

KENYA POST OFFICE SAVINGS BANK

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ANNUAL REPORT AND ACCOUNTS 2005

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KENYA POST OFFICE SAVINGS BANK

ANNUAL REPORT

AND

ACCOUNTS

31 DECEMBER 2005

KENYA POST OFFICE SAVINGS BANK

DIRECTORS' REPORT AND ACCOUNTS 31 DECEMBER 2005

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KENYA POST OFFICE SAVINGS BANK

CHAIRMAN'S REPORT

I am pleased to present the Annual Report and Financial Statements of Kenya Post Office Savings Bank for the year ended 31st December 2005.

ECONOMIC OVERVIEW

Kenya's economy grew by 5.8 percent in 2005 up from 4.3 percent in 2004. This surpassed the projected 5.6 percent growth by 0.2 per cent. The drought which affected several parts of the country at the close of the year slowed the growth. Tourism, Horticulture, Tea and Textile sectors of the economy continue to be the main thrust of the positive economic growth enjoyed since year 2003. This trend is expected to continue in the year 2006, all else being equal.

The overall inflation ranged from 6 percent to 14 percent in 2005. This was an improvement over year 2004 where it ranged between 12 percent and 16 percent. For the most part of the year, the overall inflation remained below 10 percent. The effects of drought continued to be a major factor causing inflationary pressures.

Despite the immense political activity in the year running up to the Referendum on the Proposed New Constitution, the financial market participants largely ignored the swings in public emotions. This helped stabilize the interest rate regime and enhanced the performance of the Kenyan Shilling against foreign currencies. The money market benchmark (91-day Treasury Bills rate) ranged between 8.07 percent at the beginning of the year and 7.94 percent at the close of the year. The Kenyan currency, buoyed by dollar inflows from Tourism and Tea sub-sectors, exchanged at Kshs. 71.00 to a dollar, the highest in three years.

THE BANKING SECTOR

The banking sector remained very competitive. It comprised of 46 Commercial Banks, 1 Mortgage Finance Company and 1 Building Society. Commercial Banks continued to aggressively lend medium term personal loans and there are indications that the trend will continue as the economy continues to register impressive growth.

Postbank continued to face a number of challenges in its endeavour to improve service to its customers. These are: -

- 1.The growing need to improve Information and Communication Technology (ICT) throughout the branch network. All over the world, technology is increasingly changing the way people live and do business
- 2.The dynamic nature of the business environment in which the Bank is operating.
- 3.The restrictive Kenya Post Office Savings Bank Act which continue to curtail the range of services the Bank can offer.
- 4.Limited capital base that hinders the Bank from exploiting its potential.

KENYA POST OFFICE SAVINGS BANK

YEAR 2005 RESULTS

The Bank's gross income increased slightly from Kshs.2.144 billion in 2004 to Kshs.2.179 billion in 2005, a 1.6% increase, while the net income decreased from Kshs.192.9 million in 2004 to shs.137.3 million in 2005, a 28.8% decrease. Customer deposits recorded a 4.9 percent growth to reach over Ksh.10.7 billion. This places the Bank in the medium size category, after moving beyond the Ksh.10 billion threshold. The accelerated growth was largely driven by strengthened staff capacity and focused marketing. However, the Bank is putting in place strategic measures in order to improve its future performance. The main focus is on closely managing the cost base, automating customer service delivery channels and enhancing revenue generation.

To this end, we shall continue to enhance operational efficiencies through the implementation of appropriate cost control measures. Further, we shall seek to improve productivity and efficiency of our staff as well as increase customer satisfaction by enhancing appropriate technology-based service delivery channels. This is now possible with the installation of a new host server which has given the bank a higher processing capacity.

HUMAN RESOURCE

Human resource, continue to be our most valuable resource. During the year the Bank conducted many courses and workshops and sponsored staff to professional courses with a view to enhancing capacity, achieve improved communication, customer service efficiency, cost control and greater recognition and acceptance of all employees' ideas and contributions.

BRANCH NETWORK

During the year, several of our service outlets were upgraded with 9 sub-branches upgraded and relocated from Postal Corporation of Kenya premises to our own rented premises and 5 new branches were opened. This made a great difference in how and where we serve our customers and started the re-branding process of our branch network.

THE BOARD

In the period under review, the chairman's term of office was renewed for a further period of three years and Mr. Chiboli Shakaba replaced Mr. Njeru Kirira as alternate to the Permanent Secretary to the Treasury. The Managing Director Mrs. Esther Koimett was appointed as Investment Secretary to the Treasury and Mrs. A. Nyambura Koigi took over as the Managing Director.

CORPORATE SOCIAL RESPONSIBILITY

The Bank continues to be involved in corporate social responsibility activities through making substantial commitment in time, energy and resources. During the year under review, the Bank provided financial and material support to a number of activities and charities. Key among them are its involvement in the sponsorship of the Students in Free Enterprise (SIFE), a student organization involved in inculcating entrepreneurial skills among the youth during their national exposition held in May 2005 and defrayment of medical expenses for the less fortunate. The Bank also joined other Kenyans in supporting the victims of Marsabit Massacre in June 2005.

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In the spirit of good neighbourliness and promotion of environmental safety, the Bank sponsored the Market Street Beautification project in conjunction with the Nairobi Central Business District Association (NCBDA), by painting the City Market, construction of a Police patrol booth and planting of flowers along the Market Street.

PERFORMANCE CONTRACTS

Currently all state corporations are on Performance Contracts. The Performance Contracts articulate agreed targets between the Government and the state corporations and form a basis against which work performance is evaluated. Postbank was among the 16 state corporations to pilot the Performance Contracts in 2005. The 2006 Performance Contract between the Government and the Bank was signed on 22nd December 2005 and provides the performance benchmarks for 2006.

THE FUTURE

With ever changing customer needs, the Bank's resolve is to be more customer-centred and more focused to offering market-led solutions to these needs. The Bank is confident that it will benefit from its existing and planned strategic measures including product diversification and optimal use of its enhanced information technology. It is hoped that most of our branches will be connected online/real-time to enable customer's access services throughout the branch network.

The Bank is at an advanced stage in establishing Automated Teller Machines (ATMS) in selected locations. This is expected to further enhance customer service delivery to all customers.

APPRECIATION

Special thanks go to our Government, esteemed customers and business partners for their continued support, to the management and staff for their dedication which has enabled us achieve these great results in a difficult economic environment, and last and by no means the least, to my fellow Directors for their continued support and guidance. We look forward to working together towards meeting and surpassing our customers' and shareholder's expectations in the coming year.



Chairman

Date: ...16/02/2007.....

KENYA POST OFFICE SAVINGS BANK

CORPORATE GOVERNANCE

Introduction

Corporate governance is the process by which organizations are directed, controlled and held accountable.

Kenya Post Office Savings Bank Board of Directors is responsible for the governance of the Bank and is accountable to the shareholders for ensuring that the Bank 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 the Bank 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 meetings are held quarterly to review the bank's performance and formulate strategies. Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance requirements. The Board has delegated authority on day-to-day running of the Bank to the Managing Director except for guidance on general policy. The Board retains responsibility for establishing and maintaining the Bank's overall control of financial, operational and compliance requirements.

