

Kenya Post Office Savings Bank
Annual Report & Accounts

2012

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CONTENTS

<i>Corporate Information</i>	5
<i>Chairman's Statement</i>	6 - 7
<i>Managing Director's Statement</i>	8 - 9
<i>Report of the Directors</i>	10
<i>Statement of Directors' Responsibilities</i>	11
<i>Corporate Governance Statement</i>	12 - 13
<i>Corporate Social Responsibility Statement</i>	14 - 16
<i>Report of the Auditor General</i>	17
<i>Statement of Financial Position</i>	18
<i>Statement of Comprehensive Income</i>	19
<i>Statement of Changes in Reserves</i>	20
<i>Statement of Cashflows</i>	21
<i>Notes to the Financial Statements</i>	22 - 37
<i>Network of Postbank Branches</i>	38 - 40

BOARD OF DIRECTORS



Wilson Kinyua, *Chairman*

Mr. Wilson Kinyua is an economist and a banker. He holds a Master of Arts Degree in Development Economics from Williams College, Massachusetts, USA and a Bachelor of Science Degree in Economics and Statistics from Makerere University, Uganda. Wilson has vast experience and expertise in public policy formulation, analysis and preparation of project implementation plans (PIP).



Dr. Nyambura Koigi (Mrs.) DBA, FKIM, MBS, *Managing Director*

Nyambura has worked in various capacities in the financial sector in banking, business development and ICT. She has extensive training and experience in leadership, project management, product development, ICT and micro finance. She started her career as a systems analyst. She is a Board member of the World Savings Bank Institute (WSBI), and other Boards. Dr. Koigi holds a Doctorate in Business Administration from the Nelson Mandela Metropolitan University, South Africa, MBA in Strategic Management and a Bachelors Degree in Economics and Geography from the University of Nairobi, is a member of the Institute of Directors-Kenya a certified trainer in corporate governance and a Fellow, Kenya Institute of Management.



Joseph Kinyua, *Board Member & Government of Kenya Representative*

Mr. Kinyua is currently the Permanent Secretary to Treasury. He holds Bachelors & Masters Degrees in Economics and has wide experience in financial and public sector management having worked with the University of Nairobi, the International Monetary Fund and the Central Bank of Kenya. He is the Government representative from the Ministry of Finance.



Kennedy Ogendi Ondieki, *Board Member*

Mr Kennedy Ogendi Ondieki is Director, Investment, Office of the Deputy Prime Minister and Ministry of Finance. Mr. Ondieki is an economist and holds a Bachelor of Arts degree (BA Hons), Economics and Geography from the University of Nairobi (UON) and Master of Business Administration (MBA), Strategic Management from Jomo Kenyatta University of Agriculture & Technology (JKUAT). Mr. Ondieki is a qualified Certified Public Accountant (CPAK), a member of the Institute of Certified Public Accountant (ICPAK) and a qualified Certified Public Secretary (CPSK). Mr. Ondieki has undertaken several work improvement skills development training/short courses, workshops and seminars on management and governance.

BOARD OF DIRECTORS



Prof. Peter Owoko K'Obonyo, Board Member

Professor Peter Owoko K'Obonyo is an Associate Professor (Management) at the Faculty of Commerce, University of Nairobi and the Deputy Principal, College of Humanities and Social Sciences, University of Nairobi. He holds a PhD in Business Administration and he has held various important administrative positions at the University of Nairobi ranging from Associate Dean Faculty of Commerce, to Chairman and Seminars Coordinator.



Dr. Isabella Musyoka - Kamere (Mrs.), Board Member

Dr. Isabella M. Musyoka-Kamere is a lecturer at the Department of Education Foundation, Kenyatta University. She is a holder of PhD (Education Foundation) and a Master of Education of Kenyatta University and Bachelor of Education (Business Education) of the University of Nairobi. She has authored many research papers and presented authoritative seminar papers in her field of expertise. She brings to Postbank her wealth of knowledge in management as well as her insightful approach to policy and administrative issues.



Gordon Jallang'o Anyango, Board Member

Mr Gordon J. Anyango is an economist and holds a Bsc degree in aviation Administration from Indiana State University USA. He also holds a Msc in Transport Economics from Cranfield University UK and an MBA in management from Cranfield University UK. He is also a member Kenya Institute of Management Member of the Royal Aeronautical Society and Member of the Chartered Institute of Transport He has worked as a Senior Economic Affairs Officer/Deputy Director of the Eastern Africa Sub-regional Office (EASRO) of the United Nations Economic Commission for Africa (UNECA) which is based in Kigali Rwanda. He has vast experience in project management and transport.



Mercy N. K. Mbijiwe (Mrs.), Company Secretary

Mrs. Mbijiwe is an Advocate of the High Court of Kenya and holds a Bachelors of Law from the University of Nairobi and a Diploma in Law from the Kenya School of Law. She is currently undertaking her Masters Degree in Business Administration from Nazarene University. She is a Certified Public Secretary of Kenya and also an Associate Member of the Chartered Institute of Arbitrators.

MANAGEMENT TEAM



Back Row, from left: David Gatawa • Head Marketing and Business Development | Ursula Sabina Oyatsi • Head Corporate Banking, MTS & Card Services | Charles Karani • Procurement Manager | Ann W. Karanja • Director Banking Services & Marketing | Sylvester Obuon • Head Retail Banking | Mercy Mbiyiwe • Company Secretary /Head Legal & Administration | Henry Omumia • Head Information & Communications Technology

Front Row, from left: Vincent Makori • Manager, Strategic Planning | Charles Mbithi • Head Finance & Accounts | Dr. Nyambura Koigi • Managing Director | Felix Rerimoi • Head Audit, Risk & Compliance | Edward Kiyoo • Head Human Resources

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 Activity

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

Principal Banks

Kenya Commercial Bank Ltd
National Bank of Kenya Ltd
Citibank, N.A.

Auditor

Auditor General
Kenya National Audit Office

Principal Legal Advisers

J. Louis Onguto Advocates
Kale Maina & Bundotich Advocates
Kimaru Kiplagat Advocates
Cherono & Co. Advocates
Kantai & Co. Advocates
Macharia-Mwangi Advocates

CHAIRMAN'S STATEMENT



**Mr. Titus J.K. Gateere, CBS
Chairman**

Economic review

Kenya's economy continued to navigate through an economic storm in 2012 that began in 2011. Economic growth stagnation witnessed from June 2011 continued through the first quarter of 2012. The economy grew by 4.7% in the year compared to 3.8% in 2011 even after a slow start. The strong performance was noted in the agriculture and forestry, fishing, manufacturing, transport and communication sectors with a turnaround in the performance of the Electricity industry. On the other hand, the construction, hotels and restaurants, mining and quarrying experienced decelerated growths over the same period. Wholesale and retail trade registered a strong growth despite being a deceleration compared to the growth in 2011.

Following two years of uneven recovery from the global financial crisis, the world economy showed slow growth in 2012 and well into 2013. Such growth is far from sufficient to deal with the continued jobs crises in most developed economies and will impact negatively on the growth in most developing countries.

Financial Sector

The Kenya shilling strengthened in 2012 compared to 2011 and was fairly stable at 83-88 levels against the US\$. The appreciation of the shilling resulted in a ripple effect in the fall of inflation. This is a result of measures instituted by Central Bank of Kenya to curb speculative behavior in currency market as well as checking on excessive liquidity through increased interest rates and mopping up of excess money supply. These efforts started bearing fruit from the second half of the year.

The combined effect of a strengthening shilling (compared to 2011) and the lower global prices eased the pressure on domestic prices. Inflation moved from a high of 19.72% to 3.2% in December 2012 showing commitment by CBK to manage the economy. This created confidence in all sectors with growth recorded from the second half of the year.

The capital markets started slow with the NSE share index rebounding back to 4,133 points by December 2012 from 3,205 points in December 2011. The Bonds market picked up in the second quarter. During the year, four listed companies raised capital through rights issue while another four companies raised capital through issuance of corporate bonds. Commercial banks were able to beat the recession through interest rate differentials.

Year 2012 Results Challenges:

During the year, Postbank's gross income increased by 18.56% from Kshs.2.518 billion in 2011 to Kshs.2.985 billion. The net income increased by an impressive 55.39 % from a profit of Kshs.144.337 million in 2011 to a profit of Kshs.224.290 million in 2012. Customer deposits recorded a 12 % increase from Kshs.17.744 billion in 2011 to Kshs.19.912 billion in 2012. Total assets equally had an impressive growth of 7.60% from Ksh 23.865 Billion to Ksh 25.677.Billion

Corporate Governance and Social Responsibility

The Board continued to play its role within the tenets of good corporate governance principles. The Board structure incorporates three committees namely Audit and Risk; Human Resources; and Strategy and Development to ensure focus on delivery of her responsibilities. During the year am pleased to report active participation by all Board Committees with all meetings being held as scheduled.

In the spirit of working with the communities around us, the Bank supports community driven social and development initiatives aimed at creating situations conducive for individuals, groups and the community's improvement. We focus and participate in social transformation processes that makes the lives of the needy better, particularly the vulnerable, socially and economically marginalized segments of our society. In 2012, Postbank took this role in the areas of health, education, environment and safety.

The Future

2013 promises to be a year of mixed expectations. The elections under the Constitution 2010 are set to be held on March 4th, 2013. Like in any election year, the business environment is faced with both opportunities and challenges. Opportunities will present themselves by the flurry of economic activities surrounding the campaigns. As for challenges certain sectors are negatively affected especially tourism. Secondly these elections based on the provisions of the Constitution 2010 may continue well past March 2013 resulting in a lot of uncertainty in the first half of 2013. With all these happenings, there is optimism that the economy will achieve at least 5.0 percent growth rate.

