

# Kenya Post Office Savings Bank



## *Annual Report & Financial Statements For The Year Ended 31<sup>st</sup> December 2010*



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## ▶ **Wilson Kinyua, *Chairman***

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



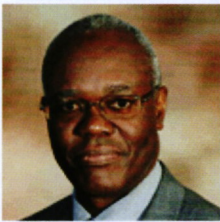
## ▶ **Dr. Nyambura Koigi (Mrs.) DBA, FKIM, MBS, *Managing Director***

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 from the University of Nairobi, is a member of the Institute of Directors-Kenya and a certified trainer in corporate governance.



## ▶ **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.



## ▶ **Chiboli Shakaba, *Board Member***

Mr. Shakaba is a Harvard Alumni and Edward S. Fellow from the John Fitzgerald Kennedy School of Management. He holds both Bachelors in Political Science and a Master in Public Administration. He has worked in the Public service since 1980 with experience from both the Provincial administration as well as Central government. He is currently the Director of Administration, Ministry of Finance.





## ▶ Thomas Mutugu, Board Member

Mr. Mutugu is a Lecturer at the University of Nairobi. He holds an MBA in Strategic Marketing and Management from St. Louis University (USA). He is currently a lead consultant for the Government of the Republic of Rwanda on rebuilding and revitalization of the Rwandese Co-operative Movement. He also advises the small scale manufacturers financed by the Kenya Industrial Estates Limited and he is also the Director of Advertising at Spread Marketing Advertising Agency.



## ▶ 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.



## ▶ 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



Dr. Nyambura Koigi - *Managing Director*



Ann W. Karanja - *Director Banking Services*



Felix Rerimoi - *Head Audit, Risk & Compliance*



Henry Omumia - *Head Information & Communications Technology*



Sylvester Obuon - *Head Retail Banking*



Mercy Mbijiwe - *Head Legal & Administration/Company Secretary*



Charles Mbithi - *Ag. Head Finance & Accounts*



Edward Kiyo - *Head Human Resources*



David Gatawa - *Head Marketing and Business Development*



Charles Karani - *Procurement Manager*



Ursula Sabina Oyatsi - *Head Corporate Banking, MTS & Card Services*



Vincent Makori - *Manager, Strategic Planning*



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  
16<sup>th</sup> Banda Street  
P. O. Box 30311 00100,  
NAIROBI-KENYA

Postbank is primarily engaged in the mobilization of savings and operates under the Kenya Post Office Savings Bank Act Cap 493B. 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





Mr. Wilson Kinyua  
Chairman

I am honoured to present the Annual Report and Financial Statements of Kenya Post Office Savings Bank (Postbank) for the year ended 31st December 2010. It was a year of achievement and progress in our endeavour to enable Kenyans create wealth through savings.

## Economic Overview

Kenya's economy performed better in year 2010 than earlier anticipated. The average growth rate in 2010 was 5.4 per cent compared to 2.1 per cent and 2.3 per cent in 2008 and 2009 respectively. Real gross

domestic product at market prices is estimated to have increased by 6.1 per cent in 2010 compared to a growth of 0.5 per cent in 2009. The Financial sector continued on an upward trend in 2010 expanding by 20.3 per cent compared to a growth of 7.1 per cent in 2009. The sector contributed 11.1 per cent of GDP growth in 2010. This strong recovery was attributed to favourable weather conditions, increased liquidity in the banking system, and prudent macroeconomic management. These factors encouraged a steady growth since the first quarter of the year leading to a turnaround in sectors of agriculture, tourism, electricity and water and a rebound in most of the other sectors.

## Financial Sector

Developments in the financial sector witnessed major movements in capital and money markets. The NSE 20-share index rose from 2,805.0 in 2009 to 4,629.8 at the end of 2010. The year also saw major rights issues by some institutions, consequently, market capitalisation rose during the same period from Shs.831.83 billion to Shs.983.11 billion. In the money market, the average yield rates on 91-day treasury bills dropped significantly from an average of 7.25 per cent in 2009 to 1.82 per cent in 2010. However, this reduction did not have much effect on the overdraft and lending rates offered by the commercial banks which remained almost constant at 2009 levels.

The banking sector was stable and maintained capital and liquidity ratios above the minimum statutory requirements. The consolidated position for all commercial banks and non bank financial institutions reflected an average of 41.9 percent increase in profitability in the year. Overall performance for commercial banks and non bank financial institutions was rated strong during the year. The performance of Postbank also benefited from the robust growth in the financial sector during 2010.

## Challenges

Despite the improved performance in 2010, Postbank faced severe challenges in its operating environment. The main challenge to the Bank's profitability has been the legal framework under which it is incorporated. The Kenya Post Office Savings Bank Act inhibits the ability of the Bank to offer credit and other related market led financial services. This constraint impairs the relevance and competitiveness

of the Bank when viewed against a background of rising customer expectations from financial sector. The legal framework also places a heavy burden on the bank's reporting requirements which are non core to its operations. Nevertheless, discussions with the shareholders have continued on ways to overcome these long standing challenges.

## Year 2010 Results

During the year, Postbank's gross income increased by 24.75% from Kshs.1.919 billion in 2009 to Kshs.2.394 billion in 2010. The net income increased by 117.48% from a loss of Kshs.614.866 million in 2009 to a profit of Kshs.107.471 million in 2010. Customer deposits recorded a 28.79% increase from Kshs.10.462 billion in 2009 to Kshs.13.474 billion in 2010.

The marked improvement in gross income as well as net income was due to active trading in Treasury bonds and cost reduction resulting from restructuring and outsourcing.

We are also pleased to report that for 15 consecutive years running Postbank emerged top in Athletics in the Annual Inter-bank Championship and got to keep the trophy for life joining the Tug of War where Postbank has been a Champion for long. I commend the staff for the passion and commitment and sportsmanship they displayed when representing the Bank at the Inter-bank games.

## Corporate Governance and Social Responsibility

Postbank discharges its responsibility through a clear Board structure incorporating committees for Audit and Risk; Human Resources; and Strategy and Development to ensure focus on delivery of its responsibilities. This structure ensures that the Board provides timely guidance by paying attention to the critical areas of business enabling it to capitalize on opportunities and mitigate risks. All Committees of the Board are chaired by a non executive member of the Board. A few members of the management team are incorporated in the Board Committees as invitees to add value to key Board decisions.

In discharging its responsibilities, the Board is guided by its Charter. The Directors are appointed by the Ministry of Finance. The Board consists of six directors: five non executive and one executive (the Managing Director). Whilst corporate governance places responsibility for the overall business strategy, financial, operational and compliance issues and policies to the Board, it has delegated authority to the Managing Director to conduct the day to day business of Postbank.

In addition to mobilizing savings for national development, Postbank also supports community driven social development initiatives aimed at creating situations conducive for individuals, groups and the community's improvement, particularly the vulnerable, socially and economically marginalized segments of our society. In 2010, Postbank performed this role in the areas of health and education. Some of the beneficiaries of Postbank's Corporate Social Responsibility were educational institutions (district education days and other planned forums) and Boda boda youth groups through the Bank's vibrant financial literacy programs; victims of a traffic accident that occurred in Murang'a, blood donation by staff to the government blood-bank and support of Student in Free Enterprise (SIFE) Kenya to promote youth entrepreneurship programs.





