and other comprehensive income reflects employee costs balance of Kshs.1,127,515,414 as disclosed in Note 11 to the financial statements. Included in the balance is an amount of Kshs.718,334,220 in respect to salaries and wages. However, review of staff payroll for the period revealed that three hundred and eighty-one (381) members of staff were paid net salaries which were below one-third of their basic salaries contrary to Section 19(3) of the Employment Act, 2007 which states, *inter alia*, that, without prejudice to any right of recovery of any debt due, and notwithstanding the provisions of any other written law, the total amount of all deductions which under the provisions of subsection (1), may be made by an employer from the wages of his employee at any one time shall not exceed two-thirds of such wages.

Further, an amount of Kshs.7,414,337 was paid to staff as Acting Allowance. However, most of the beneficiaries had acted for more than six months in contravention of Section C.14 of the Human Resource Policies and Procedures Manual for the Public Service, 2016 which states that *inter alia* that acting allowance will not be payable to an officer for more than six (6) months.

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

2. Irregular Payment of Board Expenses

The statement of profit or loss and other comprehensive income reflects Board expenses balance of Kshs.6,540,042 as disclosed in Note 12 of the financial statements. Included in the expenditure is an amount of Kshs.534,321 paid to an officer representing the Inspector General for State Corporations who is not eligible to be paid sitting allowance. This is contrary to the Office of the President's Circular on Guidelines on Terms and Conditions of Service for State Corporations dated 23 November, 2004 which states that only Board members specifically indicated in the enabling legislation are entitled to sitting allowance.

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

3. Non-Compliance with the National Cohesion and Integration Act, 2008

Review of the staff bio data revealed that out of five hundred and seventy-two (572) staff members employed by the Bank, two hundred and twenty-one (221) staff members were from one ethnic community, or 39% of the total staff, contrary to Section 7(2) of the National Cohesion and Integration Act, 2008 which stipulates that no public establishment shall have more than one-third of its staff from the same ethnic community.

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

4. Non-Compliance Affirmative Action on Procurement on Goods and Services

During the financial year under review, the Bank's consolidated procurement plan amounted to Kshs.375,442,728. The amount reserved for women, youth, persons with disabilities and other disadvantaged groups amounted to Kshs.21,070,000 representing 5.6% only, against the required minimum of 30%, or Kshs.112, 632,818. This was contrary to Section 53(6) of the Public Procurement and Asset Disposal Act, 2015 which states that all procurement and asset disposal planning shall reserve a minimum of thirty percent of the budgetary allocations for enterprises owned by women, youth, persons with disabilities and other disadvantaged groups.

Further, persons with disabilities were not reserved any amount against the required minimum of 2% or Kshs.7,508,855, contrary to The National Treasury's Circular Ref. No.PPD.1/3/26Vol.1(66) of 15 January, 2015 which stated, inter alia, that persons with disabilities owned-enterprises must be awarded not less than 2% of the 30% set aside for the women, youth, persons with disabilities and other disadvantaged groups.

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

5. Unauthorized Overdrawing of Bank Accounts

The statement of financial position reflects cash and cash equivalents balance of Kshs.444,983,904 as disclosed in Note 20 to the financial statements. Included in the balance are eight (8) overdrawn accounts totalling Kshs.73,869,860. However, approval from The National Treasury's to overdraw the accounts was not provided for audit. This is contrary to Regulation 82(7) of the Public Finance Management (National Government) Regulations, 2015 which states that no official government bank account shall be overdrawn, nor shall any advance or loan be obtained from a bank account for official purposes beyond the limit authorized by The National Treasury in line with Section 28(4) of the Act.

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

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements 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, because of the significance of the matters discussed in the Basis for Adverse Opinion and Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance sections of my report, based on the audit procedures performed, I confirm that internal controls, risk management and governance were not effective.

Basis for Conclusion

1. Under Staffing

Review of the human resources records revealed that the Bank's approved establishment provided for six hundred and ten (610) members of staff while five hundred and seventy-two (572) were in place, resulting to an understaffing of thirty-eight (38) staff members.

In the circumstances, the understaffing may have impacted on efficient service delivery by the Bank.

2. Failure to Integrate Information Communication Technology Systems and Weaknesses in Filing and Archiving System

The Bank runs on various ICT systems to support its daily operations. However, the core banking system and the payroll system are not integrated to the main accounting management system resulting to manual interventions when capturing key data such as revenue from the banking system and payment of salaries and its deductions. This exposes the Bank to risks of data loss and lack of proper audit trail of transactions.

Further, the Bank has been utilizing one of the regional offices as offsite archive station. However, physical verification of the archives revealed that there was no filing system in place and document retrieval was cumbersome. This may affect the efficiency of operations and risk of backed up records. In addition, the Document Retention Policy for the bank was not provided for audit review.

In the circumstances, the Bank risk loss of data and this may affect its ability to offer services in case of disruptions.

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 the Board of Directors

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal controls as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue to sustain its services, disclosing, as applicable, matters related to sustainability of service and using the applicable basis of accounting unless Management is aware of the intention to terminate the Bank or to cease operations.

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the applicable 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 to sustain its services. 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 sustain its services.
- 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 Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that are identified during the audit.

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

FCPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

30 August, 2024

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December	Notes	2022 Kshs	2021 Kshs
Interest income	4	1,102,857,613	1,003,256,519
Interest expense	5	(460,877,732)	(466,383,874)
Net interest income		**641,979,882**	**536,872,645**
Fees and commission income	6	450,801,354	441,653,585
Fees and commission expense	7	(40,512,027)	(42,816,171)
Net Fees and commission income		**410,289,327**	**398,837,414**
Net trading income		**1,052,269,209**	**935,710,059**
Foreign exchange income	8	132,672,241	110,607,321
Other Operating income	9	127,333,783	674,298,479
Net Operating Income		**1,312,275,233**	**1,720,615,859**
Operating Costs			
Impairment loss on loans and advances	10	(47,000,000)	(45,000,000)
Employee expenses	11	(1,127,515,414)	(1,128,037,178)
Board expenses	12	(6,540,042)	(6,735,158)
Operating expenses	13	(293,082,711)	(278,681,721)
Depreciation and Amortization	14	(219,673,446)	(239,400,133)
Amortization cost- Treasury Bonds	15	(5,956,256)	(15,687,843)
Other expenses	16	(313,513,600)	(290,638,202)
Total Operating Costs		**(2,013,281,469)**	**(2,004,180,234)**
Loss before income tax		**(701,006,236)**	**(283,564,375)**
Income tax expense*	17	-	(27,684,057)
Loss for the period		**(701,006,236)**	**(311,248,432)**
<u>**Other Comprehensive Income**</u>			
Items that may be subsequently reclassified to profit or loss			
Financial assets at fair value through other comprehensive income			
Loss from fair value re-measurement		(175,278,393)	(73,128,164)
Total other comprehensive income for the year		**(175,278,393)**	**(73,128,164)**
Total comprehensive income for the year		**(876,284,629)**	**(384,376,596)**

STATEMENT OF FINANCIAL POSITION

As at 31 December		2022	2021
ASSETS	Notes	Kshs	Kshs
Cash	20	444,983,904	352,118,677
Funds on Call and Short Notice	21	740,256,552	570,267,115
Investment in Treasury Bonds	22	6,878,317,214	6,928,049,337
Investment Property	23	32,390,225	32,390,225
Stocks	24	15,450,616	12,291,676
Other Investments	25	4,263,075	4,290,401
Accounts Receivables	26	2,989,839,855	2,859,239,136
Prepayments & Other Assets	27	1,983,086,885	2,208,784,583
Property and Equipment	28	2,039,708,225	2,132,157,196
Right of use Assets	29	265,128,828	353,505,105
Intangible Assets	30	18,935,326	29,586,493
Total Assets		**15,412,360,705**	**15,482,679,942**
LIABILITIES			
Customer Savings and Deposits	31	25,282,399,256	24,152,756,542
Accounts Payables & Accruals	32	2,816,095,504	3,041,707,106
GOK Pension Reserve Fund	33	73,411,135	67,739,974
Lease Liabilities	34	265,352,453	357,568,786
Total Liabilities		**28,437,258,348**	**27,619,772,408**
SHAREHOLDERS' EQUITY			
Deferred Revenue	35	11,952,959	8,574,791
Revaluation Reserves		3,165,760,210	3,165,760,210
Fair Value Reserve	22 (b)	(121,347,486)	53,930,907
Revenue Reserves		(16,081,263,325)	(15,365,358,373)
Total Shareholders' Equity		**(13,024,897,643)**	**(12,137,092,466)**
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		**15,412,360,705**	**15,482,679,942**

