



LESOTHO
Post Bank
Affordable. Accessible. Anytime

2016

Annual Report



GENERAL INFORMATION

Country of incorporation and domicile	Lesotho
Nature of business and principal activities	Commercial Banking
Directors	R. Elias (Chairperson – Non Executive – from 4th November 2015) M. Masheane (Non-Executive – from 1st February 2015) T. Kao (Non-Executive – from 4th November 2015) D. Plaatjies (Non-Executive – from 1st March 2016) L. Mokotjo (Non-Executive – from 1st July 2016) L. Molefi (Managing Director)
Registered Office	Mafike House Opposite Maseru Book Centre Kingsway Road Maseru, Lesotho
Bankers	Nedbank Lesotho` PO 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	R. Lehohla
Company registration number	I2004/163



TABLE OF CONTENTS

1	LIST OF ABBREVIATIONS	3
2	OUR HISTORY	4
3	CORPORATE STATEMENTS	5
4	STATEMENT OF DIRECTORS' RESPONSIBILITY AND APPROVAL	6
5	CHAIRPERSON'S STATEMENT	7
5.1	Achievements	8
5.2	Challenges in 2016:	9
5.3	Key Focus Areas for 2017	10
5.4	End Note	10
6	CORPORATE GOVERNANCE	10
6.1	Corporate Governance	10
6.1.1	Corporate Governance Structure	11
6.1.2	The Board of Directors and its Sub – Committees	11
6.2	Board and Sub Committees' meetings	12
7	THE MANAGING DIRECTOR'S REPORT	13
7.1	Strategic Pillars	13
8	CORPORATE REPORT	13
8.1	Key Stakeholders	16
8.2	Organisational Structure	16
8.3	The Management Committee Structure	18
8.4	Risk Management	19
8.5	Compliance	20
8.6	Internal Audit	20
8.7	Human Resources	20
8.8	Information Technology	21
8.9	Operations	22
8.10	Finance	25
8.11	Core Business	26
8.11.1	Customer Base	26
8.11.2	Financial Inclusion	27
8.11.3	Delivery Channels	27
8.11.4	Service	27
8.11.5	Lending	27



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
BSC	Balanced Score Card
CAR	Capital Adequacy Ratio
CBL	Central Bank of Lesotho
EFT	Electronic Funds Transfer
EMV	Europay Mastercard Visa
EXCO	Executive Committee
FCC	Finance and Credit Committee
FIA	Financial Institutions Act, 2012
GOL	Government of Lesotho
HOCr	Head of Credit
HOF	Head of Finance
HOHR	Head of Human Resources
HOIA	Head of Internal Audit
HOIT	Head of Information Technology
HOO	Head of Operations
HOM	Head of Marketing
HOR	Head of Risk
HORet	Head of Retail
IFAD	International Fund for Agricultural Development
IT	Information Technology
LPB	Lesotho PostBank / the Bank / the PostBank
LPS	Lesotho Postal Services
MD	Managing Director
MIACH	Maseru Image Automated Clearing House
NFL	NORSAD Finance Limited
NORSAD	Nordic / SADC
PAL	Payments Association of Lesotho
REMCO	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 Lesotho PostBank (LPB) was established by the Government of Lesotho (GOL) in April 2004 under the Companies Act, 2011 and it 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.

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.

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.

The Government of Lesotho transferred its shares in April 2011, when the NORSAD Fund's Governors 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. The LPB has 400 dollar-denominated ordinary shares in NORSAD Finance Limited.



CORPORATE STATEMENTS

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

Affordable. Accessible. Anytime



STATEMENT OF DIRECTORS' RESPONSIBILITY AND APPROVAL

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:

Mr Rets'epile Elias
Chairman

Mr Molefi Leqhaoe
Managing Director



CHAIRPERSON'S STATEMENT

The Directors present the Annual Report to the Shareholders of the Lesotho PostBank on the Bank's performance and operations in 2016. The Board of Directors is responsible for, among other things, corporate governance, strategic direction, risk management, and financial oversight. The LPB is also committed to ploughing back into the communities in which the Bank operates. To this end the Bank undertook significant initiatives for its corporate social investment (CSI) activities. The Annual Report reports on Bank's performance on the implementation of these key responsibilities.

5.1 Achievements

The Shareholder appointed two Directors in 2016 bringing to an end a year-long non-compliance issue. The Shareholder approved a two-shareholder model comprising the minister responsible for communications (70%) and the minister responsible for finance (30%) while the Board adopted the 2012 Articles of Association which are in line with the 2011 Companies Act. Once all the Directors were on board, the Board was able to fill all the positions for its subcommittees such that the subcommittees operated in line with the Schedule of Delegated Authority (SODA). In this regard, the Finance and Credit Committee and the Audit, Risk and Compliance Committee, which were operating as one committee, were separated, each with its own agenda and schedule of meetings to give proper focus to the responsibilities of each.