## Risk Management

While the Bank is not currently regulated under the Banking Act, it conducts its business in accordance with Central Bank of Kenya prudential guidelines. Postbank makes concerted efforts to approach her business from a risk perspective while developing new products and carrying out her business. Postbank has embraced risk based management to ensure proactive identification, mitigation and appreciation of all risks affecting the business.

## The Future

In 2010, Postbank celebrated its 100 years of wealth creation through savings. The period ahead is full of opportunities for Postbank. Due to its wide footprint in the country, Postbank, is well placed to contribute towards achievement of the Vision 2030 goals of improving access to finance and raising savings rate to over 30%.

Even as we pursue the reform agenda to enable Postbank to offer other financial services, savings mobilization will remain a key responsibility of the Bank. In this connection, we are going to build on synergies with partners and also progress the reform agenda that is ongoing. Our resolve is to be more customer-centric and focus

on offering market-led solutions to the needs of customers. We are also going to optimize asset utilization and leverage on efficiencies resulting from the new service delivery system.

## Appreciation

Finally, I would like to convey my sincere thanks to the Government, our esteemed customers and business partners for their continued support. I particularly would like to thank the management and staff for their dedication which resulted in the increase in customer deposits and firmly supporting the restructuring of the Bank. In conclusion, let me 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.

CHAIRMAN .....  
DATE: MARCH, 2011







**Dr. Nyambura Koigi**  
**Managing Director**

I am pleased to present to you the Bank's annual report and financial statements for the year 2010. The macroeconomic environment witnessed a rebound with improved GDP growth. The inflationary environment was relatively low. There was a slight weakening of the Kenyan shilling. Interest rates on bonds declined in tandem with the measures the Central Bank of Kenya had put in place.

## Financial Performance

Against this background and in line with our objective of mobilising savings and giving Kenyans opportunities to save and to create value for the benefit of all stakeholders, the Bank posted a growth of 117% in profits to close at Kshs.107.471M. Customer deposits increased by 28.79% compared to 11.98% in 2009 demonstrating our commitment to continuous growth of this government asset.

## Centennial celebrations

Postbank marked her centennial anniversary during the year 2010. Since 1910 when savings services were started in Kenya, the product range has been diversified from the one product through the passbook to an array of savings products, remittance and payment services. Deposits have equally grown from the first Rupee deposited to billions of shillings currently held in deposits in over 1.3 million savings accounts. The branch network has equally expanded over time to over 1,340 touch points using ATMs, Point of Sale [POS] Terminals, own branches and agent locations.

## Transformation

With the full mainstreaming of a New Business Model in 2009 which resulted to automation in all functional areas of the Bank, there was a need to realign human resource in view of the re-engineered processes. The Bank offered a Voluntary Early Retirement Scheme (VERS) which attracted 300 staff who voluntarily left the Bank in first quarter of 2010. To this end, the Bank conducted skills inventory review which was used to deploy the remaining staff within various functional units. Vacant positions were competitively filled through external and internal advertisements. To further deepen the staff rationalization, the organizational grading structure was reviewed resulting to a leaner structure.

## Capacity Building

During the year, the bank focused on talent development. Staff were trained in Business Continuity after the VERS to undertake their new roles. Other capacity building programs and leadership development were undertaken with a view to enhance staff skills, capacities and capabilities.

The above activities have significantly contributed to increased competitiveness, enhanced corporate image and better service delivery to the customers. Postbank also operates under performance contracting guidelines and this has been entrenched through Balanced Score Card performance management system.

In recognition of this transformation effort, the Government through the Office of the Head of Civil Service and Secretary to the Cabinet recognised Postbank as a case study on successful transformation in 2010. Towards this end, Postbank made presentations on successful implementation of transformation to 160 State Corporations through the Transformation Leadership program at Kenya Institute of Administration.

## Branch Expansion and Agency Banking

Postbank has always operated through Agents to reach the unbanked. In late 2009, the Bank started appointing retail outlets at the village level to handle business on its behalf. The agency banking model accelerates the expansion of outreach to the villages at minimal cost mitigating the costs of establishing large scale brick and mortar branches. Proximity banking is at the heart of savings banking.

Postbank received a grant from the Bill & Melinda Gates Foundation through the World Savings Bank institute in 2010 to accelerate the establishment of agents in majority of villages in Kenya. By the close of the year the Bank operated through 1,340 touch points that include 94 branches, 880 ATMs and over 350 agent locations. Through these agents, customers are able to make cash deposits, cash withdrawals, balance enquiries as well as origination of account opening. This way, the Bank continues to play her role in financial inclusion and that way contribute towards meeting some of the goals of the Vision 2030.

## Business Development

In 2010, we continued in our commitment to develop innovative products and services that meets the needs of our customers as outlined in our mission. During the year, mobile SMS Banking service was upgraded to support additional services like deposit and withdrawal services in a new service known as PataCASH. In addition, the Bank introduced a web-based money transfer service known as Postbank Xpress which is a precedent in this service segment in Kenya.

## Automation

The Bank's new delivery platform that uses the Teller Point of Sale (POS) terminal resulted in increased efficiency in processing transactions in all the branches and agent locations and significant cost saving has been realised. Postbank is the pioneer in Kenya financial sector in using Teller POS terminals. In recognition of this innovation that benefits service delivery, the Computer Society of Kenya recognised the Teller POS innovation citing Postbank as "The Best Bank in the Application of Paperless Business Environment in 2010".

## Embracing change for results

Implementing transformation and embracing Result Based Management calls for setting of short term goals that assist in the achievement of the annual and the long term goals. In 2010, Postbank implemented two waves of Rapid Results Initiatives (RRIs) focusing on five thematic areas of Business Growth and Sustainability, Financial Reporting and Profitability, Enhancing Corporate Image, Restructuring and Human Resources and Productivity and Restructuring. This resulted in the launch of new services and products that meet the ever changing customers needs.

As Postbank celebrated the remarkable results achieved through the RRI, the Bank continues to provide Kenyans with diversified, affordable, and secure financial services through cutting edge technology and highly welcome the strategic initiatives that the government is bringing on board to make Postbank more



competitive. The RRI initiative was implemented with the assistance from the Public Sector Transformation Department, Office of the Prime Minister.

## Performance Contracts and ISO Certification

The 2010 Performance Contract between the Chairman and the Managing Director was signed on December 29th 2009. The Performance Contract was cascaded to all levels and performance was monitored against the agreed benchmarks and reported throughout the year as per the Contract with the government. The Government rated Postbank's performance for 2010 as "GOOD".

On service quality, Postbank continued to adhere to the service quality requirements of ISO 9001:2000 which was attained in December 2007 till the end of year 2010. The Bank was again re-certified by SGS Kenya in November 2010 and hence attaining ISO 9001: 2008 standard. The Bank continues to ensure quality service to external and internal customers as outlined in the Service Charter and quality policy.

## Strategic networking

Postbank continued to maintain strategic relationships with key institutions such as;

### World Savings Bank Institute (WSBI)

WSBI 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. The Bank also continued to maintain relationship with the WSBI through the various meetings and workshops. Through a globally competitive process, WSBI awarded Postbank a tender to support Lesotho PostBank in implementing an automated service delivery platform and develop a new product. This consultancy is funded by WSBI/Bill & Melinda Gates Foundation.