The devolution of County Government to the 47 counties is set to take a major leap just after the elections. This presents a unique opportunity for Postbank to be the "Bank of Choice" in all the Counties. Opportunities for public-public partnerships will be one way the Bank will look at in cementing its footprint in the Counties. While devolution will promote good governance we note particularly that this will come with funding challenges. Tax revenue targets may not be met owing to a slow economy and the Government will look at borrowing from the domestic market. This means domestic debt is bound to raise causing interest rates to remain high. The Government is however set to curtail its recurrent expenditure particularly the wage bill for public officers. This is likely to trickle down to all State institutions like Postbank.

CHAIRMAN'S STATEMENT

As has been the recent trend, public investment in road infrastructure and energy generation will drive growth, while private investment is anticipated to grow moderately due to tighter monetary policy stance adopted in the last quarter of 2011 and expected to continue in 2013. Foreign investment has been witnessed in the equities market towards the end of 2012. This trend is expected to continue and even grow with the conclusion of elections planned in March 2013.

Appreciation

I would like to convey my sincere thanks to the Government, our esteemed customers and business partners for their continued support that has made us achieve these results. I particularly would like to thank the management and staff for their dedication which resulted in the increase in customer deposits. In conclusion, I applaud my fellow Directors for their continued support, timely guidance and decision making.

We look forward to working together towards meeting and exceeding our customers and shareholder's expectation in the coming year.



TITUS J. K. GATEERE, CBS

CHAIRMAN

DATE: MARCH, 2013

MANAGING DIRECTOR'S STATEMENT



Dr. Nyambura Koigi, DBA, FKIM, MBS
Managing Director

I am pleased to present to you the Kenya Post Office Savings Bank's [KPOSB] annual report and financial statements for the year 2012. Year 2012, the Kenyan economy experienced improvement compared to year 2011. The rate of inflation drastically reduced from a high of 19.72% in year 2011 to 3.20% as at December 2012. The Kenya shilling

was stable and strong in year 2012 compared to the higher volatility experienced in 2011. Postbank boldly embraced the opportunities and confounded the challenges presented by macro-economic conditions.

Financial Performance

Postbank's financial results for the period ended 31st December 2012 reflects a 55.39% growth in profits to close at Kshs.224.290 million. Total assets and customer deposits were stable at Kshs.25.677 billion and Kshs.19.909 billion respectively. Compared to results for period ended 31st December 2011, total assets increased by 7.6% while customer deposits increased by 12.19% clearly demonstrating our commitment to continued growth of our business.

Human Resources

We recognise that our employees are a fundamental component of our continuous improvement in performance. During the year, the Bank continued to have a robust program of capacity building. We ensured continuous improvement in productivity through total embracing of the Balanced Score Card performance management system. As usual, the Balance Score Card ratings formed the basis for recognition and reward. To enhance teamwork, the Bank undertook an integrated team building exercise which involved all the employees.

Performance Management Framework

On December 16th, 2011, the Board signed the 2012 Performance Contract with the Government. The Chairman subsequently signed the 2012 Performance Contract with the Managing Director who thereof ensured the Performance Contract was cascaded to all levels in the Bank using the Balanced Score Card Performance management system. Periodic performance monitoring and evaluation was carried out to ensure compliance to the set targets. The Bank received an overall rating of "VERY GOOD" from the Government of Kenya for its performance throughout the year and excelled in all financial performance targets.

Awards and Recognition

During the year, Postbank continued to receive accolades and received the following awards:

- Company of the Year Award (COYA) on Productivity and Service Quality.
- First Runners-up Chief Executive Officer [CEO] of the Year in Company of the Year Awards.

- First Branchless Bank in Kenya by the Computer Society of Kenya
- The CEO Postbank got top award on Outstanding Leadership in Enhancing Productivity by the Computer Society of Kenya.

Restructuring the Bank

In 2012, the restructuring process of the Kenya Post Office Savings Bank progressed. The shareholder, the Ministry of Finance advertised in the one of the key daily newspapers a Request for Expression of Interest under Ref: FLST AP/FS/EAD/EOI/02/2012-2013 Project No. P083250 – Consultancy for Financial and Legal Advisory Services for Restructuring of the Kenya Post Office Savings Bank.

The objective of the project was to:

1. Have KPOSB converted to a limited liability company registered under the Companies Act (CAP 486 of the Laws of Kenya) and owned by the GOK and PCK.
2. Have KPOSB apply for a license under the Banking Act [CAP 488 of the Laws of Kenya] and
3. Have PCK continue providing postal financial services as per universal service obligation, but not savings or banking services which will be provided through KPOSB which will be a PCK's subsidiary as indicated in (1) above.

This process has in progress by the end of 2012.

Strategic Partnerships

Association of Savings Banks in East Africa (ASBEA)

The Bank continued its strategic partnership with the Association of Savings Banks in East Africa which enables the savings banks in the East African Region to share challenges they may have and also to offer support to each other. The Association continues to forge inroads towards the development of a common product platform that will facilitate inter-operability of their systems.

World Savings Banks Institute (WSBI)

The Bank also continued to maintain relationship with the World Savings Banking Institute (WSBI) which is the largest association of savings and retail banks in the world. It gives the savings banks a platform to network with each other.

The Managing Director continues to be one of the members of the WSBI Board representing the African savings banks. In 2012, The Managing Director was the Chairman of the WSBI African Region Working Group on Restructuring.

Lien Viet Postbank, Vietnam

The year saw the KPOSB host a delegation from Lien Viet Postbank Vietnam who undertook a study visit about mobile money financial services. This study visit was organized in partnership with the World Savings Banks Institute (WSBI). The team was taken through sessions on agency banking, mobile money and various technology platforms. The sessions were held in Nairobi and both teams gained valuable insight and shared experiences across nations.



MANAGING DIRECTOR'S STATEMENT

Consultancy Project in Lesotho PostBank

The Bank completed the consultancy project on automation that had been ongoing at Lesotho PostBank under the funding of World Savings Bank Institute /Bill & Melinda Gates Foundation. This was one of the biggest consultancies KPOSB has undertaken and which earned the Bank significant net revenues.

Going Forward

Kenya's economy is set to improve with growth reaching an estimated 5 % in 2013. It is anticipated that declining inflation will pave the way for an economic recovery. The Bank is set to ride on this improved economy by implementing a number of strategies that will see growth of our business. Postbank will continue to leverage on ICT and other innovative channels to increase her customer base and enhance financial inclusion.

The Bank will continue to provide proximity banking through expanding of the delivery channels. The Bank will expand the Postbank Mashinani agent initiatives as well as and branch network to tap into the newly devolved county dispensation. We thank WSBI / Bill & Melinda Gates Foundation for their support in the roll-out of the Postbank Mashinani Agents.

In addition, the Bank is seeking to ensure that it taps into the youth market with the rollout of the SMATA account and inculcate a savings culture in the nation's youth. The SMATA account has been developed jointly with Save the Children International. Postbank remains a market leader in money remittance services and intends to ensure it retains this market by offering unrivalled service delivery to its customers via MoneyGram and Western Union money transfer services in addition to the local money transfer services with a view of increasing the level of remittances received.

Conclusion

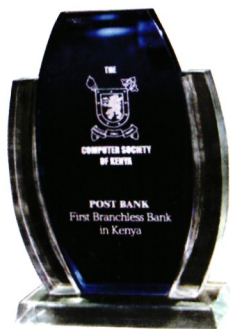
I take this opportunity to thank all our customers for giving us an opportunity to be their Bank of Choice and for believing in us and our services throughout 2012. I thank all staff for their dedication and commitment to serve and all business partners for their dependable support. I would also like to thank the Board for its diligent contribution to the Bank's success over the years.

As a management, we look forward to a better performance in the 2013 financial year.

Thank you and God bless.



2012
Outstanding Leadership
in Enhancing Productivity



2012
First Branchless
Bank in Kenya



2012
First Runners Up
CEO of The Year



2012
Best Company of the Year,
in Productivity and Quality Service

DR. NYAMBURA KOIGI, DBA, MBS
MANAGING DIRECTOR
MARCH 2012



REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST DECEMBER 2012

Results

The results for the year are as set out on pages 18 to 37

Directors

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

Titus J. K. Gateere, CBS	Chairman	Appointed 15-02-2013
Wilson Kinyua	Chairman	Retired 04-01-2013
Prof. Peter O K'Obonyo	Director	Re-appointed 04-01-2010
Dr. Isabella Musyoka Kamere	Director	Re-appointed 04-01-2010
Gordon Jallango Anyango	Director	Appointed 01-04-2011
Joseph K. Kinyua	PS, Ministry of Finance	Appointed May 2004
Kennedy O. Ondieki	Alt. Representing PS Ministry of Finance	Appointed 07-03-2011
Dr. Nyambura Koigi	Managing Director	Re-appointed 01-07-2011

By order of the Board.

M. N. KAGIRI - MBIJIWE (MRS).....

COMPANY SECRETARY




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 the Bank keeps proper accounting records, which disclose with reasonable accuracy, at any time, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.


The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the State Corporations' Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate internal control systems.

Nothing has come to the attention of the Directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this statement.



CHAIRMAN:

DATE: MARCH, 2013

MANAGING DIRECTOR: 

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 respective services offered by Postbank.

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

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

Board of Directors

The Board is made up of six (6) directors of whom 5 are non-executives including the Chairman. 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 commencement of the recruitment of the Managing Director.

Board Meetings

The Board of Directors meet on quarterly basis or as required 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.

The Board held seven (7) Meetings which comprised of one Special Meeting during the year under review.

Board Committees

The Board has created three Principal Committees which meet regularly under a well-defined and materially delegated terms of reference set by the Board.

Strategy and Development Board Committee

This Committee meets quarterly and it is responsible for the formulation of the Banks revised strategy and reviews and approves product offering and strategic alliances.

The Committee held four (4) meeting during the year under review.

Audit and Risk Board Committee

The Audit and Risk Committee meets quarterly, or as required. In accordance

with regulatory requirement, the Committee comprises non-executive members of the Board who are independent of the day-to-day management of the Bank's operations. The Head of Internal Audit reports to the Audit Committee functionally. The Committee deals with all matters relating to the financial statements, internal control and risk management.