Five out of six members of the Board are non-executive including the Chairman of the Board and all, except for the representative of the Permanent Secretary, Ministry of Finance, are on contractual appointment in accordance with the Kenya Post Office Savings Bank Act Cap 493B. The Board members are Dr. Jeniffer Riria, Mr. Stephen Kituku, Mr. Matthews Sisenda, Mr. Thomas Mutugu, Mr. Chiboli .I. Shakaba (representing the PS/Treasury) and the Managing Director. A representative from the office of the President/State Corporations Department and Company Secretary also attend the Board meetings. The Director/Finance and Administration, Director/Operations, Director/ Human Resources attend Board meetings as invitees. There is no quorum for a Board meeting if there is no representative from the Ministry of Finance. Other Managers attend meeting when required.

Committees of the Board

The Board has three standing committee, which meet regularly to supplement the functions of the Board.

Board Audit Committee

The Board has constituted an Audit Committee which meets four times a year or as necessary. Its membership comprise Mr. Matthews Sisenda (Chairman), Dr. Jeniffer Riria, and Mr. Stephen Kituku. The Committee meets quarterly or as required and submits its findings to the main Board. The committee's responsibilities include review of financial statements, ensuring compliance with accounting standards, review of external audit reports and maintaining oversight on internal control systems. The Senior Manager in charge of Internal Audit, Director/Finance & Administration, Director/Operations & Director/Human Resources are invitees.

KENYA POST OFFICE SAVINGS BANK

Board Tender Committee

The membership of this Committee comprise of Mr. Thomas Mutugu (Chairman), Mr. Stephen Kituku, Mr. Chiboli I. Shakaba (representing PS/Treasury) and the Managing Director. The Committee meets monthly or as required. It is responsible for procurement of goods and services for the Bank as per Public Procurement Regulations. The Director/Finance and Administration, Director/Operations, Director/ Human Resources, Senior Manager/Administration & Property Management and Company Secretary attend meetings of the Committee. Other Managers attend meeting when required.

Board Human Resource Committee


The membership of this Committee comprise of Mr. Stephen Kituku (Chairman), Mr. Thomas Mutugu, Mr. Chiboli Shakaba and the Managing Director. The Committee meets quarterly or when need arises. The Committee is responsible for recruiting senior managers of the Bank, formulating, appraising and reviewing human resource policies. The Director/Finance and Administration, Director/Operations, Director/Human Resources attend all meetings of the Committee.

Code of Ethics

The Bank is committed to the Public Code of Ethics which has been formulated for all employees.

Directors Emoluments and Loans

The aggregate emoluments paid to Directors for services rendered during the financial year 2005 are disclosed in note 22 to the financial statements. There were no loans to sitting Directors at any time during the year.

Chairman:.....

Managing Director:.....

Date:... 16/02/2007.....

KENYA POST OFFICE SAVINGS BANK

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31st DECEMBER 2005

The Directors have pleasure in presenting their report and final draft of accounts for the year ended 31st December 2005.

Principal Activity

The Bank is primarily engaged in the mobilisation of savings for national development and operates under the Kenya Post Office Savings Bank Act Cap 493B. In addition, through its Money Transfer Services department, the Bank offers local and international money transfer services and also

Visa Credit Services.

Results

The results for the year are as set out on page 9

Directors

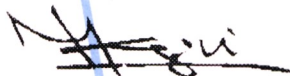
The directors who served during the year to the date of this report were:-

| | | |
|------------------------|--|------------------------|
| Wilson Kinyua | -Chairman | - Appointed 04-01-2007 |
| Dr. Jeniffer N. Riria | -Chairman -Re-appointed 23-09-2005 | - Retired 04-01-2007 |
| A. Nyambura Koigi | -Managing Director | - Appointed 01-07-2005 |
| Esther Koimett | -Managing Director | - Retired 14-02-2005 |
| Mathew P. N. Sisenda | -Appointed 18-12-2003 | - Retired 04-01-2007 |
| Stephen Kituku | -Appointed 18-12-2003 | - Retired 04-01-2007 |
| Prof. Peter O K'obonyo | -Appointed 04-01-2007 | |
| Dr Isabela M. Musyoka | -Kamere- Appointed 04-01-2007 | |
| Joseph K. Kinyua | -Permanent Secretary, Ministry of Finance | -Appointed May 2004 |
| Njeru Kirira | -Alt. Representing PS. Ministry of Finance | -Retired 03-12-2005 |
| Chiboli I. Shakaba | -Alt. Representing PS. Ministry of Finance | -Appointed 03-12-2005 |
| Thomas Mutugu | -Appointed 20-12-2004 | |

Auditors

The auditors are the Kenya National Audit Office.

By order of the Board.



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


KENYA POST OFFICE SAVINGS BANK

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The State Corporations' Act requires the Directors to prepare financial statements for each financial year, which give 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:... 16/02/2007.....

KENYA POST OFFICE SAVINGS BANK

REPORT OF THE CONTROLLER AND AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF THE KENYA POST OFFICE SAVINGS BANK FOR THE YEAR ENDED 31 DECEMBER 2005

I have audited the financial statements of Kenya Post Office Savings Bank for the year ended 31 December 2005 in accordance with Section 14 of the Public Audit Act, 2003. I have obtained all the information and explanation which, to the best of my knowledge and belief, were necessary for the purpose of the audit. The financial statements are in agreement with the books of account.

Respective responsibilities of the Director and the Controller and Auditor General

The Directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the Bank and its operating results. My responsibility is to express an independent opinion on the financial statements based on my audit.

Basis of Opinion

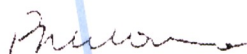
The audit was conducted in accordance with the international Standards on Auditing. Those standards require that the audit be planned and performed with a view to obtaining reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the financial statements. I believe the audit provides a reasonable basis for my opinion.

Debtors, Prepayment and Other Assets

The Balance sheet debtors, prepayment and other assets figure of Kshs. 1, 683, 838, 169 as at 31 December 2005 includes Kshs. 791, 809, 341 due from Postal Corporation of Kenya, out of which Kshs. 134,628,213 relates to interest for the period between 1999 and 2005 that has remained unsettled. It is not clear why the interest has remained unsettled for so long.

Opinion

Except for the above mentioned reservation, in my opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the bank as at 31st December 2005 and of its profit and cash flows for the year then ended and comply with the international Financial Reporting Standards and the Kenya Post Office Savings Bank Act (Cap. 439B).