### YouthSave Canada

The MasterCard Foundation entered into a partnership with a consortium of organizations to conduct a landmark, global research initiative that will test how to sustainably deliver savings services to low-income youth in the developing world. The 5 year project focuses on four countries namely; Colombia, Ghana, Kenya and Nepal. Postbank representing Kenya was selected through a competitive process and received a grant that is aimed at researching and designing a product that targets the youth.

### Association of Savings Bank in East Africa (ASBEA)

This is an Association of Savings Banks in East Africa which enables the savings banks to network. The Bank held various forums in the year 2010 through trainings and workshops meant to develop synergies in product development and business experiences. The Managing Director was elected the Chairman of ASBEA in November 2010. The ASBEA members are working towards a convergence and

integrated services within the East African region.

### Financial Sector Deepening Trust Kenya (FSD) and other Partnerships

Postbank continued to partner with FSD in various areas. FSD was a key partner in the organisation re-alignment project which was implemented in 2010 and an organisation review done by the end of 2010.

Postbank continues to also have business partnership of mutual benefits with various local and international firms from both the private and public sector.

### Outlook for 2011

In 2011, we will focus on capacity building and consolidating our investment in information and communication technology. We further continue in the restructuring efforts of the Bank. Postbank is now well positioned to move forward and take opportunities leveraging on these investments and initiatives and the new dispensation that will be in place in 2011. The outlook for 2011 therefore remains positive.

## Conclusion

In conclusion, I take this opportunity to express my gratitude to our customers, and business partners for their ever present support and continued confidence and trust in Postbank. I thank the Board of Directors for their oversight and guidance given in 2010. Lastly, I am grateful to my colleagues and the entire staff of the Bank for their dedication and devotion that enabled us to deliver these excellent financial results. Together, we shall continue to live our purpose of providing accessible and sustainable banking and financial services, through innovative delivery system for wealth creation to the benefit of our customers and other stakeholders. This way, we will indeed attain our goal of being a Bank of Choice.

Thank you and God bless.



Dr. A. Nyambura Koigi, MBS

Managing Director.



## Pace Setting in ICT

*The Computer Society of Kenya recognized Postbank as the best Bank in the application of paperless business environment in 2010 and for the introduction of the Point-Of-Sale (POS) terminals that have made banking easier.*

*The PS Ministry of Information and Communication Dr Bitange Ndemo, presenting the Computer Society of Kenya top trophy to MD Dr. Nyambura Koigi. Looking on are H. Omumia Head/ICT and Sammy Kipsat, Manager/Systems Development.*

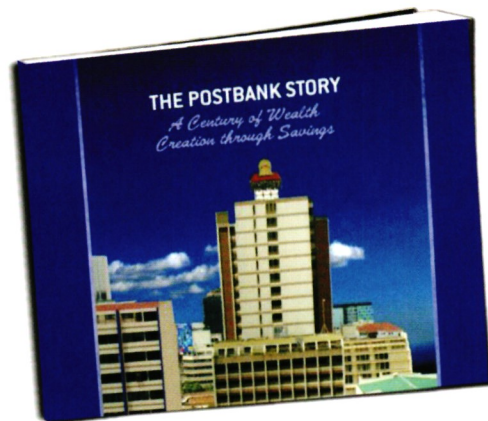


## Postbank making a Difference in Africa Saving Banks

*Postbank Managing Director, Dr. Nyambura Koigi and WSBI's Chris De Noose exchange documents during the commencement of Lesotho Project funded by Bill & Melinda Gates Foundation through the World Saving Institute.*

## A Century of Wealth Creation through Savings

*For over a century, Postbank has provided Kenyan's with opportunities to save; millions of Kenyans and others in the diaspora have been impacted by the services Postbank offers.*





The first bank where Kenyans of African origin had bank accounts way back in 1911, 1st bank to introduce Home safes, first cash-to-cash remittance service in Kenya in 1995, first bank with teller Point-Of-Sale Terminal and paperless banking among other achievements. Through this heritage we have transformed people's lives, helping them save, invest and grow and helping change their expectation of what is possible.

H.E. Hon Mwai Kibaki, C.G.H., M.P. the President of Kenya cuts the cut during the Centenary Celebrations. Looking on are Hon. Samuel Poghisi Minister for Information & Communications representing the Deputy Prime Minister & Minister for Finance Hon. Uhuru Kenyatta, Postbank Chairman Wilson Kinyua and the MD Dr. Nyambura Koigi.



Guests from all over the world attending the Postbank Centenary Celebrations in 2010.



## Inter-banks Sports Competition

Postbank has remained a giant in the inter-banks competition winning top trophies over the years in various sports.



The Directors have pleasure in presenting their report and final draft of accounts for the year ended 31st December 2010.

## Results

The results for the year are as set out on page 20.

## Directors

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

Wilson Kinyua	Chairman	Re-appointed 04-01-2010
Prof. Peter O K'obonyo	Director	Re-appointed 04-01-2010
Dr. Isabella Musyoka Kamere	Director	Re-appointed 04-01-2010
Thomas Mutugu	Director	Re-appointed 21/12/2007 Ceased on 20/12/2010
Joseph K. Kinyua	PS, Ministry of Finance	Appointed May 2004
Chiboli I. Shakaba	Alt. Representing PS. Ministry of Finance	Appointed 03-12-2005
Dr.A. Nyambura Koigi	Managing Director	Re-appointed 01-07-2008

By order of the Board.

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

COMPANY SECRETARY

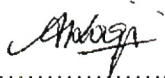
# STATEMENT OF DIRECTORS RESPONSIBILITIES

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: ..... 

MANAGING DIRECTOR: ..... 

DATE: MARCH, 2011



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 of 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 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 reviews itself, Board Committees, Managing Director and Senior Management staff against targets that were agreed to at the beginning of the year.

The Board held five (5) Meetings which comprised of special Meetings during the year under review.

## Board Committees

The Board has created three Principal committees which meet regularly under 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 Bank's strategy, review and approval of product offering and strategic alliances.

The Committee was constituted in 2010 and held two (2) meetings during the year under review.

## Audit and Risk 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 and internal control and risk management.

The Committee was constituted in 2010 and held two (2) meetings during the year under review.

## 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 met five (5) times during the year under review.

## Code of Ethics

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

## Communication with Shareholder and other Stakeholders

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.

Postbank as a player in the global economy, participated in a study on **"Corporate Governance and Access to Finance"** as one of the case studies demonstrating the linkage between good corporate governance and access to finance. Postbank represented Africa in this World Savings Bank Institute's study covering Asia-Pacific, Latin America, Europe and African Regions.

## Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Non –executive Directors for services rendered during the year 2010 is Kshs 2,096,648 (2009 – Kshs 2,386,264). There were no loans to sitting Non-executive Directors at any time during the year.

## Board and Board Committees Attendance

The following table gives the record of Postbank's Board and its Committee Meetings for the year ended December 31st 2010.

	MAIN BOARD	AUDIT COMMITTEE	STRATEGY AND DEVELOPMENT COMMITTEE	STAFF BOARD COMMITTEE	SPECIAL BOARD
NO. OF MEETING HELD	4	2	2	5	1
<b>MEETINGS ATTENDED</b>					
WILSON KINYUA	4	N/A	N/A	N/A	1
CHIBOLI SHAKABA	4	2	2	5	1
THOMAS MUTUGU	4	2	2	1	N/A
PROF. PETER K'OBONYO	4	N/A	2	5	1
DR. ISABELLA KAMERE	4	2	N/A	3	1
A. NYAMBURA KOIGI	4	N/A	2	5	1

CHAIRMAN .....

