

LESOTHO POSTBANK

2014

ANNUAL REPORT



LESOTHO

PostBank



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Some Highlights



Academic Awards



Annual Money Week



LNDC Partial Guarantee Scheme



Annual Moshoeshoe Walk



Wool and Mohair Stock Shows



Lending and Financing of Small Businesses

GENERAL INFORMATION



Country of incorporation and domicile

Lesotho

Nature of business and principal activities

Commercial Banking

Directors

M. Williams (Chairman)

R. Tlali (Non Executive)

N. Sekome (Non Executive)

P. Khetsi (Non Executive up to 30th November 2014)

R. Lehohla (Acting Managing Director up to 31st January 2014)

M. Leqhaoe (Managing Director from 1st February 2014)

Registered Office

The Banking Hall

Post Office Headquarters Building

Kingsway

Maseru

Lesotho

Bankers

Nedbank Lesotho

Standard Lesotho Bank

Auditors PricewaterhouseCoopers with Sheeran and Associates

Corporate Secretary K. Moeletsi (Until 17th August 2014)

Company registration number I2004/163

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CORPORATE STATEMENTS.



Our Mandate

Our Mandate is to provide access to banking services to the economically active un-banked and under-banked urban and rural population of Lesotho in a sustainable manner.

Our Vision

Our vision is to transform the living standard of Basotho through customer-centric financial services, innovation and poverty eradication programmes.

Our Mission

Our Mission is to be a development oriented banking institution providing quality financial services to the economically active unbanked and under-banked population of Lesotho.

Values

LPB identifies with and subscribes to the following **corporate values**, which influence its culture and public image as a reputable, responsive and effective banking institution that serves a diverse market:

- **Customer First** – We are committed to placing our customers' interests first.
- **Accountability** – We accept responsibility for our actions.
- **Professionalism** – We pledge to behave with dignity, show respect and courtesy to all our stakeholders, and comply with applicable rules, regulations and professional standards.
- **Integrity** – We commit to interact actively, with honesty, candour, fair dealing and truthfulness in all business affairs of the Bank.
- **Competence** – We acknowledge the need to attain and maintain requisite knowledge, skills and abilities for rendering excellent customer service.
- **Innovation** – We look for technology to create value for our customers by offering tailor-made products and services.
- **Teamwork** – We strive for a workplace where opportunity, openness, enthusiasm, diversity, collaboration and a sense of purpose combined to provide a rewarding professional experience that promotes fairness, dignity and respect for all employees.

Slogan

Affordable. Accessible. Anytime

LIST OF ABBREVIATIONS.



ALCO	Assets and Liabilities Committee
ARCCO	Audit, Risk and Compliance Committee
ATM	Automated Teller Machine
BAL	Bankers Association of Lesotho
BCM	Business Continuity Management
CAR	Capital Adequacy Ratio
CBL	Central Bank of Lesotho
CFO	Chief Finance Officer
EFT	Electronic Funds Transfer
EXCO	Executive Committee
FCC	Finance and Credit Committee
FIA	Financial Institutions Act, 2012
GOL	Government of Lesotho
HOCAL	Head of Corporate Affairs and Legal
HOCIR	Head of Customer Information and Relationship
HOCp	Head of Company Performance
HOCr	Head of Credit
HOHR	Head of Human Resources
HOIA	Head of Internal Audit
HOIT	Head of Information Technology
HOR	Head of Risk
HORet	Head of Retail
IFAD	International Fund for Agricultural Development
IT	Information Technology
LMDA	Lesotho Millennium Development Agency
LPB	Lesotho PostBank / the Bank / the PostBank
LPS	Lesotho Postal Services
MCA-Lesotho	Millennium Challenge Account – Lesotho
MCC	Millennium Challenge Corporation
MD	Managing Director
MIACH	Maseru Image Automated Clearing House
NFL	NORSAD Finance Limited
NORSAD	Nordic / SADC
PAL	Payments Association of Lesotho
REMC0	Remuneration Committee
RISCO	Risk Committee
RTGS	Real Time Gross Settlement System
RUFIP	Rural Financial Intermediation Programme
SADC	Southern African Development Countries
SIRESS	SADC Integrated Regional Electronic Settlement System
WSBI	World Savings Banks Institute

OUR HISTORY.



The LPB was established by the Government of Lesotho (GOL) in April 2004 under the Companies Act, 2011 and is regulated by the CBL under the Financial Institutions Act, 2012. As the sole shareholder, the GOL has been the primary financier of the bank providing share capital, funding for capital and operational expenses.

From the outset the GOL decided that the LPB would operate from post offices for two primary reasons. The LPB would instantly have a big footprint and reach the primary market of the unbanked and under-banked through the postal branch network. Secondly, the capital outlay of building branches would be avoided while the rental costs would be minimal thereby reducing recurrent costs. The LPS is therefore a key stakeholder of the Bank. The Bank maintained this relationship through open communication at senior and middle management levels.

The Bank started operations under a restricted license to take deposits, but acquired a full banking license in 2009 with the support of IFAD. IFAD assisted the LPB in establishing the lending business. This was done through RUFIP, a seven year programme housed in the Ministry of Finance. The programme will come to an end in March 2015.

The LPB also enjoyed the support of the MCA-Lesotho from 2009 to September 2013 when the compact between the United States of America and the GOL came to an end. The Smartcard/Debit Card project funded by MCA-Lesotho enabled the LPB to introduce electronic banking.

The PostBank has been a member of the WSBI since 2007 and through this organization, the LPB was able to secure funding to finance some aspects of the Smartcard/Debit Card project.

CHAIRMAN'S STATEMENT.



The Directors present the following report to the Shareholders of the Lesotho PostBank on the Bank's performance and operations in 2014, as well as the corporate governance of the Bank. The report also highlights the key strategies for 2015.

5.1 Achievements

The appointment of the substantive Managing Director in February 2014, and subsequent appointments of experienced EXCO members was a major achievement for the period under review as the executive vacuum that the bank had experienced over the previous 18 months was finally removed. It then became possible for the Bank to address the multitude of challenges of the previous period and beyond.

The Board of Directors is ultimately responsible for the management of risk of the Bank. Because risk is all-pervasive, the Bank's approach to risk management is based on well established governance principles and heavily relies on Board and Executive oversight and individual responsibility. In 2014 the Risk Management function was revitalized and elevated by creating an executive position to head the function. Furthermore, the Board approved the Enterprise Risk Management Policy to ensure alignment and consistency in the risk management process.

The Bank realized dramatic growth in its lending portfolio while growth in deposits was stable. This propelled the Bank into positive territory for the first time. The Bank started to make profits in July 2014 until the end of the year. The Bank expanded its delivery channels by installing additional five ATMs for a total of seven ATMs. The Bank also participated in the industry payment projects such as SIRESS and MIACH which were completed in 2014, and is currently participating in another payment stream project, Electronic Funds Transfer (EFT) project which will go live in 2015.

The Board approved the Interim Sustainability Strategy and the attendant organizational structure. The Board reviewed and approved eighteen (18) policies and frameworks in six departments.

The year ended with a profit before tax amounting to M 4.5 million versus a budgeted loss of M8.4 million. This was at the back of a positive three month spike in the loan book.

5.2 Challenges in 2014:

The following were the major challenges that the Bank faced in 2014 and that need attention in 2015.

- The high vacancy rate at Board level remains a big concern for the Bank.
- Board training was not conducted because of the limited number of Board members. The Board will be trained in IT governance, BCM, risk management and good banking practice.
- Inadequate capitalization of the Bank to grow the business.
- Inadequate funding for capital projects.
- Low deposit base due to low balances maintained by target market clients.
- Multiple Trustees representing the Government of Lesotho.

5.3 Key Focus Areas for 2015

One of the areas of key focus in 2015 will be the full implementation of the 2015/17 Strategic Plan, which among other things addresses the financial needs of the target market through microfinance products. The other is the implementation of technology based projects that are meant to offer modern competitive products. Following from the 2014 positive financial performance, the Bank will strive to maintain and improve on profitability. The Bank endeavors to improve its social responsibility standing. To this end, the bank will identify worthy projects to support in various communities in which the Bank operates.