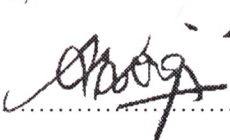
P.N KOMORA
CONTROLLER AND AUDITOR GENERAL
NAIROBI
07 March 2007


KENYA POST OFFICE SAVINGS BANK

BALANCE SHEET AS AT 31st DECEMBER 2005

| ASSETS | NOTE | 2005 Kshs. | 2004 Kshs. |
|---|------|-----------------------|-----------------------|
| Bank and cash balances | | 641,795,468 | 1,050,192,541 |
| Investments in Treasury Bills and Bonds | 2 | 10,193,650,001 | 9,734,352,541 |
| Funds on call and short notice | 3 | 426,000,000 | 14,000,000 |
| Other investments | 4 | 29,889,849 | 29,678,500 |
| Debtors, prepayments and other assets | 5 | 1,683,838,169 | 1,449,696,163 |
| Deferred asset | 6 | 202,153,998 | 202,153,998 |
| Capital work-in-progress | 7 | 123,247,245 | 156,857,488 |
| Fixed assets | 8 | 964,059,464 | 955,837,184 |
| | | 14,264,634,194 | 13,592,768,415 |
| LIABILITIES | | | |
| Creditors | 9 | 1,531,117,695 | 1,353,786,568 |
| Premium Bonds | | 7,909,300 | 55,484,656 |
| Customers savings and deposit accounts | 10 | 10,763,741,410 | 10,291,051,601 |
| Bearer Bonds | 11 | 220,002,615 | 220,002,615 |
| EADB Loan | | 160,000,000 | 240,000,000 |
| | | 12,682,771,020 | 12,160,325,440 |
| NET ASSETS | | 1,581,863,174 | 1,432,442,975 |
| REPRESENTED BY: | | | |
| Capital Reserves | 12 | 471,403,491 | 472,195,171 |
| Revenue Reserves | 12 | 1,110,459,683 | 960,247,804 |
| | | 1,581,863,174 | 1,432,442,975 |

The accounts were approved by the Directors on 16th February, 2007 and signed on its behalf by:


.....)


.....)
.....)

) Directors

KENYA POST OFFICE SAVINGS BANK

STATEMENT OF CHANGES IN RESERVES

| | Capital Reserves | Revenue Reserves | TOTALS 2005 | TOTALS 2004 |
|-------------------------------|---------------------|----------------------|----------------------|----------------------|
| At 1st January 2004 | Kshs. | Kshs. | Kshs. | Kshs. |
| Balance brought forward | 472,195,171 | 960,247,805 | 1,432,442,976 | 1,237,899,295 |
| Loss on sale of Fixed Asset | -791,680 | | -791,680 | - |
| Prior year Expense Adjustment | | 12,910,501 | 12,910,501 | 2,503 |
| Write back on Provisions | | 0 | 0 | 1,557,096 |
| Profit/(Loss) for the year | | 137,301,377 | 137,301,377 | 192,984,082 |
| Balance carried forward | 471,403,491 | 1,110,459,683 | 1,581,863,174 | 1,432,442,976 |

Capital reserve arose out of revaluation of land and buildings done in 2002 (see note 9a). Prior year adjustment for the year 2005 is made up of bonus of Ksh.2,120.00 and security-Radio Alarms of Ksh.175,121.25 previously expensed in 2004 and premature charges of Ksh.420.00 received in year 2004 rolled over to year 2005 as opening balances, depreciation charge on computer software of Ksh.10,634,392.40 overstated in year 2002 – 2004, and KPTC excess deposits (SAYE & PBS) of Ksh.265,531.60 and Ksh.680,600 respectively overpaid by the agent and Ksh.1,153,156.50 accrued interest understated.

KENYA POST OFFICE SAVINGS BANK

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 2005

| INCOME | NOTE | 2005 Kshs. | 2004 Kshs. |
|---|------|----------------------|----------------------|
| Interest on placement with banks | | 11,126,644 | 1,454,865 |
| Interest on Government securities | | 933,101,240 | 888,312,763 |
| Fees and commissions | 13 | 1,007,584,434 | 1,038,654,699 |
| Interest on KP&TC balances | | 32,852,210 | 58,057,348 |
| Interest on PCK Deposits | | 52,429,298 | 22,081,405 |
| Interest on staff loans | | 11,244,028 | 11,314,268 |
| Rental income | | 10,215,326 | 10,887,364 |
| Interest on Visa balances (Local & International) | | 13,221,046 | 14,002,756 |
| Forex Gain on Money Transfer | | 66,558,148 | 71,753,051 |
| Other Income | 14 | 41,352,137 | 27,567,520 |
| | | 2,179,684,511 | 2,144,086,039 |
| DIRECT EXPENSES | | | |
| Interest expenses | 15 | 193,179,060 | 142,088,731 |
| Operating Stationery | | 54,185,273 | 48,343,576 |
| Bonus, Prizes | | 787,054 | 4,832,361 |
| Visa charges | | 3,828,573 | 3,397,825 |
| Shared cost | | 3,624,454 | 50,235 |
| Premium paid (commissions) | | 28,476,890 | 44,745,752 |
| Total Direct Expenses | | 284,081,304 | 243,458,480 |
| GROSS PROFIT | | 1,895,603,207 | 1,900,627,559 |
| OTHER EXPENSES | | | |
| Administration | 6 | 1,172,979,133 | 994,824,349 |
| Establishment | 17 | 337,648,554 | 371,387,239 |
| Selling | 18 | 36,224,396 | 36,351,204 |
| Depreciation | | 120,390,189 | 105,889,361 |
| Research & Development | | 1,326,471 | 3,500 |
| Financial Expenses | 19 | 47,082,401 | 50,214,530 |
| Write off & Charge off | | - | 1,667,271 |
| Bad and doubtful debts | 20 | 42,650,686 | 147,306,023 |
| Total Other Expenses | | 1,758,301,830 | 1,707,643,477 |
| NET PROFIT | 21 | 137,301,377 | 192,984,082 |

KENYA POST OFFICE SAVINGS BANK

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st DECEMBER 2005

| | 2005 Kshs. | 2004 Kshs. |
|---|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit for the year | 137,301,377 | 192,984,082 |
| Adjustments for:- | | |
| Depreciation | 120,390,189 | 105,889,361 |
| Rental Income | -10,215,326 | -10,887,364 |
| Dividend income | -51,804 | -49,170 |
| Gain/ (Loss) on Disposal of Fixed Assets | 1,616,162 | 0 |
| Dividend from Trust Bank Limited | 0 | -538,964 |
| Appreciation in value of quoted investments | 211,350 | -182,975 |
| Operating profit before working capital changes | 248,829,248 | 287,214,970 |
| Debtors | -234,142,006 | 100,728,552 |
| Creditors | 177,331,127 | 494,143,395 |
| Redemption of Premium Bonds | - 47,575,356 | 0 |
| Customer deposits and Premium Bonds | 472,689,809 | 756,272,538 |
| Net cash from operations | 617,132,822 | 1,638,359,455 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of fixed assets | -119,658,042 | -88,227,567 |
| Capital work in progress | 33,610,242 | -39,319,146 |
| Purchase of EADB Bonds | 0 | -110,000,000 |
| Dividend from Trust Bank Limited | 0 | 538,964 |
| Gain/ (Loss) on Disposal of Fixed Assets | -1,616,162 | 0 |
| Proceeds from Disposal of Fixed Assets | 106,700 | 0 |
| Proceeds from Financial Institutions - Non Performing | 0 | 23,642,904 |
| Proceeds from Shelter Airique – MTN | 0 | 10,000,000 |
| Rental income | 10,215,326 | 10,887,364 |
| Dividend Income | 51,804 | 49,170 |
| Net cash from investing activities | -77,290,132 | -92,428,311 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| EADB Loan | -80,000,000 | -80,000,000 |
| Net cash from financing activities | -80,000,000 | -80,000,000 |
| Net increase in cash and cash equivalents | 459,842,690 | 1,365,931,144 |
| Cash and cash equivalents at the beginning of the year | 10,638,486,503 | 9,272,555,359 |
| Cash and cash equivalents at the end of the year (note 22) | 11,098,329,193 | 10,638,486,503 |

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31st DECEMBER 2005

1. SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of Accounting**

The accounts are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

(b) **Revenue Recognition**

Income from investments and rent is recognised on accrual basis.