MANAGING DIRECTOR .....

DATE MARCH, 2011



Like many other organizations, one major challenge that Postbank faces in her philanthropic activities is that the financial needs of our society surpass what we can offer as an organization. For this reason, participation in community affairs is not restricted to financial assistance but also includes direct staff involvement in public and civil issues. Through this, we share our time, skills and knowledge to improve and transform the lives of others. As a continuing commitment by businesses to behave ethically and contribute to economic development, while improving the quality of life of the society, we believe that people are bankable irrespective of their economic level.

Our four areas of focus are Education, Health, environment and emergency response. In the year 2010, we focused our CSR efforts to the area of Education and Health in order to have accountability and an overall impact on society. Most of these activities were carried out in locations of our business in order to reduce the operational cost of these efforts.

## Education

Support in this area aims at creating a solid foundation for responsible future citizens. The bank invested in financial literacy programs mainly for the development of the youth through district education days and other forums whenever it was possible. Some of the forums that the bank offered her time and human resources were the Kajjado, Kiambu and Ruiru District Education days. In such meetings, the bank staff offered savings education to secondary school students, their teachers, parents and other participants. This was meant to inculcate a culture of savings for a better economic society in the future.



*Postbank MD Dr. Nyambura Koigi presenting a Postbank Trophy to the top school during an Education Day.*

## Job Shadowing

During the year 2010, Postbank provided 214 students an opportunity to visit and learn about the Bank's operations. The Bank offers opportunities to secondary school students to experience real work environment through a job-shadowing program. Working with Junior Achievement Kenya, Postbank allows students to spend their time in the Bank's offices and interact with staff in the work environment. At the end of the program, students appreciate what goes on in the actual industry working environment.



*Students being explained how the Postbank Cash-Xpress card works on a Teller Point of Sale (POS) terminal during the 2010 job shadowing programme in the bank.*

## Entrepreneurship and Leadership Development

Postbank also supported the Students in Free Enterprise (SIFE) Kenya during their 8th annual University Student entrepreneurial national competitions held in Nairobi. This initiative was also aimed at promoting a savings culture among the youth in addition to promoting a generation of entrepreneurs and business leaders thus creating a better world for all.

Postbank also supported SIFE in its leadership program through financial support of the 2010 leadership development program.



*Presenting the top prize to the University Student entrepreneurial national competition that represented Kenya at the SIFE Global Entrepreneurial Championship in U.S.A.*



## Financial Literacy

One of the objectives of Postbank is to inculcate a savings culture among Kenyans. Towards meeting this objective, financial literacy programs we offered through road shows in many parts of the country as part of Postbank's Centenary Celebrations with the theme of "A Century of Wealth Creation Through Savings".



A road show during a financial literacy session in a rural town.



Boda boda race during a financial literacy event in Western Kenya


## Health

This covers areas of primary health, care and support for orphans, vulnerable children and disadvantaged elderly. In 2010, the Bank organized an opportunity for her staff to donate blood to the government's blood bank through a non-governmental organization that facilitated the exercise. To Postbank, this is an important activity that is carried out every year where all members of staff are encouraged and supported with the required resources for successful contribution to a noble course. The Bank also paid out medical expenses and offered some financial support to the victims of an accident that sadly occurred during an official event in Murang'a.

The Bank will continue in corporate social responsibility engagements in 2011 in line with our corporate social responsibility policy.



Postbank staff donating blood at the staff clinic

CHAIRMAN ..... 

MANAGING DIRECTOR ..... 

DATE: MARCH, 2011





## THE KENYA NATIONAL AUDIT OFFICE

### REPORT OF THE AUDITOR-GENERAL ON KENYA POST OFFICE SAVINGS BANK FOR THE YEAR ENDED 31 DECEMBER 2010

## Report on the Financial Statements

I have audited the accompanying financial statements of Kenya Post Office Savings Bank set out on pages 20 to 41 which comprise the statement of financial position as at 31 December 2010, 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 the International Financial Reporting Standards and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 independent 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. The audit was conducted in accordance with the 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls.

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

## Basis for Qualified Opinion

### 1. Bank and Cash Balance

i. Included in the bank and cash balance of Kshs.715,728,227 as at 31 December 2010 is cash on hand figure of Kshs.330,193,898 while the cash count certificates show a figure of Kshs.322,067,686. The resultant difference of Kshs.8,126,212 between the two sets of records has not been reconciled or explained. Further, the cash and bank balance is net of overdrawn bank accounts of Kshs.629,058,009 contrary to International Accounting Standards No.1 on presentation of financial statements which states that "an entity shall not offset assets and liabilities, or income and expenses".

ii. In addition, cash count confirmation certificates relating to thirty three (33) branches totalling to Kshs.94,957,037 were not availed for audit verification.

iii. Further, the bank reconciliation statements as at 31 December 2010 reflects unreconciled and unexplained debit and credit balances of Kshs.192,278,206 and Kshs.225,288,567 respectively, which have been outstanding since 2008. In addition, the bank reconciliation statements include opening balances amounting to Kshs.67,052,794 whose analysis was not provided for audit verification. In the circumstances, it has not been possible to ascertain that the bank and cash balance of Kshs.715,728,227 is fairly stated as at 31 December 2010.

### 2. Accounts Receivables and Prepayments

As similarly reported in 2009, the accounts receivables and prepayments balance of Kshs.4,858,642,949 includes Kshs.1,136,696,132 owed by Postal Corporation of Kenya and Kshs.405,231,629 by the defunct Kenya Posts and Telecommunications Corporation and accrued interest of Kshs.206,996,660 due from Postal Corporation of Kenya. These debts have remained outstanding since 1998.

It was further noted that the balance of Kshs.4,858,642,949 includes Kshs.550,879,568 being staff loans and Kshs.9,649,137 relating to directors loans.

However, the aging analysis for these loans was not provided and it was not clear under what scheme the directors' loans were advanced.

In view of the foregoing, it has not been possible to ascertain the recoverability of the long outstanding debts and accuracy of the accounts receivable and prepayments balance of Kshs.4,858,642,949 as at 31 December 2010.

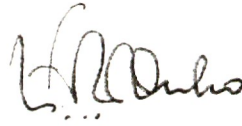
### 3. Accounts Payables and Accruals

The accounts payables and accruals balance of Kshs.3,065,714,945 as at 31 December 2010 has been arrived at after setting off debit balances of Kshs.147,896,468 contrary to the requirements of the International Accounting Standards No.1 on presentation of financial statements that disallow setting off between assets and liabilities unless required or permitted by the specific International Accounting Standard.

### Qualified Opinion

In my opinion, except for the effects of the matter described above, the financial statements present fairly, in all material respects, the financial position of the

Bank as at 31st December 2010, and its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards and comply with the Kenya Post Office Savings Bank Act, Cap. 493 B of the Laws of Kenya.