5.4 End Note

The Board of Directors wishes to express its gratitude to those who have supported the Bank in the past. The Board extends special gratitude to the Government of Lesotho which continued to support the Bank financially, strategic partners for providing funding for various projects within the Bank. We are also thankful to the Bank's customers for their confidence in our Bank. We thank the Regulator, the Central Bank of Lesotho for its supervisory oversight. Acknowledgements are extended to the Bank Management and Staff for working tirelessly in delivering products and services to customer

REPORT ON CORPORATE GOVERNANCE >>>

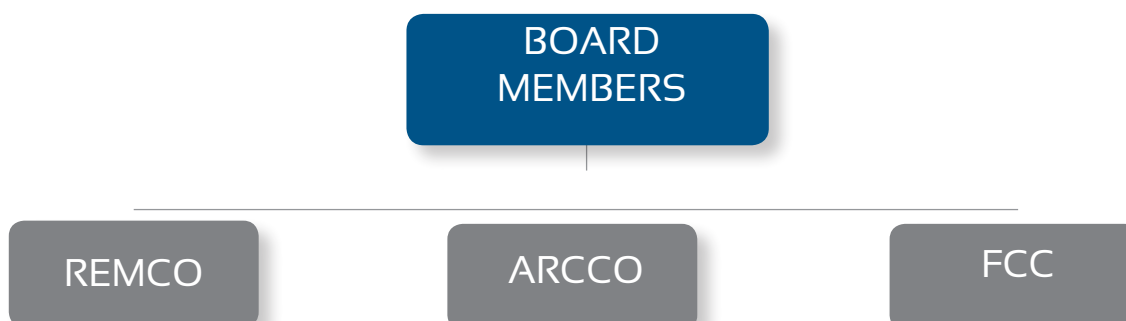


6.1 The Board

The Board is the pinnacle of corporate governance within the bank and assumes overall responsibility for governance, risk management, performance and financial oversight of the Bank.

6.1.1 Corporate Governance Structure

The structure below depicts the current governance structure of the Bank. The Board established three Committees whose mandates are defined under Section 6.3 below. Information from management to Board Committees and vice versa is fed through Management Committees with similar mandates found in Section 7. During the reporting period, the Board held four ordinary and ten extraordinary fourteen meetings. The large number of meetings was driven by the executive vacuum and challenges of the previous periods.



6.1.2 The Board Members

The Board comprised the following members in 2014.

- | | |
|----------------------------|---|
| • Mrs. Maseqobela Williams | Chairman |
| • Mrs. Refiloe Tlali | Member |
| • Mr. Nthako Sekome | Member |
| • Mr. Paseka Khetsi | Member (Up to 30th November 2014) |
| • Mr. Molefi Leqhaoe | Managing Director (From 1st February 2014) |
| • Ms. Refiloe Lehohla | Acting Managing Director (to 31st January 2014) |



Molefi Leqhaoe
(Managing Director)



Ms. Refiloe Lehohla
Acting Managing Director



Molefi Leqhaoe
(Managing Director)

REPORT ON CORPORATE GOVERNANCE »»



Molefi Leqhaoe
(Managing Director)



Ms. Refiloe Lehohla
Acting Managing Director



Molefi Leqhaoe
(Managing Director)

The Lesotho PostBank was established under the Companies Act, 2011 and is regulated under the Financial Institutions Act, 2012. The two Acts provide guidance in the governance of the Bank. The Bank, through its Charters, subscribes to principles of good corporate governance. The Board reviewed its Charter which amongst other things outlines the role and responsibilities of the Board.

The Board assumes ultimate accountability and responsibility for the performance and affairs of the Bank. In discharging its duties the Board held four ordinary meetings and ten extraordinary meetings during the reporting period. The business included, inter alia,

- The appointment of the Managing Director and competent Executive Management
- The review and approval of the Bank's financial statements
- Review and approval of charters, frameworks, policies, strategy and governance structures.
- To consider and note progress and performance reports.

6.2 Board Committees

The Board had three committees, namely, the Audit, Risk and Compliance Committee (ARCCO), the Finance and Credit Committee (FCC) and the Remuneration Committee (REMC0). During the reporting period, the Board Committees held two meetings each. Attendance at the meetings was 100%. The mandates of the Committees are summarized in the sections below.

6.2.1 The Audit, Risk and Compliance Committee (ARCCO)

The ARCCO assists the Board in fulfilling its oversight responsibilities by setting the risk appetite of the bank, reviewing the internal audit reports, the system of internal control, management of key risks, monitoring of compliance with the regulatory framework.

6.2.2 The Finance and Credit Committee (FCC)

The FCC assists the Board in fulfilling its oversight responsibilities by reviewing the financial statements, the budget, management accounts, the quality of the loan book and the effectiveness of investment portfolio management.

6.2.3 The REMCO

The REMCO assists the Board in regard to the remuneration framework of the Bank, the recruitment of EXCO members, the performance evaluation of the Managing Director and the review of strategic human resources policies and guidelines.

REPORT ON CORPORATE GOVERNANCE.



6.2.4 Board Committee Members

ARCCO

Mr. Nthako Sekome	Chairman
Mrs. Refiloe Tlali	Member

FCC

Mr. Nthako Sekome	Chairman
Mrs. Refiloe Tlali	Member

REMC

Mr. Paseka Khetsi	Chairman (Up to 30th November 2014)
Mr. Nthako Sekome	Member (Chairman from 1st December 2014)

THE MANAGING DIRECTOR'S REPORT »»



The Lesotho PostBank operated with an outdated strategy that had been approved by the Board in 2010. The 2010 Strategy was for three years to 2012. The Board and the Shareholder noted the challenges that the Bank faced in the interim period to 2014. Following the successful recruitment of the substantive Managing Director and the EXCO, the Bank was in a position to refocus its attention on business. Management developed an Interim Sustainability Strategic (ISS) which was approved by the Board. The aim was to have a strategy that could be used for immediate plans primarily for profitability to get the Bank out of a loss position. A more holistic strategy that would take into account the core market which is characterized by low balances while maintaining profitability would be developed under RUFIP funding.

The ISS identified six strategic pillars and focused its efforts around the pillars. The strategy and structure are aligned to the Pillars.

7.1 Key Stakeholders

The Government of Lesotho, as the sole shareholder remains the key stakeholder of the Bank. To this end the Board held several meetings with the majority shareholder on matters of policy and governance.

The Lesotho Postal Services provides the infrastructure that houses the LPB's branch network and thereby increases outreach. The Bank is committed to cementing its relationship with this key stakeholder.

IFAD, through RUFIP funded a consultancy that assisted the Bank in developing a strategy that addressed the mandate of the Bank to provide financial services to the unbanked and under-banked by focusing on microfinance. RUFIP further provided financial support in other operational areas of the Bank.

Although the MCC Compact with the GOL came to an end in 2013, the Bank maintained its relationship with the Lesotho Millennium Development Agency which succeeded the MCA-Lesotho.

The Bank continued its membership with the WSBI where it has derived a lot of benefit in the past.

7.2 Organisational Structure

The organizational structure depicted below shows the composition of the EXCO which is headed by the Managing Director. The Head of Internal Audit reports to the Managing Director administratively and to the ARCCO functionally.

There are ten departments in all, although the Corporate Affairs and Legal department will be fully established and manned in 2015.



THE MANAGING DIRECTOR'S REPORT >>>



Molefi Leqhaoe
(Managing Director)



Thomas Marabe
(Head of Internal Audit)



Refloe Lehohla
(Head of Retail)



Itumeleng Matela
(Head of Human Resources)



Polao Maanela
(Head of Credit)



Molefi Khama
(Head of Risk)



Thabisi Thabisi
(Head of Company Performance)

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Mamahapela Mokuoane
(Head of Customer
Information & Relationship)



Lineo Mahoholi
(Chief Financial Officer)



Mahase Mahooana
(Head of Information
Technology)

7.3 The Management Committee Structure

The EXCO had the committees depicted in the structure below. The mandate of each committee is described in the next paragraphs.

As indicated in Section 6.1.1 information from the management committees is fed to the Board Committees and vice versa.

The ALCO and Credit committees feed into the FCC. The HRSC feeds into the REMCO. The rest feed into the ARCCO.

The Bank also has two operational committees, namely, the Management Committee (MANCO) comprising members of the middle management and the Procurement and Tender Committee.



Executive Committee (EXCO): The EXCO is at the pinnacle of bank management. The Board has delegated some of its powers to the EXCO and the Managing Director. The EXCO has six (6) committees:

Assets and Liabilities Committee (ALCO): The ALCO is responsible for the management of the risks arising out of the structure of the Bank's balance sheet, as well as proposing limits to the Board for these exposures. The ALCO, among other things, develops strategies to improve return on capital employed as calculated under the relevant CBL Determinations.

Risk Committee (RISCO): The primary mandate of the RISCO is to assist the ARCCO of the Board in their evaluation of the efficiency and adequacy of all risk management matters, with specific reference to the following: ARCCO charter, governance, people risk, operational risk, financial risk, business continuity management to mention a few. The RISCO monitors that management creates, adopts and maintains an effective system of internal control and risk management and compliance environment.

Credit Committee (CC): This committee's primary function is to ensure the development of the Credit Policy and compliance there to and to manage credit risk.

THE MANAGING DIRECTOR'S REPORT »»



Product and Pricing Committee (PPC): The PPC coordinates and shares information and resources to enable the Bank to benefit from optimal pricing and value adding products for customers. The work of the PPC is mainly dependent on the cooperation of and collaboration with departments of IT, Finance, CIR, Retail and Credit.