(c) **Investments**

Investments are stated at the lower of cost and net realisable value.

(d) **Fixed Assets 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, other buildings and other fixed assets are stated at a professional valuation done in year 2002 by Highland Valuers. The basis of valuation was open market value.

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

The following depreciation rates are used:

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

(e) **Stocks**

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

(f) **Foreign Currency Transactions**

Foreign currency transactions during the year were converted into Kenya shillings at rates ruling at the transactions dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies 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.

(g) **Retirement Benefit Costs**

The contributions made by the bank to the defined scheme and to the provident fund are charged to the profit and loss account in the year of contribution.

(h) **Provision For Doubtful Debts**

Specific 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.

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (continued) FOR THE YEAR ENDED 31st DECEMBER 2005

| 2. <u>INVESTMENT IN TREASURY BILLS & BONDS</u> | 2005 Kshs. | 2004 Kshs. |
|--|-----------------------|----------------------|
| East African Development Bank Bonds | 110,000,000 | 110,000,000 |
| Government Bonds and Treasury Bills | 10,083,650,001 | 9,624,352,541 |
| | 10,193,650,001 | 9,734,352,541 |

| 3. <u>FUNDS ON CALL AND SHORT NOTICE</u> | 2005 Kshs. | 2004 Kshs. |
|--|--------------------|-------------------|
| Funds on call and short notice | 426,000,000 | 14,000,000 |
| Less: Provision for bad and doubtful debts | - | - |
| | 426,000,000 | 14,000,000 |

Funds on call and short notice represent short term deposits with commercial banks and financial institutions.

The interest on deposits held in non performing banks and financial institutions has been suspended as follows:-

| | 2005 Kshs. | 2004 Kshs. |
|---------------------------------------|-------------------|-------------------|
| Consolidated Bank of Kenya Limited | 23,375,670 | 23,375,670 |
| City Finance Bank Limited | 1,472,877 | 1,472,877 |
| | 24,848,547 | 24,848,547 |
| Others in liquidation:- | | |
| Prudential Bank Limited | 9,154,932 | 9,154,932 |
| Middle Africa Finance Company Limited | 2,798,466 | 2,798,466 |
| International Finance Company Limited | 9,150,246 | 9,150,246 |
| Inter-African Credit Finance Limited | 4,568,931 | 4,568,931 |
| United Trustee Finance Co. Limited | 3,794,556 | 3,794,556 |
| | 54,315,678 | 54,315,678 |

| 4. <u>OTHER INVESTMENTS</u> | 2005 Kshs. | 2004 Kshs. |
|--|-------------------|-------------------|
| Quoted investments | 2,055,637 | 2,055,638 |
| Unquoted investment | 13,540,000 | 13,540,000 |
| Investment in property | 27,390,225 | 27,390,225 |
| | 42,985,862 | 42,985,863 |
| Less: Provision for diminution in market value of quoted /unquoted investments | 13,096,013 | 13,307,363 |
| | 29,889,849 | 29,678,500 |

(i) The quoted investments were valued at Kshs.1,145,625.00 (2004 -Kshs.934,275.00) using the stock market price for the same category. Thus an appreciation in market value of Kshs. 211,350.

(ii) The unquoted investment represents 80% of deposits in City Finance Bank converted into shares following the restructuring of the Bank in year 2000. However, 90% of the unquoted investment i.e Ksh.12,186,000 was provided for in year 2003 to reflect the market value of these shares.

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (continued) FOR THE YEAR ENDED 31st DECEMBER 2005

(iii) The investment in property represents a piece of land with a building taken over by the bank from Thabiti Finance Ltd which was holding deposits for the bank but failed to pay the same on maturity. Title to the property is in dispute. The current occupant of the premises is claiming allottees interest absolutely. The case 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.

5. DEBTORS, PREPAYMENTS AND OTHER ASSETS

| | 2005 Kshs. | 2004 Kshs. |
|---|----------------------|----------------------|
| PCK | 791,809,341 | 717,142,792 |
| KP&TC | 405,231,359 | 360,045,490 |
| Accrued interest | 326,160,828 | 210,057,797 |
| Directors loans | 18,833,881 | 15,618,314 |
| Staff loans | 297,092,583 | 256,445,305 |
| Staff Imprest | 6,925,293 | 6,561,983 |
| Visa Card debtors | 122,501,872 | 116,637,704 |
| MTS Trade Debtors | 38,264,134 | 45,680,531 |
| Stocks of stationery & drugs | 28,513,314 | 25,655,347 |
| Amount due from subsidiary (PCL) | - | 155,619,436 |
| Fixed deposits in ailing financial institutions | 594,724,819 | 441,125,925 |
| Commission Receivable | 12,341,400 | 11,889,600 |
| Citibank GoK Pension Cheques Receivable | 6,684,738 | 6,684,738 |
| Premium on Treasury Bonds (Prepaid) | 119,515,337 | 147,433,500 |
| Other Debtors and Prepayments | 156,063,766 | 136,725,823 |
| | 2,924,662,665 | 2,653,324,285 |
| Provision for bad and doubtful debts: | | |
| Trade | -518,255,998 | -481,059,624 |
| Amounts due from subsidiary and deposits in ailing financial institutions | -668,252,820 | -668,252,820 |
| Suspended interest (note 3(a) above) | -54,315,678 | -54,315,678 |
| | 1,683,838,169 | 1,449,696,163 |

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 has been suspended with effect from July 2005.

Included in the figure of debtors, prepayments and other assets is an amount of Kshs.35 million due from KPOSB Staff Pension Fund arising from the sale of property held as security for deposits in Allied Credit Limited. Also included is an amount of Kshs.8.75 million advanced to the KPOSB Pension Fund in the normal course of business, which was paid to the bank lawyer, being 25% of the auction proceeds. The Pension Fund is paying Kshs.6,070,000.00 on monthly basis with effect from October 2005 for six months.

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (continued) FOR THE YEAR ENDED 31st DECEMBER 2005

| 6. <u>DEFERRED ASSET</u> | 2005 | 2004 |
|---|--------------|--------------|
| | Kshs. | Kshs. |
| Balance brought forward | 202,153,998 | 202,153,998 |
| Receipts from Treasury | 0 | 0 |
| Recovery made (Postbank Credit Limited) | 0 | 0 |
| Balance carried forward | 202,153,998 | 202,153,998 |

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.

The amount has not been reduced by profits of subsequent years except for recoveries of debts previously provided for.

| 7. <u>CAPITAL WORK IN PROGRESS</u> | 2005 | 2004 |
|---|--------------|--------------|
| | Kshs. | Kshs. |
| Capital Work in Progress | 123,247,245 | 156,857,488 |

The amount represents cost of computer hardware, software and its implementation costs which shall eventually be capitalized for the SYMBOLS computer system currently under implementation and renovation of new branches which were in progress at the end of the year.

