

# LESOTHO POSTBANK

# 2015

## ANNUAL REPORT



LESOTHO

**PostBank**



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### Country of incorporation and domicile

Lesotho

### Nature of business and principal activities

Commercial Banking

### Directors

M. Williams (Chairperson – Non Executive)  
M. Masheane (Non Executive – from 1st Feb 2015)  
N. Sekome (Non Executive)  
R. Elias (Non Executive– 4th November 2015)  
T. Kao (Non Executive – 4th November 2015)  
M Leqhaoe (Managing Director)

### Registered Office

The Banking Hall  
Post Office Headquarters Building  
Kingsway Maseru  
Lesotho

### Bankers

**Nedbank Lesotho`**  
P. O Box 1001. Maseru 100.  
115-117 Griffith Hill. Kingsway Street

**Standard Lesotho Bank**  
Kingsway, Maseru, Lesotho

### Auditors

PricewaterhouseCoopers with Sheeran and Associates  
No. 1 Link House, Kingsway Road  
Maseru

**Corporate Secretary**  
**Company registration number**

R. Lehohla  
12004/163

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

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

From the outset the GOL decided that the LPB would operate from post offices operated by the Lesotho Postal Services (LPS) 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 one of the key stakeholders of the Bank.

Banking operations started in January of 2005 with deposit taking only and expanded to lending in 2010 following successful establishment of the credit department and licensing by the CBL in 2009. This venture was carried out with the support of the International Fund for Agricultural Development (IFAD) under the seven-year Rural Financial Intermediation Project (RUFIP) which ended 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.

## NORSAD Finance

The NORSAD Fund was a multilateral partnership between four Nordic and 11 SADC Member States established in 1990, Lesotho being one of the 11 SADC members. The NORSAD Fund, domiciled in Denmark, was managed by the NORSAD Agency, a diplomatic entity located in Lusaka, Zambia. Over the years of operations, NORSAD evolved from being just a financier or Nordic-SADC joint ventures to a SADC development finance institution with Nordic roots. NORSAD focused on financing SADC small and medium size enterprises (SMEs) directly and through financing local and regional financial institutions.

In April 2011, The NORSAD Fund's Governors from the 15 Member Countries approved the transformation of the NORSAD Fund and Agency into a non-listed company with limited liability to be incorporated in Botswana. Each NORSAD Member Country was designated a founding shareholder. It was further decided that countries should transfer their shares to financial institutions within their countries. The Government of Lesotho transferred its shares to the Lesotho PostBank. The LPB then became a shareholder in NORSAD Finance Limited as a founding member. The investment was recognized in LPB books in 2015.

Member states are four Nordic countries (Denmark, Finland, Norway and Sweden) and 11 Southern African countries (Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe).

## Our Mandate

LPB is a Retail Banking Institution with a mandate to serve mainly unbanked and under-banked economically active urban and rural population who do not have access to financial services in sustainable manner

## Our Vision

To be a financially viable retail bank, committed to improving the life quality of Basotho and to exceed stakeholders' and customers' expectations.

## Our Mission

The Basotho bank intending to transform the living standard of our nation through customer centric financial services and innovations that result in economic growth.

## Corporate Values

LPB always endeavors to follow a set of corporate values which influence its culture and public image as a responsible financial institution. The corporate values are:

- a. Customer First** – LPB will place the customers' interests first, requiring LPB to act sincerely in protecting customers' interests.
- b. Accountability** – LPB accepts responsibility for its actions; executes its work intelligently and in a transparent manner.
- c. Professionalism** – LPB staff will always behave with dignity, show respect and courtesy to all its stakeholders, and comply with applicable rules, regulations and professional standards.
- d. Integrity** – LPB staff commit to interact actively, with honesty, candour, fair dealing and truthfulness in all business affairs of the Bank.
- e. Competence** – LPB acknowledges the need to attain and maintain requisite knowledge, skills and abilities for rendering excellent customer service.
- f. Innovation** – We look for technology to create value for our customers by offering tailor-made products and services. We encourage and reward creativity for ideas that make a difference in our customers and/or employees' lives.
- g. Teamwork** – We contribute and make decisions for the success of the collective, as well as complement each other and build synergies to attain the Bank's vision and goals. We strive for a workplace where opportunity, openness, enthusiasm, diversity, collaboration and a sense of purpose combine to provide a rewarding professional experience that promotes fairness, dignity and respect for all employees

## OUR MOTTO

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The Directors are required by 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 (IFRS). 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 (IFRS) and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

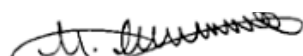
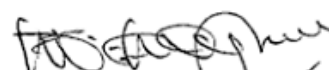
The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Bank and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Board sets standards for internal 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 operational risk cannot be fully eliminated, the Bank endeavours to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined processes, 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 of loss.

The Directors have reviewed the Bank's cash flow forecast for the year to 31 December 2016 and, in the light of this review and the current financial position, they are satisfied that the Bank has or has 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 in a separate document.

The annual financial statements, which have been prepared on the going concern basis were approved by the Board on 24th March 2016 and were signed on its behalf by:

  
MASEQOBELA WILLIAMS  
CHAIRPERSON  
MOLEFI LEQHAOE  
MANAGING DIRECTOR



Maseqobela Williams  
Chairperson

The Directors present the following report to the Shareholders of the Lesotho PostBank on the Bank's performance and operations in 2015, as well as the corporate governance of the Bank. The report also highlights the key strategies for 2016.

## 5.1 Achievements

The shareholders appointed two Directors and extended the tenure of one Director bringing to six the total number of Directors, including the Managing Director. The addition of the two Directors resolved the challenge the Bank had faced in the previous twelve months whereby it operated with a number that was below the Financial Institutions Act 2012 (FIA) stipulation. With the increase in the number of Directors, the Board will be able to fully utilize its sub-committees.

The Bank operated with the Interim Strategy in 2015 and approved a three-year (2016-18) Strategic Plan in December 2015.

The Board of Directors is ultimately responsible for the management of risk of the Bank. 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 2015 the Risk Management function went into full operational mode by implementing the Enterprise Risk Management Framework and cascading it to lower levels. A lot of work still remains to be done to institutionalize risk management culture. The Board reviewed and approved thirteen (13) policies and frameworks in six departments. The Bank introduced a performance management system using the balanced score card.

The Bank increased the number of delivery channels. More delivery channels planned for 2016 include additional ATM's, drop safes, point of sale devices at merchants' premises and new branches. The industry electronic funds transfer (EFT) payments stream went live in May 2015.