Human Resource Steering Committee (HRSC): The HRSC develops and reviews HR policies and strategies; maintains headcount and budget and ensures that the Bank is adequately staffed with the right skills at the right time to ensure business continuity.

Operations Committee (OPSCO): The main focus and responsibility of the OPSCO is operational risk.

7.4 Human Resources

The focus of the human resources function in 2014 was on the recruitment of key staff at all levels due to a high vacancy rate which was reported in the previous annual report. The appointment of the executive team was critically important as it affected the strategic direction and leadership of the Bank. This uptake in recruitment resulted in an increase to the salary bill and overall staff complement from one hundred and fourteen to one hundred and forty six staff at the end of the year. Efforts were also made to revise the organizational structure by merging, splitting, elevating and introducing business units such as Company Performance to ensure that the functional structure was aligned to and supported the goals and vision of the Bank.

The Bank considers people to be one of the most important strategic pillars. Recruitment was undertaken to ensure that the right people occupied the right roles. To this end, learning and development initiatives were implemented to ensure that staff in critical areas acquired the relevant skills. Finally a number of outdated policies were revised to ensure alignment with current processes and conditions of employment.

Status of Position	As at 31st December 2014		
Department	Budget	Actual	Vacant
		[Staff in Post]	
Office of the MD	2	3	-1
Risk & Compliance	5	4	1
Internal Audit	3	2	1
Legal	1	0	1
Human Resources	14	11	3
Finance	8	8	0
Company Performance	25	19	6
Customer Information & Rel	6	4	2
Information Technology	10	9	1
Credit	11	9	2
Retail	82	76	6
Total	167	145	22



7.5 Risk Management

In the year 2014, the Bank introduced Integrated Risk Management approach (also known as Enterprise-wide Risk Management) whereby all risks are managed under the risk function as opposed to managing risks separately. LPB risks are therefore managed under the Risk Cluster – risk management, governance, compliance and internal audit.

This approach subscribes to sound risk management principles and practices as enshrined in the Bank's Enterprise Risk Management Policy. The policy embraces, inter alia, a balanced risk profile across business units, compliance with regulatory requirements, capital adequacy and a continuous improvement on assurance mechanisms to all the Bank's stakeholders although with particular reference to the Board of Directors and the Shareholder.

In order to give focus on operational risk management, with operational risk being the major risk in the Bank, the position of Operational Risk Manager was created and filled during the third quarter of 2014. In addition, the following risk mitigants, inter alia, were put in place:

- a. The Board approved business continuity plans which will be rolled out in 2015
- b. Dye staining devices were installed on ATMs to render cash worthless in case of ATM bombing
- c. The controls were tightened, especially on credit processes
- d. Staff was trained on fraud awareness and processes
- e. The Disaster Recovery Site was relocated to Mafeteng Post Office which is more than 15km away from the production site
- f. Internal Audit provided risk assurance to management and the Board. To further strengthen the internal audit function an IT Auditor will be recruited in 2015.
- g. The following policies and frameworks were approved by the Board:

- **Risk Department**

- Risk Management Framework
 - Business Continuity Management Policy
 - Schedule of Delegated Authorities for Board of Directors and Executive Management Committee (EXCO).
 - Anti-Money Laundering Policy

- **Internal Audit Department**

- Internal Audit Charter
 - Agreed Management Action Policy

- **Credit Department**

- Credit Policy

- **Finance Department**

- Investment Policy
 - Liquidity Policy
 - Liquidity Management Framework
 - Interest Rate Risk Management Policy
 - Liquidity Contingency Plan
 - Petty Cash Policy
 - Suspense Accounts Management Framework and Control Directives
 - Taxation Policy and Procedure

- **Retail Department**

- Customer Complaints Management Policy
 - Dormancy Policy

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- **Human Resources Department**

Succession Policy

7.6 Compliance

Although the compliance function within Lesotho PostBank is not new, staffing of the unit remained a challenge with only one resource performing Board and Executive Committee secretarial duties, governance monitoring, legal advice and compliance monitoring. The Bank intends to appropriately resource this function in 2015.

Following the filling of vacant Executive Management positions, the following developments were noted:

- Revision and drawing up of Charters for different Governance Committees (See structure below).
- Periodic Meetings of Governance Committees began to be held as per individual committee's charter.
- In compliance with King III principles (in particular, IT Governance), IT reports were a standing agenda item in Board meetings. This was to make sure that IT, being a strategic asset and the engine of LPB's operations, was closely monitored.

7.7 Internal Audit

The role of Internal Audit department is to provide independent and objective assurance and consulting services designed to add value and improve LPB's operations and help LPB to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes through risk based audits.

The LPB Internal Audit Annual Activity Plan for 2015 is also informed by risk registers from the departments while focusing on critical risks.

The Head of Internal Audit reports functionally to the Audit, Risk and Compliance Committee (ARCCO) and administratively to the Managing Director. The Internal Audit function will remain free from interference by any element in the organisation including matters of audit selection, scope of work, procedures performed, frequency of visits, timing or report content to permit maintenance of a necessary independent and objective mental attitude.

During the reporting period the following key activities were undertaken

- Twelve (12) audits out of the planned sixteen (16), which is 75% achievement because of the vacancy rate of 33%.
- The Agreed Management Action Policy was developed and approved by the Board during 2014.
- The Internal Audit Policies and Procedures Operating Manual were developed and approved as a working document.
- Internal Audit Charter and the 2015 Audit Plan were reviewed and approved by ARCCO.

7.8 Information Technology

In 2014, the Bank started a project to implement a system to offer Electronic Funds Transfer (EFT) payments for its customers as part of the Payments Association of Lesotho (PAL) industry initiative to have local inter-bank transactions performed and settled through its automated clearing house. This will help the Bank's customers to wire money to other local banks through electronic means and thereby provide increased convenience. Also, this will offer the Bank an opportunity to diversify and modernise its products to compete with other commercial banks. The project is expected to launch in March 2015. The Bank continued to support the ICT infrastructure, despite it being obsolete.

The Bank successfully completed the SIRESS project driven by PAL in July 2014.

The LPB intends to start the following projects in 2015: Europay MasterCard VISA (EMV) interoperability, Mobile and Internet Banking for customer convenience and market penetration; Enterprise Resource Planning (ERP) business application and hardware refresh for operational efficiency.

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7.9 Core Business

7.9.1 Customer Base

The Bank made tremendous strides in its lending business, growing the loan book by over 100%. The sector that benefited the most was the salaried sector on the back of personal loans. The growth in deposits was stable at 5%, while the customer base grew by 3%. The sluggish growth in deposits was due to the slow economic growth in 2014. The Bank intends to penetrate the unbanked and under-banked as well as the Small Micro Medium Enterprise segments in 2015.

7.9.2 Delivery Channels

One of the critical issues in banking is service convenience. The Bank developed a Customer Complaints Policy and a Code of Conduct. Both documents are aligned to the BAL Code of Conduct. Full implementation of the policy is expected in 2015.

Maputsoe branch relocated to a new bigger facility, giving staff and customers a more pleasant environment to work from. The Bank deployed five ATMs bringing to seven the number of ATMs in different locations to widen its outreach and offer more convenience to customers.

The number of branches remained at 13 and the plan is to open Mafeteng branch in 2014. The Bank will also deploy the prefabricated houses and Point of Sale Devices (POS) in selected rural towns to facilitate easy access to banking services.

7.10 Corporate Social Responsibility

The Bank sponsored awards to students in the school leaving stage in Maseru district. In addition, it sponsored the best 2014 Bachelor of Commerce graduate at the National University of Lesotho.

The Bank endeavors to improve its social responsibility standing. To this end, the Bank will identify worthy projects to support in various communities in which it operates.



7.11 Financial Review

7.11.1 Financial Key Performance Indicators (KPIs)

Since the start of operations in 2005, the Bank has been making losses. The position turned around when LPB made a profit in 2014. The outlook is that the Bank will remain profitable over the next three years and beyond and thereby achieving sustainability.

The cost to income ratio has been declining from the high of 231% in 2009 to 96% in 2014. This is a great improvement in terms of the Bank being able to finance its operating expenses.