The Committee held four (4) Meetings during the year under review.

CORPORATE GORVERNANCE STATEMENT

Staff Board Committee

This Committee meets quarterly to review human resource policies, approval of all matters that relate to staff and to make suitable recommendations to the Board on Senior Management appointments.

The Committee held four (4) times during the year under review.

Code of Ethics

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

Communication with Shareholder

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

Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the Year 2012 is Ksh. 5,080,652 (2011 - Kshs. 4,727,163). There were no loans to sitting Directors at any time during the year.



CORPORATE GOVERNANCE STATEMENT


Board and Board Committees Attendance

The following table gives the record of Postbank's Board and Committee Meetings for the year ended December 31st 2012

BOARD ATTENDANCE REGISTER 2012

	No. of Meetings	Wilson Kinyua	Isabella Kamere	Prof. Peter K'Obonyo	Gordon Anyango	Kennedy Ondieki	Dr. Nyambura Koigi
Main Board Meeting	6	6	6	5	6	6	6
Special Board Meeting	1	1	1	1	1	1	1
Audit and Risk Board Committee	4	N/A	4	N/A	4	4	N/A
Staff Board Committee	4	N/A	4	4	N/A	4	4
Strategy and Development Board Committee	4	N/A	N/A	4	4	4	4
Attendance %	100%	100%	100%	93%	100%	100%	100%

CHAIRMAN



DATE MARCH, 2012

MANAGING DIRECTOR



CORPORATE SOCIAL RESPONSIBILITY STATEMENT

Postbank's vision is to become the bank of choice therefore contribute towards sustainable development. We are committed to creating business growth while ensuring delivery of services in an ethical and socially responsible manner. The Bank's CSR policy is premised on Education, Environment, Health and Emergency response.

The Bank endeavours to work in partnership with organizations and community groups, whose goals are consistent with the Bank's CSR focus areas.

During the year under review, Postbank's CSR initiatives were considered based on the interests of the local community, employees, customers and suppliers.

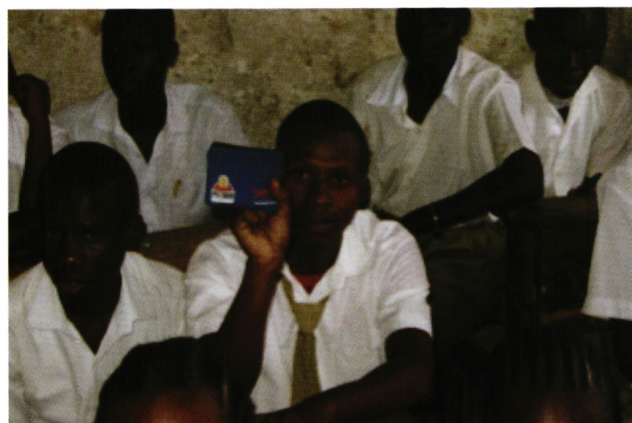
FINANCIAL LITERACY

Being the pioneer savings bank in Kenya, we acknowledge the important role mandated towards realizing this objective. Exposing young people to financial concepts is particularly important. The Bank recognizes the earlier the young people develop basic financial skills, the more likely it is that they will make good financial decisions when they become adults.



Pupils display Postbank Mashinani exercise books after attending an educational seminar on savings

During 2012, Postbank partnered with Save the Children International to launch "SMATA Account", a savings product for the youth. The SMATA account is a unique and pioneering savings product aimed at ensuring financial inclusion and freedom to the youth aged 12-18 years. SMATA account has been specifically packaged with a focus on enhancing financial inclusion to a segment of the population that is currently underserved by main stream banking institutions. This, followed by a series of financial literacy programs in schools is aimed at enhancing financial literacy. The Bank managed to conduct these activities in its various areas of operation during the year under review.



A student from Ukunda High School Show's off his SMATA Wallet.



Students from St. Teresa Boys High School during a SMATA Presentation.

In support of child financial access and inclusion, Postbank also participated in the 2012 Child and Youth Finance week celebrations in all the six regions of the Bank's operation. During the celebrations, financial education forums and an essay competition were organized for the youth and children in Primary (Classes 5, 6 and 7) and Secondary Schools (Forms 1, 2 and 3). The Bank's participation in these activities was motivated by the fact that informed, educated youth not only achieve better outcomes for themselves but, also enhance the country's economy. The Bank has worked diligently to foster financial and economic education.



Business Growth Manager, Nairobi South Region, Ms. Margaret Kibogy presents a SMATA gift bag to a student from Jamhuri High School for participating during the ChildFinance Essay competition.

The bank is also committed to fulfilling her mandate to financial inclusion among the community. In this regard it empowers different groups with the necessary financial knowledge.



Potential customers from Lodwar receive financial education on managing finances outside Postbank Lodwar Branch in Turkana.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

EDUCATION AND YOUTH ENTREPRENEURSHIP

Postbank's CSR policy focuses on supporting schools to provide learning opportunities for children and youth. Through an annual job shadowing event, Postbank also shares its expertise, financial and human resource to support community initiatives through empowerment.

Computers to Schools

In 2012, Postbank partnered with Computer for Schools Kenya (CSK) to empower schools and communities with ICT skills. The Bank donated computers to needy schools and community based groups to enable them use Information and Technology to empower themselves.



Jonnes Kasombo, Branch Manager Matuu (Second Left) presents desktop computers to Ngukaimwe Secondary School in Masinga.

Mentoring

In 2012, Postbank once again invested in human resource, time as well as money to mentor the youth in various institutions. In partnership with Junior Achievement, Postbank sought to expose students from Ofafa Jericho High School, Pumwani Boys and Upper Hill Secondary schools to different departments through experiential, hands-on programs where students were given an opportunity to experience first hand work environment to increase their knowledge on potential career options. These efforts were directed to inspire and prepare young people to succeed in a global economy and prepare them for future personal and national development in their career choice.



Students from Pumwani High School being given a brief during the 2012 Job Shadow Program

Supporting the girl child

One of the Bank's key pillars in Corporate Social Responsibility is to support needy cases in education with the aim of creating a solid foundation for responsible future citizens. In 2012 the Bank joined other corporates in sponsoring a charity dinner in support of tuition and upkeep of the needy girls at Starehe Girls Centre.



Postbank Director Banking Services (R), Ms. Anne Karanja presents a cheque to Vimal Shah CEO Bidco Oil Refineries on the occasion of the school's charity dinner at the Mexican Embassy. Looking on: Ms. Wanjohi Director Starehe Girls and Eunice Mathu, a trustee.

ENVIRONMENT Community Service

Postbank commits its resources to creating a positive impact in the community especially in its areas of operation. The Bank continues to live its values through involvement in projects that benefit and sustain the environment. Through employee-led community service, Postbank was involved in a clean-up exercise in Kilifi town aimed at ensuring environmental sustainability. Indeed, staff participation in the voluntary execution of this exercise is the bedrock of successful community programmes.

Good environmental practice and the impact that our operations have on the environment are of great importance to the Bank. The main aim of Postbank's environmental policy is to comply with all applicable environmental legislation in all jurisdictions in which we operate and to adopt responsible environmental practices. In 2012, the Bank donated old newspapers to the Cluster Foundation. Cluster Foundation runs a plant for recycling and disposal of old newspapers whereby the newspapers are recycled into eco pencils by persons living with paralysis (pwps).



Employee-led community service: Postbank staff during a clean up exercise at Kilifi Central Business District.

CORPORATE SOCIAL RESPONSIBILITY STATEMENT



Postbank staff during presentation of old newspapers to "The Cluster Foundation".



A delighted Postbank team receives the COYA ward for Productivity and Quality Service from a representative from KIM.

ROAD SAFETY

Postbank sponsored various road safety awareness campaigns among motorbike (boda boda) riders. The campaigns were carried out in Machakos, Murang'a, Kisii, Kilifi, Eldoret and Mumias in partnership with the Kenya Police

The need for these campaigns was motivated by the high rate of accidents attributed to this mode of transport.

The forum also provided an opportunity for disseminating financial literacy education amongst the boda boda riders.



A police officer presents Postbank Mashinani reflector jacket to one of the bodaboda riders who attended the bodaboda road safety campaign in Machakos

2012 BANKING AWARDS AND RECOGNITION

In the year 2012 Postbank was recognized during the Company of the Year Awards (COYA) and Computer Society of Kenya Awards. The company of the year awards are usually awarded in various categories to companies that are rated the best after a thorough evaluation process done by external evaluators. The evaluators use an internationally recognized evaluation tool called Organizational Performance Index (OPI) to determine the winning company. Postbank embraced OPI in 2010 and this has provided a good platform for the Bank to enhance performance management under the various determinants. The Bank was awarded two trophies in the category of Productivity and Quality Service and CEO of the Year.

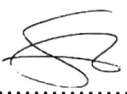
The Productivity and Quality award is given to a company that has increased its productivity and service significantly. Postbank was recognized for its adoption of paperless banking technology through the new business model - a paradigm shift that has made transactions more efficient and cost effective. Other areas of the bank like Human Resources, Procurement and Finance have also embraced innovation through automation resulting in increased productivity and quality of service.

The Bank also scooped the 1st runners up CEO of the year. Postbank CEO Dr. Nyambura Koigi has been at the forefront in the transformation programs and projects of the institution. As a team Postbank has followed a common vision of being the "Bank of Choice" and every member of staff has contributed towards meeting that vision.



Postbank Corporate Banking team pose with the trophies the Bank won during the 2012 Company of The Year (COYA) Awards.

In the same year Postbank was awarded yet again two other trophies by Computer Society of Kenya, First Branchless Bank in Kenya and Outstanding Leadership in Enhancing Productivity. Postbank was recognized for being the first bank in Kenya to offer branchless banking services while the Managing Director Dr. Nyambura Koigi was recognized for her outstanding leadership in enhancing productivity.

CHAIRMAN.....

MANAGING DIRECTOR.....