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (Continued)
FOR THE YEAR ENDED 31ST DECEMBER 2005
8. FIXED ASSETS

| a. 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. 2005 | 143,000,000.00 | 667,600,000.00 | 3,100,000.00 | 32,722,640.00 | 50,953,125.25 | 26,510,721.15 | 44,063,889.37 | 135,367,979.64 | 186,723,139.45 | 1,290,041,494.86 |
| ADDITIONS | | | | 14,976,296.00 | 53,786,424.30 | 3,026,370.00 | 3,189,559.00 | 42,253,490.23 | 2,425,901.84 | 119,658,042.10 |
| DISPOSALS | | | | | -164,424.00 | -284,800.00 | -880,000.00 | -1,261,770.00 | | -2,590,994.00 |
| COST 31.12.2005 | 143,000,000.00 | 667,600,000.00 | 3,100,000.00 | 47,698,936.00 | 104,575,125.55 | 29,252,291.15 | 46,373,449.10 | 176,359,699.87 | 189,149,041.29 | 1,407,141,117.96 |
| DEPRECIATION | | | | | | | | | | |
| DEPRE. 31.01.05 | | 50,070,000.00 | 1,860,000.00 | 24,541,980.00 | 15,512,812.77 | 13,219,208.08 | 15,462,815.30 | 51,150,170.70 | 151,752,929.62 | 323,569,916.47 |
| CHARGED 2005 | | 16,690,000.00 | 620,000.00 | 11,924,734.00 | 13,071,347.54 | 5,850,458.20 | 5,796,690.33 | 35,268,195.57 | 31,165,441.38 | 120,390,188.90 |
| DISPOSALS | | | | | -39,838.00 | -113920.00 | -220,000.00 | -504,708.00 | | -878,456.00 |
| DEPRE. 31.12.05 | | 66,760,000.00 | 2,480,000.00 | 36,466,714.00 | 28,544,332.31 | 18,955,746.28 | 21,039,505.63 | 85,913,658.27 | 182,918,371.00 | 443,081,649.37 |
| NBV 31.12.2005 | 143,000,000.00 | 600,840,000.00 | 620,000.00 | 11,232,222.00 | 76,030,793.24 | 10,296,544.87 | 25,333,943.47 | 90,446,041.60 | 6,230,670.29 | 964,059,468.59 |
| NBV 31.12.2004 | 143,000,000.00 | 617,530,000.00 | 1,240,000.00 | 8,180,660.00 | 35,440,311.87 | 13,291,513.07 | 28,601,074.58 | 84,217,808.93 | 24,335,817.43 | 955,837,185.88 |

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (continued) FOR THE YEAR ENDED 31st DECEMBER 2005

8. (b) LAND AND BUILDING (continued)

| COST OR VALUATION | | | 2005 | 2004 |
|----------------------|--------------------|--------------------|--------------------|--------------------|
| | Land Kshs. | Buildings Kshs. | Total Kshs. | Total Kshs. |
| Long-term leasehold | 122,000,000 | 634,700,000 | 756,700,000 | 736,910,000 |
| Short-term leasehold | 21,000,000 | 36,000,000 | 57,000,000 | 57,000,000 |
| | 143,000,000 | 670,700,000 | 813,700,000 | 793,910,000 |

Included in short-term leasehold land and building is a property purchased in Mombasa. It is valued at Kshs.45 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 2002 valuation report carried out by the professional firm, Highland Valuers. In the valuation report, freehold and long-term leasehold is combined as the Bank does not possess freehold land and buildings.

| 9. <u>CREDITORS</u> | 2005 Kshs. | 2004 Kshs. |
|-------------------------------------|----------------------|----------------------|
| Trade creditors | 36,666,005 | 77,562,232 |
| PCK Services rendered- OSS | 288,397,342 | 171,720,005 |
| PCK Services rendered- GoK Pension | 668,876,837 | 508,843,566 |
| Transitorial Accounts | 306,327,880 | 300,408,707 |
| Excess Cash – GoK Pension | - | 66,415,637 |
| Other creditors and accrued charges | 230,849,631 | 228,836,421 |
| | 1,531,117,695 | 1,353,786,568 |

PCK Services rendered- GoK Pension 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 on behalf of third party pending disbursement.

10. CUSTOMER SAVINGS AND DEPOSIT ACCOUNTS

| | 2005 Kshs. | 2004 Kshs. |
|-------------------------|-----------------------|-----------------------|
| Premium Savings Scheme | 439,976,809 | 375,381,504 |
| Ordinary Savings Scheme | 8,625,224,318 | 8,867,195,739 |
| Bidii Savings Account | 1,329,256,245 | 717,537,866 |
| Fixed Deposit Scheme | 161,566,803 | 113,146,764 |
| Save-As-You-Earn | 207,686,178 | 217,525,120 |
| MTS-Intra bound | 31,058 | 264,608 |
| | 10,763,741,410 | 10,291,051,601 |

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (continued) FOR THE YEAR ENDED 31st DECEMBER 2005

| | | | |
|-----|----------------------------|-----------------------|-----------------------|
| 11. | <u>BEARER BONDS</u> | 2005 Kshs. | 2004 Kshs. |
| | | 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 CBK 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.

| | | | | | |
|-----|-------------------------------|---------------------------------------|---------------------------------------|----------------------------------|----------------------------------|
| 12. | <u>RESERVES</u> | Capital Reserves Kshs. | Revenue Reserves Kshs. | TOTALS 2005 Kshs. | TOTALS 2004 Kshs. |
| | Balance brought forward | 472,195,171 | 960,247,805 | 1,432,442,976 | 1,237,899,295 |
| | Loss on sale of Fixed Asset | -791,680 | | -791,680 | - |
| | Prior year Expense Adjustment | | 12,910,501 | 12,910,501 | 2,503 |
| | Write back on Provisions | | 0 | 0 | 1,557,096 |
| | Profit/(Loss) for the year | | 137,301,377 | 137,301,377 | 192,984,082 |
| | Balance carried forward | 471,403,491 | 1,110,459,683 | 1,581,863,174 | 1,432,442,976 |

Capital reserve arose out of revaluation of land and buildings done in 2002 (see note 9a). Prior year adjustment for the year 2005 is made up of bonus of Ksh.2,120 and security-Radio Alarms of Ksh.175,121.25 previously expensed in 2004 and premature charges of Ksh.420 receipted in year 2004 rolled over to year 2005 as opening balances, depreciation charge on computer software of Ksh.10,634,392.40 overstated in year 2002 – 2004, and KPTC excess deposits (SAYE & PBS) of Ksh.265,531.60 and Ksh.680,600 respectively overpaid by the agent and Ksh.1,153,156.50 accrued interest understated.