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

Managing Director
Raphael Lekolool
ICPAK Member No. 5481

Ag. Head of Finance
Benard Musyoki
ICPAK Member No 2881

Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2022

	Deferred Revenue	Revaluation Reserves	Fair value Reserve	Revenue Reserves	TOTALS
	Kshs	Kshs	Kshs	Kshs	Kshs
At 1st January 2022	**8,574,791**	**3,165,760,210**	**53,930,907**	**(15,365,358,373)**	**(12,137,092,466)**
Loss for the year				(701,006,236)	(701,006,236)
Loss on revaluation of financial assets at FVOCI			(175,278,393)		(175,278,393)
Additions during the year (i)	3,378,168				3,378,168
Prior year adjustments (ii)				(14,898,716)	(14,898,716)
At 31st December 2022	**11,952,959**	**3,165,760,210**	**(121,347,486)**	**(16,081,263,325)**	**(13,024,897,643)**
At 1st January 2021	**23,568,774**	**3,271,360,210**	**127,059,071**	**(15,247,741,860)**	**(11,825,753,806)**
Loss for the year				(311,248,432)	(311,248,432)
Revaluation surplus transfer		(105,600,000)		105,600,000	-
Loss on revaluation of financial assets at FVOCI			(73,128,164)		(73,128,164)
Charge during the year	(14,993,983)				(14,993,983)
Prior year adjustments				88,031,919	88,031,919
At 31st December 2021	**8,574,791**	**3,165,760,210**	**53,930,907**	**(15,365,358,373)**	**(12,137,092,466)**

Prior year adjustment of Kshs10,086,695 in year 2022 arose from;	Kshs
i) Inua jamii commission	111,950
ii) Rent undercharge	2,534,178
iii) Medical expense	2,336,026
iv) Safaricom	2,449,473
v) Infra red thermometer	97,390
vi) Staff payment allowance	710,028
vii) Skyworld-sms alert	2,975,541
viii) Repair of printers	48,718
ix) Nairobi city-ground rent	477,960
x) Membership allowance	(127,956)
xi) Gratuity	(287,020)
xii) Petty cash adjustment	(25,875)
xiii) Euro bank (in liquidation) receipt	(1,213,460)
xiv) Investment income	(260)
xv) Staff Imprest	4,812,021
Total	**14,898,716**

STATEMENT OF CASH FLOWS

For the year ended 31 December	Note	2022 Kshs	2021 Kshs
Profit/(Loss) for the year		(701,006,236)	(283,564,375)
Adjustments for:-			
Depreciation of property and equipment		120,646,003	133,142,741
Amortization of right of use assets-Leased		88,376,276	88,376,276
Amortization of intangible assets		10,651,167	17,881,116
Loss/(gain) on disposal of fixed assets		(783,204)	(556,698,767)
Appreciation/Diminution in value of quoted investments	9	27,325	(145,233)
Income tax paid		-	(27,684,057)
Prior year adjustments		(14,898,716)	91,834,389
Operating profit/(loss) before working capital changes		**(496,987,385)**	**(536,857,910)**
(Increase)/ Decrease in Accounts Receivables & Prepayments	26 & 27	95,096,980	(103,633,036)
(Increase)/Decrease in stocks		(3,158,942)	(979,347)
(Increase)/Decrease in Right of use Assets			(441,881,381)
Increase/(Decrease) in Accounts Payables & Accruals		(225,611,602)	(985,878,040)
Increase/(Decrease) Customer Savings and deposits		1,129,642,714	698,785,033
Increase/(Decrease) GOK Pension Reserve fund account		5,671,161	8,998,659
Increase/(Decrease) Lease Liabilities		(92,216,333)	357,568,786
Net cash flows from operating activities		**412,436,592**	**(1,003,877,236)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property and Equipment	28 & 30	(28,202,496)	(24,248,642)
Proceeds from disposal of assets		788,667	1,527,149,140
Change in Fair Value Reserve	21b	(175,278,393)	(73,128,164)
Net cash flows from investing activities		**(202,692,222)**	**1,429,772,334**
CASH FLOWS FROM FINANCING ACTIVITIES			
Receipts from WSBI	35	3,378,168	(14,993,983)
Net cash flows from financing activities		**3,378,168**	**(14,993,983)**
Net increase in cash and cash equivalents		213,122,539	410,901,115
Cash and cash equivalents at the beginning of the year	36	7,850,435,129	7,439,534,013
Cash and cash equivalent at the end of the year	**36**	**8,063,557,669**	**7,850,435,129**

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

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL
For the year ended 31 December 2022

	Actual	Budget	Variance	
	Kshs	Kshs	Kshs	%
Interest income	1,102,857,613	1,129,466,057	(26,608,444)	-2%
Interest expense	(460,877,732)	(135,682,515)	(325,195,217)	>100%
Net interest income	**641,979,882**	**993,783,542**	**(351,803,660)**	**-35%**
Fees and commission income	450,801,354	551,500,485	(100,699,131)	-18%
Fees and commission expense	(40,512,027)	(10,253,843)	(30,258,184)	>100%
Net Fees and commission income	**410,289,327**	**541,246,642**	**(130,957,315)**	**-24%**
Net trading income	**1,052,269,209**	**1,535,030,184**	**(482,760,975)**	**-31%**
Foreign exchange income	132,672,241	107,367,924	25,304,317	24%
Other Operating income	127,333,783	47,585,069	79,748,714	>100%
Net Operating Income	**1,312,275,233**	**1,689,983,177**	**(377,707,944)**	**-22%**
Operating Costs				
Impairment loss on loans and advances	(47,000,000)	(11,300,000)	(35,700,000)	>100%
Employee expenses	(1,127,515,414)	(1,082,217,581)	(45,297,833)	4%
Board expenses	(6,540,042)	(6,737,838)	197,796	-3%
Operating expenses	(293,082,711)	(434,093,479)	141,010,768	-32%
Depreciation and Amortization	(219,673,446)	(171,230,793)	(48,442,653)	28%
Amortization cost- Treasury Bonds	(5,956,256)		(5,956,256)	-
Other expenses	(313,513,600)	(155,634,279)	(157,879,321)	>100%
Total Operating Costs	**(2,013,281,469)**	**(1,861,213,970)**	**(152,067,499)**	**8%**
Loss before income tax	**(701,006,236)**	**(171,230,793)**	**(529,775,443)**	**>100%**
Income tax expense*	-	-	-	-
Loss for the period	**(701,006,236)**	**(171,230,793)**	**(529,775,443)**	**>100%**

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 authorized for issue by the Board on 25th March 2022.

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

b) Basis of Measurement

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

c) Functional and Presentation Currency

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

d) Use of Estimates and Judgment's

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

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

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 2022 amounting to Kshs. (16,081,263,325) in accordance with KPOSB Act cap 493B section 13 (1).

Note 10- Impairment loss on deposits, loans and advances

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

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

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

- Credit quality
- Portfolio size
- Concentrations
- Economic factors

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Changes in accounting policies and disclosures

New standards and interpretations not yet adopted

IFRS 16: Leases

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

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

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

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

a) Leases in which the Bank is a lessee

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

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

As at 31 December 2022, the Bank's future minimum lease payments under non-cancellable operating leases amounted to Kshs 98 million

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Changes in accounting policies and disclosures (continued)

New standards and interpretations not yet adopted

b) Transition

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

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

New and amended standards adopted by the Bank

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Changes in accounting policies and disclosures (continued)

New and amended standards adopted by the Bank (Continued)

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

The five steps in the model are as follows:

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

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

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

IFRS 9 - Financial Instruments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2-Principal accounting policies

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

Revenue Recognition

Income is recognized on an accrual basis

i) Interest

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

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

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

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

ii) Fees and commission income

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

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Foreign currency transactions

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

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

c) Employee benefits

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

d) Property, plant and equipment

(i) Investment Property

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Property, plant and equipment

(ii) Revaluation and Cost Model

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

(iii)Property and Equipment and Depreciation

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

The following depreciation rates are used:

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

(e) Intangible assets

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

f) Amortisation and impairment of intangible assets

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

g) Stocks

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

h) Cash and cash equivalents

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Fixed interest investments (bonds)

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

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

k) Trade and other receivables

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

l)Taxation

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

m) Trade and other payables

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

n) Retirement benefit obligations

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Short term employee benefits

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

p) Foreign Currency Transactions

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

q) Revaluation Reserve

The revaluation reserve relates to property and equipment. The reserve is non-distributable.
Revaluation reserves are made up of periodic adjustments arising from fair valuations of Property and equipment. Movement in the revaluation reserve are shown in the statement of changes in equity is Kshs 3,165,760,210

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

r) Revenue Reserve

This represents undistributed profits/accumulated losses from current and previous years including prior year adjustments. The accumulated loss as at 31st December 2021 is Kshs (16,081,263,325).

s) Contingent Liabilities

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

Notes to the Financial Statements

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Contingent Liabilities (Continued)

(i) PostBank - vs - Simiyu Wasike: The land in dispute involves Postbank and Simiyu Wasike. It is in Upper Hill. (The value of the property was Kshs. 550 million as per revaluation done in December 2017) but carried at book value of Kshs 27,390,225 .The Bank lost the matter at the High Court and filed an Appeal. The court will deliver its judgement on 6th December 2024.