DATE: MARCH, 2013





KENYA NATIONAL AUDIT OFFICE

REPORT OF THE AUDITOR-GENERAL ON KENYA POST OFFICE SAVINGS BANK FOR THE YEAR ENDED 31 DECEMBER 2012

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kenya Post office savings Bank set out on pages 18 to 37, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in reserves and statement of cash flows 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 14 of the Public Audit Act, 2003. 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.

Management’s Responsibility for the Financial Statements

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

The management is also responsible for the submission of the financial statements in accordance with the provisions of section 13 of the Public Audit Act, 2003.

Auditor-General’s Responsibility

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for Qualified Opinion

Accounts Receivables and Prepayments

- (i) As similarly reported in 2011, the accounts receivables and prepayments balance of Kshs. 6,469,963,787 disclosed under note 16 includes Kshs. 759,707,807 owed by Postal Corporation of Kenya and Kshs. 405,231,629 owed by the defunct Kenya Posts and Telecommunications Corporation. These debts have been outstanding since 1998.
- (ii) It was further noted that the balance of Kshs. 6,469,963,787 includes Kshs. 268,553,153 being Government of Kenya pension cheques receivable from the Postal Corporation of Kenya and Kshs. 540,409,141 being fixed deposit receipts held in ailing financial institutions. The ageing analysis in support of the receivables balance as at 31 December 2012 was not availed for audit verification.

In the foregoing circumstances, it has not been possible to ascertain the recoverability of the long outstanding debts and the accuracy of the receivables and prepayments balance of Kshs. 6,469,963,787 as at 31 December, 2012.

Qualified Opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements presents fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Post Office Savings Bank Act, Cap.493B of the Laws of Kenya.

Edward R. O. Ouko
AUDITOR-GENERAL

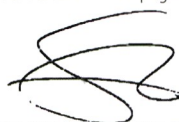
Nairobi
8 July 2013

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2012

		2012	2011
	NOTE	Kshs	Restated Kshs
ASSETS			
Bank and Cash	11	1,630,175,253	590,776,980
Investment in Treasury Bills and Bonds	12	15,645,652,178	14,236,256,135
Funds on Call and Short Notice	13	30,454,452	19,828,864
Other Assets	14	34,949,709	45,178,737
Other Investments	15	29,688,725	29,596,975
Accounts Receivables & Prepayments	16	6,469,963,787	7,089,296,375*
Deferred Asset	17	0	153,998
Property and Equipment	18	<u>1,836,611,156</u>	<u>1,853,578,111</u>
		<u>25,677,495,260</u>	<u>23,864,666,174</u>
LIABILITIES			
Customer Savings and Deposits	19	19,909,293,767	17,746,177,281
Accounts Payables & Accruals	20	2,567,186,860	3,047,278,183
Premium Bonds	21	0	7,891,980
GoK Pension Reserve Fund	22	403,358,965	269,950,852
Bearer Bonds	23	<u>0</u>	<u>220,002,615</u>
		<u>22,879,839,592</u>	<u>21,291,300,911</u>
		<u>2,797,655,668</u>	<u>2,573,365,262</u>
NET ASSETS			
REPRESENTED BY			
Capital Reserves	24	1,393,215,792	1,393,215,792
Revenue Reserves	25	<u>1,404,439,876</u>	<u>1,180,149,470</u>
		<u>2,797,655,668</u>	<u>2,573,365,262</u>

*The figure of Accounts Receivables & Prepayments for year 2011 was restated to allow for separation of stocks of stationery and drugs in note 14 (Other assets).

The Financial statements on pages 18 to 37 were approved by the Board of Directors on 29th March 2013 and signed on its behalf by:



.....
DIRECTOR



.....
DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31st DECEMBER 2012

	Note	2012 December Kshs	2011 December Restated Kshs
Interest Income	26	2,384,020,081	1,877,599,687
Interest Expense	27	(882,912,898)	(500,885,041)
Net Interest Income		<u>1,501,107,182</u>	<u>1,376,714,646</u>
Fees and Commissions Income	28	450,008,206	442,764,457
Fees and Commissions Expense	29	(46,413,623)	(41,553,879)
Net Fees and Commissions Income		<u>403,594,583</u>	<u>401,210,577</u>
Net Trading Income		<u>1,904,701,765</u>	<u>1,777,925,224</u>
Foreign Exchange Income	30	70,139,073	77,575,576*
Other Operating Income	31	787,689,026	120,170,232*
Operating income		<u>2,762,529,865</u>	<u>1,975,671,032</u>
Impairment loss on loans and advances	32	3,250,001	447,237
Employee benefits	33	1,063,014,657	1,050,574,727
Operating lease expenses	34	333,251,509	312,657,839
Depreciation & Amortization	36	158,234,555	124,938,980
Other Expenses	35	980,488,742	342,714,877
Profit before income tax		<u>224,290,406</u>	<u>144,337,373</u>
Income tax expense		-	-
Profit For the Period	36	<u>224,290,406</u>	<u>144,337,373</u>

*The figures for Foreign Exchange income and other operating income for 2011 were restated to allow for prudent classification of other operating incomes in notes 30 and 31.

STATEMENT OF CHANGES IN RESERVES AS AT 31ST DECEMBER 2012

	Capital Reserves Kshs.	Revenue Reserves Kshs.	TOTALS Kshs.
At 1st January 2011	1,393,215,792	1,035,812,097	2,429,027,889
Profit for the year	-	144,337,373	144,337,373
At 1st January 2012	1,393,215,792	1,180,149,470	2,573,365,262
Profit for the year	-	224,290,406	224,290,406
At 31st December 2012	1,393,215,792	1,404,439,876	2,797,655,668

The notes set out on pages 22 to 37 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31st DECEMBER 2012

	2012 Kshs	2011 Kshs
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) for the year	224,290,406	144,337,373
Adjustments for:-		
Depreciation	138,233,955	124,938,980
Rental Income	(16,953,855)	(20,563,770)
Dividend income	(39,100)	(44,465)
Gain/ (Loss) on Disposal of Property and Equipment	(720,219)	(2,909,237)
Appreciation/Diminution in value of quoted investments	<u>(91,150)</u>	<u>401,850</u>
Operating profit/(loss) before working capital changes	344,720,033	246,160,731
(Increase)/ Decrease in Accounts Receivables & Prepayments/Stocks	629,715,612	(2,275,832,162)
Increase/(Decrease) in Accounts Payables & Accruals	(480,091,323)	(18,436,762)
Increase/(Decrease) Customer deposits and Premium Bonds(Note 37)	1,935,221,891	4,331,116,922
Increase/(Decrease) GoK Pension Reserve fund account	<u>133,408,113</u>	<u>(53,021,953)</u>
Net cash flows from operating activities	2,562,974,326	2,229,986,776
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase/Sale of Property and Equipment	(121,267,596)	(124,463,746)
Capital work in progress	0	(16,009,525)
Proceeds from sale of assets	720,219	2,909,237
Rental income	16,953,855	20,563,770
Dividend Income	<u>39,100</u>	<u>44,465</u>
Net cash flows from investing activities	(103,554,422)	(116,955,799)
CASH FLOWS FROM FINANCING ACTIVITIES	-	-
Net cash flows from financing activities	-	-
Net increase in cash and cash equivalents	2,459,419,904	2,113,030,978
Cash and cash equivalents at the beginning of the year	14,846,861,979	12,733,831,001
Cash and cash equivalent at the end of the year (Note 37)	<u>17,306,281,883</u>	<u>14,846,861,979</u>

1. BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The consolidated financial statements were authorized for issue by the Board of Directors in March 2013.

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 as modified by the revaluation of property, available-for-sale financial assets and held-for-trading instruments.

c) Functional and presentation currency

These financial statements are presented in Kenya shillings (Kshs), which is the company's functional currency.

Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates i.e. Kenya shillings.

d) Use of estimates and judgements.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, incomes and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future periods affected.

2. SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Income is recognised on an accrual basis.

a) Interest

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

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

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

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis;

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

b) Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

c) Foreign currency transactions

Transactions in foreign currencies during the year are converted into Kenya Shillings at the rates ruling at the transaction dates. Assets and liabilities at the statement of financial position date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at the statement of financial position date. The resulting realised and unrealised differences from conversion and translations are recognised in the statement of comprehensive income.

3. FINANCIAL ASSETS AND LIABILITIES

a) Recognition

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

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

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

b) Classification

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

i) Financial assets at fair value through profit or loss

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

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. These include advances to staff, Visa credit to customers and placements with other

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2012

banks. Loans are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

iii) Held-to-maturity

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

iv) Available-for-sale

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

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

v) Identification and measurement of impairment of financial assets

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

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

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

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

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

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.

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

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

vi) Derecognition

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

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

vii) Impairment for non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2012

such indication exists then the assets' recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

4. FINANCIAL RISK MANAGEMENT

a) Principles

Postbank faces various types of risks which arise from its day to day operations as a financial institution. The Board of Directors and Management therefore devote a significant portion of their time to the management of these risks. The mainstay of effective risk management is the identification of significant risks, the quantification of the Bank's risk exposure, actions to limit risk and the constant monitoring of risk. The overarching aim of risk management is to ensure that all risks assumed in the course of the Bank's business are recognized early on and mitigated by effective risk management. Successful risk management is recognized as a pre-condition for the sustained growth and success of the Bank. Risk management and monitoring are implemented via the Bank's risk management and risk control process and the organization structure corresponds to prudent Risk Management Guidelines.

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

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

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

(i) 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.

• 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. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. The Bank is also exposed to credit risk on debt investments. The current credit exposure in respect of the instruments is equal to the carrying amount of these assets in the statement of financial position.

The risk that counterparties to instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank deals with counterparties of good credit standings and obtain collateral.

• 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.

(ii) Liquidity risk

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

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Bank has access to a diverse funding base. Funds are raised mainly from deposits.

• Exposure to liquidity risk

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2012**(iii) Market risk****• Management of market risk**

Market risk is the risk that changes in market prices, such as interest rate and foreign exchange rates will affect the Bank'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 optimising the return on risk.