| | | | |
|-----|--|-----------------------|-----------------------|
| 13. | <u>FEES & COMMISSIONS</u> | 2005 Kshs. | 2004 Kshs. |
| | Account maintenance fees | 503,023,003 | 576,289,824 |
| | Salary crediting fees | 43,475,688 | 35,180,638 |
| | Continuation fees | 21,829,899 | 21,370,109 |
| | Premature withdrawal fees | 25,463,449 | 33,511,119 |
| | Withdrawal fees | 17,088,600 | 0 |
| | Visa fees | 17,520,070 | 22,224,986 |
| | Card fees | 19,420,413 | 0 |
| | MTS- Inbound & Inbound commission | 176,361,211 | 188,008,174 |
| | Statement Charge | 35,354,600 | - |
| | Closure Fee | 6,058,079 | - |
| | Upcountry Cheque Deposit Charge | 6,274,860 | - |
| | Postage Fee | 7,557,401 | - |
| | Commission from Higher Education Loans Board | 6,012,840 | 7,494,390 |
| | Citibank commission | 5,017,680 | 8,011,141 |
| | Pension commission | 99,937,050 | 93,076,200 |
| | Miscellaneous fees & commission (others) | 17,189,592 | 53,488,118 |
| | | 1,007,584,434 | 1,038,654,699 |

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (continued) FOR THE YEAR ENDED 31st DECEMBER 2005

| 14. <u>OTHER LOSSES/ INCOME</u> | 2005 Kshs. | 2004 Kshs. |
|---|----------------------|--------------------|
| Rental income- notional | 20,565,770 | 20,563,770 |
| Dividend income | 51,804 | 49,170 |
| Bonus from Western Union | 0 | 4,518,721 |
| Write back on Provision | 5,454,311 | 7,156,070 |
| Interest on bank accounts | 1,267,926 | 572,880 |
| Realised gain/loss on sale of Forex | 1,964,410 | (9,095,806) |
| Consultancy fees | 726,700 | 706,200 |
| Tender fees | 2,037,887 | 2,055,617 |
| Appreciation in value of quoted investments | 211,350 | 182,975 |
| Write back on Dormant Account | 9,389,996 | 0 |
| Gain/(Loss) on sale of Assets | -1,616,162 | 0 |
| Others | 1,298,145 | 857,923 |
| | 41,352,137 | 27,567,520 |
| | | |
| 15. <u>DIRECT EXPENSES</u> | 2005 Kshs. | 2004 Kshs. |
| Interest on:- | | |
| Ordinary Savings Accounts | 159,633,511 | 121,243,448 |
| Premium Savings Account | 8,249,475 | 6,776,895 |
| Fixed Deposit Savings Account | 2,728,158 | 2,291,096 |
| Save As You Earn Account | 3,517,507 | 4,456,622 |
| Bidii Savings Account | 19,050,409 | 7,320,670 |
| | 193,179,060 | 142,088,731 |
| | | |
| 16. <u>ADMINISTRATION EXPENSES</u> | 2005 Kshs. | 2004 Kshs. |
| Directors fees | 4,528,974 | 4,269,043 |
| Staff costs | 1,053,879,311 | 886,477,280 |
| Printing and stationery | 14,490,906 | 11,628,531 |
| Debt collections | 19,240 | 87,081 |
| Postage, telephone and telegram | 54,180,427 | 48,359,346 |
| Computer charges | 7,819,597 | 7,196,607 |
| Fuel and oils | 10,064,726 | 8,888,861 |
| Audit fees | 2,000,000 | 2,000,000 |
| Donations and subscriptions | 2,519,700 | 2,063,399 |
| Legal and professional fees | 4,944,769 | 8,117,881 |
| Electricity and water | 7,065,898 | 4,805,640 |
| Cleaning and Sanitation | 7,755,040 | 7,772,980 |
| Special Projects Launching | 186,049 | 70,724 |
| Newspapers and Periodicals | 582,310 | 697,247 |
| Procurement Costs | 2,170,710 | 2,199,729 |
| Transportation Costs | 80,000 | 190,000 |
| Symbols Implementation | 691,476 | - |
| | 1,172,979,133 | 994,824,349 |

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (continued) FOR THE YEAR ENDED 31st DECEMBER 2005

| <u>17. ESTABLISHMENT EXPENSES</u> | 2005 | 2004 |
|---|--------------------|--------------------|
| | Kshs. | Kshs. |
| Security and Escort | 40,451,255 | 39,337,511 |
| Insurances | 18,510,092 | 19,231,975 |
| Office rent | 65,729,368 | 60,820,025 |
| Land rent and rates | 946,667 | 1,109,589 |
| Repairs and maintenance | 47,564,151 | 28,761,726 |
| Service charge | 10,251,672 | 10,037,206 |
| Agency fees - PCK/Others | 139,140,734 | 195,919,261 |
| Licences | 15,040,737 | 16,131,040 |
| Flower maintenance | 13,878 | 38,906 |
| | 337,648,554 | 371,387,239 |
| | | |
| <u>18. SELLING EXPENSES</u> | 2005 | 2004 |
| | Kshs. | Kshs. |
| Publicity and advertising | 34,708,752 | 35,610,356 |
| ASK show expenses | 1,515,644 | 740,848 |
| | 36,224,396 | 36,351,204 |
| | | |
| <u>19. FINANCIAL EXPENSES</u> | 2005 | 2004 |
| | Kshs. | Kshs. |
| Bank charges | 26,199,664 | 31,222,996 |
| Interest on overdraft | 2,381,775 | 3,768,025 |
| Interest on borrowed funds (EADB) | 18,500,963 | 15,223,509 |
| | 47,082,401 | 50,214,530 |
| | | |
| <u>20. PROVISION FOR BAD AND DOUBTFUL DEBTS</u> | 2005 | 2004 |
| | Kshs. | Kshs. |
| Visa card debtors | 8,411,701 | 14,896,413 |
| Overdrawn customers accounts (OSS) | 0 | 17,062,621 |
| KP&TC Interest Receivable | 32,852,210 | 58,057,348 |
| KP&TC Excess Deposits | 0 | 46,248,939 |
| PCK Interest Receivable | 0 | 11,040,702 |
| Obsolete Stock | 1,386,775 | 0 |
| | 42,650,686 | 147,306,023 |

Suspense accounts are the ones whose details are under investigations due to incomplete customer account particulars.

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (continued) FOR THE YEAR ENDED 31st DECEMBER 2005

| 21. <u>PROFIT/(LOSS) FOR THE YEAR</u> | 2005 | 2004 |
|---|-------------|-------------|
| | Kshs. | Kshs. |
| The profit for the year is stated | | |
| after charging | | |
| Directors fees | 4,528,974 | 4,269,043 |
| Audit fees | 2,000,000 | 2,000,000 |
| Depreciation | 120,390,189 | 105,889,361 |
| Provident fund contribution | 2,868,838 | 2,342,138 |
| Pension scheme contribution | 64,883,637 | 53,259,295 |
| and after crediting: - | | |
| Dividends | 51,804 | 49,170 |
| Appreciation in value of quoted investments | 211,350 | 182,975 |

| 22. <u>CASH AND CASH EQUIVALENTS</u> | 2005 | 2004 |
|--|-----------------------|-----------------------|
| | Kshs. | Kshs. |
| Bank and cash balances (net) | 641,795,468 | 1,050,192,541 |
| Deposits in banks and Financial Institutions | 426,000,000 | 14,000,000 |
| Treasury Bills and Bonds | 9,920,533,725 | 9,464,293,962 |
| East African Development Bank bonds | 110,000,000 | 110,000,000 |
| | 11,098,329,193 | 10,638,486,503 |

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 banks and financial institutions less amounts not likely to be received within 12 months of the balance sheet date, and
3. Treasury Bills and bonds including EADB bonds as at the balance sheet date.