Financial Key Performance Indicators (KPIs)

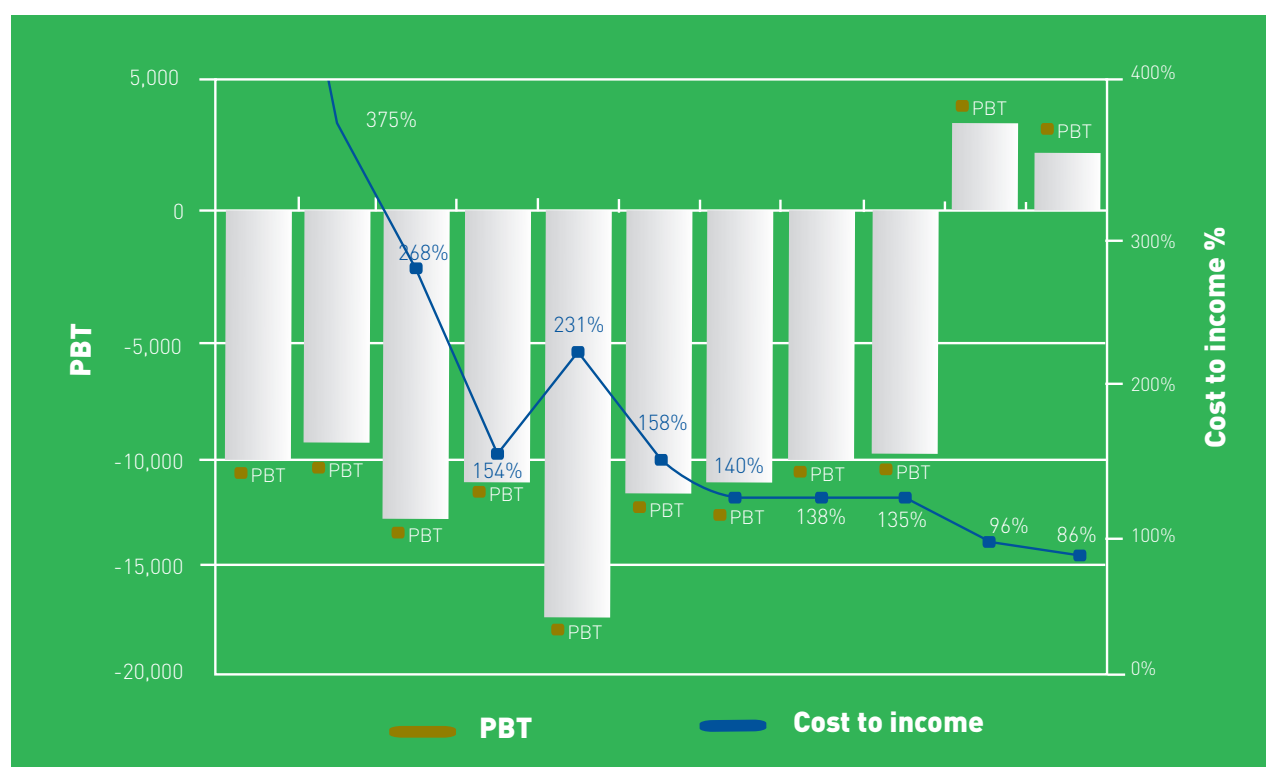
Description	Comparison against prior year	Amounts LSL'000	
Total Income			
Defined as income includes all income less.	Total income improved by 94% in 2014	(2013) 23,980	 (2014) 46,405
Operating Expenses			
Defined as total operating expenses. This is the strategic initiative for gaining competitive.	Operating costs increased by 23% year on year	(2013) 33,810	 (2014) 41,908
Profit Before Tax			

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Profit before Tax is a primary profitability measure used by management to assess performance of the bank.	As a key indicator for financial performance, the bank achieved more than 100% increase as compared with prior year where by a loss of more than M9 million was realised.	(2013) 9,830	↑	(2014) 3,873
Cost To Income Ratio				
The cost to income ratio is calculated as operating expenses divided by total income. It is used to assess the productivity of the business operations.	The ratio improved from 135% to 96% due to reduced costs. Monitoring is still required in running the business to ensure that costs increase at slower rate than income	(2013) 135%	↑	(2014) 96%
Provision for impairment to gross advances				
The granting of credit is one of the sources of income, however also one of the most significant risks. Calculated as a percentage, it represents total loan impairment charge divided by gross loans to customers held at amortised cost.	It is the indicator of the cost of granting credit, it has improved from 32% to 3% in 2014. Which shows improvement in the collection for the bank	(2013) 32%	↑	(2014) 3%

7.11.2 Financial Highlights



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7.11.3 Income Statement Commentary

- **Interest Income**
Interest Income showed 74% increase compared to previous year to date (PYTD). Interest income from loans constituted the major component of interest income at 53% whilst interest income from placements and treasury bills comprised 31% and 16%, respectively.
- **Non Interest Income**
Non-Interest Income was 64.7% above PYTD due to high transaction volumes. Income from interest was higher than income from fees and commission. This indicates that the PostBank remained affordable and relevant to its target market.
- **Operating Expenses**
Year to date (YTD) operating expenses was 44.5% above PYTD due to increase in bank activities and filling of vacant positions.

7.11.4 Balance Sheet Commentary

- **Assets**
Total Assets increased by 11% to M345 million. This was a result of an increase in advances. Gross Advances increased by more than 100% year on year (YOY) due to increase in loan appetite. The focus in 2015 will be to diversify into SMME and microfinance market.
- **Credit impairments**
Impairments were kept at an acceptable level whilst observing the regulatory requirement. However, it is expected that historical challenges may still crop up in future and negatively affect the achieved level of impairments.
- **Deposits**
Customers deposits increased by 5% to M286 million from M272 million in 2013. The growth rate is slowly increasing hence the Bank needs to invest on marketing initiatives to drive deposits. Around 84% of the deposit liabilities comprised demand deposits whilst investment (fixed-term) deposits constituted only 16%.
- **Capital Adequacy Ratio**
CAR was recorded at a healthy position at 12.4%. However, the Bank must remain vigilant to ensure that the liquidity is neither too low nor too high as this may be costly to the business.

7.12 Government Subsidy

The amount of subsidy from the GoL has been going down each year. This is in line with the original business plan where the Bank would be financially self sufficient. However, in 2014 the Bank didn't receive any subsidy. The grant recognised in the financials was an adjustment of depreciation of assets purchased with grants.

7.12.1 Suppliers

The LPB is committed to contributing towards local economic development, with enterprise development forming a key component of this commitment. Where possible, the LPB engaged local suppliers in order to provide opportunities for enterprise development.

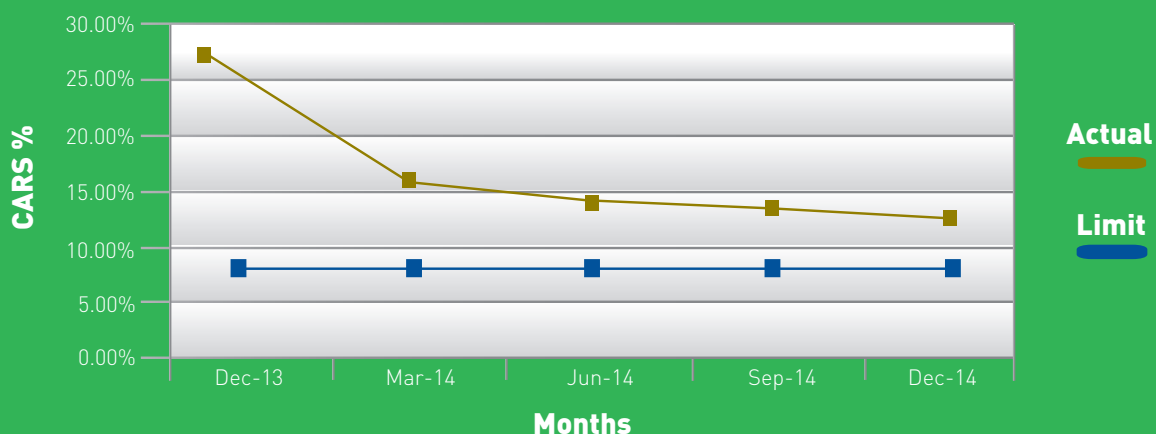
7.12.2 Regulatory Summary

The Bank complied with the FIA on the CAR and Liquidity ratio as depicted in the graphs below:

THE MANAGING DIRECTOR'S REPORT.