• 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.

(iv) Operational risk

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.

b) Risk measurement and control

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

5. PROPERTY AND EQUIPMENT**a) Revaluation**

A revaluation of the Bank's assets was done in October 2009 by Highlands Valuers Ltd. The main purpose of the revaluation exercise undertaken by the Bank was to determine the value of the Bank's assets. The effective date of the revaluations in the books is January 2010.

The basis of this valuation for property i.e. buildings was on depreciated current cost of reinstatement, income capitalization method and comparison approach. In regard to vehicles and loose assets i.e. equipment and furniture, the values were based on depreciated market values or 'second hand values'. For specialised items like motor vehicles, qualified motor assessors were engaged while for electronic equipments, the services of an electronic engineer were hired.

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.

b) Property, 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.

Postbank House, and other buildings are stated and depreciated at revalued amounts as per the valuation report done in October 2009

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 %

c) Intangible assets

Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computers software products controlled by the Bank are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life using annual rate of 20%.

6. STOCKS

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

7. CASH AND CASH EQUIVALENTS

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

8. FOREIGN CURRENCY TRANSACTIONS

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Bank operates), which is Kenya Shillings.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2012**9. RETIREMENT BENEFIT COSTS**

The Bank operates a retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance company. 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.

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.

10. PROVISION FOR DOUBTFUL DEBTS

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

11. BANK AND CASH

	2012 Kshs.	2011 Kshs.
Cash on Hand	447,563,259	284,830,506
Cash at Bank	<u>1,182,611,994</u>	<u>305,946,474</u>
	<u>1,630,175,253</u>	<u>590,776,980</u>

12. INVESTMENT IN TREASURY BILLS & BONDS

	2012 Kshs	2011 Kshs
Barclays Bank of Kenya medium term note	38,100,000	38,100,000
Kengen Infrastructure Bond	417,987,500	477,700,000
Shelter Afrique Bond	50,000,000	50,000,000
Funds under management (SIMS)	4,938,681,144	4,272,256,135
Government of Kenya T Bond under lien	0	50,000,000
Government of Kenya Treasury Bonds	<u>10,200,883,535</u>	<u>9,348,200,000</u>
	<u>15,645,652,178</u>	<u>14,236,256,135</u>

13. FUNDS ON CALL AND SHORT NOTICE

	2012 Kshs	2011 Kshs
Funds on call and short notice	30,454,452	19,828,864

14. OTHER ASSETS

	2012 Kshs	2011 Kshs
Stocks of Stationery & Drugs	34,949,709	45,178,737
	-	-
	<u>34,949,709</u>	<u>45,178,737</u>

15. OTHER INVESTMENTS

	2012 Kshs	2011 Kshs
Quoted investments	2,055,637	2,055,637
Unquoted investment	13,540,000	13,540,000
Investment in property	<u>27,390,225</u>	<u>27,390,225</u>
	<u>42,985,862</u>	<u>42,985,862</u>
Less: Provision for diminution in market value of quoted /unquoted investments	<u>13,297,137</u>	<u>13,388,887</u>
	<u>29,688,725</u>	<u>29,596,975</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2012

- (i) Quoted investments were valued at Kshs.944, 500 (2011 Kshs.852, 750) using the stock market price for the same category.
- (ii) Unquoted investment represents 80% of deposits in City Finance Bank (Jamii Bora Bank) converted into shares following their restructuring in year 2000.
- (iii) Investment in property represents a piece of land with a building taken over from Thabiti Finance Ltd in lieu of deposits held for the Bank. Title to the 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 favourable outcome since it has a vesting right in the property and is holding it with an intention of selling or reinvesting.

16. ACCOUNTS RECEIVABLES AND PREPAYMENTS

	2012	2011
	Kshs	Kshs
Postal Corporation of Kenya	759,707,807	1,057,358,590
GOK-(KP&TC)	405,231,629	405,231,629
Accrued interest on Treasury Bonds	479,124,901	235,985,706
Staff loans	801,159,146	703,482,505
Staff debtors – Personal Development Loan	171,279,166	182,694,932
Staff Imprest	4,758,773	7,921,619
Trade Debtors	328,280,619	152,872,671
ATM settlement Account receivables	0	3,223,980
Fixed deposits in ailing financial institutions	540,409,141	540,409,141
Commission Receivable from GoK	80,133,100	76,944,700
Pension Receivable from GoK	0	222,479,227
Transitorial Accounts – Postbank	110,747,630	223,512,058
Prepaid GoK Pension – PCK Payroll	606,137,911	935,385,939
GoK Pension Cheques Receivable – PCK	268,553,158	268,553,158
Premium on Treasury Bonds (Prepaid)	1,491,463,841	1,511,463,841
Refunds due from Bill and Mellida Gates Foundation	17,735,349	14,651,764
Other Receivables and Prepayments	<u>1,301,401,650</u>	<u>1,440,034,947</u>
	7,366,123,821	7,982,206,408
Provision for bad and doubtful debts:		
Trade Debtors	(355,750,894)	(352,500,892)
Amounts due from subsidiary and deposits in ailing financial institutions	<u>(540,409,141)</u>	<u>(540,409,141)</u>
	6,469,963,787	7,089,296,375

The ailing financial institutions refer to those institutions placed under statutory management of CBK (receivership and in liquidation). Accrual of interest on GOK-(KP&TC) excess deposits was suspended with effect from July 2005.

17. DEFERRED ASSET

	2012	2011
	Kshs	Kshs
Balance brought forward	0	153,998
Receipts from Treasury	-	-
Balance carried forward	<u>0</u>	<u>153,998</u>

This amount represent accumulated losses which by virtue of section 13 (1) of the Kenya Post Office Savings Bank Act Cap 493B are recoverable from the Central Government Consolidated Fund. With approval from the Ministry of Finance the amount was written-off in year 2012.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2012

18.(a) COMPARATIVE PROPERTY AND EQUIPMENT

Cost or Valuation	LAND	BUILDING	LEASEHOLD	MOTOR	FURNITURE &	ELECTRONIC	NON ELECTRONIC	COMPUTER	COMPUTER	CAPITAL	TOTAL
				VEHICLES	FITTINGS	OFFICE EQPMT	OFFICE EQPMT	HARDWARE	SOFTWARE	WORK IN PROGRESS	
At 1 Jan. 2011	675,000,000	1,092,000,000	6,500,000	46,393,936	195,390,856	128,269,008	59,654,470	372,921,638	402,275,804	0	2,978,405,713
ADDITIONS	0	0	0	0	208,258	20,319,607	901,221	35,474,135	67,560,525	16,009,525	140,473,271
REVALUATIONS	0	0	0	0	0	0	0	0	0	0	0
DISPOSALS	0	0	0	(15,952,640)	0	0	0	0	0	0	(15,952,640)
COST 31.12.2011	675,000,000	1,092,000,000	6,500,000	30,441,296	195,599,115	148,588,615	60,555,691	408,395,773	469,836,329	16,009,525	3,102,926,344
DEPRECIATION											
DEPRE. 01.01.11	0	162,364,332	3,720,000	43,389,477	125,193,310	101,851,590	48,803,813	308,193,378	346,845,992	0	1,140,361,892
CHARGED 2011	0	27,300,000	740,000	998,758	19,798,965	18,645,481	2,570,945	43,844,017	11,040,814	0	124,938,980
DISPOSALS				(15,952,640)						0	(15,952,640)
DEPRE. 31.12.11	0	189,664,332	4,460,000	28,435,595	144,992,275	120,497,071	51,374,758	352,037,395	357,886,806	0	1,249,348,232
NBV 31.12.2011	675,000,000	911,048,259	2,040,000	2,005,701	42,271,643	21,606,900	3,138,711	56,364,084	87,629,318	16,009,525	1,853,578,112
NBV 31.12.2010	675,000,000	929,635,667	2,780,000	3,004,459	70,197,545	26,417,418	10,850,657	64,728,260	55,429,813	0	1,838,043,819

Disclosure Note.

During the year, sixteen motor vehicles with nil book value were disposed. Set-up of eight new branches and installations of four ATM machines were incomplete as at 31st December 2011 making the capital work in progress.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2012

18.(a) COMPARATIVE PROPERTY AND EQUIPMENT

Cost or Valuation	LAND	BUILDING	LEASEHOLD	MOTOR VEHICLES	FURNITURE & FITTINGS	ELECTRONIC OFFICE EQPMT	NON ELECTRONIC OFFICE EQPMT	COMPUTER		CAPITAL WORK IN PROGRESS	TOTAL
								HARDWARE	SOFTWARE		
At 1.Jan. 2012	675,000,000	1,092,000,000	6,500,000	30,441,296	195,599,115	148,588,615	60,555,691	408,395,773	469,836,329	16,009,525	3,102,926,344
ADDITIONS	0	0	0	0	33,527,593	15,340,923	2,929,440	25,455,883	0	44,013,757	121,267,596
CAPITALISED WORKS	0	0	0	0	44,607,419	0	0	0	0	(44,607,419)	0
DISPOSALS	0	0	0	(2,607,640)	(1,080,876)	0	0	0	0	0	(3,688,516)
COST 31.12.2012	675,000,000	1,092,000,000	6,500,000	27,833,656	272,653,251	163,929,538	63,485,131	433,851,656	469,836,329	15,415,864	3,220,505,425
DEPRECIATION											
DEPRE.01.01.12	0	189,664,332	4,460,000	28,435,595	144,992,275	120,497,071	51,374,758	352,037,395	357,886,806	0	1,249,348,232
CHARGED 2012	0	27,300,000	740,000	998,758	23,958,896	13,000,000	4,868,863	49,023,631	18,344,406	0	138,234,554
DISPOSALS	0	0	0	(2,607,640)	(1,080,876)	0	0	0	0	0	(3,688,516)
DEPRE.31.12.12	0	216,964,332	5,200,000	26,826,713	167,870,295	133,497,071	56,243,621	401,061,026	376,231,212	0	1,383,894,270
NBV 31.12.2012	675,000,000	875,035,668	1,300,000	1,006,943	104,782,956	30,432,467	7,241,510	32,790,630	93,605,117	15,415,864	1,836,611,155
NBV 31.12.2011	675,000,000	902,335,668	2,040,000	2,005,701	50,606,840	28,091,544	9,180,933	56,358,378	111,949,523	16,009,525	1,853,578,112

Disclosure Note.