(ii) In the year 2018, a statutory actuarial valuation of the Defined Benefits (DB) Scheme as at 31st December, 2018 disclosed an actuarial deficit of Kshs. 625,089,000/=, a funding level of 73.6%. the minimum funding requirements as per the Retirement Benefits Authority (RBA) minimum funding level and winding up of schemes regulations 2000 requirement is 100%. As a result, the bank and the Scheme agreed on a remedial plan which was filed and approved by RBA. Under the remedial plan the bank committed to make monthly payments of Kshs. 8,682,000/= for a period of Six (6) in order to return the scheme to the minimum solvency level of 100%.
In compliance with RBA regulations to conduct an actuarial valuation on DB Schemes after three (3) year, the Scheme conducted statutory actuarial valuation of the Defined Benefits (DB) Scheme as at 31st December, 2021 disclosed an actuarial deficit of Kshs. 202,871,000/=, a funding level of 91.2%.
The Scheme and the bank have agreed on another remedial plan where the bank (sponsor) continues to make monthly payments of Kshs. 8,682,000/=. It is noteworthy that a monthly contribution at Kshs. 8,682,000 per month will require that the bank contributes for 26 months (1 January 2022 to 29 February 2024) for the deficit to be fully amortized. As at end of December 2022 the Bank had paid Kshs 251,777,000 towards offsetting the deficit

iii) The former heads of department sued the bank under the Employment and labour relations court for unfair termination when the Bank failed to renew their contracts. Amount claimed is Kshs 106,826,167. The matter was referred for arbitration

t) Budget

The Budget for FY 2022 was approved by the National Treasury on 22nd December 2022 , CAPEX budget was deferred.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

2.4 Financial instruments

a) Recognition

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

b)Classification

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

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

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

ii) Loans and Receivables

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

iii) Held-to-maturity

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

iv) Available-for-sale

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

iv) Available-for-sale (continued)

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

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

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

v) Identification and Measurement of Impairment of Financial Assets

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

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

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.
Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in the statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.
Impairment losses on available-for-sale investment securities are recognized by transferring the difference between the amortized acquisition cost and current fair value out of equity to the statement of comprehensive income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the statement of comprehensive income.
However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

vi) Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.
The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.
The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial instruments (Continued)

vii) Impairment for Non-Financial Assets

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

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

viii) Budget Accounting Policy

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

3 FINANCIAL RISK MANAGEMENT

a) Principles

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Principles (Continued)

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

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

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

(b) Credit risk

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk (Continued)

(i) Management of Credit Risk

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

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

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

(ii) Write-off Policy

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

(c) Liquidity Risk

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

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

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

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity Risk (continued)

Exposure to liquidity Risk

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

(d) Market Risk

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

(i) Management of market Risk

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

ii) Exposure to Interest Rate Risk

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

3 FINANCIAL RISK MANAGEMENT(CONTINUED)

(e) Operational Risk

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

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

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

Risk measurement and control

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

		2022	2021
4	**Interest Income**	**Kshs**	**Kshs**
	Government securities		
	Amortized cost	523,804,230	468,236,804
	Fair value through OCI	359,169,212	337,865,659
	Interest on Term deposits	38,290,459	31,880,626
	Interest on Staff Loans	27,417,209	24,714,753
	Interest on Visa Balances	1,858,786	1,922,437
	Credit Partners -Shared Interest Income	152,317,717	138,636,240
		1,102,857,613	1,003,256,519

		2022	2021
5	**Interest expense**	**Kshs**	**Kshs**
	Interest on deposits	453,337,442	456,807,468
	Interest on lease liabilities	7,540,290	9,576,406
		460,877,732	466,383,874

		2022	2021
6	**Fees & Commissions Income**	**Kshs**	**Kshs**
	Inactivity Fees	43,305,931	21,544,458
	Salary Crediting Fees	53,469,647	53,435,564
	Premature withdrawal Fees	44,373,103	40,673,448
	Withdrawal Fees	58,741,258	62,735,847
	Visa Fees	2,662,599	3,002,821
	Card Fees	20,794,962	46,623,539
	Western Union - MTS Commission	25,569,244	29,751,156
	Citibank Commission	161,086	582,680
	Pension Commission	57,328,600	59,088,200
	Inua Jamii Commission	23,307,348	26,309,780
	Money Transfer Commission (Others)	11,647,863	14,914,289
	ATM withdrawal Fees	36,136,264	39,739,880
	Bills Commission-Water & Electricity	10,907,725	13,647,147
	Forfeited Interest & Bonus-SAYE Income	12,743,899	11,520,550
	Miscellaneous Fees & Commission (others)	49,651,825	18,084,226
		450,801,354	441,653,585

		2022	2021
7	**Fees and Commissions Expense**	**Kshs**	**Kshs**
	Shared Costs Adjustments	4,658,677	6,130,498
	Commission Expense-MoneyGram	4,280,686	3,808,165
	Premium Paid Commission on Purchase of	1,602,235	0
	Bonus Paid-SAYE Expense	4,427,917	3,665,174
	Commissions & Agency Fee	13,073,544	15,492,510
	Mobile banking Expenses	9,957,089	6,060,766
	Commission paid on deposit mobilization	2,511,879	7,659,058
		40,512,027	42,816,171

	2022 Kshs	2021 Kshs
8 Foreign Exchange Income		
Realized Gain/Loss On Sale Of Forex From MTS	53,053,182	16,094,015
Forex Gain On Money Transfer Transactions -WU	69,883,361	79,919,139
Forex Gain On Transactions -Money Gram	9,735,699	14,594,167
	132,672,241	110,607,321

9 Other Operating Income	2022 Kshs	2021 Kshs
Rental Income	48,896,838	57,745,490
Dividend income	22,373	115,568
Interest on Bank accounts	1,894,590	2,203,171
Tender fees	7,700	179,055
Appreciation/Diminution in value of quoted	(27,325)	145,233
Mobile Banking Fee	31,981,589	44,341,267
Capital Gain on Sale of Investments	32,691,784	0
Commission Income on Foreign Visa	277,000	279,500
Gain on Sale of Assets	783,204	3,017,627
Sale of Boarded Items (Unserviceable goods)	0	1,350,951
Gain on Sale of Investment Property	0	553,681,140
Sundry income	10,806,030	11,239,478
	127,333,783	674,298,479

10 Impairment Loss on Deposits, Loans and Advances	2022 Kshs	2021 Kshs
General Provisions-Including Staff loans	47,000,000	45,000,000
	47,000,000	45,000,000

		2022	2021
		Kshs	Kshs
11	**Employee Expenses**		
	Salaries and Wages	718,334,220	708,321,186
	Pensions and Provident Fund contr.	224,744,223	228,196,316
	Medical expenses	32,536,105	36,210,080
	Staff training	7,730,454	7,438,459
	Other staff expenses	144,170,412	147,871,136
		1,127,515,414	1,128,037,178

		2022	2021
12	**Board Expenses**	Kshs	Kshs
	Directors Honoraria	759,452	960,000
	Directors Allowances	5,733,500	5,731,838
	Directors Allowances Telephone	47,090	43,320
		6,540,042	6,735,158

		2022	2021
13	**Operating Expenses**	Kshs	Kshs
	Security expenses	101,101,775	101,965,841
	Insurances	40,777,769	19,232,862
	Office relocation costs	105,000	2,389,807
	Land rent and rates	455,275	1,054,393
	Repairs and maintenance	24,949,851	25,769,926
	Service charge	13,752,360	13,752,360
	Licenses	92,494,202	89,514,640
	Grounds maintenance	0	991,800
	Agency Fees	19,435,279	23,781,992
	Agency Expansion Project Expenses	11,200	228,100
		293,082,711	278,681,721

		2022	2021
14	**Depreciation and Amortisation**	Kshs	Kshs
	Depreciation of property and equipment (Note 27)	120,646,003	133,142,741
	Amortisation of right of use assets-Leased (Note 28)	88,376,276	88,376,276
	Amortisation of intangible assets (Note 29)	10,651,167	17,881,116
		219,673,446	239,400,133