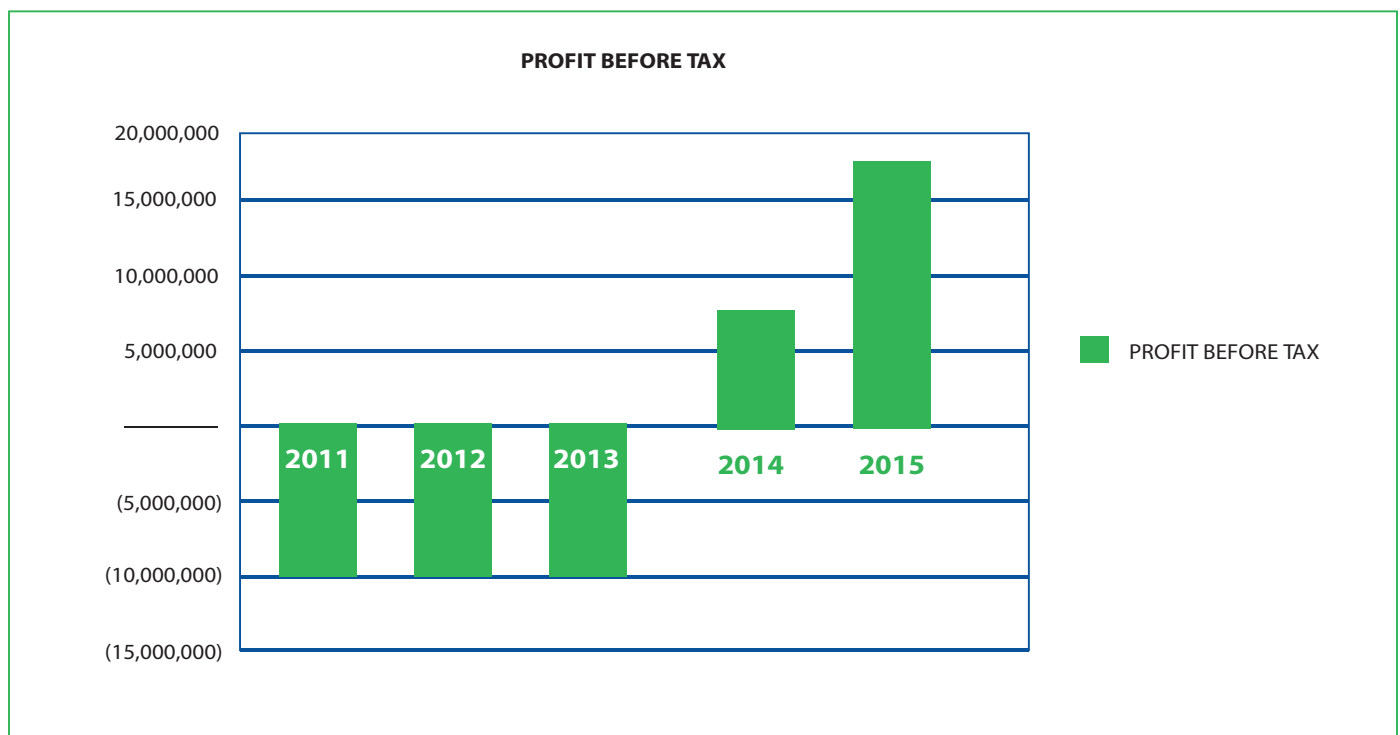
In an effort to improve access to finance for the private sector and hence contribute to the economic development of the country, the LPB signed a Memorandum of Agreement (MOA) with the Lesotho National Development Corporation (LNDC) on February 24th 2015.

Through this MOU the LNDC guarantees 50% of the final loss resulting from a default on a guaranteed business loan. This has enabled a number of businesses to get loans with only 50% security. This initiative is expected to gain momentum in the next year. The growth of the loan book continued into 2015 ensuring profitability for the second year running. This is a positive sign that the Bank is on a trajectory for sustainability.

The Bank realized an operational profit of M3.3 million and the gross profit was M17.4 million as a result of M13.6 million foreign exchange gain from the NORSAD investment.

#### Overall Performance:

	2011	2012	2013	2014	2015
<b>Profit Before Tax</b>	(10 242 203)	(10 035 321)	(9 830 021)	8 323 744	17 401 407
<b>Equity</b>	10 000 000	20 000 000	20 000 000	65 571 864	95 689 891
<b>Deposit Liabilities</b>	228 720 001	245 792 171	272 498 248	286 018 585	297 556 749



## 5.2 Challenges in 2015:

The following were the major challenges that the Bank faced in 2015

- For the better part of 2015, the Bank and the Board specifically faced serious governance challenges at shareholder level. This led to a poor rating by the Regulator on governance issues.
- The high vacancy rate at Board level dogged the Bank for over ten months with the appointment of new Directors only happening in November 2015.
- 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 2016

The key focus areas for 2016 will be for the Board to maintain positive engagement with the shareholder and to ensure that the Board has an adequate number of directors at all times such that the Board and its committees are fully functional.

The implementation of the approved 2016/18 Strategic Plan, specifically the two goals of achieving sustainability and social mandate (access to finance, financial literacy and financial inclusion) will be crucial in 2016 and subsequent years. Furthermore, the Bank will have to aggressively mobilize deposits and lastly replace its obsolete core banking system.

The Lesotho PostBank, as a corporate citizen, will pay attention to its corporate social responsibility and ensure reporting in this regard.

### 5.4 End Note

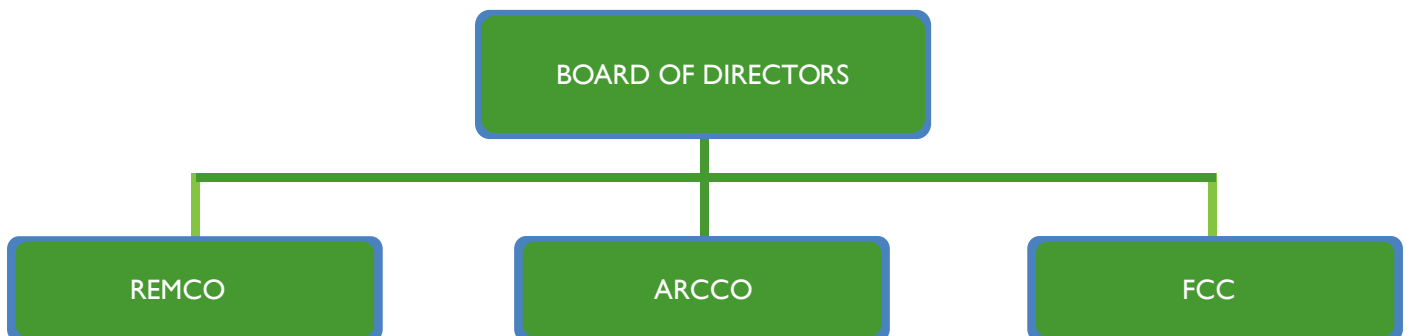
The Board of Directors wishes to express its gratitude to those who have supported the Bank in the past. The Board extends special gratitude to the Government of Lesotho which continued to support the Bank financially. We are also thankful to the Bank's customers for their confidence in our Bank. We 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 customers.