During the year, one motor vehicles and items of furniture and fittings with nil book value were disposed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2012**18 (b) LAND AND BUILDINGS**

COST OR VALUATION	Land	Buildings	Show Stand	2012 Total	2011 Total
	Kshs	Kshs	Kshs	Kshs	Kshs
Long-term leasehold	650,000,000	1,017,000,000	-	1,667,000,000	1,667,000,000
Short-term leasehold	<u>25,000,000</u>	<u>75,000,000</u>	<u>6,500,000</u>	<u>106,500,000</u>	<u>106,500,000</u>
	<u>675,000,000</u>	<u>1,092,000,000</u>	<u>6,500,000</u>	<u>1,773,500,000</u>	<u>1,773,500,000</u>

Included in short-term leasehold land and buildings is a property purchased in Mombasa. It is valued at Kshs.100 million subject to extension of lease period by another 45 years from the current 10 years. Procedures towards extension of the lease are in progress.

The figures used in the fixed assets schedule relate to 2009 valuation report carried out by Highlands valuers Ltd and approved by the Board in 2010.

19. CUSTOMERS' SAVINGS AND DEPOSIT ACCOUNTS

	2012	2011
	Kshs	Kshs
Postbank Savings Account	4,807,658,458	4,781,866,795
Bidii Savings Account	1,002,650,394	2,987,791,892
Bidii Plus Account	3,597,439	2,976,430
Junior Trust Account	8,756,969	9,050,013
Step Account	418,559,458	352,831,362
Pension accounts (BSG)	2,689,710,923	1,343,483,587
Premium Savings Scheme	578,670,249	896,173,178
Premium Plus Account	8,112,300,581	5,257,013,935
Fixed Deposit Account	198,271,807	137,812,123
Save-As-You-Earn	488,984,679	410,175,175
Staff Salary Account	59,369,792	56,972,311
Salary Account	180,127,798	159,195,264
Postbank Junior Account	65,333,152	68,367,782
Corporate Clients	540,284,411	537,809,015
Smata Youth Save Account	5,448,396	805,751
Premium Plus Term Deposit	730,233,611	730,205,264
Pamoja Chama Account	<u>19,335,650</u>	<u>13,647,404</u>
	<u>19,909,293,767</u>	<u>17,746,177,281</u>

20. ACCOUNTS PAYABLES AND ACCRUALS

	2012	2011
	Kshs	Kshs
Trade creditors	95,931,121	74,171,583
PCK Services rendered- OSS	521,870,064	496,553,792
PCK Encashed Warrants Payable	462,078,751	462,078,751
Transitorial Accounts- Pension Warrants (PCK)	170,953,266	170,953,266
Transitorial Accounts- GoK Payroll (PCK)	625,348,605	1,000,977,228
Other creditors and accrued charges	<u>691,005,053</u>	<u>842,543,563</u>
	<u>2,567,186,860</u>	<u>3,047,278,183</u>

PCK Services rendered- OSS refers to amount payable to Postal Corporation of Kenya for services offered to our regular customers for normal banking services.

PCK Encashed warrant payable refers to amount claimable by Postal Corporation of Kenya on disbursement of pension to pensioners.

Transitorial account is a holding account for money held by the Bank and PCK on behalf of third party pending disbursement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2012**21. PREMIUM BONDS**

	2012	2011
	Kshs	Kshs
Amount	0	7,891,980

These are bearer bonds that were offered by the Bank to its customers. However, the product was discontinued in 2005 and all bearers were notified through the Kenya Gazette to surrender their bonds for encashment. In 2012 the amount was written back.

22. GOK PENSION RESERVE FUND

	2012	2011
	Ksh	Ksh
Amount	403,358,965	269,950,852

This is a control account where pension funds from the Government is held for distribution into the Paying agent accounts i.e PCK and the Bank. Un-applied funds from PCK are also held there.

23. BEARER BONDS

	2012	2011
	Kshs	Kshs
Amount	0	220,002,615

These were collections from the public for sales of Bearer Bonds on behalf of Central Bank of Kenya (CBK). The funds were banked in Postbank Credit Limited (PCL) for onward transmission to the CBK.

PCL was closed and put under liquidation by the Central Bank of Kenya on 20th May 1993 before the money was paid over to the latter. The amount will be paid over to the CBK once these are received from the Liquidator. In 2012 the amount was written back.

24. CAPITAL RESERVES

Capital reserves are made up of periodic adjustments arising from fair valuations of Properties. The reserve is not available for distribution to the shareholders.

25. REVENUE RESERVES

This represents undistributed profits from current and previous years.

26. INTEREST INCOME

	2012	2011
	Kshs.	Kshs.
Interest on Treasury Bills/Bonds	2,322,390,571	1,821,161,427
Interest on PCK balances	5,784,000	6,266,000
Interest on Staff Loans	40,763,968	35,478,781
Interest on Visa balances	<u>15,081,542</u>	<u>14,693,479</u>
	<u>2,384,020,081</u>	<u>1,877,599,687</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2012**27. INTEREST EXPENSE**

	2012	2011
	Kshs	Kshs
Interest on:-		
Postbank Savings Accounts	31,083,069	41,557,407
Bidii Savings Account	28,275,446	25,952,477
Bidii Plus	95,038	94,395
Step Account	2,701,987	1,949,494
Pension Account	12,262,265	988,513
Premium Savings Account	26,088,874	23,269,887
Premium Plus Account	769,678,973	390,196,837
Fixed Deposit Account	2,454,649	2,587,118
Save As You Earn Account	6,810,825	4,051,595
Staff Salary Account	438,316	660,231
Salary Account	1,317,842	1,123,336
Postbank Junior Account	667,931	428,878
Pamoja Account	204,471	125,985
Bidii Junior Trustee Account	55,689	48,845
Non Scheme Account	772,157	7,849,207
Smata Youth Save	5,370	836
	<u>882,912,900</u>	<u>500,885,041</u>

28. FEES & COMMISSIONS

	2012	2011
	Kshs	Kshs
Salary crediting fees	20,293,829	9,296,494
Continuation fees	0	299,370
Premature withdrawal fees	20,665,560	25,579,751
Withdrawal fees	39,782,294	68,493,244
Visa fees	11,940,998	12,452,462
Card fees	8,315,093	18,610,615
MTS- Inbound & Inbound commission	85,242,616	76,968,150
Statement Charge	2,250	312,019
Closure Fee	557,231	544,801
Upcountry Cheque Deposit Charge	99,767	2,316,291
Postage Fee	126,881	374,411
Citibank commission	2,360,285	2,189,875
Pension commission	77,390,600	80,905,800
Miscellaneous fees & commission (others)	<u>183,230,802</u>	<u>144,421,174</u>
	<u>450,008,206</u>	<u>442,764,457</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2012**29. FEES AND COMMISSIONS EXPENSE**

	2012	2011
	Kshs	Kshs
Processing Fees	2,339,200	1,620,520
Card Production	0	62,939
Settlement Transaction Fees	28,350	130,561
Stop-List Bulletin Charges	19,100	60,880
Transaction Authorisation	58,611	247,065
Agency Fees	0	456,733
Shared Costs Adjustments	6,251,591	5,362,593
Commission Expense-Money gram	901,466	507,444
Premium Paid Commission on Purchase of T/Bonds	26,897,022	30,163,789
Commission-Independent Agent	8,420,599	2,941,355
Mobile banking Expenses	<u>1,497,684</u>	<u>0</u>
	<u>46,413,623</u>	<u>41,553,879</u>

30. FOREIGN EXCHANGE INCOME

	2012	2011
	Kshs	Kshs
Forex gain on MTS Transactions	51,799,754	60,602,881
Forex gain on Money Gram Transactions	<u>18,339,319</u>	<u>16,972,695</u>
	<u>70,139,073</u>	<u>77,575,576</u>

31. OTHER OPERATING INCOME

	2012	2011
	Kshs	Kshs
Rental income- notional	0	20,563,770
Rental Income- Other	35,083,468	30,778,542
Dividend income	39,100	44,465
Write back of liabilities	705,905,336	0
Interest on bank accounts	36,283	180,459
Bonus from Western Union	33,471,938	34,214,905
Consultancy fees –(Lesotho Project)	0	2,150,408
Agency based commission	205,502	9,808,174
Tender fees	278,500	1,799,500
Appreciation/Diminution in value of quoted investments	91,750	(401,850)
Gain on sale of Property & Equipment	720,219	2,909,237
Sundry income	<u>11,856,926</u>	<u>18,122,622</u>
	<u>787,689,024</u>	<u>120,170,232</u>

In 2012 balance sheet clean up exercise resulted in write back of Kshs.705,905,336.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2012**32. IMPAIRMENT LOSS ON LOANS AND ADVANCES**

	2012	2011
	Kshs	Kshs
Visa card debtors	2,000,001	447,237
Corporate Scheme	<u>1,250,000</u>	<u>0</u>
	<u>3,250,001</u>	<u>447,237</u>

33. EMPLOYEE BENEFITS

	2012	2011
	Kshs.	Kshs.
Salaries and Wages	700,712,557	769,111,946
Pensions and Provident Fund contr	11,359,082	69,181,886
Travel and Subsistence allowances	26,724,213	79,666,036
Medical expenses	46,788,311	47,473,941
Staff training	21,223,775	12,352,204
Other staff expenses	<u>256,206,719</u>	<u>72,788,714</u>
	<u>1,063,014,657</u>	<u>1,050,574,727</u>