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (continued) FOR THE YEAR ENDED 31st DECEMBER 2005

23. CONTINGENT LIABILITIES

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

An actuarial valuation of the bank's funded Pension Trust Fund as at 31st December 2003 was carried out by Alexander Forbes Financial Services (EA) Limited. The report by the actuaries revealed a past service deficit of Kshs.188 million as at 31st December 2003. The actuaries recommended an increase of the contributions from 11% to 16% to cover, into the future, the working lives of the existing in-service membership. No provision has been made in these accounts for the deficit as the bank is looking into ways of financing the deficit.

The fund was made a contributory one with effect from 1st May 1999. The employees are contributing 7% of their pensionable emoluments and the bank's contribution is 11% of the employee's pensionable emoluments.

(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.

24. CAPITAL COMMITMENTS

| | 2005 Kshs. | 2004 Kshs. |
|-----------------------------------|--------------------|-------------------|
| Authorised and contracted for | 25,246,662 | 1,226,264. |
| Authorised but not contracted for | 133,666,284 | 14,406,673 |
| | 158,912,946 | 15,632,937 |

Capital Commitments relate to computer hardware, software and new branches.

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (Continued) FOR THE YEAR ENDED 31ST DECEMBER 2005 2.5. FIXED ASSETS

The table below analyses assets and liabilities into relevant maturity groupings based in the remaining period as at 31 December 2005 to the contractual maturity date.

| A. Assets | Matured | Matured in less than a month | 1 months less than 3 months | 3 months less than 6 months | 6 months less than 1 year | 1 year less than 3 years | 3 years less than 5 years | over 5 years | Total |
|---------------------------------------|-----------------|------------------------------|-----------------------------|-----------------------------|---------------------------|--------------------------|---------------------------|---------------|----------------|
| Bank and Cash Balances | 641,795,468 | - | - | - | - | - | - | - | 641,795,468 |
| Investment in Bills + Bonds | - | 1,33,657,237 | 1,080,450,000 | 676,999,888 | 1,576,982,621 | 1,648,274,698 | 950,071,637 | 4,127,213,920 | 10,193,650,001 |
| Funds on call and short notice | - | 426,000,000 | - | - | - | - | - | - | 426,000,000 |
| Other Investment | - | - | - | - | - | - | - | 29,889,849 | 29,889,849 |
| Debtors, Prepayments and other Assets | 71,010,984 | 117,790,487 | 91,632,952 | 114,136,164 | 117,310,075 | 114,299,990 | 113,713,810 | 943,943,707 | 1,683,838,169 |
| Deferred Assets | - | - | - | - | - | - | - | 202,153,998 | 202,153,998 |
| Capital W.L.P | - | - | - | - | 123,247,245 | - | - | - | 123,247,245 |
| Fixed Assets | - | - | - | - | - | - | - | 964,059,464 | 964,059,464 |
| Total Assets | 712,806,452 | 677,447,724 | 1,172,082,952 | 791,136,052 | 1,817,539,942 | 1,762,574,688 | 1,063,785,447 | 6,267,260,938 | 14,264,634,194 |
| B. Liabilities and Reserves | - | - | - | - | - | - | - | - | - |
| Creditors | 1,531,117,695 | - | - | - | - | - | - | - | 1,531,117,695 |
| Premium Bonds | 7,909,300 | - | - | - | - | - | - | - | 7,909,300 |
| Customer Savings and Deposit accounts | 8,726,372,758 | 280,021,641 | 342,112,078 | 466,290,819 | 528,380,544 | 420,563,568 | - | - | 10,763,741,410 |
| EADB Loan | - | - | - | - | - | - | - | 160,000,000 | 160,000,000 |
| Bearer Bonds | - | - | - | - | 220,002,615 | - | - | - | 220,002,615 |
| Reserves | - | - | - | - | - | - | - | 471,403,491 | 471,403,491 |
| Retained profits | - | - | - | - | - | - | - | 1,110,459,683 | 1,110,459,683 |
| Total Liabilities and Reserves | 10,287,517,661 | 280,021,641 | 342,112,078 | 466,290,819 | 748,383,159 | 420,563,568 | - | 1,741,863,175 | 14,264,634,194 |
| A - B Liquidity GAP | (9,552,593,301) | 397,426,083 | 829,970,874 | 324,845,233 | 1,069,156,782 | 1,342,011,118 | 1,063,785,447 | 4,525,397,764 | - |

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.

KENYA POST OFFICE SAVINGS BANK

NOTES TO THE ACCOUNTS (Continued) FOR THE YEAR ENDED 31st DECEMBER 2005

26. CONSOLIDATION

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

27. TAXATION

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

28. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to reporting under International Accounting Standards.

29. EMPLOYEES

The average number of employees during the year was 1,282 (2004 -1,255).

30. INCORPORATION

The bank is incorporated under the Kenya Post Office Savings Bank Act (Cap 493 B) of the laws of Kenya.

31. CURRENCY

The accounts are presented in Kenya Shillings (KShs.)

KENYA POST OFFICE SAVINGS BANK

NETWORK OF BRANCHES AND SUB-BRANCHES

HEAD OFFICE

Post Bank House
Banda Street
P.O. Box 30311
Tel: (020) 229551-6 Ext. 155
NAIROBI

Market Street Branch:
P.O. Box 30311
Tel: (020) 229551-6 Ext. 237
NAIROBI

Customer Service Centre:
P.O. Box 30311
Tel: (020) 229551-6 Ext. 359
NAIROBI

NAIROBI NORTH REGION

Eastleigh Branch:
P.O. Box 30313
Tel: (020) 763843
NAIROBI

Garissa Sub Branch:
P.O. Box 748
Tel: (031) 2169
GARISSA

Githurai Branch:
P.O. Box 30311
Tel: (020) 811032
NAIROBI

Kiambu Branch:
P.O. Box 145
Tel: (066) 22913
KIAMBU

Kikuyu Branch:
P.O. Box 30311
Tel: (066) 33712
KIKUYU

Limuru Branch:
P.O. Box 170
Tel: (066) 71293
LIMURU

Mwingi Branch:
P.O. Box 510
Tel: (044) 822308
MWINGI

Ngara Branch:
P.O. Box 30313
Tel: (020) 3744837
NAIROBI

Ruiru Sub Branch:
P.O. Box 190
Tel: (067) 54320
RUIRU

Uthiru Sub-Branch:
P.O. Box 30313
Tel: (020) 229551-6 Ext. 281
NAIROBI

Westland Branch:
P.O. Box 30313
Tel: (020) 4440581, 4450965
NAIROBI

Thika Branch:
P.O. Box 1819
Tel: (067) 31193
THIKA

NAIROBI SOUTH REGION

Afya Centre Branch:
Tom Mboya Street
P.O. Box 30311
Tel: (020) 229551-6
Ext. 322, 340-2, 330-1
NAIROBI