## 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 6.2 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, nine extraordinary meetings and three strategy workshops. The large number of meetings was driven by the governance challenges that started in 2014 and persisted into 2015. These challenges have now been resolved and the Board expects to convene meetings normally. The 8th Annual General Meeting of shareholders was held in November and the majority of Board members were in attendance. The figure below shows the Board structure i.e, the Board and its Subcommittees;



### 6.1.2 The Board of Directors



'MASEQOBELA WILLIAMS  
Chairperson



RETSEPILE ELIAS  
Non-Executive Member



THATO KAO  
Non-Executive Member



NTHAKO SEKOME  
Non-Executive Member



MOTSEOA MASHEANE  
Non-Executive Member



MOLEFI LEQHAOE  
Managing Director

### 6.1.3 The Role of the Board of Directors

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 as set out in King III.

The Board assumes ultimate accountability and responsibility for the performance and affairs of the Bank. In discharging its duties the Board held thirteen meetings in all and held workshops to interrogate the 2016-18 Strategic Plan. The business included, inter alia,

- The review of quarterly reports and monitoring of Bank performance
- The addressing and resolving governance challenges which dogged the Bank for months in 2015
- The review and approval of the Bank's financial statements
- The appointment of Executive Management
- The review and approval of charters, frameworks, policies
- Review and approval of the three year Strategic Plan and attendant structure and budget

Meeting		Attendance
April 1 <sup>st</sup> 2015	4 <sup>th</sup> Quarter	100%
May	1 <sup>st</sup> Quarter	100%
September	2 <sup>nd</sup> Quarter	100%
November 5 <sup>th</sup> 2015	3 <sup>rd</sup> Quarter	100%
11 Extraordinary meetings		100%

## 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 (REMCO). Due to the low number of Directors for the better part of 2015, the Board resolved to suspend REMCO meetings and to combine the ARCCO and FCC meetings. REMCO business was dealt with at board level. The combined ARCCO and FCC held three ordinary meetings and one extraordinary meeting. 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 monitoring the budget against the approved strategic plan; assets and liabilities; quality of the loan book; the effectiveness of investment portfolio management and by reviewing and approving financial statements.

### 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.

### 6.2.4 Board Committees Membership

Due to the low number of Directors during the 2015, the ARCCO / FCC held joint meetings chaired by the Chairman of the FCC:

Mr. Nthako Sekome	Chairperson
Ms. Motšeo Masheane	Member

Furthermore, the Board resolved to suspend the operations of the REMCO and to deal with the matters relating to the committee at Board level.



**MOLEFI LEQHAOE**  
Managing Director

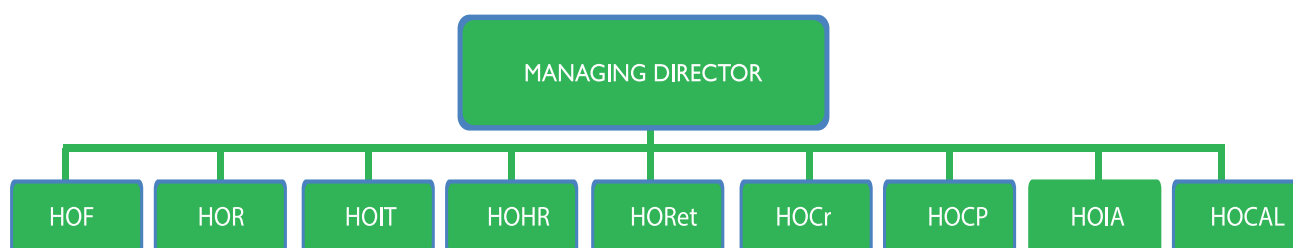
The Lesotho PostBank operated with an Interim Strategic Plan which had been approved in December 2014. The key highlights of the Interim Strategy comprised two aspects of sustainability and social mandate. The approach taken was to ensure sustainability such that enough funding would be made available for micro finance. The 2016-18 Strategy was approved by the Board in December 2015.

## 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. The International Fund for Agricultural Development (IFAD), through Rural Financial Intermediation Programme (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 such as training. The project (RUFIP) came to an end in March 2015.

## 7.2 Organisational Structure

The organizational structure depicted below shows the composition of the Executive Committee (EXCO) which is headed by the Managing Director. There are ten departments in all, although the Corporate Affairs and Legal (CAL) department will be fully established and manned in 2016.



**MOLEFI LEQHAOE**  
Managing Director



**ITUMELENG MATELA**  
Head of Human Resources



**THEMBA SOPENG**  
Head of Credit



**NKOMOTI NTSAPI**  
Head of Finance (a.i)



**MOLEFI KHAMA**  
Head of Risk



**THOMAS MARABE**  
Head of Internal Audit

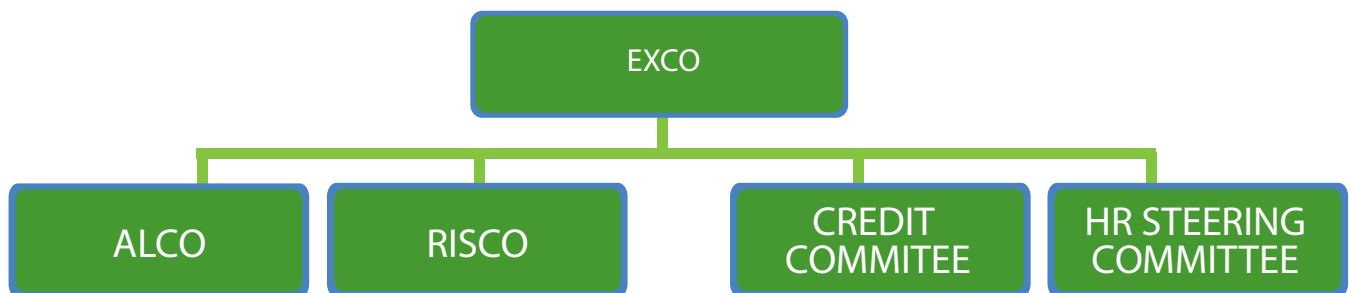


**MAHASE MAHOOANA**  
Head of Information Technology

### 7.3 The Management Committee Structure

**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 four strategic committees and two operational committees. The four strategic committees are depicted in the structure below.



**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. The ALCO sits on monthly basis and ad hoc meetings are also held when business so requires.

**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. The RISCO meetings are also held on monthly basis and ad hoc meetings are also when there is need.

**Credit Committee (CC):** This committee's primary function is to ensure the development of the Credit Policy and compliance thereto and to manage credit risk. The CC sits on monthly basis unless otherwise the business demands.

**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. The HRSC did not hold any meetings in 2015. Its matters were handled by the Head of Human Resources and taken to the Board through the office of the Managing Director.

All other committees held their meetings as scheduled.

## 7.4 Risk Management

In the year 2015; all components of Integrated Risk Management approach (also known as Enterprise-wide Risk Management) were implemented in order to manage risk proactively and effectively. Under this risk management approach, all risks are managed under the risk function as opposed to managing risks separately.

The focus for 2015 was to embed the risk management culture. In this regard, the position of Operations Risk Manager was created and filled and is now fully functional. The risk structure was created and departmental risk committees chaired by risk champions were established. The participants were trained in risk management process adopted by the Bank.