34. OPERATING LEASE EXPENSES

	2012	2011
	Kshs	Kshs
Security expenses	81,442,769	80,136,888
Insurances	8,318,659	2,046,139
Office rent	81,169,158	85,546,304
Land rent and rates	895,485	1,759,950
Repairs and maintenance	86,054,098	62,953,436
Service charge	200,064	10,010,468
Agency fees – PCK/Others	35,381,423	40,201,030
Licences	18,586,061	19,177,243
Grounds maintenance	944,560	276,708
Agency Expansion Project(WSCBI)	<u>20,259,232</u>	<u>10,549,673</u>
	<u>333,251,509</u>	<u>312,657,839</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2012**35. OTHER EXPENSES**

	2012	2011
	Kshs	Kshs
Directors fees	5,080,652	5,591,798
Printing and stationery	10,290,689	18,896,481
Debt collection	1,116,771	997,724
Postage & telephone	69,985,975	53,038,138
Computer expenses	9,993,142	9,259,200
Motor Vehicle Expenses	5,395,365	7,007,967
Audit fees	3,678,606	3,678,600
Donations and subscriptions	4,080,300	5,625,709
Legal and professional fees	4,167,292	7,992,181
Electricity and water	33,213,562	33,140,285
Cleaning and Sanitation	9,445,309	9,891,284
Special Projects Launching	170,270	3,714,161
Newspapers and Periodicals	470,275	365,648
Transportation Costs	99,860	5,000
Procurement Costs	291,375	523,563
Miscellaneous expenses	6,950	121,330
Financial expenses	21,079,790	13,765,833
Selling expenses	95,305,218	154,448,811
Operating Stationery	1,375,481	1,578,631
Bonus & Prizes	652,197	562,549
Write offs & Charge offs	683,506,936	-
ATM processing charges	6,215,441	8,950,820
ATM card cost	3,401,148	2,739,099
Research & Development	1,466,136	820,000
	<u>980,488,742</u>	<u>342,714,877</u>

In 2012 balance sheet clean up exercise resulted in write off and charge offs of Kshs 683,506,936

36. PROFIT (LOSS) FOR THE YEAR

The profit (loss) for the year is stated after charging:

	2012	2011
	Kshs	Kshs
Directors fees	5,080,652	5,591,798
Audit fees	3,678,606	3,678,600
Depreciation & Amortization	158,234,554	124,938,980
Provident fund contribution	2,462,178	4,418,767
Pension scheme contribution	8,896,904	60,944,493
Diminution in value of quoted investments and after crediting: -		401,850
Dividends	39,100	44,465
Appreciation in value of quoted investment	91,750	0

37. CASH AND CASH EQUIVALENTS AND CASHFLOW

	2012	2011
	Kshs	Kshs
Bank and cash balances (net)	1,630,175,253	590,176,980
Deposits in banks and Financial Institutions	30,454,452	19,828,864
Treasury Bills and Bonds	<u>15,645,652,178</u>	<u>14,236,256,135</u>
	<u>17,306,281,883</u>	<u>14,846,861,979</u>

Included in the Kshs. 1,935,221,891 being increase in Customer deposits and Premium Bonds is a reduction of Kshs.227,894,595 being write-backs related to Premium and Bearer bonds.

38. LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based in the remaining period as at 31 December 2012 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	Total
Bank and Cash Balances	911,032,215	719,143,038	-	-	-	-	-	-	1,630,175,253
Investment in T/bills + Bonds	-	208,770,454	597,638,787	1,268,225,217	4,748,310,533	1,569,382,881	1,927,284,658	5,326,039,654	15,645,652,178
Funds on call and short notice	-	30,454,452	-	-	-	-	-	-	30,454,452
Other Investment	-	-	-	-	-	-	-	29,688,725	29,688,725
Other Assets	868,567,934	1,384,871,714	1,353,931,130	1,351,749,145	991,037,508	554,756,065	-	-	6,504,913,496
Deferred Assets	-	-	-	-	-	-	-	-	-
Property and Equipment	-	-	-	15,415,864	-	-	-	1,821,195,288	1,836,611,152
Total Assets	1,779,600,149	2,343,239,658	1,951,569,917	2,635,390,226	5,739,348,041	2,124,138,946	1,927,284,657	7,176,923,667	25,677,495,260
B. Liabilities and Reserves									
Other Liabilities	418,280,363	64,595,926	852,517,025	503,660,633	726,732,685	1,400,228	-	-	2,567,186,860
Premium Bonds	-	-	-	-	-	-	-	-	-
Customers' Savings and Deposit accounts	1,202,457,396	2,278,410,190	1,098,397,274	2,135,418,353	4,764,795,945	2,122,570,066	1,926,563,682	4,380,680,863	19,909,293,767
Gok Pension Reserve Fund Account	157,735,305	-	-	-	245,623,660	-	-	-	403,358,965
Reserves	-	-	-	-	-	-	-	1,393,215,792	1,393,215,792
Retained profits	-	-	-	-	-	-	-	1,404,439,876	1,404,439,876
Total Liabilities and Reserves	1,778,473,064	2,343,006,116	1,950,914,299	2,639,078,986	5,737,152,290	2,123,970,294	1,926,563,682	7,178,336,531	25,677,495,260
A - B Liquidity GAP	1,127,085	233,542	655,618	-3,688,760	2,195,751	168,652	720,976	-1,412,864	0

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2012**39. CONSOLIDATION**

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

40. TAXATION

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

41. COMPARATIVES

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

42. EMPLOYEES

The average number of employees during the year was 799 (2011-790).

NETWORK OF POSTBANK BRANCHES

NAIROBI NORTH REGION

Ruiru Branch

Finance House, Ruiru
P. O. Box 190, Thika
Tel: 254 067 54320
Fax: 254 067 55441

Githurai Branch

Winma Plaza, Githurai
P. O. Box 30311 00100, Nairobi
Tel: 254 20 813868
Fax: 254 20 811032

Mwingi Branch

Mwingi / Garissa Road
P. O. Box 510 Mwingi
Tel: 254 44 822308
Fax: 254 44 822308

Eastleigh Branch

2nd Avenue Eastleigh
P. O. Box 30311 00100, Nairobi
Tel: 254 20 6763843
Fax: 254 20 6761892

Thika Branch

Nduriri House,
P. O. Box 1819 Thika
Tel: 254 067 31193
Fax: 254 067 30076

Kiambu Branch

St. James Cathedral, Kiambu
P. O. Box 145 Kiambu
Tel: 254 066 22913
Fax: 254 066 22914

Garissa Branch

Garissa Shopping Center
P. O. Box 745 Garissa
Tel: 254 046 2169
Fax: 254 046 3194

Matuu Branch

Main Street, Matuu
P. O. Box 30311 00100, Nairobi
Tel: 254 067 4355282, Fax: 254 067
4355283

Dandora Branch

Dandora Phase Three
P. O. Box 30311 00100, Nairobi
Tel: 254 20 2803527; 254 20 2405489
Fax: 254 20 2405489

Kariobangi Branch

Juja Road -Outering Roundabout
P. O. Box 30311 00100, Nairobi
Tel: 254 020 2627317

Canon House Branch

Canon House Haile Selassie Ave.
P. O. Box 30311 00100 Nairobi
Tel: 254 20 229551
Fax: 254 20 342662

Afya Center Branch

Afya Center House,
Tom Mboya Street,
P. O. Box 30311 00100 Nairobi
Tel: 254 20 229551
Fax: 254 20 311735

Ronald Ngala Branch

Ronald Ngala Post Office,
Ronald Ngala Street
P. O. Box 30311 00100, Nairobi
Tel: 254 20 229551 Fax: 254 20
2250140

Enterprise Branch

Enterprise Road Post Office, Industrial Area
P. O. Box 30311 00100, Nairobi
Tel: 254 20 229551
Fax: 254 20 550870

Kitui Branch

Hospital Road,
P. O. Box 668 Kitui
Tel: 254 044 4422993 Fax: 254 044 4423046

Jogoo Road Branch

Trafalga Plaza, Jogoo Road
P. O. Box 30311 0010, Nairobi
Tel: 254 20 551441 Fax: 254 20 552027

Kangundo Branch

Kangundo Town
P. O. Box 30311 00100 Nairobi
Tel: 254 044 621150 Fax: 254 044 621148

Viwandani Branch

Viwandani Post Office,
Likoni Road, Industrial Area
P. O. Box 30311 00100, Nairobi
Tel: 254 20 229551 Fax: 254 20 553356

Nacico Branch

Nacico Plaza, Landhies Rd
P.O.Box 30311 00100 Nairobi
Tel: (+254) 020-2345134 /
ISDN: 020 2803155

NAIROBI SOUTH REGION

Head Office Branch

Postbank House
Market Lane Off Banda Street,
P. O. Box 30311 00100 Nairobi
Tel: 254 20 2229551 Fax: 254 20 229816

Kenyatta Market Branch

Phigaco Building, Kenyatta Market
P. O. Box 30311, Nairobi
Tel: 254 20 2719582 Fax: 254 20 2731760

Karen Branch

Karen Shopping Center
P. O. Box 30311 00100, Nairobi
Tel: 254 20 884547 Fax: 254 20 884548

Tom Mboya Branch

Emperor Building, Tom Mboya Street
P. O. Box 30311 00100, Nairobi
Tel: 254 20 229551 Fax: 254 20 230428

Ngong Branch

Ngong Branch, Masaai Springs
P. O. Box 30311 00100 Nairobi
Tel: 254 045 41047 Fax: 254 045 41048

Wote - Makeni Branch

Koli Building,
P. O. Box 944, Wote
Tel: 254 044 33371 Fax: 254 044 33388

Machakos Branch

Stone Kathuli,
P. O. Box 30311 00100 Machakos
Tel: 254 044 20261 Fax: 254 044 24112

Ongata Rongai Branch

Kins Arcade, Ongata Rongai P. O. Box 30311
00100, Nairobi
Tel: 254 045 24178 Fax: 254 045 24178

Kibwezi Branch

Mbinda Building, Kibwezi
P. O. Box 30311 - 00100, Nairobi
Tel: 254 044 3500422 Fax: 254 044 3500432