Cannon House Branch:
Parliament Road
P.O. Box 30311
Tel: (020) 229551-6
Ext. 239, 319
NAIROBI

**Enterprise Road Sub
Branch:**
P.O. Box 30311
Tel: (020) 229551-6
Ext. 270
NAIROBI

**EPZ - Athi River
Branch:**
P.O. Box 30311
Tel: (045) 22026
NAIROBI

Jogoo Road Branch:
P.O. Box 30313
Tel: (020) 229551-6, 552027
NAIROBI

Karen Branch:
P.O. Box 30313
Tel: (020) 631927
NAIROBI

Kenyatta Market Branch:
P.O. Box 30313
Tel: (020) 229551-6 Ext. 281,
NAIROBI

Kitui Branch:
P.O. Box 668
Tel: (044) 22993
KITUI

Machakos Branch
P.O. Box 944
Tel: (044) 202
MACHAKOS

Nacico Branch:
P.O. Box 30311
Tel: (020) 229551-6
Ext. 155
NAIROBI

Ngong Hills Sub Branch:
P.O. Box 41047
Tel: (051) 212876
NGONG

Ronald Ngala Branch:
P.O. Box 30313
Tel: (020) 229551-6
Ext. 269, 349
NAIROBI

Tom Mboya Branch:
P.O. Box 30313
Tel: (020) 229551-6 Ext. 293
NAIROBI

Viwandani Sub Branch:
P.O. Box 30311
Tel: (020) 229551-6
NAIROBI

Wabera Street Branch:
P.O. Box 30311
Tel: (020) 229551-6 Ext. 320
NAIROBI

KENYA POST OFFICE SAVINGS BANK

MT. KENYA REGION

Chuka Branch:
P.O. Box 616
Tel: (064) 63043
CHUKA

Embu Branch:
P.O. Box 1245
Tel: (068) 30740
EMBU

Karatina Branch:
P.O. Box 18777
Tel: (061) 72537
KARATINA

Kerugoya Branch:
P.O. Box 1020
Tel: (060) 21893
KERUGOYA

Meru Branch:
P.O. Box 3270
Tel: (064) 30381
MERU

Murang'a Sub- Branch:
P.O. Box 12280
Tel: (060) 31083
MURANG'A

Nanyuki Branch:
P.O. Box 1416
Tel: (064) 63043
NANYUKI

Nyeri Branch:
Gakere Road
P.O. Box 246
Tel: (061) 4348
NYERI

COAST REGION

Chaani Branch:
P.O. Box 90563
Tel: (041) 434077
MOMBASA

Likoni Branch:
P.O. Box 90563
Tel: (041) 451070
MOMBASA

Kilifi Branch:
P.O. Box 1047
Tel: (041) 522399
KILIFI

Malindi Branch:
P.O. Box 523
Tel: (056) 641233
MALINDI

Moi Avenue, Mombasa, Branch:
P.O. Box 90563
Tel: (041) 316944, 314424
Fax 226550
MOMBASA

Mtwapa Branch:
P.O. Box 90563
Tel: (041) 5486470
MOMBASA

Mtopanga Sub-Branch:
P.O. Box 634
Tel: (041) 473955
MOMBASA

Nyali Sub-Branch:
P.O. Box 90563
Tel: (041) 474333
MOMBASA

Savani House, Mombasa, Branch:
Digo Road, P.O. Box 90563
Tel: (040) 3248 Fax 226550
UKUNDA

Voi Branch:
P.O. Box 452
Tel: (043) 30253
VOI

Ukunda Branch:
P.O. Box 90563
Tel: (041) 3248
MOMBASA

Diani Branch:
P.O. Box 90563
Tel: (041) 3248
MOMBASA

RIFT VALLEY REGION

Bomet Branch:
P.O. Box 379
Tel: (052) 22439
BOMET

Bondeni Sub Branch:
P.O. Box 4199
Tel: (051) 2213168
NAKURU

Eldoret Branch:
P.O. Box 2270
Tel: (053) 62295
ELDORET

Kabarnet Branch:
P.O. Box 442
Tel: (053) 35354
KABARNET

Kapsabet Branch:
P.O. Box 800
Tel: (053) 2535
KAPSABET

Kericho Sub Branch:
P.O. Box 1031
Tel: (052) 32115
KERICHO

Kitale Branch:
P.O. Box 821
Tel: (054) 30394
KITALE

Molo Branch:
P.O. Box 4199
Tel: (051) 721561
MOLO

Naivasha Branch
P.O. Box 675
Tel: (050) 21335
NAIVASHA

Nakuru Branch:
P.O. Box 4199
Tel: (051) 2213168, 2211442
NAKURU

Nandi Hills Branch:
P.O. Box 321
Tel: (053) 643146
NANDI HILLS

Narok Branch:
P.O. Box 634
Tel: (050) 2030
NAROK

Nyahururu Branch
P.O. Box 342
Tel: (065) 32006
NYAHURURU

KENYA POST OFFICE SAVINGS BANK

NETWORK OF BRANCHES AND SUB-BRANCHES (continued)

WESTERN REGION

Bungoma Branch:
P.O. Box 944
Tel: (055) 30318
BUNGOMA

Busia Branch:
P.O. Box 183
Tel: (055) 22278
BUSIA

Homa Bay Branch:
P.O. Box 203
Tel: (059) 22388
HOMA BAY

Kakamega Branch:
P.O. Box 2444
Tel: (056) 20165
KAKAMEGA

Kisumu Branch:
Kenyatta Highway
P.O. Box 183
Tel: (057) 2022112
Fax 43751
KISUMU

Kisii Branch:
P.O. Box 740
Tel: (058) 30800
KISII

Mumias Branch:
P.O. Box 523
Tel: (056) 641233
MUMIAS

Siaya Branch:
P.O. Box 203
Tel: (057) 321211
SIAYA

Suna - Migori Branch:
P.O. Box 1059
Tel: (059) 20034
MIGORI

Luanda Branch:
P.O. Box 859
Tel: (057) 351231
LUANDA

Webuye Branch:
P.O. Box 1014
Tel: (055) 41025
WEBUYE

In addition, 350 Post Office outlets and 46 Appointed Agents also carry out our services.

NB. Branch refer to independent outlet while sub branch refer to branch within Postal Corporation of Kenya premises.

KENYA POST OFFICE SAVINGS BANK

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KENYA POST OFFICE SAVINGS BANK

PRODUCTS & SERVICES

Ordinary Savings Account

Premiun Savings Account

Bidii Savings Account

Fixed Deposit Account

Save As You Earn (SAYE)

Western Union Money Transfer

Visa Card (Local & International)

STEP Account



SAYE
Save As You Earn
Helping you achieve your aspirations



"At your service countrywide"

POSTBANK HEAD OFFICE:
Postbank House, Banda Street
P.O. Box 30311 - 00100 GPO Nairobi, Kenya
Tel: +254 - 020 - 229551-6, 020 2803000 Fax: +254 - 020 - 243935
Website: www.postbank.co.ke