The Head of Risk reviews, integrates and monitors the risks identified by risk committees and reports to the RISCO.

### Business Continuity Plans (BCP)

In 2015, the Bank performed a disaster recovery testing at its offsite Disaster Recovery Site (DRS) at Mafeteng. This was a functional test primarily on IT infrastructure and applications. A second full blown test is due in 2016 to ensure that banking services will be recoverable at the DRS.

In order to achieve effective risk management, the following risk mitigants, inter alia, were put in place:

- a. The Board approved business continuity policy and plans which were rolled out in 2015
- b. All TMs of the Bank are protected with the dye staining devices in order to render cash worthless in case of ATM bombing
- c. The controls were tightened, especially on credit processes
- d. Staff continues to be trained on fraud awareness and processes
- e. The Disaster Recovery Site has been relocated to Mafeteng Post Office which is more than 15km away from the production site (per Central Bank prescription).

### Policies and Procedures

The Board reviewed and approved 20 policies and frameworks in the areas of risk management, financial risk and IT risk.

### Fraud Risk

The Bank experienced a significant increase in incidents of fraud. Management put in place additional control measures such as the recruitment of the Operational Risk Manager and an IT auditor in order to arrest this trend. The Bank also held training workshops on fraud awareness and implemented risk embedding activities such as running risk quizzes to staff on weekly basis. The Whistle Blowing and the Fraud policies were reviewed to address the reporting mechanisms of suspected incidents.

## 7.5 Compliance

The compliance function focuses mainly on financial, regulatory and statutory requirements. Further to that, the function oversees compliance with the regional and national Payments Rules.

The Bank's Regulatory Universe was overhauled to make sure that all relevant Laws and Regulations affecting the Bank were included. In order to operationalise the Regulatory Universe, more compliance monitoring tools were developed towards the end of 2015 and will be fully implemented during the first quarter of 2016.

### Governance:

- There have been no changes in Charters for different Governance Committees (See structure below).
- In line with the approved charters, Periodic Meetings of Governance Committees have been held throughout the year.
- In compliance with King III principles (in particular, IT Governance), IT reports have been 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.

## 7.6 Internal Audit

The role of Internal Audit is to provide an oversight through provision of an assurance on controls, risk management and governance. The Bank has striven to comply with Internal Audit Standards by structuring its audit function by its Head of reporting directly to the Audit, Risk and Compliance Committee (ARCCO) functionally and administratively to the Managing Director. The positive standard has been maintained for the year 2015.

Internal Audit undertook 62% of the planned branch audits compared to 75% for 2014. The department achieved 36% of its departmental audits as compared to 62% for 2014. The decline was mainly attributable to vacancy rate within the department experienced during the year 2015; as a result, more time was spent in some audits than anticipated. There was also more consultancy work that was performed during 2015, that diverted resources from audit work. This included review of policies and providing advice on banking operations and control environment improvement strategies. With the department fully manned, it is expected that the 2016 plan will be executed satisfactorily.

## 7.7 Human Resources

The presence of human resources at the Bank is critical for achievement of the company goals and objectives, for this reason people are considered a strategic lever or pillar supporting the implementation of Lesotho PostBank strategy. Among a few challenges experienced in the human capital space during the year were loss of staff at the executive level which affects the strategic direction

of the Bank coupled with loss of key staff necessary for the implementation of projects; such vacancies exposed the Bank to a myriad of risks such as indiscipline and cases of fraud.

On the bright side, it is worth noting that in 2015 the performance management system was launched and implemented through the balanced score card (BSC) to drive the strategy and a performance based culture. Moreover, short and long term incentives have been put in place to attract and retain exceptional talent and achieve a professional workforce. To ensure continuous learning and management of change, training initiatives both internally and externally were undertaken for individual staff and group in-house training sessions were implemented in areas of Labor relations and Performance management, Risk and Audit, Business continuity, AML and KYC, Fraud Awareness, Physical and IT Security Awareness, Specialized Information technology courses, Credit and training for core banking staff on new Processes and procedures as well Staff induction including team building sessions for retail, finance and human resources and IT Department staff. Furthermore re-organization of departments such as Customer Information and Relationship took place to focus our efforts on other market segments and to make way for a fully fledged Business Banking Department.

Staff Complement in December 2015

POSITION	FILLED	VACANCIES
<b>Executive</b>	<b>7</b>	<b>3</b>
<b>Managerial</b>	<b>19</b>	<b>2</b>
<b>Professional</b>	<b>10</b>	<b>1</b>
<b>General Staff</b>	<b>114</b>	<b>10</b>
<b>Total Complement</b>	<b>150</b>	<b>16</b>

## 7.8 Information Technology

The Comprehensive Information Security Policy and the ICT Framework were reviewed and approved by the Board.

The Bank performed disaster recovery testing at its recovery site in Mafeteng in April 2015. The results of the test indicate that the Bank still need to improve its IT infrastructure to meet recovery times prescribed by the business. To this end, IT has embarked on a project that started in 2015 to upgrade its infrastructure and improve recovery times that will be tested in 2016. The recovery of IT systems and infrastructure is very important during a disruptive event such as a disaster as almost all critical business processes are dependent on IT.

In 2015, the Bank implemented 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 offer increased convenience. Also, this will offer the Bank an opportunity to diversify and modernise its products to compete with other commercial banks.

## 7.9 Company Performance

The role of Company Performance Department is to drive strategic issues for the entire organisation and to provide guidance on its implementation. For the year 2015, the milestones included project planning for Mafike refurbishment. The Thor Project and Design Consultants were appointed as the project manager with a view of providing support for the effective execution of the project. The preliminaries were then concluded which included selective bidding due to the specialization involved in the project.

Furthermore, the Amalgamated Engineering Solutions was invited to provide a solution for backup power supply at all branches of the Bank. They brought about a very reasonable solution at acceptable cost that involved maintenance, moving and matching generators and uninterruptible power supply (UPS) units to capacity requirements of branches.

The projects are scheduled for completion in 2016. Mafike project is expected to bring about efficiency and effectiveness in operations such that all operations will be within the same building which is not case now. The completion of the backup power project is expected to eliminate reputational risk and denial of service risk brought about by absence of electricity within branches.