Edward R. Ouko  
AUDITOR-GENERAL



Nairobi

23 November 2011



		<b>2010</b>	<b>2009</b>
		<b>Kshs</b>	<b>Kshs</b>
<b>ASSETS</b>			
Bank and cash	11	715,728,227	686,648,241
Investments in Treasury Bills and Bonds	12	12,008,361,749	10,075,321,034
Funds on call and short notice	13	9,741,025	309,741,025
Other investments	14	29,998,825	29,635,549
Accounts Receivables & Prepayments	15	4,858,642,949	3,224,177,634
Deferred asset	16	153,998	153,998
Property and Equipment	17	1,838,043,820	999,317,356
		<b>19,460,670,593</b>	<b>15,324,994,837</b>
<b>LIABILITIES</b>			
Customer Savings and Deposits	19	13,415,060,359	10,462,830,924
Accounts Payables & Accruals	18	3,065,714,945	2,549,696,103
Premium Bonds		7,891,980	7,889,300
GoK Pension Reserve Fund		322,972,805	684,832,243
Bearer Bonds	20	220,002,615	220,002,615
		<b>17,031,642,704</b>	<b>13,925,251,185</b>
<b>NET ASSETS</b>		<b>2,429,027,889</b>	<b>1,399,743,652</b>
<b>REPRESENTED BY:</b>			
Capital Reserves		1,393,215,792	471,403,491
Revenue Reserves		1,035,812,097	928,340,161
		<b>2,429,027,889</b>	<b>1,399,743,652</b>

The Financial statements on pages 18 to 41 were approved by the Board of Directors on 30th March 2011 and signed on its behalf by:

  
 ..... ) Director  
  
 ..... ) Director

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31st DECEMBER 2010

	NOTE	2010 December Kshs	2009 December Kshs
Interest Income	29	1,788,152,317	1,369,031,823
Interest Expense	23	(310,839,962)	(180,600,092)
<b>Net Interest Income</b>		<b>1,477,312,355</b>	<b>1,188,431,731</b>
Fees and Commissions Income	21	432,282,854	420,459,277
Fees and Commissions Expense		(19,335,420)	(26,913,889)
<b>Net Fees and Commissions Income</b>		<b>412,947,434</b>	<b>393,545,388</b>
<b>Net Trading Income</b>		<b>1,890,259,789</b>	<b>1,581,977,119</b>
Foreign Exchange Income		49,529,466	44,382,204
Other Operating Income	22	118,718,316	85,200,337
<b>Operating income</b>		<b>2,058,507,571</b>	<b>1,711,559,660</b>
Impairment loss on loans and advances	26	22,356,470	121,611,016
Employee benefits	30	1,147,635,369	1,519,811,077
Operating lease expenses	25	298,998,288	296,714,457
Depreciation & Amortization		164,242,771	139,990,071
Other Expenses	24	317,802,737	248,122,020
<b>Profit before income tax</b>		<b>107,471,936</b>	<b>(614,688,981)</b>
<b>Income tax expense</b>		-	-
<b>Profit For the Period</b>	27	<b>107,471,936</b>	<b>(614,688,981)</b>



	<b>Capital Reserves Kshs.</b>	<b>Revenue Reserves Kshs.</b>	<b>TOTALS Kshs.</b>
<b>At 1st January 2009</b>	<b>471,403,491</b>	<b>1,544,116,042</b>	<b>2,015,519,533</b>
Prior year adjustment	-	(1,086,900)	(1,086,900)
Loss for the year	-	(614,688,981)	(614,688,981)
At 31st December 2009	471,403,491	928,340,161	1,399,743,652
<b>At 1st January 2010</b>	<b>471,403,491</b>	<b>928,340,161</b>	<b>1,399,743,652</b>
Profit for the year	-	107,471,936	107,471,936
Revaluation reserve 2010	921,812,301	-	921,812,301
<b>At 31st December 2010</b>	<b>1,393,215,792</b>	<b>1,035,812,097</b>	<b>2,429,027,889</b>

Capital reserve arose out of revaluation of land and buildings done in 2009 and approved by the Board of Directors in 2010.

	2010 Kshs	2009 Kshs
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit/(Loss) for the year	107,471,936	(614,688,981)
Adjustments for:-		
Depreciation	164,242,771	139,990,071
Rental Income	(21,788,738)	(21,154,629)
Dividend Received	(46,698)	(8,835)
Gain/ (Loss) on Disposal of Fixed Assets	-	(634,700)
Appreciation/Diminution in value of quoted investments	(363,276)	6,075
<b>Operating profit/(loss) before working capital changes</b>	<b>249,515,995</b>	<b>(496,490,999)</b>
(Increase)/ Decrease Accounts Receivables & Prepayments	(1,634,465,315)	358,696,471
Increase/(Decrease) in Accounts Payables & Accruals	516,018,842	(477,027,709)
Increase/(Decrease)Customer deposits and Premium Bonds	2,952,224,808	1,120,424,569
GoK Pension Reserve fund account	(361,859,438)	437,996,298
<b>Net cash flows from operating activities</b>	<b>1,721,434,892</b>	<b>943,598,630</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase/Sale of Property and Equipment	(81,149,627)	(55,663,334)
Capital work in progress	-	9,420,832
Proceeds from sale of Property & Equipment	-	634,700
Rental income	21,788,738	21,154,629
Dividend Received	46,698	8,835
<b>Net cash flows from investing activities</b>	<b>(59,314,191)</b>	<b>(24,444,338)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Net cash flows from financing activities</b>	-	-
Net increase in cash and cash equivalents	<b>1,662,120,701</b>	<b>919,154,293</b>
Cash and cash equivalents at the beginning of the year	<b>11,071,710,300</b>	<b>10,152,556,007</b>
Cash and cash equivalent at the end of the year (Note28)	<b>12,733,831,001</b>	<b>11,071,710,300</b>



## 1. REPORTING ENTITY

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

Postbank House

16<sup>th</sup> Banda Street

P O Box 30311 00100, Nairobi, Kenya

## 2. BASIS OF PREPARATION

### a) Statement of compliance

The 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 on March 2011.

### 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Revenue Recognition

Income is recognised on an accrual basis.

### (i) Interest

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

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

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

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

interest on available-for-sale investment securities on an effective interest basis; and

interest income and expense on all trading assets and liabilities are considered to be incidental to the bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

### (ii) Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, are recognised as the related services are performed.

### (iii) Foreign currency transactions

Transactions in foreign currencies during the year are converted into Kenya Shillings at 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.

## 4. FINANCIAL ASSETS AND LIABILITIES

### i) 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.

### ii) Classification

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

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

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

#### ii) Loans and receivables

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

#### iii) Held-to-maturity

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

#### iv) Available-for-sale

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

Available-for-sale financial assets and financial assets 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 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.

## **5. FINANCIAL RISK MANAGEMENT**

### **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.

#### **(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.

## 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.

## 6. 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 AND EQUIPMENT AND DEPRECIATION

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

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 %

## 7. STOCKS

Stocks comprise of stationery and drugs which are valued at cost.

## 8. FOREIGN CURRENCY TRANSACTIONS

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

## 9. RETIREMENT BENEFIT COSTS

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.