15 Amortization for Bonds Trading Cost

	2022	2021
	Kshs	Kshs
Amortization	5,956,256	15,687,843

This relates to Treasury Bonds Premiums amortized during the period

16 Other Expenses

	2022	2021
	Kshs	Kshs
Operating Stationery	3,048,596	3,303,536
ATM Card Cost	53,962,731	18,687,357
Travel and Subsistence allowances	9,479,699	6,823,439
Newspapers and Periodicals	213,020	250,665
Printing and stationery	3,973,096	4,610,787
Staff Welfare Expenses	32,050,848	27,724,201
Debt collection	40,000	45,079
Postage & telephone	67,589,755	65,973,691
Computer expenses	6,281,722	8,958,026
Motor Vehicle Expenses	5,460,894	4,416,525
Audit fees	5,000,000	4,500,000
Donations and subscriptions	4,810,411	4,616,496
Legal and professional fees	8,207,685	20,279,076
Electricity and water	17,262,465	21,831,204
Cleaning, Sanitation & Messengerial	16,492,431	17,775,718
Special Projects Launching	4,472,415	17,958,089
Procurement Costs	0	292,107
Bank Charges	11,433,083	10,550,529
Selling & Marketing expenses	42,828,331	33,333,133
Hire of Motor Vehicles	1,600,501	3,545,502
Retail Banking-Search fee	8,050	12,760
Integrated Reimbursement fee	19,297,867	15,150,285
	313,513,600	290,638,202

17	**Income tax expense**	**2022**	**2021**
		Kshs	**Kshs**
	Capital gain Tax on sale of Asset	0	27,684,057
		0	**27,684,057**

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

18	**Profit (Loss) For The Year**	**Note**	**2022**	**2021**
			Kshs	**Kshs**
	The loss for the year is stated after charging:			
	Directors emoluments	12	6,540,042	6,735,158
	Audit fees	16	5,000,000	4,500,000
	Depreciation/amortization intangible asset expense	28	219,673,446	239,400,133
	Bonds amortization cost	15	5,956,256	15,687,843
	Pension scheme contribution	11	224,744,223	228,196,316
	and after crediting: -			
	Dividends	9	22,373	115,568
	Appreciation/Diminution in value of quoted	9	(27,325)	145,233

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

Income	Actual Kshs	Budget Kshs	Variance Kshs	%
a) Interest income	1,102,857,613	1,129,466,057	(26,608,444)	-2%
b) Fees and commission income	450,801,354	551,500,485	(100,699,131)	-18%
c) Foreign exchange income	132,672,241	107,367,924	25,304,317	24%
d) Other Operating income	127,333,783	47,585,069	79,748,714	>100%

a) Interest income for the period was Kshs 1.102 billion against budget of Kshs 1.129 million giving unfavorable variance of Kshs 26 million

(i) The Bank earned Kshs. 883 million as Investment Income from TBs against a budget of Kshs. 965 million, this was below budget by Kshs 82 million i.e.,8 %, this was due to non-attainment of budgeted customer deposit figures which were to drive investment values and consequently Investment Income.

(ii)The Bank earned Kshs. 37 million from placement in Commercial Banks against a budget of Kshs. 18 million. During the period, the Bank held an average placement of Kshs. 420 million to manage liquidity.

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

c) Foreign Exchange Income was Kshs 133 million, 27% higher than the budget of Kshs 105 million. The Kenyan Shilling continues to weaken against the dollar. This is advantageous to the Bank since it is a net seller of dollars earned from MTS business.

c) Other operating income for the period was Kshs 127 million against a budget of Kshs 47 million, giving a favorable variance of 79 million. Key driver for this line was growth in Mobile banking fee and indication that mobile banking is being embraced by our customers and gain on sale of Treasury bonds

Note: Approved budget by The National Treasury classified some income lines that we report under other income to fees and commision income

Direct Expenses	Actual	Budget	Variance	%
d) Interest expense	(460,877,732)	(135,682,515)	(325,195,217)	>100%

Interest expense for the year was Kshs 461 million (made up of interest expense on depositors - Kshs 453 million and Interest on lease liabilities -Kshs 7.5 million), this was above budget by Kshs 325 million. Interest expense on depositors are contractual/fixed with earlier agreed interest rates that cannot be changed.

Recurrent Expenses	Actual	Budget	Variance	%
e) Board expenses	(6,540,042)	(6,737,838)	197,796	-3%
f) Operating expenses	(293,082,711)	(434,093,479)	141,010,768	-32%
g) Depreciation and Amortization	(219,673,446)	(171,230,793)	(48,442,653)	28%

Cost control measures put in place contributed to low expenditures compared to budget. Depreciation and Amortisation costs contain Amortisation of right of use assets-Leased in compliance with IFRS 16.

20	**Cash and Cash Equivalents**	**2022**	**2021**
		Kshs	**Kshs**
	Cash on Hand	315,315,607	299,087,064
	Cash at Bank	129,668,297	53,031,612
		444,983,904	352,118,677

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

21	**Funds on Call and Short Notice**	**2022**	**2021**
		Kshs	**Kshs**
	CitiBank	10,935,004	10,935,004
	NCBA	17,044,213	466,567,573
	National Bank of Kenya	12,277,335	11,859,336
	Kenya Commercial Bank of Kenya	700,000,000	80,905,202
		740,256,552	570,267,115

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

BANK	**RATE**
NCBA	3.35%
Citibank	4.0%
National Bank of Kenya	4.0%
Kenya Commercial Bank(K)	7.5%

22	**Investment in Treasury Bonds**	**2022**	**2021**
		Kshs	**Kshs**
	Fixed rate Treasury bonds - FVOCI	2,927,117,214	2,645,699,837
	Jamii Bora Bond - FVOCI	0	199,500
	Fixed rate Treasury bonds – amortised cost	3,951,200,000	4,282,150,000
		6,878,317,214	6,928,049,337
	Treasury bonds maturing after 360 days from date of acquisition	6,878,317,214	6,928,049,337

22 (a) Investment in Treasury Bonds/Others

	2022	2021
	Kshs	**Kshs**
The movement in Treasury bonds – FVOCI was asfollows:		
At start of year	2,645,699,837	2,718,828,001
Additions during the year	1,272,223,000	-
Maturities and disposals	(887,695,980)	-
Changes in fair value	(102,961,292)	(73,128,164)
At end of year	2,927,265,565	2,645,699,837
Jamii Bora Bond - FVOCI		
At start of year	199,500	199,500
Redemption	(199,500)	-
	-	199,500
The movement in Treasury bonds at amortised cost was as		
At start of year	4,282,150,000	3,259,116,500
Additions during the year	1,250,000,000	1,025,000,000
Maturities and disposals	(1,580,950,000)	(1,966,500)
At end of year	3,951,200,000	4,282,150,000

22 (b) (b) Fair Value Reserve

	2022	2021
Changes in fair value of financial Instruments at FVOCI	**Kshs**	**Kshs**
At start of year	53,930,907	127,059,071
Changes in fair value of FVOCI financial instruments	(175,278,393)	(73,128,164)
	(121,347,486)	53,930,907

		2022	2021
		Kshs	Kshs
23	**Investment Property**		
	Cost		
	At 1 January	32,390,225	1,002,390,225
	Disposal		(970,000,000)
	At 31 December	32,390,225	32,390,225

Included in the investment Property is

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

(ii) Dandora Plot with a value of Kshs 5,000,000.
The reclassification of Dandora Plot and upper hill property from Property and Equipment to Investment property has been done as per IAS 40.
(iii) Karura Training & Sports Complex which was valued at Kshs 970,000,000 was sold in FY - 2021

		2022	2021
24	**Stocks & Drugs**	Kshs	Kshs
	Stationery	14,149,145	10,710,783
	Drugs	1,301,471	1,580,892
		15,450,616	12,291,676

		2022	2021
25	**Other Investments**		
		Kshs	Kshs
	Quoted investments (cost)	2,055,637	2,055,637
	Unquoted investment	13,540,000	13,540,000
		15,595,637	15,595,637
	Less: Provision for diminution in market value of quoted	(11,332,562)	(11,305,237)
		4,263,075	4,290,401

(i) Quoted investments were valued at Kshs.2,909,075 (2021 Kshs.2,936,400) using the Nairobi Securities Exchange market price at the close of the year.

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

			Value as at	
Company	No.of Shares	Market price	31.12.2022	31.12.2021
Kakuzi Ltd	6,500	385.00	2,502,500	2,502,500
Total Kenya Ltd	15,000	23.85	357,750	375,000
Bamburi Cement Ltd	1,550	31.50	48,825	58,900
			2,909,075	**2,936,400**

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

26 Accounts Receivables

	2022	2021
	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	67,076,225	132,045,027
Prepaid GOK Pension – PCK Payroll	634,463,707	634,463,707
GoK Pension Cheques Receivable – PCK (ii)	268,553,158	268,553,158
PCK Overdrawn Claimable	44,953,868	44,953,868
Restitution (PCK)	64,075,238	58,592,238
Directors Loans	3,327,044	3,327,044
Inua Jamii Commission Receivable	27,968,818	18,799,018
Staff Loans	699,682,242	616,588,150
Staff debtors – Personal Development Loan	52,059,658	62,694,342
Interest Receivable -PDL	94,151,735	115,539,155
Rent Receivables	111,485,448	96,614,257
Staff Imprest	75,751	4,040,268
Accrued interest on Treasury Bonds	257,801,834	208,869,490
Discount on Treasury Bonds	66,497,390	61,357,524
Fixed deposits in ailing financial institutions	404,924,920	406,138,379
Trade Debtors	262,665,726	150,799,877
	4,245,388,499	4,069,001,240
Provision for bad and doubtful debts	(1,255,548,644)	(1,209,762,104)
	2,989,839,855	2,859,239,136

(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.