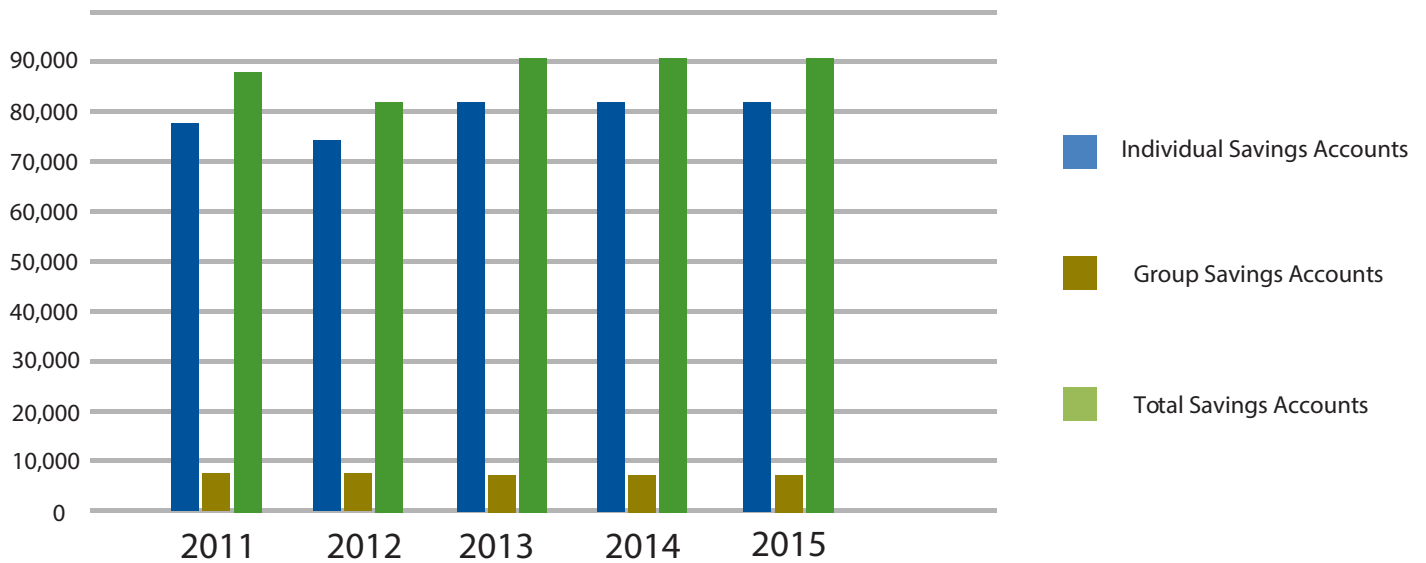
During the year 2015, LPB participated in the Electronic Funds Transfer (EFT) that allows local low value (M100,000 and below) funds transfers. The other products developed include short-term loans, overdraft facility and call account. The Bank expects to develop more customer-centric products in 2016 as the plan is to also upgrade the core banking system (in 2016) which no longer meets customer and Bank requirements. Specific attention will also be given to micro-finance products.

## 7.10 Core Business

### 7.10.1 Customer Base

Customer base trend over the past five years is detailed in the table below and shows a stable base hovering around 80,000 customers:

Year	2011	2012	2013	2014	2015
Individual Savings Accounts	68 884	64 740	71 759	72 253	71 626
Group Savings Accounts	7 323	73 361	7 661	7 900	8 007
Total Savings Account	76 207	72 101	79 420	80 153	79 633



The Honourable Minister of Communications, Science and Technology - Mr Khotso Letsatsi opening a Lesotho PostBank Savings Account

### 7.10.2 Delivery Channels

The Semonkong Branch which was the only branch still operating manually since inception, was computerized in 2015. The ATM at Quthing branch was also brought online bringing to nine (9) the total number of LPB's ATM's.

### 7.10.3 Service

One of the key pillars to the Bank's success is a focus on customer service. The Bank thus created and the position of Sales and Service Manager whose responsibility will be to make sure that high level of good customer is practiced throughout the Bank. This role is expected to be fully operational in 2016.



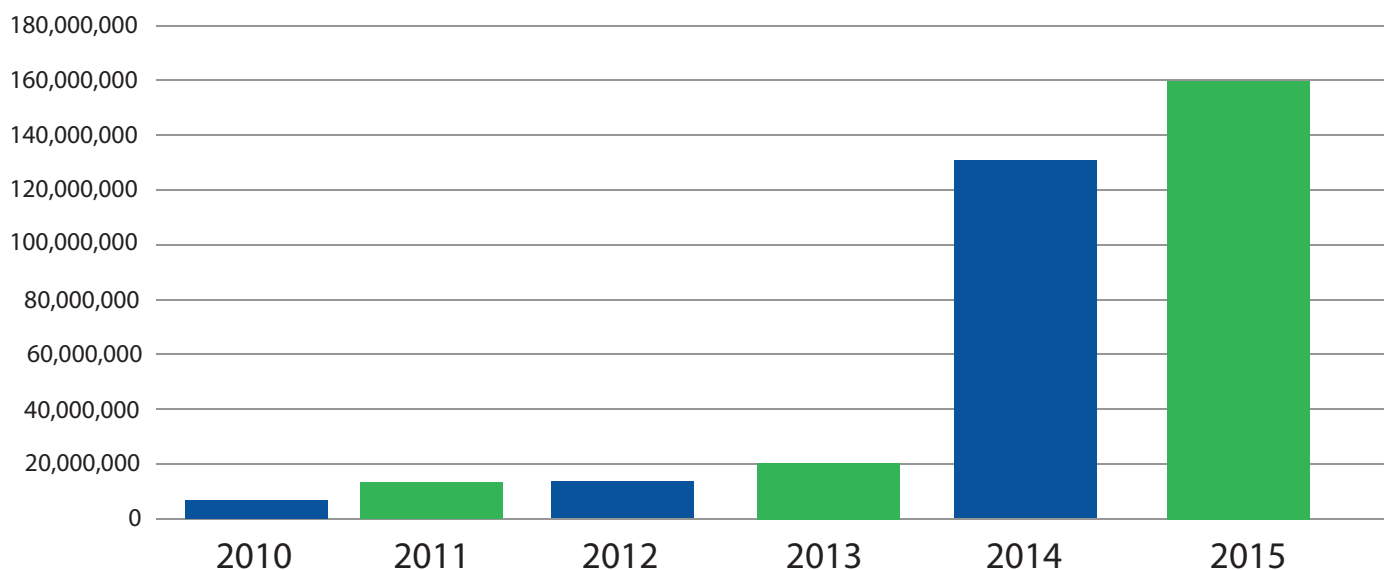
Extension of Customer Service to the Wool and Mohair Sector

In order to bring service convenience and efficiencies, the Bank continued to participate in in-country and regional payment systems, namely, RTGS and SIRESS. The Bank further implemented the local EFT.

### 7.10.4 Lending

The Head of Credit was appointed in October 2015, following a prolonged period without a substantive departmental head. This assisted the department in, among other things, segregation of duties, strong leadership and strengthening the controls within the Credit Department.

The Bank continued to show a reasonably steady growth in the loan book in 2015. Loans and advances grew by M30 million to M160 million, which is growth of 24% (2014: 20%). Interest income grew by 50% to M24 million, as sales increased. Interest income growth rate of 50% far outstripped loan book growth rate of 24%. This was due to the benefit of interest earned from loans written in previous years (the annuity income effect).



On the bad debts provisions front, the impairment expense was M2.8 million (2014: M3.2 million), and this was as a result of a concerted effect that was done in managing and recovering the arrears at an early stage. The better credit result is also the impact of a continued and ongoing focus on centralised collection processes. This included the acquisition of an additional collections officer, as well as sourcing external debt collectors where SLAs were signed with three (3) law firms to assist in litigation.