## 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

	2010 Kshs.	2009 Kshs.
Cash on Hand	330,193,898	424,419,522
Cash at Bank	385,534,329	262,228,719
	<u>715,728,227</u>	<u>686,648,241</u>

## 12. INVESTMENT IN TREASURY BILLS & BONDS

	2010	2009
	Kshs	Kshs
East African Development Bank Bonds	22,000,000	44,000,000
Barclays Bank of Kenya medium term note	38,100,000	38,100,000
Kengen Infrastructure Bond	477,700,000	477,700,000
Funds under management (SIMS)	3,878,361,749	2,242,871,034
Government of Kenya T Bond under lien	50,000,000	50,000,000
Government of Kenya Treasury Bonds	7,542,200,000	7,222,650,000
	<b>12,008,361,749</b>	<b>10,075,321,034</b>

## 13. FUNDS ON CALL AND SHORT NOTICE

	2010	2009
	Kshs	Kshs
Funds on call and short notice	9,741,025	309,741,025

## 14. OTHER INVESTMENTS

	2010	2009
	Kshs	Kshs
Quoted investments	2,055,637	2,055,637
Unquoted investment	13,540,000	13,540,000
Investment in property	27,390,225	27,390,225
	<b>42,985,862</b>	<b>42,985,862</b>
Less: Provision for diminution in market value of quoted /unquoted investments	12,987,037	13,350,313
	<b>29,998,825</b>	<b>29,635,549</b>

(i) Quoted investments were valued at Kshs.1,254,600 (2009 Kshs.891,325) using the stock market price for the same category. Thus an appreciation in market value of Kshs.363,276

(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 allottees interest absolutely. The matter is in court and the Bank expects a favourable outcome since it has a vesting right in the property and is holding it with an intention of selling or reinvesting.



**15. ACCOUNTS RECEIVABLES AND PREPAYMENTS**

	<b>2010</b>	<b>2009</b>
	<b>Kshs</b>	<b>Kshs</b>
Postal Corporation of Kenya	1,136,696,132	1,066,267,341
KP&TC	405,231,629	405,231,629
Accrued interest	206,996,660	200,251,381
Directors Loans	9,649,137	11,795,579
Staff loans	550,879,568	494,926,782
Staff debtors – Personal Development Loan	177,724,883	157,548,902
Staff Imprest	7,071,484	5,259,430
Visa Card debtors	134,352,712.36	135,506,331
MTS Trade Debtors	9,537,762.64	21,948,323
Stocks of stationery & drugs	24,511,888	24,472,479
ATM settlement Account receivables	6,168,900	1,749,250
Fixed deposits in ailing financial institutions	540,409,141	540,409,141
Commission Receivable from GoK	65,666,900	25,765,200
Pension Receivable from GoK	222,479,227	222,479,227
Prepaid GoK Pension – PCK Payroll	469,909,260	293,715,344
GoK Pension Cheques Receivable - PCK	268,553,158	240,019,613
Premium on Treasury Bonds (Prepaid)	365,798,025	90,624,193
Refunds due from Bill and Mellida Gates Foundation	3,494,857	-
Other Receivables and Prepayments	1,145,194,516	677,819,090
	<b>5,750,325,840</b>	<b>4,615,789,235</b>
Provision for bad and doubtful debts:		
Trade Debtors	(351,273,750)	(723,358,781)
Amounts due from subsidiary and deposits in ailing financial institutions	(540,409,141)	(668,252,820)
	<b>4,858,642,949</b>	<b>3,224,177,634</b>

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

## 16. DEFERRED ASSET

	2010	2009
	Kshs	Kshs
Balance brought forward	153,998	153,998
Receipts from Treasury	-	-
Balance carried forward	<b>153,998</b>	<b>153,998</b>

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.



NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2010 .... (Continued)

**17. (a) PROPERTY AND EQUIPMENT**

Cost or Valuation	LAND	BUILDING	LEASEHOLD	MOTOR VEHICLES	FURNITURE & FITTINGS	ELECTRONIC OFFICE EQPMT	NON ELECTRONIC OFFICE EQPMT	COMPUTER HARDWARE	COMPUTER SOFTWARE	TOTAL
At 1 Jan. 2010	143,000,000	705,587,699	3,100,000	42,398,936	195,308,566	127,930,001	58,794,373	365,011,114	334,313,095	1,975,443,784
ADDITIONS	-	-	-	3,995,000	82,290	339,007	860,097	7,910,524	67,970,016	81,156,934
REVALUATIONS	532,000,000	386,412,301	3,400,000	-	-	-	-	-	-	921,812,301
DISPOSALS	-	-	-	-	-	-	-	-	-	-
COST 31.12.2010	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	402,283,111	2,978,413,019
DEPRECIATION										
DEPRE.01.01.10	-	135,064,332	3,100,000	42,398,936	104,955,672	82,008,642	46,146,245	268,927,642	293,524,959	976,126,428
CHARGED 2010	-	27,300,000	620,000	990,541	20,237,638	19,875,837	2,631,987	39,265,736	53,321,032	164,242,771
DISPOSALS										
DEPRE.31.12.10	-	162,364,332	3,720,000	43,389,477	125,193,310	101,884,479	48,778,232	308,193,378	346,845,991	1,140,369,199
NBV 31.12.2010	675,000,000	929,635,668	2,780,000	3,004,459	70,197,546	26,384,529	10,876,238	64,728,260	55,437,120	1,838,043,820
NBV 31.12.09	143,000,000	570,523,366	-	-	90,352,894	45,921,359	12,648,128	96,083,471	40,788,137	999,317,355

**Disclosure Note.**

The Bank had a fleet of twenty eight (26) motor vehicles whose book value was nil as at 31/12/2010. They have been re-valued since most of them have outlived their useful economic value and are in the process of being replaced. The disposal process is on-going

## 17. (b) LAND AND BUILDINGS

COST OR VALUATION Kshs	Land Kshs	Buildings Kshs	Show Stand Kshs	2010	2009
				Total Kshs	Total
Long-term leasehold	650,000,000	1,017,000,000	-	1,667,000,000	794,687,699
Short-term leasehold	25,000,000	75,000,000	6,500,000	106,500,000	57,000,000
	<b>675,000,000</b>	<b>1,092,000,000</b>	<b>6,500,000</b>	<b>1,773,500,000</b>	<b>851,687,699</b>

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.

## 18. ACCOUNTS PAYABLES AND ACCRUALS

	2010 Kshs	2009 Kshs
Trade creditors	86,209,338	77,902,762
PCK Services rendered- OSS	468,936,993	441,381,793
PCK Encashed Warrants Payable	462,078,751	462,078,751
Transitorial Accounts - Postbank	417,464,611	42,487,464
Transitorial Accounts - Pension Warrants (PCK)	170,953,266	170,953,266
Transitorial Accounts - GoK Payroll (PCK)	560,691,797	786,453,817
Other creditors and accrued charges	899,380,189	568,438,250
	<b>3,065,714,945</b>	<b>2,549,696,103</b>

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.