26 Account Receivable

31st December 2022	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	67,076,225	4,088,200	4,542,637	30,092,300	28,353,088
Prepaid GoK Pension (Payroll) – PCK	634,463,707	5,358,709	5,849,352	6,209,845	617,045,801
GoK Pension Cheques Receivable – PCK	268,553,158	0	0	0	268,553,158
PCK Overdrawn Claimable	44,953,868	0	0	0	44,953,868
Restitution (PCK	64,075,238	0	3,494,440	3,796,903	56,783,895
Directors Loans	3,327,044	0	0	0	3,327,044
Inua Jamii Commission Receivable	27,968,818	4,937,213	9,426,894	7,981,439	5,623,272
Staff Loans	699,682,242	430,593,896	81,332,189	12,485,114	175,271,043
Staff Debtors PDL	52,059,658	337,781	634,684	1,973,812	49,113,381
Interest Receivable PDL	94,151,735	14,339,895	0	0	79,811,841
Rent Receivables	111,485,448	10,643,129	14,523,340	14,841,965	71,477,013
Staff Imprest	75,751	75,751	0	0	0
Accrued interest on Treasury Bonds	257,801,834	205,433	205,433	205,433	257,185,535
Discount on Treasury Bonds	66,497,390	328,392	328,392	328,392	65,512,214
Fixed deposits in ailing financial institutions	404,924,920	0	0	0	404,924,920
Trade Debtors	262,665,726	70,689,580	605,684	85,369,439	106,001,023
TOTAL RECEIVABLES	**4,245,388,499**	**541,597,979**	**120,943,045**	**163,284,643**	**3,419,562,833**
Provision for bad debts	(1,255,548,644)	(2,416,667)	(49,416,667)	(53,203,207)	(1,150,512,104)
NET RECEIVABLES	**2,989,839,855**	**539,181,312**	**71,526,378**	**110,081,435**	**2,269,050,729**

31st December 2021	TOTAL	0 to 30 Days	31 to 60 Days	61 to 90 Days	91 and over Days
PCK Excess Deposits	780,394,108	0	0	0	780,394,108
KP&TC Excess Deposits	405,231,629	0	0	0	405,231,629
GoK Pension Cheques Receivable from PCK	132,045,027	4,088,200	14,542,637	54,092,300	59,321,890
Prepaid GoK Pension (Payroll) – PCK	634,463,707	5,358,709	5,849,352	6,209,845	617,045,801
GoK Pension Cheques Receivable – PCK	268,553,158	0	0	0	268,553,158
PCK Overdrawn Claimable	44,953,868	0	0	0	44,953,868
Restitution (PCK	58,592,238	0	494,440	1,313,903	56,783,895
Directors Loans	3,327,044	0	0	0	3,327,044
Inua Jamii Commission Receivable	18,799,018	937,213	9,426,894	2,811,639	5,623,272
Staff Loans	616,588,150	430,593,896	1,332,189	9,391,022	175,271,043
Staff Debtors PDL	62,694,342	10,337,781		1,973,812	50,382,749
Interest Receivable PDL	115,539,155	14,318,842	0	0	101,220,313
Rent Receivables	96,614,257	12,643,129	2,523,340	6,274,775	75,173,013
Staff Imprest	4,040,268		258,671	2,142,579	1,639,018
Accrued interest on Treasury Bonds	208,869,490	205,433	205,433	205,433	208,253,191
Discount on Treasury Bonds	61,357,524	328,392	328,392	328,392	60,372,348
Fixed deposits in ailing financial institutions	406,138,379	0	0	0	406,138,379
Trade Debtors	150,799,877	38,236,411	605,684	16,268,822	95,688,959.26
TOTAL RECEIVABLES	**4,069,001,240**	**517,048,006**	**35,567,032**	**101,012,522**	**3,415,373,680**
Provision for bad debts	(1,209,762,104)	(2,416,667)	(49,416,667)	(7,416,667)	(1,150,512,104)
NET RECEIVABLES	**2,859,239,136**	**514,631,339**	**-13,849,634**	**93,595,855**	**2,264,861,576**

27 Prepayments and Other Assets

	2022 Kshs	2021 Kshs
Transitorial Accounts - Postbank (i)	1,085,031,790	1,117,482,151
Premium on Treasury Bonds (Prepaid)	218,674,231	249,306,899
Other Assets and Prepayments	679,380,864	841,995,534
	1,983,086,885	2,208,784,583

(i)Kshs.1,085,031,790 under Transitorial accounts relates to balances held in accounts used by the Bank to process internal payments. Therefore, the balance is not a realizable asset.

28 a) Property & Equipment
As at 31 December 2022

	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. 2022	805,000,000	1,522,086,130	6,500,000	38,816,158	408,999,303	338,181,196	99,884,711	908,309,465	34,581	77,626,874	4,205,438,417
Additions								360,876	27,841,620		28,202,496
Disposals						(6,214,812)					(6,214,812)
Cost 31.12.2022	**805,000,000**	**1,522,086,130**	**6,500,000**	**38,816,158**	**408,999,303**	**331,966,384**	**99,884,711**	**908,670,341**	**27,876,201**	**77,626,874**	**4,227,426,101**
Depreciation											
Depreciation 1.1.2022	0	489,881,979	6,500,000	30,037,489	344,117,528	299,153,688	89,225,139	814,365,398	0	0	2,073,281,221
Charge for the year	0	39,691,197	0	5,959,088	16,443,210	16,993,636	3,567,972	37,990,900	0	0	120,646,003
Disposals						(6,209,348)					(6,209,348)
Prior year adjustment											-
Depreciation 31.12.22	**0**	**529,573,176**	**6,500,000**	**35,996,577**	**360,560,738**	**309,937,976**	**92,793,111**	**852,356,298**	**0**	**0**	**2,187,717,876**
NBV 31.12.2022	**805,000,000**	**992,512,954**	**0**	**2,819,581**	**48,438,564**	**22,028,408**	**7,091,599**	**56,314,043**	**27,876,201**	**77,626,874**	**2,039,708,225**
NBV 31.12.2021	**805,000,000**	**1,032,204,151**	**0**	**8,778,669**	**64,881,774**	**39,027,508**	**10,659,571**	**93,944,067**	**34,581**	**77,626,874**	**2,132,157,196**

28 b)Property & Equipment
As at 31 December 2021

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

28 (c) Land & Buildings

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

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

	2022	2021
29 Right of use Assets	**Kshs**	**Kshs**
At 1 January	353,505,105	-
Impact on initial application of IFRS16		441,881,381
Depreciation charge for the year	(88,376,276)	(88,376,276)
Net book value	**265,128,828**	**353,505,105**

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

	2022	2021
30 Intangible Assets	**Kshs**	**Kshs**
Cost		
At 1 January	616,827,270	603,557,174
Additions	0	13,270,095.5
At 31 December	**616,827,270**	**616,827,270**
Amortization		
At 1 January	587,240,777	569,359,661
Amortization for the year	10,651,167	17,881,116
At 31 December	597,891,944	587,240,777
Carrying Amount		
At 31 December	**18,935,326**	**29,586,493**

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

31	**Customers' Savings and Deposit Accounts**	**2022 Kshs**	**2021 Kshs**
	Retail customers	918,023,608	907,897,069
	Term deposits	4,716,983,547	4,850,549,242
	Savings and Current accounts	10,527,293,979	10,616,380,483
	Corporate customers:	9,087,613,813	7,739,914,897
	Others	32,484,308	38,014,850
		25,282,399,256	24,152,756,542

32	**Accounts Payables and Accruals**		**2022 Kshs**	**2021 Kshs**
	Trade creditors		71,082,477	114,769,656
	PCK Service s Rendered - GoK Pension	(i)	534,376,156	534,376,156
	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)	1,016,756,250	1,018,632,353
	Accrued Expenses		293,899,780	333,846,242
	Other creditors		266,948,824	407,050,681
			2,816,095,504	3,041,707,106

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

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

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

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

33	**GOK Pension Reserve Fund**	**2022 Kshs**	**2021 Kshs**
	Amount	73,411,135	67,739,974

These are pension funds from the Government for distribution.