In an effort to improve access to finance for small businesses and entrepreneurs, the LPB signed a Memorandum of Agreement (MOA) with the Lesotho National Development Corporation (LNDC) on February 24th 2015. Through this MOU the LNDC guarantees 50% of collateral. This has enabled a number of businesses to get loans. This initiative is expected to gain ground in the next year. The growth of the loan book continued into 2015 ensuring profitability for the second year running. This is a positive sign that the Bank is on a trajectory for sustainability.



Signing of the Partial Guarantee Scheme agreement by Lesotho PostBank's Managing Director; Mr Molefi Leqhae and LNDC's CEO Mr Kelebene Leisanyane

### 7.11 Financial Inclusion

The Bank embraces financial inclusion. This is borne from the Second Bottom Line of the Bank's Mandate. To this end the Bank developed initiatives to improve inclusion, including but not limited to LPB financial literacy campaigns and participation in industry events such as Money Week.

By the end of the reporting period the Bank had mobilized a number of groups in the categories listed in the table below:

GROUP	NUMBER OF ACCOUNTS
Saving and lending Associations	1,150
Wool and Mohair	252
Agriculture business (green houses)	221
Basali Khoebong (Women's Group)	150
<b>TOTAL</b>	<b>1,773</b>



Money Week 2015

## 7.12 Corporate Social Responsibility

Corporate Social Responsibility is the third bottom line. To this end the Bank gave an award to the best BCom student at the National University of Lesotho. This is an area where the Bank intends to intensify its efforts to plough back to the communities.

## 7.13 Challenges in 2015

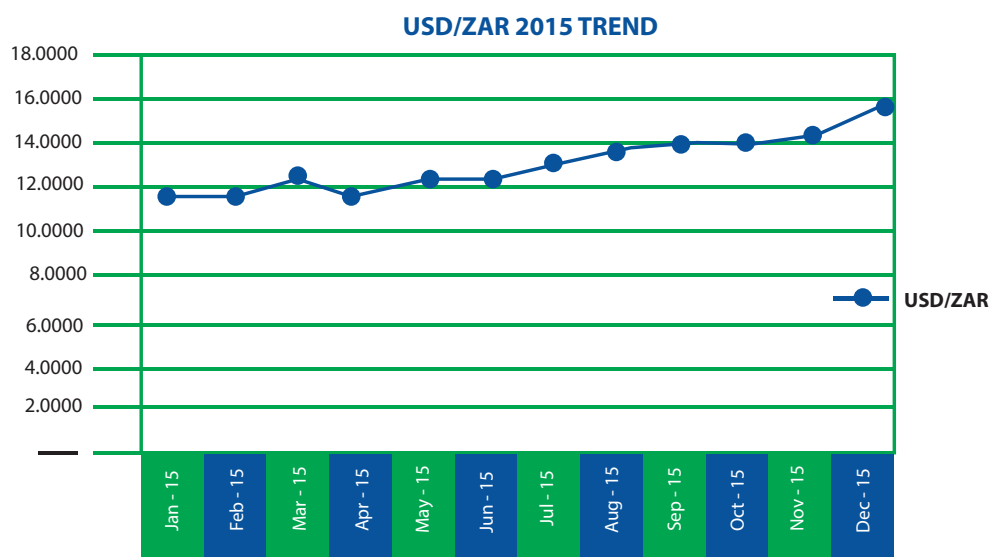
The Bank faced a number of challenges in 2015. The key challenges are listed below.

- The high EXCO level vacancy rate for prolonged periods affected the Bank's performance. The plan is to fill all EXCO positions by second quarter of 2016.
- The sustainability of the Bank is highly dependent on deposit mobilization. This has proved to be a serious challenge for the Bank. With the projected downward trend in economic growth, the decline in SACU revenues and the decline in the government's capital expenditure, it is expected that disposable incomes will be squeezed resulting in a further decline in deposits.
- The core banking system is obsolete and needs to be upgraded as a matter of urgency. This has affected a number of projects that were due for implementation in 2015 because it could not integrate seamlessly with those systems. The projects that were deferred included the EMV, mobile banking, ERP and biometric systems. The system is also limited in its functionality which has impeded product development.
- LPB brand is yet to be defined and recognizable by the public and to be top of mind as the only indigenous bank in the country.

## 7.14 Financial Review

### 7.14.1 Economic Review

2015 has been characterised as the year of Rand, due to the continually depreciating value against the US Dollar. The effects of this have been particularly felt by the Bank as it realised a M13.6 million foreign exchange gain on the investment with NORSAD Finance Limited. Although the resultant outcome is positive on the income statement; the Bank is exposed foreign exchange rate risks which at times may erode profits generated.



In December 2015, the Central Bank of Lesotho introduced policy rate which started out at 6.25%. Lesotho PostBank has since used the rate as a reference rate for pricing loans and deposits; with some level of margin. Harvest is expected to decline drastically in Lesotho following drought experienced in 2015. This will further result in price increase in maize and related food supplies. This may lead to erosion of customer deposits but strategies are in place to attract new and retain existing deposits.

### 7.14.2 Position

Deposits grew by 4% during the year. Whilst management acknowledges a lower growth rate, aggressive deposit mobilisation strategies have been set for implementation in 2016; that will see the Bank expanding its Business sector and Small and Medium Enterprises' (SME and MSMEs) clientele.

On the other hand, advances increased by 25% to M166.9 million; compared to a 20% growth in 2014. This is as a result of more affordable lending rates starting at prime + 5%.

In line with the Bank's strategy to endeavour more into the SME and MSME sectors, the Bank advanced an additional M10.2 million into these sectors and therefore registering a balance of M12.3 million. The other notable increase is in the Retail, salaried sector; which increased by M21 million to register M150.5 million. The remainder of the portfolio is on the Business sector at M4 million.

### 7.14.3 Capital

The Bank remains well capitalised with a Capital Adequacy Ratio of 18.84% from 12.4% in 2014. The increase is due to an additional M14.5 million received from the Government of Lesotho to ensure the Bank is able to take on additional business without the risk of impairing capital.