## 19. CUSTOMERS' SAVINGS AND DEPOSIT ACCOUNTS

	<b>2010</b>	<b>2009</b>
	<b>Kshs</b>	<b>Kshs</b>
Postbank Savings Account	5,217,377,899	5,339,737,422
Bidii Savings Account	1,468,352,522	948,476,119
Bidii Plus Account	5,209,305	4,851,308
Junior Trust Account	6,916,362	3,473,941
Step Account	142,438,318	57,361,389
Pension accounts (BSG)	1,431,937,865	1,167,229,720
Premium Savings Scheme	873,464,710	848,126,216
Premium Plus Account	3,481,266,936	1,441,369,655
Fixed Deposit Account	167,613,830	158,069,053
Save-As-You-Earn	348,794,515	291,159,211
Staff Salary Account	77,814,301	42,561,393
Salary Account	114,044,763	94,599,579
Postbank Junior Account	40,498,356	28,125,523
Non Scheme Account	4,291,184	(2,730,149)
Corporate Clients	29,016,565	40,138,939
Pamoja Chama Account	6,022,928	281,605
	<b>13,415,060,359</b>	<b>10,462,830,924</b>

## 20. BEARER BONDS

	<b>2010</b>	<b>2009</b>
	<b>Kshs</b>	<b>Kshs</b>
Amount	220,002,615	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.

## 21. FEES & COMMISSIONS

	<b>2010</b>	<b>2009</b>
	<b>Kshs</b>	<b>Kshs</b>
Account maintenance fees/Ledger fees	-	38,584
Salary crediting fees	13,852,391	17,528,297
Continuation fees	447,280	965,386
Premature withdrawal fees	18,255,033	15,623,416
Maintenance fees	51,000	(216,300)
Withdrawal fees	59,477,036	45,401,041
Visa fees	12,812,180	17,232,523
Card fees	35,843,028	42,005,248
MTS- Inbound & Inbound commission	80,104,703	90,263,716
Statement Charge	583,139	550,107
Closure Fee	517,281	1,731,377
Upcountry Cheque Deposit Charge	4,707,736	3,418,943
Postage Fee	362,250	818,941
Commission from Higher Education Loans Board	448,200	686,702
Citibank commission	4,707,866	2,590,385
Pension commission	82,693,101	72,583,280
Miscellaneous fees & commission (others)	117,420,630	109,237,631
	<b>432,282,854</b>	<b>420,459,277</b>

## 22. OTHER OPERATING INCOME

	<b>2010</b>	<b>2009</b>
	<b>Kshs</b>	<b>Kshs</b>
Rental income- notional	20,563,770	20,563,770
Rental Income- Other	27,510,430	21,154,629
Dividend income	46,698	8,835
Write back on Provision	943,670	3,540,492
Interest on bank accounts	102,389	114,771
Bonus from Western Union	34,442,290	3,202,500
Realised gain on sale of Forex	15,823,216	30,794,813
Consultancy fees –(Lesotho Project)	6,101,600	750,800
Agency based commission	6,475,732	1,073,066
Tender fees	239,500	2,656,500
Appreciation/Diminution in value of quoted investments	363,276	6,075
Gain on sale of Property & Equipment	-	634,700
Sundry income	6,105,745	699,386
	<b>118,718,316</b>	<b>85,200,337</b>



## 23. INTEREST EXPENSE

Interest on:-

	2010 Kshs	2009 Kshs
Postbank Savings Accounts	50,423,110	49,895,959
Bidii Savings Account	30,402,254	22,905,055
Bidii Plus	82,765	15,732
Step Account	1,466,086	1,102,949
Pension Account	409	-
Premium Savings Account	24,926,997	26,856,477
Premium Plus Account	195,130,459	68,323,535
Fixed Deposit Account	5,076,272	4,958,920
Save As You Earn Account	-	5,098,854
Staff Salary Account	1,825,575	506,651
Salary Account	1,094,983	764,928
Postbank Junior Account	379,154	170,950
Pamoja Account	31,898	83
	<b>310,839,962</b>	<b>180,600,092</b>

## 24. OTHER EXPENSES

	2010 Kshs	2009 Kshs
Directors fees	3,116,648	2,386,264
Printing and stationery	13,647,598	8,231,301
Debt collection	1,269,749	1,180,376
Postage & telephone	55,748,754	49,565,051
Computer expenses	7,105,655	4,130,703
Motor Vehicle Expenses	6,781,565	12,426,393
Audit fees	3,000,000	3,000,000
Donations and subscriptions	2,270,323	3,763,491
Legal and professional fees	4,629,833	4,987,809
Electricity and water	26,122,461	24,315,276
Cleaning and Sanitation	8,502,094	10,181,670
Special Projects Launching	20,029,185	53,520
Newspapers and Periodicals	309,169	138,252
Transportation Costs	185,226	368,000
Procurement Costs	378,972	-
Miscellaneous expenses	66,029	-
Financial expenses	25,856,771	22,511,624
Selling expenses	111,199,502	78,811,430
Operating Stationery	2,788,674	6,090,855
Bonus & Prizes	674,498	479,855
Write offs & Charge offs	-	977,460
ATM processing charges	13,535,985	11,549,442
ATM card cost	10,584,046	2,963,248
Research & Development	-	10,000
	<b>317,802,737</b>	<b>248,122,020</b>

## 25. OPERATING LEASE EXPENSES

	<b>2010</b>	<b>2009</b>
	<b>Kshs</b>	<b>Kshs</b>
Security expenses	82,946,801	80,311,819
Insurances	12,765,738	11,497,326
Office rent	71,840,945	75,571,071
Land rent and rates	4,321,396	1,110,100
Repairs and maintenance	64,273,018	58,307,847
Service charge	10,356,380	11,097,426
Agency fees - PCK/Others	40,193,177	45,180,662
Licences	9,406,381	13,607,787
Grounds maintenance	477,422	30,419
Agency Expansion Project(WSBI)	2,417,030	-
	<b>298,998,288</b>	<b>296,714,457</b>

## 26. IMPAIRMENT LOSS ON LOANS AND ADVANCES

	<b>2010</b>	<b>2009</b>
	<b>Kshs</b>	<b>Kshs</b>
Visa card debtors	2,356,470	1,924,309
Corporate Scheme	10,000,000	76,897,441
OSS Scheme	10,000,000	42,789,266
	<b>22,356,470</b>	<b>121,611,016</b>

## 27. PROFIT (LOSS) FOR THE YEAR

	<b>2010</b>	<b>2009</b>
	<b>Kshs</b>	<b>Kshs</b>
The profit (loss) for the year is stated after charging:		
Directors fees	2,096,648	2,386,264
Audit fees	3,000,000	3,000,000
Depreciation	164,242,771	139,990,071
Provident fund contribution	2,877,144	33,130,422
Pension scheme contribution	121,934,024	151,324,877
Diminution in value of quoted investments	-	-
and after crediting: -		
Dividends	46,698	8,835
Appreciation in value of quoted investment	363,276	6,075



## 28. CASH AND CASH EQUIVALENTS

	<b>2010</b>	<b>2009</b>
	<b>Kshs</b>	<b>Kshs</b>
Bank and cash balances (net)	715,728,227	686,648,241
Deposits in banks and Financial Institutions	9,741,025	309,741,025
Treasury Bills and Bonds	12,008,361,749	10,075,321,034
	<b>12,733,831,001</b>	<b>11,071,710,300</b>

For the purposes of the cash flow statement, cash and cash equivalents refer to: -

1. Bank and cash balances net of bank overdraft.
2. Deposits in commercial banks and financial institutions
3. Treasury Bills, treasury and corporate bonds as at the balance sheet date.