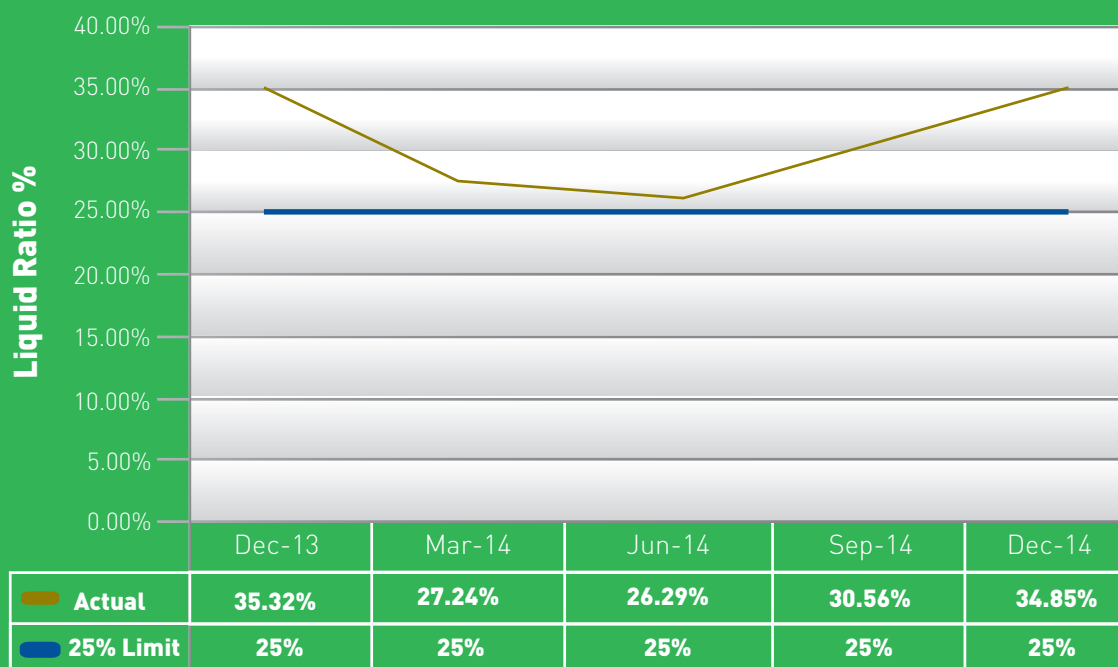


Capital Adequacy Ratio



Capital adequacy ratio remained well above the minimum regulatory ratio of 8% as it stood at 12.4%.

Liquidity Ratio



The Central Bank of Lesotho liquidity requirement is 25% and Lesotho Post Bank is compliant with the requirement for the past twelve months. The Liquidity ratio as at end of December was 35%. Should need arise, the Bank still has 10% before breaching.

Lesotho PostBank Limited
(Registration number 2004/163)
Annual Financial Statements for the year ended 31 December 2014

General Information

Country of incorporation and domicile	Lesotho
Nature of business and principal activities	Retail Banking
Directors	M. Williams (Chairman) R. Tlali (Non Executive) N. Sekome (Non Executive) P. Khetsi (Non Executive) P. Shale (Non Executive) M. Leqhaoe (Managing Director)
Registered office	The Banking Hall Post Office Headquarters Building Kingsway Maseru Kingdom of Lesotho
Bankers	NedBank Lesotho Standard Lesotho Bank
Auditors	Sheeran & Associates
Secretary	K Moeletsi
Bank registration number	2004/163

Lesotho PostBank Limited
(Registration number 2004/163)
Annual Financial Statements for the year ended 31 December 2014

Index

The reports and statements set out below comprise the annual financial statements presented to the shareholder:

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Directors' Responsibilities and Approval	3
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Lesotho PostBank Limited
(Registration number 2004/163)
Annual Financial Statements for the year ended 31 December 2014

Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act No. 18 of 2011 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the bank as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

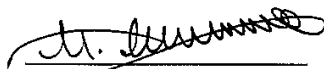
The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the bank and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the bank and all employees are required to maintain the highest ethical standards in ensuring the bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the bank is on identifying, assessing, managing and monitoring all known forms of risk across the bank. While operating risk cannot be fully eliminated, the bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the bank's cash flow forecast for the year to 31 December 2015 and, in light of this review and the current financial position, they are satisfied that the bank has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the bank's annual financial statements. The annual financial statements have been examined by the bank's external auditors and their report is presented on pages 5 to 6.

The annual financial statements and additional schedules set out on pages 7 to 35, which have been prepared on the going concern basis, were approved by the directors on 9th March 2015 and were signed on its behalf by:


MASEQOBELA WILLIAMS
CHAIRPERSON


MOLEFI LEQHAOE
MANAGING DIRECTOR

Directors' Report

The directors submit their report for the year ended 31 December 2014.

1. Incorporation

The bank was incorporated in 2004 in Lesotho and commenced operations on 21 January 2005, but was officially launched on 9 March 2005.

2. Review of activities

Main business and operations

The bank is engaged in retail banking and operates principally in Lesotho.

The operating results and state of affairs of the bank are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net profit of the Bank was M 3 873 081 (2013: M - profit), after taxation of M 623 486 (2013: M -).

3. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

4. Events after the reporting period

The directors are not aware of any matter or circumstance arising since the end of the financial year.

5. Authorised and issued share capital

There were no changes in the authorised or issued share capital of the bank during the year under review.

6. Subsidies by government grant

No subsidy was utilised to offset any loss made during the year.

7. Directors

The directors of the bank during the year and to the date of this report are as follows:

Name

M. Williams (Chairman)
R. Tlali (Non Executive)
N. Sekome (Non Executive)
P. Khetsi (Non Executive)
P. Shale (Non Executive)
M. Leqhaoe (Managing Director)

8. Secretary

The secretary of the bank is K Moeletsi.

9. Auditors

Sheeran & Associates will continue in office in accordance with section 98 of the Companies Act of Lesotho.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LESOTHO POSTBANK LIMITED

We have audited the financial statements of Lesotho PostBank Limited, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information as set out on pages 7 to 35.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of Lesotho, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lesotho PostBank Limited as at 31 December 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Sheeran & Associates

**Sheeran & Associates
Chartered Accountants (Lesotho)**

Date: 13 March 2015

Statement of Financial Position as at 31 December 2014

	Notes	2014 M	2013 M
Assets			
Deferred tax asset	4	1 433 967	-
Cash and cash equivalents	5	136 377 883	209 985 627
Treasury	6	60 469 000	67 660 800
Inventories	7	422 459	1 014 434
Trade and other receivables	8	2 114 742	1 418 533
Property, plant and equipment	9	15 763 296	13 361 082
Loans and advances	10	130 708 953	20 247 589
Total Assets		347 290 300	313 688 065
Equity and Liabilities			
Equity			
Share capital	11	20 000 000	20 000 000
Retained income		3 873 081	-
		23 873 081	20 000 000
Liabilities			
Deferred tax liability	4	743 535	-
Deposits	12	286 018 585	272 498 248
Deferred income	13	29 289 907	16 632 542
Trade and other payables	14	6 051 274	4 557 275
Corporate tax liability		1 313 918	-
		322 673 684	293 688 065
Total Liabilities		323 417 219	293 688 065
Total Equity and Liabilities		347 290 300	313 688 065

Statement of Comprehensive Income

	Notes	2014 M	2013 M
Continuing operations			
Capital grant income	13	2 885 996	2 367 370
Other income	17	17 094 018	9 494 265
Interest income	18	28 629 660	17 739 157
Finance costs	18	(1 991 426)	(2 395 506)
Operating expenses	19	(17 844 466)	(14 714 334)
Depreciation	19	(2 885 996)	(2 367 370)
Employee costs	19	(21 178 333)	(16 727 847)
Impairment of loans		(212 886)	(3 225 756)
Profit/(loss) before taxation	19	4 496 567	(9 830 021)
Income tax expense	20	(623 486)	-
Profit/(loss) for the year		3 873 081	(9 830 021)
Subsidised by Grants	21	-	9 830 021
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		3 873 081	-

Statement of Changes in Equity

	Share capital	Retained income	Total equity
	M	M	M
Balance at 01 January 2013	20 000 000	-	20 000 000
Profit for the year	-	-	-
Other comprehensive income	-	-	-
Balance at 01 January 2014	20 000 000	-	20 000 000
Profit for the year	-	3 873 081	3 873 081
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	3 873 081	3 873 081
Balance at 31 December 2014	20 000 000	3 873 081	23 873 081
Note	11		

Statement of Cash Flows

	Notes	2014 M	2013 M
Cash flows from operating activities			
Cash used in operations	24	(17 865 906)	(9 457 893)
Interest income		28 629 660	17 739 157
Finance costs		(1 991 426)	(2 395 506)
Net cash flows from operating activities		8 772 328	5 885 758
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(5 288 210)	(2 033 420)
Movement in treasury bonds		7 191 800	(33 102 361)
Movement in loans and advances		(110 461 363)	-
Net cash flows from investing activities		(108 557 773)	(35 135 781)
Cash flows from financing activities			
Movement in deposits		13 520 337	14 596 844
Movements in capital grants		12 657 364	778 483
Net cash flows from financing activities		26 177 701	15 375 327
Total cash movement for the year		(73 607 744)	(13 874 696)
Cash at the beginning of the year		209 985 627	223 860 323
Total cash at end of the year	5	136 377 883	209 985 627

Accounting Policies

1. Basis of preparation

The annual financial statements have been prepared in accordance with International Financial Reporting Standards. The annual financial statements have been prepared on the historical cost basis and incorporate the principal accounting policies set out below. They are presented in Lesotho Maloti.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. There are no areas of judgemental or significant estimates made by management that could have a significant effect on amounts recognised in the annual financial statements. Significant judgements include:

Trade receivables, Held to maturity investments and Loans and receivables

The bank assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating profit note.

Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined by using valuation techniques. The bank uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the bank for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

The bank reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors together with economic factors.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Bank recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Bank to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Bank to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

1.2 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the bank; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Furniture and fixtures	10 years
Motor vehicles	8 years
Office equipment	5 years
IT equipment	5-15 years
Prefabricated buildings	15 years
Leasehold improvements	over the lease term
Motor bikes	8 years

The residual value, useful life and depreciation method of each asset is reviewed, and adjusted if appropriate, at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Accounting Policies

1.2 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

1.3 Financial instruments

Classification

The bank classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition and measurement

Financial instruments are recognised initially when the bank becomes a party to the contractual provisions of the instruments.

The bank classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the bank has transferred substantially all risks and rewards of ownership.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each reporting date the bank assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the bank, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Accounting Policies

1.3 Financial instruments (continued)

Impairment losses are recognised in profit or loss.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in profit or loss except for equity investments classified as available-for-sale.

(a) Assets carried at amortised cost

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Loans to shareholders, directors, managers and employees

These financial assets are classified as loans and receivables.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Accounting Policies

1.3 Financial instruments (continued)

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments with original maturities of 3 months or less and bank overdrafts that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the bank has the positive intention and ability to hold to maturity are classified as held to maturity.

Effects of exchange rate changes

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency are reported in the statement of cash flows in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities. It also includes the differences, if any, had those cash flows been reported at period-end exchange rates.

1.4 Income tax

Current income tax assets and liabilities

Current income tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current income tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Accounting Policies

1.4 Income tax (continued)

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Income tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.5 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease liability. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.6 Inventories

Inventories are measured at the lower of cost and net realisable value on the standard costing basis.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Accounting Policies

1.6 Inventories (continued)

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. It excludes borrowing costs.

The cost of inventories is assigned using the standard costing formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

1.7 Impairment of non-financial assets

The bank assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the bank estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the bank also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit and
- then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.8 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity.

Accounting Policies

1.9 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Long-term employee benefits

Some companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

1.10 Provisions and contingencies

Provisions are recognised when:

- the bank has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised.

1.11 Government and other grants

Government grants are recognised when there is reasonable assurance that:

- the bank will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Accounting Policies

1.11 Government and other grants (continued)

Government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Grants related to income are presented as a credit in the profit or loss (separately).

Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense.

Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

1.12 Revenue

Income comprises funds received from Government of Lesotho, IFAD, MCA-Lesotho and WSBI, interest on investments and loan advances and commission and fees received.

Interest income and expenses

Interest income and expenses for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within interest income and interest expense in the income statement using the effective interest method. Interest income and expenses include the amortization of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

1.13 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:

- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Accounting Policies

1.14 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rand/Maloti, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rand/Maloti by applying to the foreign currency amount the exchange rate between the Rand/Maloti and the foreign currency at the date of the cash flow.

Notes to the Annual Financial Statements

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the bank has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets 	01 January 2014	The impact of the amendment is not material.
<ul style="list-style-type: none"> IFRIC 21 Levies 	01 January 2014	The impact of the interpretation is not material.
<ul style="list-style-type: none"> Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting 	01 January 2014	The impact of the amendment is not material.
<ul style="list-style-type: none"> Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities 	01 January 2014	The impact of the amendment is not material.

2.2 Standards and interpretations not yet effective

The bank has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the bank's accounting periods beginning on or after 01 January 2015 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> Amendments to IAS 19: Defined Benefit Plans: Employee Contributions. 	01 July 2014	The impact of the amendment is not material.
<ul style="list-style-type: none"> Amendment to IFRS 2: Share-based Payment: Annual improvements project 	01 July 2014	The impact of the amendment is not material.
<ul style="list-style-type: none"> Amendment to IFRS 3: Business Combinations: Annual improvements project 	01 July 2014	The impact of the amendment is not material.
<ul style="list-style-type: none"> Amendment to IFRS 8: Operating Segments: Annual improvements project 	01 July 2014	The impact of the amendment is not material.
<ul style="list-style-type: none"> Amendment to IAS 16: Property, Plant and Equipment: Annual improvements project 	01 July 2014	The impact of the amendment is not material.
<ul style="list-style-type: none"> Amendment to IAS 24: Related Party Disclosures: Annual improvements project 	01 July 2014	The impact of the amendment is not material.
<ul style="list-style-type: none"> Amendment to IAS 38: Intangible Assets: Annual improvements project 	01 July 2014	The impact of the amendment is not material.

Notes to the Annual Financial Statements

2. New Standards and Interpretations (continued)

• Amendment to IFRS 13: Fair Value Measurement: Annual improvements project	01 July 2014	The impact of the amendment is not material.
• Amendment to IAS 40: Investment Property: Annual improvements project	01 July 2014	The impact of the amendment is not material.
• IFRS 14 Regulatory Deferral Accounts	01 January 2016	The impact of the standard is not material.
• Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations	01 January 2016	The impact of the amendments is not material.
• Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	01 January 2016	The impact of the amendment is not material.
• IFRS 15 Revenue from Contracts with Customers	01 January 2017	The impact of the standard is not material.

Notes to the Annual Financial Statements

3. Risk management

Capital risk management

The bank's objectives when managing capital are to safeguard the bank's ability to continue as a going concern in order to ensure that there are adequate liquid assets to meet demands by depositors and also to provide returns for shareholders and benefits for other stakeholders. The bank attains these objectives by maintaining a reserve balance with the Central Bank and liquid assets amounting to not less than three percent and twenty five percent respectively of the aggregate of deposit liabilities. The bank has maintained adequate capital and the minimum liquidity required. The bank had a capital adequacy ratio of 29% compared to 8% as per the Financial Institutions (Risk-Based Capital Requirements) Regulations 1999 section 5 and Basel 1 requirements. The bank was also compliant with the reserve account balance of M 12 million while the amount required by the Financial Institutions Act was M 7.2 million. In respect of the minimum liquidity requirement of 25% arising from Liquidity Requirement Regulation 2000, the bank had M 72 million which was in excess of the M 60.3 million required as dictated by depositors' funds.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2014 and 2013 respectively were as follows:

		2014 M	2013 M
Less: Cash and cash equivalents	5	136 377 883	209 985 627
Net debt		(136 377 883)	(209 985 627)
Total equity		23 873 081	20 000 000
Total capital		(112 504 802)	(189 985 627)

Financial risk management

The bank's financial instruments consist mainly of cash and cash equivalents, other receivables and other payables.

Principles of risk management

The bank is exposed in particular to risks from movements in interest rates that effect assets, liabilities and forecast transactions. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

Treasury is responsible for ongoing risk management. Certain transactions require the approval of the Board of Directors of the bank which is also regularly briefed on the extent and the amount of the current risk exposure.

Liquidity risk

Liquidity risk is the risk that the bank will not be able to meet its financial obligations as they fall due. 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, both under normal and stressed conditions, without incurring losses or risking damage to the bank's reputation.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to the Annual Financial Statements

3. Risk management (continued)

At 31 December 2014	Payable on Call	Less than 1 year
Saving deposit liabilities	240 841 459	-
Term deposit liabilities	45 739 075	-
Other liabilities	-	3 818 014
At 31 December 2013	Payable on Call	Less than 1 year
Saving deposit liabilities	242 557 628	-
Term deposit liabilities	30 298 898	-
Other liabilities	-	2 826 753

Interest rate risk

The bank is exposed to interest rate risks in South Africa and Lesotho. The bank does not make use of interest rate derivatives and therefore 100% of the interest-bearing financial assets and liabilities had a variable interest rate.

The bank's interest rate risk arises from deposit liabilities. Deposit liabilities issued at fixed rates expose the bank to fair value risk. During 2014 and 2013, the bank's deposit liabilities at fixed rate were denominated in Maloti (functional currency).

Fair value interest rate risk

Financial instrument	Current interest rate	Payable / Receivable on Call	Due in less than a year	Due in more than a year	Restricted	Due after five years
Cash in current banking institutions	6.89 %	-	127 653 457	-	-	-
Savings deposits liabilities	0.75 % (240 287 685)	-	-	-	-	-
Term deposits liabilities	4.00 %	-	(19 668 901)	-	-	-
Balances with central bank of Lesotho	- %	-	-	-	8 724 425	-
Treasury bills	6.96 %	-	60 469 000	-	-	-
Loans & advances	20.00 %	-	-	134 482 387	-	-

Sensitivity Analysis

Interest rate risks are presented by way of sensitivity analysis in accordance with IFRS 7. These show the effects of changes in the market rates on interest payments, interest income and expense, other components and, if appropriate, shareholders' equity. The interest rate sensitivity analysis are based on the following assumption:

Changes in market interest rates affect the interest income or expense of non-derivative variable-interest financial Instruments, the interest payments of which are not designated as hedged items of the cash flow hedges against interest rate risks. As a consequence, they are included in the calculation of income-related sensitivities.