Athi River Branch

Old Town Athi River
P. O. Box 30311 00100 Nairobi
Tel: 254 045 22526 Fax: 254 045 22518

Emali Branch

Mombasa Highway,
P. O. Box 30311 00100, Nairobi
Tel: 254 20 2445490 Fax: 254 20 2445490

Mlolongo Branch

Ndile House, Mlolongo
P. O. Box 30311 00100, Nairobi
Tel: 254 20 2445491 Fax: 254 20 2445491

Kajiado Branch

Opp. Municipal Market
P. O. Box 30311 00100, Nairobi
Tel: 254 20 2455105

Kenyatta Avenue Branch

Standard House, Ground Floor
Kenyatta Avenue.
P.O.Box 30311 00100, Nairobi
Tel: 254 020 251696/7

Kikuyu Branch

Sisters Building, Kikuyu
P. O. Box 30311 00100 Nairobi
Tel: 254 060 31630
Fax: 254 06033712

Ngara Branch

Pioneer House, Ngara Road
P. O. Box 30311 00100, Nairobi
Tel: 254 20 3744837
Fax: 254 20 3744837

Westlands Branch

Soin Arcade, Westlands
P. O. Box 30311 00100, Nairobi
Tel: 254 20 4440581
Fax: 254 20 4450965

Uthiru Branch

Uthiru Post Office,
Nairobi- Naivasha Road
P. O. Box 30311 00100, Nairobi
Tel: 254 20 631927
Fax: 254 20 63119

Limuru Branch

Ushirika Center
P. O. Box 170 Limuru
Tel: 254 066 71293
Fax: 254 066 72278

Karuri Branch

Spikes House
P. O. Box 30311 00100, Nairobi
Tel: 254 066 51683, Fax: 254 066 51685

Adams Arcade Branch

Uchumi Supermarket, Ngong Road
Tel: 254 020 2103547

Kitengela Branch

Kitengela Plaza, Namanga Rd.
Tel: 0773 382 817

NETWORK OF POSTBANK BRANCHES

MT. KENYA REGION

Kerugoya Branch

Kibetu Plaza Building
P. O. Box 1020, Kerugoya
Tel: 254 060 21893
Fax: 254 060 21833

Embu Branch

Waumini House, Ngara Road
P. O. Box 1245, Embu
Tel: 254 068 30740
Fax: 254 068 30727

Meru Branch

Lucy Plaza,
P. O. Box 3270, Meru
Tel: 254 064 30381
Fax: 254 064 20575

Nanyuki Branch

Kiangina Distributors Building
P. O. Box 416, Nanyuki
Tel: 254 062 32210
Fax: 254 062 32820

Muranga Branch

Para Singh Building
P. O. Box 122 Muranga
Tel: 254 060 31083
Fax: 254 060 31084

Nyeri Branch

Kangaru Corner House
P. O. Box 246, Nyeri
Tel: 254 061 2034348
Fax: 254 061 2032189

Karatina Branch

Karatina Town
P. O. Box 246 Nyeri
Tel: 254 061 72537
Fax: 254 061 72977

Chuka Branch

Rhea Plaza, Chuka
P. O. Box 616, Chuka
Tel: 254 064 630443
Fax: 254 064 630063

Wanguru Branch

Jasper Plaza, Wanguru
P. O. Box 153-10303 Wanguru
Tel: 020 352 4329

Maua Branch

Maua Town,
Tel: +254-064-21150

Isiolo Branch

Mashalla House,
Isiolo Town
Tel: +254 -064-52402

COAST REGION

Chaani Branch

Chaani Post Office Building,
P. O. Box 90563, Mombasa
Tel: 254 041 434077
Fax: 254 041 434077

Ukunda Branch

Siku Njema Plaza, LungaLunga
P. O. Box 90563, Mombasa
Tel: 254 040 3203248
Fax: 254 040 3203248

Voi Branch

Sagalla Investment Building, Voi
P. O. Box 452 Voi.
Tel: 254 043 30253
Fax: 254 043 30253

Kilifi Branch

Kilifi Shopping Arcade, Kilifi
P. O. Box 90563, Mombasa
Tel: 254 041 522399

Likoni Branch

King Fisher Building, Likoni town
P. O. Box 90563, Mombasa
Tel: 254 041 2451070
Fax: 254 041 2451071

Mombasa Branch

Savani House, Mombasa
P. O. Box 90563, Mombasa
Tel: 254 041 2314424
Fax: 254 041 2223771

Moi Avenue Branch

Postbank House, Moi Avenue,
Mombasa
P. O. Box 90563, Mombasa
Tel: 254 041 2230969
Fax: 254 041 2230945

Malindi Branch

Malindi Business Complex
P. O. Box 5196, Malindi
Tel: 254 042 30599
Fax: 254 042 30600

Mtwapa Branch

Mombasa - Malindi Road
P. O. Box 90563, Mombasa
Tel: 254 041 5486939
Fax: 254 041 5486470

Kisauni Branch

Burhanyia Bohra Building
P. O. Box 90563, Mombasa
Tel: 254 041 474333
Fax: 254 041 474333

Mariakani Branch

Mrs. Shariif Building,
Mariakani
P. O. Box 90563, Mombasa
Tel: 254 041 33425
Fax: 254 041 33430

Taveta Branch

Taveta
P. O. Box 90563, Mombasa
Tel: 254 043 5352228
Fax: 254 041 5352124

Watamu Branch

Watamu Richland at the
Junction of Jacaranda Bay
Resort/Watamu Beach
Hotel Road
P. O. Box 90563, Mombasa
Tel: 254 041 200 1115
Fax: 254 041 5352124

NETWORK OF POSTBANK BRANCHES

RIFT VALLEY REGION

Nakuru Branch

Postbank House, Kenyatta Ave.,
P. O. Box 4199 Nakuru
Tel: 254 051 2215165
Fax: 254 051 2216687

Naivasha Branch

Secheki House, Naivasha Road
P. O. Box 675 Naivasha
Tel: 254 050 2021335

Narok Branch

Olererat House, Narok Town
P. O. Box 634 Narok
Tel: 254 050 22030
Fax: 254 050 22425

Eldoret Branch

Postbank House,
P. O. Box 2770, Eldoret
Tel: 254 053 2062295
Fax: 254 053 2063025

Kapsabet Branch

Koita, Kapsabet
P. O. Box 800 Bomet
Tel: 254 053 52583
Fax: 254 053 52535

Molo Branch

Maziwa House, Molo
P. O. Box 4191 Molo
Tel: 254 051 721561
Fax: 254 051 721097

Kabarnet Branch

Mwalimu Plaza,
P. O. Box 442 Kabarnet
Tel: 254 053 2354
Fax: 254 053 21130

Nandi Hills Branch

Market Street, Nandi Town
P. O. Box 321 Nandi Hills
Tel: 254 053 643146
Fax: 254 053 643225

Kitale Branch

Gian Singh Biashal House,
P. O. Box 82, Kitale
Tel: 254 054 31297
Fax: 254 54 30394

Gilgil Branch

Disney Computers House,
Tel: 254 050 4002143
Fax 254 050 4002144

Kapenguria Branch

Tel: 254 054 2611886
Kapenguria

Nyahururu Branch

Hekima House,
Tel: 254 065 32251
Nyahururu.

Lodwar Branch

Tel No: 020 - 2149541
Lodwar.

Eldama Ravine Branch

Tel: 020-2149767
Eldama Ravine

WESTERN REGION

Kisumu Branch

Tivoli Center, Kenyatta Street
P. O. Box 183 Kisumu
Tel: 254 057 2023955
Fax: 254 057 2021358

Kakamega Branch

Kakamoni House
P. O. Box 2444, Kakamega
Tel: 254 056 30630
Fax: 254 056 31069

Bungoma Branch

Beadon House, Moi Ave.
P. O. Box 2200, Bungoma
Tel: 254 055 30419
Fax: 254 055 30319

HomaBay Branch

Luore Plaza, Hornabay Town
P. O. Box 203 Hornabay
Tel: 254 059 21466
Fax: 254 05922389

Busia Branch

Amukura House, Busia Town
P. O. Box 183, Kisumu
Tel: 254 055 22278
Fax: 254 055 22157

Mumias Branch

Mumias Town
P. O. Box 183, Kisumu
Tel: 254 056 641410
Fax: 254 056 641410

Siaya Branch

Siaya Shopping Mall
P. O. Box 375 Siaya
Tel: 254 057 321211
Fax: 254 057 321213

Kisii Branch

Onchoke Hse, Hospital Road
P. O. Box 740 Kisii
Tel: 254 058 30800
Fax: 254 058 30341

Webuye Branch

Jakatha House
P. O. Box 1041, Webuye
Tel: 254 055 41027
Fax: 254 055 14026

Suna Migori Branch

Cool Plaza, Migori
P. O. Box 1059 Isebania
Tel: 254 059 20034
Fax: 254 059 20036

Sare Awendo Branch

Gango House, Awendo
Tel: 254 059 43419
Fax: 254 059 43429

Luanda Branch

Equator Building, Luanda Town
P. O. Box 859, Luanda
Tel: 254 057 351231
Fax: 254 057 351231

Keroka Branch

Keroka Town
P. O. Box 138 Keroka
Tel: 254 058 520037
Fax: 254 058 520037

Kehancha Branch

Kehancha Town
P. O. Box 138 Keroka
Tel: 254 726 278100

Nyamira Branch

Nyamira Branch
Kisii - Nyamira Highway
P.O. Box 364-40500
Nyamira

Mbale Branch

Tel: 0726822238
Mbale.

Oyugis Branch

Tel: 254 020 2584758
Oyugis

Bomet Branch

Main Street, Bomet
P. O. Box 778 Litein
Tel: 254 052 22439
Fax: 254 052 22440

Kericho Branch

Posta Plaza, Kericho
P. O. Box 1031 Kericho
Tel: 254 052 30378
Fax: 254 052 32115

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