## 29. INTEREST INCOME

	<b>2010</b>	<b>2009</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Interest on Treasury Bills/Bonds	1,732,648,687	1,304,985,390
Interest on PCK balances	9,768,600	14,088,771
Interest on Staff Loans	29,081,022	33,648,459
Interest on Visa balances	16,654,008	16,309,203
	<b>1,788,152,317</b>	<b>1,369,031,823</b>

## 30. EMPLOYEE BENEFITS

	<b>2010</b>	<b>2009</b>
	<b>Kshs.</b>	<b>Kshs.</b>
Salaries and Wages	814,899,321	1,068,365,241
Pensions and Provident Fund contr.	143,480,385	214,929,475
Travel and Subsistence allowances	60,127,101	94,177,320
Medical expenses	39,285,309	58,896,854
Staff training	10,055,804	11,632,897
Other staff expenses	79,787,449	71,809,290
	<b>1,147,635,369</b>	<b>1,519,811,077</b>

## 31. CONTINGENT LIABILITIES

### (i) Kenya Post Office Savings Bank Employees Pension Trust Fund

An actuarial valuation of the Bank's funded Defined Benefit Pension Trust Fund as at 31st December 2006 was carried out by Alexander Forbes Financial Services (EA) Limited. The report by the actuaries revealed a past service deficit of Kshs.467.9 million as at 31st December 2006. Though the Bank has converted to a Defined Contribution pension scheme, the defined benefit scheme cannot be closed until the above deficit has been paid in full by the employer, the pension fund sponsor.

### (ii) KP & TC Charges for Services Rendered

The KP&TC was claiming Kshs.35, 240,661.18 owing as at 30th June 1999 (at the time it split into Telkom (K) Ltd, Communication Commission of Kenya and Postal Corporation of Kenya). The provision in the accounts then was Kshs.14, 868,291.35. No provision has been made in these accounts for the difference (Kshs.20, 372,370.45) as discussions are in progress to resolve the dispute and the directors are of the opinion that the Bank will obtain a favourable result.

## 32. CAPITAL COMMITMENTS

	2010 Kshs	2009 Kshs
Authorised and contracted for	8,247,989	7,809,734
Authorised but not contracted for	-	2,071,965
	<b>8,247,989</b>	<b>9,881,699</b>

Capital Commitments relate to advertisement, computer software and renovation of branches.



### 33. LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based in the remaining period as at 31 December 2010 to the contractual maturity date

	Matured	Matured in less than a month	1 month 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
<b>A. Assets</b>									
Bank and Cash Balances	715,728,227	-	-	-	-	-	-	-	715,728,227
Investment in T/bills + Bonds	-	-	40,000,000	100,000,000	4,016,326,351	1,877,250,000	403,708,000	5,613,542,000	12,050,826,351
Funds on call and short notice	-	9,741,025	-	-	-	-	-	-	9,741,025
Other Investment	-	-	-	-	-	-	-	29,998,825	29,998,825
other Assets	736,917,240	435,061,107	81,782,941	187,265,445	406,191,573	210,598,310	485,052,221	2,273,309,511	4,816,178,348
Deferred Assets	-	-	-	-	-	-	-	153,998	153,998
Property and Equipment	-	-	-	-	-	-	-	1,838,043,820	1,838,043,820
<b>Total Assets</b>	<b>1,452,645,467</b>	<b>444,802,132</b>	<b>121,782,941</b>	<b>287,265,445</b>	<b>4,422,517,924</b>	<b>2,087,848,310</b>	<b>888,760,221</b>	<b>9,755,048,154</b>	<b>19,460,670,594</b>
<b>B. Liabilities and Reserves</b>									
Other Liabilities	2,019,343,865	383,377,964	365,876,619	295,087,681	-	2,028,817	-	-	3,065,714,945
Premium Bonds	7,891,980	-	-	-	-	-	-	-	7,891,980
Customers' Savings and Deposit accounts	10,601,138,276	983,033,186	517,226,706	478,070,868	300,710,205	534,881,118	-	-	13,415,060,359
Gok Pension Reserve Fund Account	322,972,805	-	-	-	220,002,615	-	-	-	322,972,805
Bearer Bonds	-	-	-	-	-	-	-	-	220,002,615
Reserves	-	-	-	-	-	-	-	1,393,215,792	1,393,215,792
Retained profits	-	-	-	-	-	-	-	1,035,812,097	1,035,812,097
<b>Total Liabilities and Reserves</b>	<b>12,951,346,926</b>	<b>1,366,411,150</b>	<b>883,103,325</b>	<b>773,158,549</b>	<b>520,712,820</b>	<b>536,909,935</b>	<b>-</b>	<b>2,429,027,889</b>	<b>19,460,670,594</b>
<b>A - B Liquidity GAP</b>	<b>-11,498,701,459</b>	<b>-921,609,018</b>	<b>-761,320,384</b>	<b>-485,893,104</b>	<b>3,901,805,104</b>	<b>1,550,938,375</b>	<b>888,760,221</b>	<b>7,326,020,265</b>	<b>-</b>

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.

## 34. CONSOLIDATION

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

## 35. TAXATION

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

## 36. COMPARATIVES

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

## 37. EMPLOYEES

The average number of employees during the year was 786 (2009 - 1129).



## Head Office Branch

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

## Market Branch

Postbank House  
Market Lane behind I & M building Off Banda Street,  
P. O. Box 30311 00100 Nairobi  
Tel: 254 20 229551 Fax: 254 20 341562

## Customer Service Center

Standard House, Ground Floor  
Kenyatta Ave.,  
P. O. Box 30311 00100 Nairobi  
Tel: 254 20 251696/7 Fax: 254 20 2105

## NAIROBI NORTH REGION

### Kikuyu Branch

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

### Githurai Branch

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

### 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

### Ngara Branch

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

### Uthuru Branch

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

### Thika Branch

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

### Matuu Branch

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

### Westlands Branch

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

### Mwingi Branch

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

### Kiambu Branch

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

### Dandora Branch

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

### Ruiru Branch

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

### Eastleigh Branch

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

### Garissa Branch

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

### Adams Arcade Branch

Uchumi Supermarket, Ngong Road  
Tel: 254 020 2103547

## NAIROBI SOUTH REGION

### Wabera Branch

Standard House  
Ground Floor Wabera St.,  
P. O. Box 30311 00100 Nairobi  
Tel: 254 20 251696/7 Fax: 254 20 210593

### Ngong Branch

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

### Machakos Branch

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

### Mlolongo Branch

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

### Canon House Branch

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

### Ronald Ngala Branch

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

### Ongata Rongai Branch

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

### Kajiado Branch

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

### Afya Center Branch

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

### Enterprise Branch

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

### Kibwezi Branch

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

### Viwandani Branch

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

### Kenyatta Market Branch

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

### Kitui Branch

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

### Athi River Branch

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

### Nacico Branch

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

### Karen Branch

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

### 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

### Kenyatta Avenue Branch

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

### Tom Mboya Branch

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

### Wote - Makeni Branch

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

### Emali Branch

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

## 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



**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**

Olerorat 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

**Bomet Branch**

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

**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

**Kericho Post Office**

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

**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

**Narok Branch**

Narok - Nairobi Road, Rorati Building  
P. O. Box 22030 Narok  
Tel: 254 050 22030  
Fax: 254 050 22050

**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, Homabay Town  
P. O. Box 203 Homabay  
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**

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.





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