Notes to the Annual Financial Statements

3. Risk management (continued)

A one percentage point movement in the effective interest rate would have the following effect on the profitability for the year.

	Assets/ Liabilities 2014	Assets/ Liabilities 2013	2014 +1%	2014 -1%	2013 +1%	2013 -1%
Cash and cash equivalent	136 377 883	209 985 627	1 363 779	(1 363 779)	2 099 856	(2 099 856)
Treasury bills	60 469 000	67 660 800	604 690	(604 690)	676 608	(676 608)
Savings deposits liabilities	240 287 685	242 207 867	2 402 877	(2 402 877)	2 422 079	(2 422 079)
Term deposits liabilities	45 730 900	30 290 381	457 309	(457 309)	302 904	(302 904)
Effect on profitability			<u>4 828 655</u>	<u>(4 828 655)</u>	<u>5 501 447</u>	<u>(5 501 447)</u>

Credit risk

Financial assets which potentially subject the bank to concentrations of credit risk consist mainly of cash deposits, cash equivalents and loans and advances. The bank only deposits cash with major banks with high quality credit standing and limits exposure to one counter-party. Accordingly the bank has limited concentration of risk.

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counter-parties.

Financial assets exposed to credit risk at year end were as follows:

	2014 M	2013 M
Financial instrument		
Loans and advances	134 482 387	27 061 217
Treasury bills	60 469 000	67 660 800
Balances with local banks	31 197 472	23 721 057
Balances with external banks	85 462 749	171 022 803

Treasury bills are held with the Central Bank of Lesotho at an effective interest of 6.96% (2013: 5.04%).

Foreign exchange risk

As part of the presentation of market risks, IFR7 requires disclosure on how hypothetical changes in foreign currency exchange rates affect the price of financial instruments.

The bank does not hedge foreign exchange fluctuations.

The bank has certain investments in South Africa which are denominated in South African Rands. These investments are not exposed to foreign currency translation risk as 1 Rand is equal to 1 Maloti (functional currency).

Notes to the Annual Financial Statements

3. Risk management (continued)

Foreign currency exposure at the end of the reporting period

	2014 M	2013 M
Non current assets		
Cash and cash equivalent (SA Rands)	136 377 883	209 985 627
Exchange rates used for conversion of foreign items were:		
R	1	1

4. Deferred tax asset

Deferred tax liability

Property plant and equipment	(743 535)	-
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Deferred tax asset

Audit fee provision	63 470	-
Gratuity provision	186 838	-
Leave provision	240 300	-
Loan impairment provision	943 359	-
Deferred tax balance from temporary differences other than unused tax losses	1 433 967	-
Total deferred tax asset	1 433 967	-
Deferred tax liability	(743 535)	-
Deferred tax asset	1 433 967	-
Total net deferred tax asset	690 432	-

Reconciliation of deferred tax asset / (liability)

At beginning of year	-	-
Taxable / (deductible) temporary difference movement on leave provision	240 300	-
Taxable / (deductible) temporary difference on audit fee provision	63 470	-
Taxable / (deductible) temporary difference on gratuity provision	186 838	-
Taxable / (deductible) temporary difference on loan impairment provision	943 359	-
Taxable / (deductible) temporary difference movement on property, plant and equipment	(743 535)	-
	690 432	-

5. Cash and cash equivalents

For the purpose of the statement of cash flows, cash, cash equivalents comprise the following:

Cash and other cash items	10 993 236	8 316 871
Balances with Central Bank	8 724 425	6 924 896
Balances with local banks	31 197 473	23 721 057
Balances with external banks	85 462 749	171 022 803
	136 377 883	209 985 627

Notes to the Annual Financial Statements

	2014 M	2013 M
5. Cash and cash equivalents (continued)		
Cash and cash equivalents held by the entity that are not available for use by the bank.	8 724 425	6 924 896

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by historical information about counter-party default rates.

Credit rating

AAA	125 384 647	201 668 756
Cash and other cash items	10 993 236	8 316 871
	136 377 883	209 985 627

6. Treasury

Treasury Bills	57 346 582	64 784 535
Interest receivable	3 122 418	2 876 265
Total	60 469 000	67 660 800

Treasury bills disclosed matures within one year.

Treasury bills are debt securities issued by the Central Bank of Lesotho for short to medium term. All treasury bills are subject to variable interest rate risk. Treasury bills are held-to-maturity financial assets measured at amortised cost using effective interest rate method. The cost of the treasury bills at year end is M 57 346 382 (2013: M 64 784 535) and the total interest receivable at year end is M 3 122 418 (2013: M 2 876 265).

7. Inventories

Stock held	422 459	1 014 434
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Inventory is measured at the lower of cost and net realizable value.

8. Trade and other receivables

Prepayments	813 883	991 009
Other receivables	1 300 859	427 524
	2 114 742	1 418 533

Trade and other receivables past due but not impaired

At 31 December 2014, none of the trade and other receivable balances are past due or impaired.

Notes to the Annual Financial Statements

	2014			2013		
	Cost /	Accumulated	Carrying	Cost /	Accumulated	Carrying
	Valuation	depreciation	value	Valuation	depreciation	value
9. Property, plant and equipment						
Furniture and fixtures	2 051 788	(1 082 310)	969 478	1 705 938	(902 709)	803 229
Motor vehicles	1 202 002	(639 672)	562 330	1 202 002	(519 472)	682 530
Office equipment	5 404 461	(3 447 283)	1 957 178	4 622 489	(2 911 182)	1 711 307
IT equipment	19 665 013	(10 187 228)	9 477 785	16 751 466	(8 387 188)	8 364 278
Leasehold improvements	1 135 585	(362 679)	772 906	712 595	(264 258)	448 337
Motor bikes	336 090	(187 650)	148 440	336 090	(154 042)	182 048
Prefabricated buildings	2 326 170	(450 991)	1 875 179	1 500 000	(330 647)	1 169 353
Total	32 121 109	(16 357 813)	15 763 296	26 830 580	(13 469 498)	13 361 082

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Depreciation	Total
Furniture and fixtures	803 229	345 850	(179 601)	969 478
Motor vehicles	682 530	-	(120 200)	562 330
Office equipment	1 711 307	780 250	(534 379)	1 957 178
IT equipment	8 364 278	2 912 949	(1 799 442)	9 477 785
Leasehold improvements	448 337	422 990	(98 421)	772 906
Motor bikes	182 048	-	(33 608)	148 440
Prefabricated buildings	1 169 353	826 171	(120 345)	1 875 179
	13 361 082	5 288 210	(2 885 996)	15 763 296

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Depreciation	Total
Furniture and fixtures	900 704	62 646	(160 121)	803 229
Motor vehicles	802 730	-	(120 200)	682 530
Office equipment	867 932	1 205 781	(362 406)	1 711 307
IT equipment	9 177 237	729 131	(1 542 090)	8 364 278
Leasehold improvements	481 419	35 862	(68 944)	448 337
Motor bikes	215 657	-	(33 609)	182 048
Prefabricated buildings	1 249 353	-	(80 000)	1 169 353
	13 695 032	2 033 420	(2 367 370)	13 361 082

10. Loans and advances

Loans and advances	134 482 387	27 160 027
Provisions for losses - general	(1 360 623)	(273 698)
Provisions for losses - specific	(2 412 810)	(5 709 341)
Provisions for losses - loans	-	(929 400)
	130 708 954	20 247 588

Notes to the Annual Financial Statements

	2014 M	2013 M
10. Loans and advances (continued)		
At 31 December 2014, advances of M 43 837 220 (2013:M 5 664 492) were past due but not impaired. These relate to customers of whom there is not recent history of default. The ageing of these and is shown below:		
Advances - Aged analysis (Gross)		
Aged current	79 125 886	15 797 007
1 to 30 days	43 837 220	5 664 493
30 to 60 days	7 666 410	436 679
60 to 90 days	1 099 045	172 083
90 days and over	2 753 826	5 089 765
	134 482 387	27 160 027
Impairment provision - Advances - Aged analysis		
Aged current	1 360 623	273 698
30 to 60 days	766 641	43 668
60 to 90 days	109 904	17 208
90 days and over	1 536 266	5 648 465
	3 773 434	5 983 039
Representing the carrying value of individually impaired trade debtors.		
Advances - Aged analysis (Fully performing)		
Aged Current	79 903 954	15 797 007
1 to 30 days	43 837 220	5 664 493
30 to 60 days	7 666 410	436 679
60 to 90 days	1 099 045	172 083
	132 506 629	22 070 262
Collateral held and other credit enhancements on past due advances		
Aged Current	2 000 000	950 000
Advances Collateral held and other credit enhancements (fair value)		
Aged Current	2 000 000	950 000
Movement on the provision for impairment of Loans and Advances are as follows:		
At 1 January	5 983 039	2 805 916
Increase in provision with IS impact	212 886	3 177 123
Actual bad debts write off from the provision	(2 192 345)	-
Bad debts recovered	(230 146)	-
At 31 December	3 773 434	5 983 039