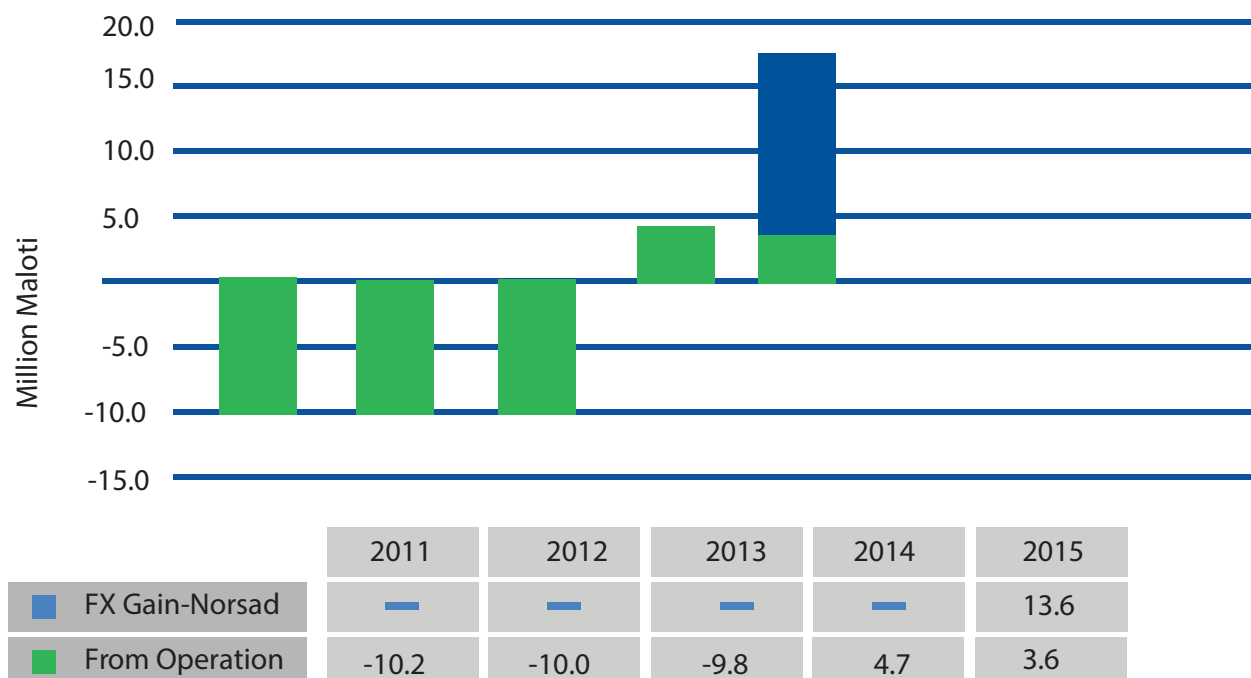
In addition the Bank received over M20 million from the shareholder for capital projects that include development of the Bank's infrastructure (buildings), acquisition of equipment and upgrade of the Banking system. This further supports the growth strategy of the Bank towards operational self sustainability.

### 7.14.4 Performance

2015 reflects yet another year of financial achievement. For the second year, in ten years, the Bank has been able to maintain positive profitability levels. The performance was notably steady and resulted in M3.5 million from the normal banking operations and M13.6 million from a foreign exchange gain in a foreign based investment in NORSAD Finance. Continued profits are attributable to increased loan uptake as it has been established that the main income stream for the Bank is interest from loans.

Annual Profit levels are indicated in the graph below.

## Annual Profit Before Tax



## 7.14.5 Key Ratios

RATIO	2015 DECEMBER	2014 DECEMBER
Net interest income to Total income	60%	61%
Cost to income ratio	94%	96%
Staff Costs to Total Costs	47%	51%
Loan Portfolio to Deposits	56%	47%
Impairment to Average Gross Advances	3%	3%
Deposit Liabilities Growth rate	4.03%	4.96%
Loans Growth Rate	24%	20%

The Bank predominantly generates its income from Net Interest income (NII). This continues to be the trend in 2015 with this component constituting 60%; similar to 61% in 2014. Year on Year, NII increased from M26 million to M34 million. The increase was due to enhanced management of credit, which improved the performance of the loan book.

Total costs were well contained; thus reducing the cost to income ratio from 96% in 2014 to 94%. This is attributed to the strict cost containment measures employed by the Bank by eliminating unnecessary spending on each line item.

Employee costs remain the biggest operating cost, accounting for 47% (2014:51%) of total costs. Although contribution of these cost to total cost reduced from last year, they have increased in absolute values from M21 million to M25 million. The increase is due to normal staff salary increases, which this year averaged 6% as well as the appointment of new staff to fill in new positions that support the Bank's growth strategy. Such includes operating a new business banking department, as well as a dedicated sales and service division.

Impairments to gross advances remained constant at 3% in comparison to 2014. This is in line with management's expectation to contain impairments to not more than 5%; and benchmark to the industry's average.

Lesotho PostBank Limited  
(Registration number 2004/163)  
Annual Financial Statements for the year ended 31 December 2015

**Index**

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

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Lesotho PostBank Limited  
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Annual Financial Statements for the year ended 31 December 2015

**General Information**

<b>Country of incorporation and domicile</b>	Lesotho
<b>Nature of business and principal activities</b>	Retail Banking
<b>Directors</b>	M. Williams (Chairman) N. Sekome (Non Executive) M. Leqhaoe (Managing Director) T. Kao (Non Executive) R. Elias (Non Executive) M. Masheane (Non Executive)
<b>Registered office</b>	The Banking Hall Post Office Headquarters Building Kingsway Maseru Kingdom of Lesotho
<b>Bankers</b>	Nedbank Lesotho Standard Lesotho Bank
<b>Auditors</b>	Sheeran & Associates Chartered Accountants (Lesotho)
<b>Secretary</b>	R. Lehohla
<b>Bank registration number</b>	2004/163

Lesotho PostBank Limited  
(Registration number 2004/163)

Annual Financial Statements for the year ended 31 December 2015

## 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 judgements and estimates.

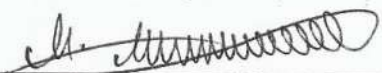
The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the bank and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the directors set standards for internal 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 2016 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 6 to 7.

The annual financial statements and additional schedules set out on pages 8 to 39, which have been prepared on the going concern basis, were approved by the directors on 24/03/2016 and were signed on its behalf by:



M. Williams (Chairman)



M. Leqhaoe (Managing Director)

## Directors' Report

The directors submit their report for the year ended 31 December 2015.

### 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 14 353 098 (2014: M 7 700 258 profit), after taxation of M 3 048 309 (2014: M 623 486)

### 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 aware of suspected ATM fraud that may have been perpetrated in 2015 and is being investigated. Initial findings do not appear to indicate that the amount involved will have a material impact on the 2015 financial statements.

### 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	Changes
M. Williams (Chairman)	
R. Tlali (Non Executive)	Resigned 31 January 2015
N. Sekome (Non Executive)	
M. Leqhaoe (Managing Director)	
T. Kao (Non Executive)	Appointed 03 November 2015
R. Elias (Non Executive)	Appointed 03 November 2015
M. Masheane (Non Executive)	Appointed 01 February 2015

### 8. Secretary

The secretary of the bank is R. Lehohla.

# **SHEERAN & ASSOCIATES**

Chartered accountants (Lesotho)

No 1 Link House  
Opposite American  
Embassy  
Kingsway Road  
Maseru Lesotho

Postal Address  
Private Bag A420  
Maseru 100  
Lesotho

Telephone (09266) 22317169  
Fax (G3 auto) (09266) 22327927  
E-mail [sheeran@email.co.ls](mailto:sheeran@email.co.ls)

## **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 2015, and the statements of comprehensive income, changes in equity and 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 8 to 39.