34	**Lease Liabilities**	**2022 Kshs**	**2021 Kshs**
	At 1 January	357,568,786	-
	Impact on initial application of IFRS16		441,881,381
	Interest expense in the year	7,540,290	9,576,406
	Lease Liability debits (Rent paid) in the year	(99,756,623)	(93,889,001)
		265,352,453	357,568,786
	Comprised of:		
	Current	88,376,276	88,376,276
	Non-current	176,976,176	265,128,828
	Net book value - 31 December	265,352,453	353,505,105

35	**Deferred Revenue**	**2022 Kshs**	**2021 Kshs**
	Western Union Product	2,013,211	2,013,211
	Bidii Product	3,706,728	3,706,728
	Visa EMV Project	229,458	229,458
	Smata, Mchama & Agency Expansion Projects	6,003,562	2,625,394
		11,952,959	8,574,791

During the year the Bank received spent Kshs 3,378,168 grant for Mchama/smata expansion

36	**CASH AND CASH EQUIVALENTS**	**2022 Kshs**	**2021 Kshs**
	Bank and cash balances (note 20)	444,983,904	352,118,677
	Deposits in banks and Financial Institutions (note 21)	740,256,552	570,267,115
	Treasury Bills and Bonds (note 22 -a)	6,878,317,214	6,928,049,337
		8,063,557,670	7,850,435,128

37 RELATED PARTY TRANSACTIONS

	2022 Kshs	2021 Kshs
i) Directors Remuneration		
Directors Honoraria	759,452	960,000
Directors Allowances	5,780,590	5,775,158
	6,540,042	6,735,158
(ii) Key management remuneration		
Salaries and wages	10,441,405	10,251,816
(iii) Loans to staff		
Welfare loans	699,682,242	616,588,150
Personal development Loan	52,059,658	62,694,342
	751,741,900	679,282,492

Interest income on staff loans was Kshs 27,417,209 (2021-24,714,753). The effective interest rate for welfare loans is 5% while for personal development loan is 10%. Staff mortgages and car loans are secured by charging the related property to the Bank.

(iv) Loans to Directors

balance of Kshs 3,327,044 relates to loans advanced to former directors that have fully been provided for write-off

38 LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period as at 31 December 2022 to the contractual maturity date.

A. Assets	Matured	Matured in less than a month	1 months less than 3 months	3 months less than 6 months	6 months less than 1 year	1 year less than 3 years	3 years less than 5 years	over 5 years	Totals
Bank and Cash Balances	352,658,493								**352,658,493**
Investment in T Bonds		430,854,656	957,883,123	792,424,084	1,020,976,359	697,373,652	1,229,643,792	1,749,161,549	**6,878,317,214**
Funds on call and short notice		740,256,551							**740,256,551**
Investment Property								32,390,225	**32,390,225**
Other Investment			4,263,076						**4,263,076**
Other Assets	458,699,418	707,528,153	632,356,163	792,198,137	645,049,609	673,906,821	764,975,569	697,155,127	**5,371,868,996**
Property and Equipment	0	0	11,406,542	0	29,502,315	580,564,985	321,862,445	1,136,250,751	**2,079,587,039**
Intangible Assets			6,321,530	2,210,803	8,559,943	11,231,604			**28,323,880**
Total Assets	**811,357,911**	**1,878,639,359**	**1,612,230,433**	**1,586,833,023**	**1,704,088,227**	**1,963,077,062**	**2,316,481,806**	**3,614,957,652**	**15,487,665,474**
Other Liabilities	435,354,219	524,854,422	524,271,941	503,487,465	462,703,573	518,984,153	62,246,575	98,878,089	**3,130,780,437**
Customers' Savings and Deposit accounts	821,401,742	2,853,669,952	2,623,156,120	2,413,117,136	2,829,398,228	2,441,590,743	3,331,111,333	7,967,033,798	**25,280,479,052**
GOK Pension Reserve Fund Account	73,411,134								**73,411,134**
Deferred Revenue					3,378,168	2,786,564	5,788,227		**11,952,959**
Revaluation Reserves						777,509,414		2,388,250,796	**3,165,760,219**
Changes in fair value of financial Instruments at FVOCI			(121,347,486)						**(121,347,486)**
Revenue Reserves								(16,053,370,832)	**(16,053,370,832)**
Total Liabilities and Reserves	**1,330,167,095**	**3,378,524,374**	**3,026,080,575**	**2,916,604,601**	**3,295,479,969**	**3,740,870,874**	**3,399,146,135**	**(5,599,208,149)**	**15,487,665,474**
A- B Liquidity GAP	**(518,809,184)**	**(1,499,885,015)**	**(1,413,850,141)**	**(1,329,771,578)**	**(1,591,391,742)**	**(1,777,793,812)**	**(1,082,664,329)**	**9,214,165,801**	

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

39 CONSOLIDATION

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

40 COMPARATIVES

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

41 EMPLOYEES

The average number of employees during the year was 572 (2021-601).

42 SUBSEQUENT EVENTS

There have been no events subsequent to the financial year end with significant impact on the financial statements for the year ended December 31, 2022

43 NETWORK OF POSTBANK BRANCHES

The total number of branches during the year was 97.

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

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

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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Reference No. on the external audit Report	Issue	Observations from Auditor	Management comments	Focal Point person to resolve the issue	Status	Timeframe
1	Property and Equipment					
1.1	Lack of Title Deed and Encroachment of Land	The statement of financial position reflects a balance of Kshs.2,132,157,196 in respect to property, plant and equipment. However, the following unsatisfactory issues were noted: As disclosed in Note 28 to the financial statements, the property and equipment balance of Kshs.2,132,157,196 includes an amount of Kshs.805,000,000 for land out of which Kshs.5,000,000 related to a parcel of land located within Nairobi. However, the land had remained unfenced and had since been encroached by informal settlers. Although Management explained the measures, they had put in place to secure the land and obtain a title deed, as at the time of audit, full and actual possession of the land had not been obtained.	a) The bank holds an allotment letter and receipts relating to all payments made in relation to the property. b) Generation of Title over the property is at an advanced stage. Currently we await approval of the Register Index Map (RIM) by the Director of Surveys. Thereafter, the bank will proceed to lodge the Lease for registration at the Registrar of Lands in Nairobi. c) The bank is yet to obtain budget approval to enable it to put up a perimeter wall around the property. Currently the Bank has leased it out to Safaricom who have mounted their commination mast. (The Bank earns Kshs 450,000 per year as rental income). On site there is a	Ag. Company Secretary	On-going	NA

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

			temporary structure of which the Bank is aware of this minimizes the risk of encroachment			
1.2	Unknown Ownership Status of Land in Dispute	Over the years, the Bank has been embroiled in a dispute for a parcel of land in Nairobi, Milimani Area. The land was registered in the name of the Bank and valued at Kshs.550,000,000 but had its title deed encumbered. Review of information provided, indicated that the matter between the Bank and a claimant has been in Court since 1995. The outcome of the case had not been determined at the time of the audit.	The land in dispute involves Postbank and Simiyu Wasike. It is in Upper Hill, as per revaluation done in December 2017 it was valued at Kshs 550 million but carried at book value of Kshs 27,390,225. The Bank lost the matter at the High Court and filed an Appeal of the unfavorable High Court decision on the ownership of the property at the Court of Appeal. The appeal was slated and heard on 25th June,2024, where the bank highlighted its submissions. The court will deliver its judgement on 6th December 2024	Ag. Company Secretary	On-going	NA
1.3	Motor Vehicle Without a Logbook	Included in the reported property and equipment balance of Kshs.2,132,157,196 is Kshs.8,778,669 relating to motor vehicles. However, and as reported in the previous year, the logbook for one motor vehicle valued at Kshs.400,000 had not been issued to the Bank by the National Transport and Safety Authority (NTSA) since November 1997. This was despite the Bank having paid the requisite duty to register the vehicle in its own name. In the circumstances, the ownership of the two parcels of land and the motor vehicle could not be confirmed.	The Board guided management to dispose the vehicle as scrap to the National Youth Service in line with The Public Procurement and Asset Disposal Act (transfer to another public entity). We wrote to PPRA for guidance on how to dispose the vehicle without the logbook and we suggested to them that we were intending to transfer it to NYS as scrap to be used for training and they guided that it was in order. We are in the process of constituting a disposal committee to carry out the	Ag. Manager Procurement	Resolved	NA

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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

			disposal process for this vehicle. The disposal process was completed, and the motor vehicle was disposed to NYS to be used for training only.			
1.4	Incomplete Asset Register	The fixed asset register maintained by the Bank and provided for audit review lacked the minimum general and accounting information required by The National Treasury Guidelines on Asset and Liability Management in the public sector, 2020. The asset description, serial number, tag number, model, location, acquisition cost, depreciation rate, net book value, asset condition among other details were not indicated in the asset register. In the circumstances, the ownership of the two parcels of land and the motor vehicle could not be confirmed.	Currently we are using Microsoft Dynamic GP as our accounting software. We conducted Microsoft for assistance and Microsoft indicated that most of their partners do not have skills and expertise for Microsoft Dynamic GP because they no longer support nor produce any patches for this version and recommended an upgrade for a newer version, the cost of the proposed upgrade of MS GP is way beyond the available budget now. We are currently procuring support services for Microsoft Dynamics Great Plains our accounting software. When they come in one of their key deliverables will be updating the fixed assets register	Ag Head of Finance	Ongoing	2024
2	Customer's Savings and Deposit Accounts	The statement of financial position reflects customers' savings and deposit accounts totaling Kshs.24,152,756,542. However, the component amounts disclosed in Note 31 to the financial statements are at variance with the customer listing schedule provided as detailed below.	The GL figure and Core banking system tie as at close of FY 2022. Account type/classification keeps on changing from time to time e.g. We have a category of accounts that were opened for minors, for example the Junior accounts. Once they attain eighteen years, they automatically graduate to step accounts or any other account of	Ag Head of Finance	Resolved	