Notes to the Annual Financial Statements

	2014 M	2013 M
10. Loans and advances (continued)		
Sector analysis		
Supply finance	45 967	557 839
Caterers	472 898	49 682
SME's	4 385 867	1 900 898
Personal loans	116 231 908	16 133 672
Staff loans	13 345 747	8 517 936
	134 482 387	27 160 027
11. Share capital		
Authorised		
20 000 000 Ordinary shares of M1 each	20 000 000	20 000 000
Issued		
20 000 000 Ordinary shares of M1 each	20 000 000	20 000 000
12. Deposits		
Saving deposits	240 287 685	242 207 867
Fixed term and special deposits	45 730 900	30 290 381
	286 018 585	272 498 248
13. Deferred income		
Unutilised Government grant at year end is not recognized in the income statement until all the conditions of the grant have been met.		
All fixed assets of the bank are purchased through the use of the Government grant and other donors. The portion of the Government grant that is utilized for the purchase of assets is recognized as a liability (capital grant) and it is amortised to the income statement at the same rate as the depreciation for the fixed assets.		
Unutilised government grant		
Opening balance	3 271 460	2 227 804
Grant received	16 218 422	10 873 677
Utilised for expenses	(675 063)	-
Government grant utilised for capital expenditure	(5 288 208)	-
Utilised for the loss	-	(9 830 021)
	13 526 611	3 271 460

Notes to the Annual Financial Statements

	2014 M	2013 M
13. Deferred income (continued)		
Unrealised capital expenditure		
Opening balance capital grant	13 361 081	13 695 032
Utilised for purchases of fixed assets	5 288 208	2 033 420
Unwinding to profit and loss in line with depreciation	(2 885 993)	(2 367 370)
	15 763 296	13 361 082
Total unrealised deferred income	29 289 907	16 632 542
14. Trade and other payables		
Other payables	3 818 014	2 826 753
Amounts received in advance	123 138	-
Accrued leave pay	961 434	800 804
Accrual for severance pay	-	18 825
Accruals for gratuity	634 447	488 686
PAYE payable	495 810	403 776
Provisions for assets written off	18 431	18 431
	6 051 274	4 557 275

15. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2014

	Loans and receivables	Total
Loans and advances	130 708 954	130 708 954
Trade and other receivables	2 114 742	2 114 742
Cash and cash equivalents	136 377 883	136 377 883
Treasury	60 469 000	60 469 000
	329 670 579	329 670 579

2013

	Loans and receivables	Total
Loans and advances	20 247 588	20 247 588
Trade and other receivables	1 418 533	1 418 533
Cash and cash equivalents	209 985 627	209 985 627
Treasury	67 660 800	67 660 800
	299 312 548	299 312 548

Notes to the Annual Financial Statements

	2014 M	2013 M
16. Financial liabilities by category		
The accounting policies for financial instruments have been applied to the line items below:		
2014		
	Financial liabilities at amortised cost	Total
Trade and other payables	6 051 274	6 051 274
Deposits	286 018 585	286 018 585
	292 069 859	292 069 859
2013		
	Financial liabilities at amortised cost	Total
Trade and other payables	4 557 275	4 557 275
Deposits	272 498 248	272 498 248
	277 055 523	277 055 523
17. Other income		
Fees earned	17 094 018	9 494 265
18. Net interest income		
Interest income		
Cash and short term funds	8 383 311	9 743 472
Treasury bills and other securities	3 309 631	3 140 556
Loans and advances	16 936 718	4 855 129
	28 629 660	17 739 157
Finance cost		
Saving deposits	(1 778 955)	(1 267 009)
Term deposits	(212 471)	(1 128 497)
	(1 991 426)	(2 395 506)
Net interest income/(expense)	26 638 234	15 343 651

Notes to the Annual Financial Statements

	2014 M	2013 M
19. Expenses by nature		
Bad debts provision	212 886	3 225 756
Employee benefit expenses	21 178 333	16 727 847
Transportation of valuables	858 916	759 681
Advertising expense	590 172	169 971
Depreciation, amortisation and impairments	2 885 996	2 299 984
Communication expense	1 003 129	817 222
Printing and stationery	1 716 164	1 259 570
Travelling	523 433	814 422
Security	1 964 820	2 298 835
Training	270 266	556 308
Insurance	753 047	601 098
License fees	1 931 845	1 193 147
Lease rentals on operating lease	2 802 913	2 384 720
Other expenses	5 429 761	3 926 746
Total administrative expenses	42 121 681	37 035 307

The 2013 and 2014 loss were recovered by the following grants received:

Government of Lesotho	-	7 661 892
MCA - Lesotho	-	2 168 128
	-	9 830 020

20. Income tax expense

Major components of the income tax expense

Current

Local income tax - current period	1 754 391	-
Withholding tax	(440 473)	-
	1 313 918	-

Deferred

Audit fee provision	(63 470)	-
Gratuity provision	(186 838)	-
Leave provision	(240 300)	-
Loan impairment provision	(943 359)	-
Property, plant and equipment	743 535	-
	(690 432)	-
	623 486	-

Notes to the Annual Financial Statements

	2014 M	2013 M
20. Income tax expense (continued)		
Reconciliation of the income tax expense		
Reconciliation between accounting profit and income tax expense.		
Accounting (loss)/profit	4 496 567	(9 830 021)
Tax at the applicable tax rate of 25% (2013: 25%)	1 124 142	(2 949 006)
Tax effect of adjustments on taxable income		
Tax effect of adjustments on taxable income	(500 656)	-
	623 486	(2 949 006)

21. Subsidised by Grant

The following amounts were subsidised by Government Grants	-	9 830 020
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22. Auditors' remuneration

Fees	853 324	442 000
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23. Related parties

Relationships	
Shareholders	Government of Lesotho
Related entities	Central Bank of Lesotho (100% shareholding) Lesotho Revenue Authority Lesotho Postal Services

Related party balances

Balances with related parties

Central Bank of Lesotho (Treasury bills)	60 469 000	67 660 800
Central Bank of Lesotho (Reserve Account)	8 724 425	6 924 896
Government of Lesotho (Deferred income)	13 526 611	3 271 460
	82 720 036	77 857 156

The balance of M 60 469 000 (2013: M 67 660 800) invested in Central Bank of Lesotho is for Treasury bills.
The balance of M 8 724 424 (2013: M 6 924 896) is held at the Central Bank of Lesotho for the reserve as per
Financial Institutions (Liquidity Requirements) Regulations 2000 section 5.

Related party transactions

Interest paid to (received from) related parties

Central Bank of Lesotho	(3 309 631)	(3 140 556)
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Rent paid to (received from) related parties

Government of Lesotho (JHI)	1 970 372	1 653 557
Government of Lesotho (Postal Services)	832 541	219 382
	2 802 913	1 872 939

Notes to the Annual Financial Statements

	2014 M	2013 M
23. Related parties (continued)		
Grants paid to (received from) related parties		
Government of Lesotho	<u>(16 218 422)</u>	<u>(10 873 677)</u>
24. Cash used in operations		
Profit/(loss) before taxation	4 496 567	(9 830 021)
Adjustments for:		
Depreciation and amortisation	2 885 996	2 299 984
Interest received	(28 629 660)	(17 739 157)
Finance costs	1 991 426	2 395 506
Loss subsidised by grants	-	9 830 021
Accruals	-	2 880 947
Changes in working capital:		
Inventories	591 975	274 751
Trade and other receivables	(696 209)	(348 407)
Trade and other payables	1 493 999	778 483
	<u>(17 865 906)</u>	<u>(9 457 893)</u>

25. Commitments

Operating leases – as lessee (expense)

The Bank has entered into various non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under the operating leases are as follows:

Minimum lease payments due		
- within one year	1 650 148	1 666 206
- in second to fifth year inclusive	1 324 340	1 559 626
	<u>2 974 488</u>	<u>3 225 832</u>

There are no automatic renewals in the operating lease agreements which are currently in place.

26. Directors remuneration

Directors fees for the year: non executive	166 412	177 255
Total payroll costs for executive directors	3 713 676	996 783
	<u>3 880 088</u>	<u>1 174 038</u>

27. Events after the reporting period

The directors are not aware of any matter or circumstance arising since the end of the financial year.

BRANCH CONTACTS



BRANCH	CONTACT DETAILS
Maseru	22317842
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Thaba-Tseka	22900212
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