### ***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 2015, 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: 24 March 2016**

Lesotho PostBank Limited  
(Registration number 2004/163)  
Annual Financial Statements for the year ended 31 December 2015

**Statement of Financial Position as at 31 December 2015**

	Notes	2015 M	2014 M
<b>Assets</b>			
Deferred tax asset	4	2 216 782	1 433 967
Cash and cash equivalents	5	138 872 188	136 377 883
Treasury Bills	6	65 414 900	60 469 000
Investment	7	56 607 995	41 698 781
Inventories	8	776 326	422 459
Trade and other receivables	9	2 828 666	2 114 742
Property, plant and equipment	10	17 270 335	14 995 249
Loans and advances	11	160 899 957	130 708 953
<b>Total Assets</b>		<b>444 887 149</b>	<b>388 221 034</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Share capital	12	34 500 000	20 000 000
Norsad Revaluation Reserve		3 551 247	2 286 318
Retained income		57 638 644	43 285 546
		<b>95 689 891</b>	<b>65 571 864</b>
<b>Liabilities</b>			
Deferred tax liability	4	310 731	743 535
Deposits	13	297 556 749	286 018 585
Deferred income	14	43 140 970	28 521 859
Trade and other payables	15	5 107 405	6 051 273
Corporate tax liability		3 081 403	1 313 918
		<b>348 886 527</b>	<b>321 905 635</b>
<b>Total Liabilities</b>		<b>349 197 258</b>	<b>322 649 170</b>
<b>Total Equity and Liabilities</b>		<b>444 887 149</b>	<b>388 221 034</b>

Lesotho PostBank Limited  
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**Statement of Comprehensive Income**

	Notes	2015 M	2014 M
Capital grant income	14	3 119 488	3 654 045
Other income	18	33 728 852	20 921 193
Interest income	19	37 354 744	28 629 660
Finance costs	19	(2 898 593)	(1 991 426)
Operating expenses	20	(25 348 455)	(18 612 513)
Depreciation	20	(3 029 003)	(2 885 996)
Employee costs	20	(25 525 626)	(21 178 333)
Impairment of loans		-	(212 886)
<b>Profit/(loss) before taxation</b>	21	<b>17 401 407</b>	<b>8 323 744</b>
Income tax expense	22	(3 048 309)	(623 486)
Other comprehensive income		-	-
<b>Total comprehensive income/(loss) for the year</b>		<b>14 353 098</b>	<b>7 700 258</b>

Lesotho PostBank Limited  
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Annual Financial Statements for the year ended 31 December 2015

**Statement of Comprehensive Income**

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Employee costs	20	(25 525 626)	(21 178 333)
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<b>Profit/(loss) before taxation</b>	<b>21</b>	<b>17 401 407</b>	<b>8 323 744</b>
Income tax expense	22	(3 048 309)	(623 486)
Other comprehensive income		-	-
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Lesotho PostBank Limited  
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**Statement of Changes in Equity**

	Share capital M	Share premium M	Total share capital M	Norsad Revaluation Reserve M	Retained income M	Total equity M
Opening balance as previously reported	20 000 000	-	20 000 000	-	(3 827 175)	16 172 825
Adjustments						
Prior period error	-	-	-	449 049	39 412 463	39 861 512
<b>Balance at 01 January 2014 as restated</b>	<b>20 000 000</b>	<b>-</b>	<b>20 000 000</b>	<b>449 049</b>	<b>35 585 288</b>	<b>56 034 337</b>
Profit for the year	-	-	-	-	7 700 258	7 700 258
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7 700 258</b>	<b>7 700 258</b>
Fair value adjustment on Norsad Investment	-	-	-	1 837 269	-	1 837 269
<b>Total contributions by and distributions to owners of company recognised directly in equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1 837 269</b>	<b>-</b>	<b>1 837 269</b>
<b>Balance at 01 January 2015</b>	<b>20 000 000</b>	<b>-</b>	<b>20 000 000</b>	<b>2 286 318</b>	<b>43 285 546</b>	<b>65 571 864</b>
Profit for the year	-	-	-	-	14 353 098	14 353 098
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14 353 098</b>	<b>14 353 098</b>
Issue of share premium	-	14 500 000	14 500 000	-	-	14 500 000
Fair value adjustment on Norsad Investment	-	-	-	1 264 929	-	1 264 929
<b>Total contributions by and distributions to owners of company recognised directly in equity</b>	<b>-</b>	<b>14 500 000</b>	<b>14 500 000</b>	<b>1 264 929</b>	<b>-</b>	<b>15 764 929</b>
<b>Balance at 31 December 2015</b>	<b>20 000 000</b>	<b>14 500 000</b>	<b>34 500 000</b>	<b>3 551 247</b>	<b>57 638 644</b>	<b>95 689 891</b>
Note	12	12	12			

Lesotho PostBank Limited  
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Annual Financial Statements for the year ended 31 December 2015

**Statement of Cash Flows**

	Notes	2015 M	2014 M
<b>Cash flows from operating activities</b>			
Cash used in operations	25	(16 037 400)	(17 097 858)
Interest income		37 354 744	28 629 660
Finance costs		(2 898 593)	(1 991 426)
Tax paid	26	(2 496 444)	-
<b>Net cash flows from operating activities</b>		<b>15 922 307</b>	<b>9 540 376</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(6 162 623)	(5 288 210)
Sale of property, plant and equipment	10	90 486	-
Movement in treasury bonds		(4 945 900)	7 191 800
Movement in loans and advances		(31 846 000)	(110 461 363)
<b>Net cash flows from investing activities</b>		<b>(42 864 037)</b>	<b>(108 557 773)</b>
<b>Cash flows from financing activities</b>			
Share premium proceeds	12	14 500 000	-
Movement in deposits		11 538 164	13 520 337
Movements in capital grants		3 397 871	11 889 316
<b>Net cash flows from financing activities</b>		<b>29 436 035</b>	<b>25 409 653</b>
<b>Total cash movement for the year</b>		<b>2 494 305</b>	<b>(73 607 744)</b>
Cash at the beginning of the year		136 377 883	209 985 627
<b>Total cash at end of the year</b>	5	<b>138 872 188</b>	<b>136 377 883</b>

## **Accounting Policies**

### **1. Presentation of annual financial statements**

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. 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.

## Accounting Policies

### 1.1 Significant judgements and sources of estimation uncertainty (continued)

#### 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 [name a key assumption] 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.

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 bank 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 carried at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the bank. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

## Accounting Policies

### 1.2 Property, plant and equipment (continued)

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

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

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any 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.

### 1.3 Financial instruments

#### Classification

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

- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- 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

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

## **Accounting Policies**

### **1.3 Financial instruments (continued)**

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.

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. If collection is expected in one year or less (or in normal operating cycle of business if longer), they are classified as current liabilities. If not, they are presented as non-current liabilities.

#### **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.

## **Accounting Policies**

### **1.3 Financial instruments (continued)**

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.

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## Accounting Policies

### 1.4 Income tax

#### Current income tax assets and liabilities

Current 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 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.

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.