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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

Item	Amount as per the Financial Statements Kshs.	Amount as per Supporting Schedule Kshs.	Variance Kshs.
Retail Customers	907,897,069	910,535,267	2,638,198
Term Deposits	4,850,549,242	4,852,394,675	1,845,433
Savings and Current Accounts	10,616,380,483	10,587,676,951	(28,703,532)
Corporate Customers	7,739,914,897	7,802,149,649	62,234,752
Others	38,014,850	-	(38,014,850)
Total	24,152,756,541	24,152,756,541	

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

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

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

In the circumstances, the accuracy and completeness of customers' savings and deposit

their preference. In other occasions some clients opted to open multiple accounts for instance a client can have a SAYE and Waridi Account.

Independent agent and agent control accounts are float funds for our agents. The funds take care of daily transactions at the agency level. All transactions at the agents pass through the control account. ATM Retracted cash account is the account used to have a complete double entry for funds that was not dispensed. The branch investigates that the money was not dispensed they later **Debit: Retracted cash Acc** and **Credit: customers account**. The retracted account is a control account and for our own record keeping that shows customers account was credited. The schedules are available in the system.

We have and agreement with the Government to pay pensioners payroll in advance before receipt of funds from GOK /Treasury hence debiting the GOK control account.

These are not customers account being allowed to overdraw.

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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

		accounts balance of Kshs.24,152,756,542 could not be confirmed.				
3	Cash and Cash Equivalents	The statement of financial position reflects a cash and cash equivalents balance of Kshs.352,118,680 which as disclosed in Note 20 to the financial statements, includes amounts of Kshs.299,087,064 and Kshs.53,031,615 in respect of cash in hand and cash at bank, respectively. However, the reported cash in hand balance of Kshs.299,087,064 differed with the balance of Kshs.300,622,237 reflected in the Board of survey report with a variance of Kshs.1,535,173 which was not reconciled. Further, included in the cash at bank balances of Kshs.53,031,615 were twenty-five (25) overdrawn accounts (cash book overdrafts) totaling to Kshs.143,502,392 which were offset against other bank balance contrary to International Accounting Standards Paragraph1.32 which requires that assets and liabilities, and income and expenses, may not be offset unless required or permitted by International Financial Reporting Standards In the circumstances, the accuracy and completeness of the cash and cash equivalents balance of Kshs.352,118,680 could not be confirmed.	The difference of Kshs.1,535,173 between the balance in FS and the balance shown in the reconciliation statement is due to ATM timing difference where the cut off time is 4.00p.m. for banking and ATM closes at midnight. The balances in the closed branches have been transferred to the appropriate accounts in FY 2023 The overdrawn cashbooks have been reinstated as unpaid cheques which has not been presented to the bank and has already become stale (expired). These issues arise due to unpresented cheques.	Ag Head of Finance	Ongoing	2024
4	Account Payables and Accruals					
		The statement of financial position reflects a balance of Kshs.3,041,707,106 in respect to accounts payables and accruals which, as disclosed in Note 32 to the financial statements, includes Kshs.114,769,656, Kshs.1,018,632,353 and Kshs.407,050,681 relating to trade creditors, GoK	**Table 1** below summarizes Accounts Payables and Accruals aging analysis.	Ag Head of Finance	Resolved	

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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

<table>
<tr>
<td></td>
<td></td>
<td>Pension Payroll and other creditors, respectively. However, review of the balances and balances reported in the financial statements revealed variances as detailed below.
<table>
<tr><td rowspan="2">item</td><td>Amount per FS</td><td>Amount per schedule</td><td>variance</td></tr>
<tr><td>kshs</td><td>kshs</td><td>kshs</td></tr>
<tr><td>Trade creditors</td><td>114,681,635</td><td>114,679,656</td><td>-88,021</td></tr>
<tr><td>GoK Pension payroll</td><td>1,020,007,886</td><td>1,018,632,353</td><td>1,375,533</td></tr>
<tr><td>Other creditors</td><td>683,361,107</td><td>407,050,.681</td><td>276,310,42</td></tr>
</table>
Further, an ageing analysis of payables was not provided to support the balances.
In the circumstances the accuracy of the account payables and accruals balance of Kshs.3,041,707,106 as at 31 December, 202 could not be confirmed.</td>
<td>Other creditors were adjusted through end of audit adjustments as per the JE numbers shown in Table 2 below.</td>
<td></td>
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<tr>
<td>5</td>
<td>Long Outstanding Receivables</td>
<td>As reported in the previous report, the statement of financial position reflects net account receivables balance of Kshs.2,589,012,121 which, as disclosed in Note 26 to the financial statements includes gross account receivables of Kshs.3,392,635,846.</td>
<td>i) Amount owing from Postal Corporation of Kenya (PCK) - Kshs. 268,553,156 - Discussions and Reconciliations towards settlement have been ongoing between Postbank and PCK. The technical teams of the</td>
<td>Ag Head of Finance</td>
<td>On-going</td>
<td>Subject to availability of PCK team and Funds availability at</td>
</tr>
</table>

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		The balance includes Kshs.405,231,629 and Kshs.268,553,158 relating to GoK-Kenya Post and Telecommunication Corporation and GoK Pension cheques Receivables- Postal Corporation of Kenya, respectively which had been outstanding for more than fourteen (14) years. Although management cited commitment from the concerned parties including The National Treasury to settle the debts, as at the time of audit, the accounts were still outstanding. In addition although a provision of Kshs.803,623,725 had been made against bad and doubtful debts, the adequacy of the provision could not be confirmed. In the circumstances, the full recoverability of the net accounts receivables.	two organizations reached an agreement and a second sign-off was done on 5th August 2021. Reconciliations are ongoing to clear up the outstanding issues. ii) Amount owing from KP&TC - Kshs. 405,231,629 - A Cabinet decision on Strategy to reform KPOSB (Ref ZZ.27/71/01-Dated 2nd November 2011 was approved and among the issues approved decision was that the Government settles the debt owned by the defunct KP& TC (Kshs 405.2 million) to KPOSB. The Bank has been following up with The National Treasury to facilitate recovery. iii) Going forward the Bank will implement IFRS 9 in calculating provisions for accounts receivables. (This has not been implemented due to CAPEX budget constraint)			The National Treasury
6	Intangible Assets	The statement of financial position reflects a balance of Kshs.29,586,493 in respect to intangible assets as at 31 December,2021 which includes additional assets acquired during the year amounting to Kshs13,270,096. Audit review of the software register revealed the following: i) The date of acquisition of the software amounting to Kshs.3,881,552 was 28 January 2020 and hence may not	The additional software amounting to Kshs.3,881,552 was bought in FY 2020 and commissioned in 2021 due to the long implementation period expected of this software. Currently we are using Microsoft Dynamic GP as our accounting software. We conducted Microsoft for assistance and Microsoft	Ag Head of Finance	Resolved	

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		qualify as additions during the financial year ended 31 December 2021 ii) The useful life for the assets was not indicated to ascertain the correctness of the amortization charge and netbook value. iii) The payment vouchers for the two acquisitions of software worth Kshs.13,270,105 were not provided iv) Review of the records indicates that most of the software is fully amortized and may be past the useful life, or could be obsolete and not take into consideration the current circumstances e.g. safeguards against fraud. In the circumstances, the accuracy of the intangible assets balance of Kshhs29,586,493 as at 31 December 2021 could not confirmed.	indicated that most of their partners do not have skills and expertise for Microsoft Dynamic GP because they no longer support nor produce any patches for this version and recommended an upgrade for a newer version, the cost of the proposed upgrade of MS GP is way beyond the available budget now. We are currently procuring support services for Microsoft Dynamics Great Plains our accounting software. When they come in one of their key deliverables will be updating the fixed assets register All payment vouchers are available and have been provided to the auditors during the 2022 audit exercise and signed for by the Auditors in the delivery notebook. The Capex budget for the Bank has not been approved for the last three years, posing a challenge in updating the software			
7	Unsupported Prior Year Adjustments	The statement of changes in equity reflects the prior- year adjustments balance of Kshs.88,031,919 relating to correction of errors affecting various prior year balances.	Key prior year adjustments relate to The major contribution of the adjustment was pension commission Kshs.40,296,900, inua	Ag Head of Finance	Resolved	

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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

		Further, the statement of cashflows reflects a prior year adjustment balance of Kshs.91,834,389 while the property and equipment schedule reflects a prior year adjustment balance of Kshs.3,802,470. However, the prior year adjustments were not restated retrospectively in the comparative year contrary to the requirements of Paragraph 42(a) of the International Accounting Standard No. 8 – Accounting Policies, Changes in Accounting Estimates and Errors, which states that, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery, by restating the comparative amounts for the prior period(s) presented in which the error occurred. Further, the journal vouchers supporting the prior year adjustments were not provided for audit. In the circumstances, the accuracy and validity of the prior year adjustment could not be confirmed.	Jamii commission Kshs.28,194,807, premier credit appraisal fee and disbursement fee Kshs.10,989,912 omitted previously. All Prior year adjustment schedule was provided to the audit team for sample selection of Journal for verification. As per International Accounting Standard 8-Accounting Policies, Changes in Accounting Estimates and Errors- *Limitations on retrospective restatement paragraph 44, which states* *When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities, and equity for the earliest period for which retrospective restatement is practicable (which may be the current period).* Reason for posting these prior year adjustments in the current year.			
	Emphasis of Matter					
8	Material Uncertai	As previously reported, the bank reported a loss of Kshs.311,248,432 (2020) Kshs.1,101,020,895	The Bank operates with the intention of being in business in	CEO	Ongoing	Continuous

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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

	nty in Relation to Going Concern	increasing the accumulated loss from Kshs.15,247,741,860 as at 31 December, 2020 to Kshs.15,365,358,373 as at 31 December, 2021. Further, the bank's current liabilities balance of Kshs.27,619,772,408 exceeded the current assets balance of Kshs.12,967,431,149 resulting to a negative working capital of Kshs.14,652,341,259 (2020: Kshs.14,118,525,552). The Bank was, therefore, unable to meet its financial obligations when due. As disclosed at Note 2(e)(i) to the financial statements, the Bank was technically insolvent and its continued operations as a going concern will depend on the continued support from the government and creditors. My Opinion is not modified in respect of this matter.	the next 12 months and in the foreseeable future. The management runs the day-to-day activities by ensuring that assets are realized, and liabilities honored in the normal course of business. However, the Bank's future performance is dependent on restructuring and government support in defraying the incurred losses from the year 2012 to 2021 amounting to (Kshs.15,365,358,373) in accordance with KPOSB Act cap 493B section 13 (1). In addition to above Several turn- around strategies aimed at returning the bank to profitability are in the various stages of implementation. KPMG Business review is done and report with recommendations finalized and submitted to The National Treasury for approval /adoption for turnaround of Postbank. The review will address the following.			
			optimization of the ICT infrastructure human capital			

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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

			current product offerings with a view of recommending a sustainable business model. 2. Human Resources instruments have been done and submitted to The National Treasury for approval /adoption to ensure the Bank is strategically structured. 3. Several turns around strategies aimed at returning the bank to profitability are in the various stages of implementation, key among them, a) Reduction of interest rates paid to Customer Savings and Deposits this led to a drop in Interest expense by 19%. b) Tariff review on fees and commissions charges by the bank in FY 2019 which led to 20% increase in fees and commission from Kshs 361 million in FY 2018 to Kshs 435 million in FY 2019. c) Various cost cutting measures are being implemented d) Branch rationalization and merger of loss-making branches. e) Migration of branches into nearby Postal Corporation of Kenya premises whose rental cost are			

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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

			cheaper (this will cut down on rental costs) f) Product rationalization and greater focus on clients and products as well as streamlining existing products to meet customers' requirements/demand. g) Enhanced Partnership with Government institutions to offer financial services h) Working on staff rationalization which will lead to reduction of staff cost i) Enhance alternate banking channels to target more customers in rural Kenya As per Kenya Post Office Savings Bank Act Cap 493B, Section 13(A) Surplus and deficits- Without prejudice to paragraph (f) of section 4, if in any year the revenue of the Bank is insufficient to defray the interest due to depositors and all expenses under this Act, such deficiency shall be charged upon and paid out of the Consolidated Fund.			
			The bank has made several applications for losses incurred to the National Treasury for Government support /in defraying			

Appendix I:

PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

			the incurred losses from the year 2012 to 2018. Defrayment of losses to close the gaping hole in the balance sheet is one of the sure ways of returning the Bank to profitability. Over the years banks performance has been improving Restructuring process are bearing fruit, the loss for the Bank has declined from Kshs 1.589 billion in FY 2018 to Kshs 676 million in FY 2022.			
Other Matters						
9	Budgetary Control and Performance	The statement of comparison of budget and actual amounts reflects final receipts budget and actual receipts on a comparable basis of Kshs.1,675,421,263 and Kshs.1,720,615,859 respectively, resulting to an under-funding of Kshs45,194,596 or 3% of the budget. Similarly, the Bank expended Kshs.2,004,180,234 against an approved budget of Kshs.2,300,592,593 resulting to an under-expenditure of Kshs.296,412,359 or 13% of the budget. The under-funding and under-performance affected the planned activities and may have impacted negatively on service delivery to the public	The Bank missed it income targets for the year because of The year 2021 was characterized by low interest rates due to Government interventions to boost the economy during the COVID -19 pandemic. This led to yields on Treasury Bonds dropping, leading to purchase of investments with low yields in the Primary Auction Markets. This negatively impacted on the Bank's target investment return of 13%. (Average yield for the year was 10.52%) Rental income for the period was Kshs 66 million, 24% lower than the target of Kshs 90 million due to	Ag Head of Finance	Ongoing	

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			low occupancy level. The decline is attributed to COVID-19 pandemic which has resulted in reduced demand for office spaces as businesses restructure their operations leading to the scaling down by some firms while others adopt working from home strategies. On Expenses The Bank implemented cost-cutting measures that contributed to savings in expenses recorded in FY 2021. It through these cost cutting measures that helped the bank improve its performance from a loss of Kshs 1.1 billion in FY 2020 to a loss of Kshs.311 million in FY 2021. The Bank does not get funding from the Government. Hence the need to save costs without negatively impacting the operations of the Bank.			

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PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS

10	Loss of cash	The statement of financial position reflects prepayments and other assets balance of Kshs.2,479,011,596 which, as disclosed under Note 27 to the financial statements, includes an amount of Kshs.841,995,534 in respect of other assets and prepayments. The supporting schedule provided for audit reflected receivables totaling to Kshs.94,862,173 (2020: Kshs.76,378,627) being money lost through fraud. As previously reported, evidence of the effort by Management to recover the money was not provided for audit. Further, cash shortages from working cashiers totaling Kshs.40,723,667 had not been recovered by the end of the year. This is despite the provisions of the Bank's Human Resource Policy that such cash shortages be made good within forty-eight (48) hours by the concerned staff. In the circumstances, the recoverability of the amounts could not be confirmed.	The Bank is following up reported fraud cases with insurance and other relevant organizations for recovery as per attached sample communication between the bank and various insurance companies. Some cases are still in Court, we are waiting for the ruling (see attached sample of ongoing court cases) Staff who have been involved in fraud are dismissed and the recovery process of stolen funds commences immediately. (See attached sample of dismissal from service letters attached) Currently all shortages are being recovered promptly as per policy	Ag Head of Finance	Ongoing	

Table 1: Summary of Accounts Payables and Accruals aging analysis.

Accounts Payables and Accruals	2021	0 to 30 Days	31 to 60 Days	61 to 90 Days	91 and over Days
	Kshs	Kshs	Kshs	Kshs	Kshs
Trade creditors	114,769,656	64,625,560.37	5,088,021.03	4,451,200.58	40,604,874
PCK Service s Rendered - GoK Pension	534,376,156				534,376,156
PCK Encashed Warrants Payable	462,078,751				462,078,751
PCK- Pension Warrants	170,953,266				170,953,266
GoK Pension Payroll	1,018,632,353				1,018,632,353

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Accrued Expenses	333,846,242	3,878,456	2,511,893.00	30,609,651.00	296,846,242
Other creditors	407,050,681	85,752,169			321,298,512
	3,041,707,106	154,256,186	7,599,914	35,060,852	2,844,790,154

Table 2: Other Payables audit adjustments

ACCOUNTS PAYABLE	Amount	JE No
Rent in Advance	3,696,000	JE-1130
Interest Payable	45,694,213	JE-1104
Atm Settlement	(27,973,671)	JE-1132
Atm Settlement	(77,881,797)	JE-1131
Atm Settlement	15,332	JE-1131
PAYE	(35,372,911)	JE-1150
EMV	(74,108,190)	JE-502
EMV	(65,399,290)	JE-503
EMV	(58,862,330)	JE-503
EMV	(16,069,020)	JE-503
EMV	(14,000)	JE-503
interest	(9,419,962)	JE-105
tax	(16,963,297)	JE-1129