The Board further expanded the mandate of the Remuneration Committee (REMCO) to include governance oversight and accordingly renamed the committee the Governance Committee (GOVCO). This committee had not been able to function in the previous year. The Board established a new subcommittee named the Board IT Committee (BITCO) to focus on IT related matters. In particular, the BITCO provided oversight on the core banking upgrade project.

The Board reviewed and approved **** policies and frameworks from ***** departments. ***** audits were undertaken by the Department of Internal Audit and compliance audits were undertaken by the Risk Department.

The Board was exposed to a number of trainings and workshops including the ALCO process, corporate governance and IT governance.

The Board approved the 2016-18 Strategic Plan in December 2015 and the implementation started in 2016. The strategy which is premised on mobilization of deposits saw a 82% increase in deposits, albeit, late in the year. This was enough to see the Bank make a profit before tax of ****. The core banking system upgrade project was started in 2016 and will be completed in 2017. The EMV, internet and mobile banking projects were deferred to 2017, pending the completion of the system upgrade project. The Board approved a project to renovate Mafike House which would house the Head Office and the Maseru Branch. This project was completed and the Bank relocated all its places of business to Mafike in December 2016. The new building, with its modern look is expected to reflect a desirable brand in the public eye. One branch was opened in March by the Regulator at Mafeteng, bringing to fourteen the number of LPB branches.



CHAIRPERSON'S STATEMENT



The Bank set aside funding for its CSI initiatives and implemented the same in the form of school uniforms for selected needy pupils, computer equipment for selected schools and animal medicines for wool and mohair farmers.

The financial performance was somewhat muted compared to 2015 where a huge profit emanating from foreign exchange gains was realized. The Bank realized profit before tax of M6.5 million as compared to M17.4 million in 2015.



CHAIRPERSON'S STATEMENT

5.2 Challenges in 2016:

The following were the major challenges that the Bank faced in 2016

- The Regulator scored the LPB a 3 on the CAMELS rating which was far less than the anticipated rating of 2 or at worst, 2+.
- The cases lodged against the Bank by former employees, including the former Managing Director in the High Court of Lesotho and the Department of Labour remain a concern for the Bank
- The Bank was unable to fill two strategic EXCO positions for two years, namely, Head of Retail and Head of Business Banking

5.3 Key Focus Areas for 2017

The key focus areas for 2017 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 effective.

The segmentation project, product development and the development of the pricing model will be high on the agenda for 2017. Mobilization of long term deposits and business deposits will remain critical for reducing the high concentration of demand deposits and government deposits. Given the growth in deposits, it will equally crucial to grow the loan book to businesses without compromising on the quality of the book.

Key capital projects for 2017 will be the implementation of EMV, internet, mobile and agency banking; increase of distribution channels such as ATM's, merchant point of sale devices and new branches. The core banking system upgrade will be completed in 2017.

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.



CORPORATE GOVERNANCE

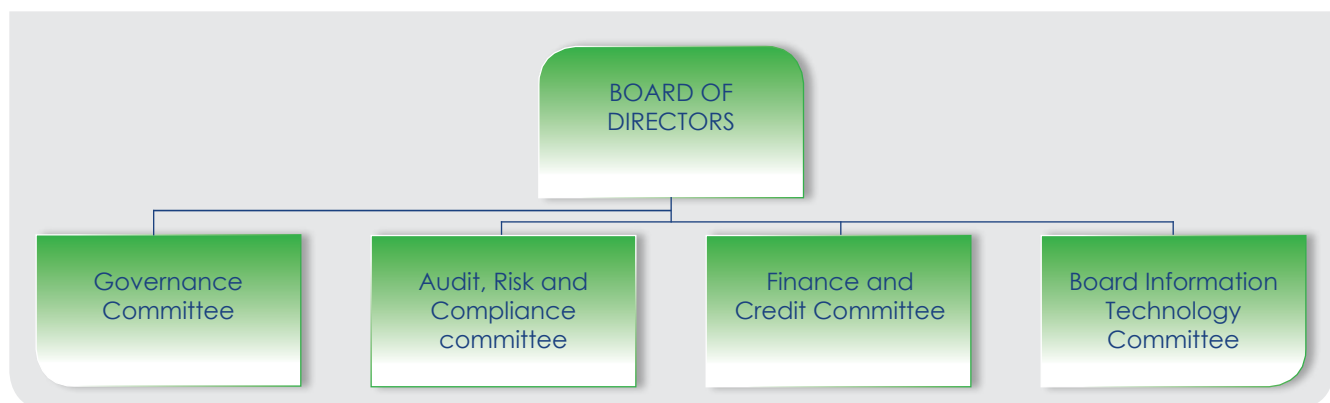
6.1 Corporate Governance

The Board of Directors of Lesotho Postbank is committed to uphold and observe the principles of good corporate governance. In so doing, the Board of Directors takes cognizance of the Strategic leadership, Ethical Culture and Accountability as the cornerstones of the good corporate governance.

The primary role of the Board of Directors includes steering the organization and setting its strategic direction on the basis on which the management will develop the strategy which is to be approved by the Board of Directors. In order to give effect to the Company's three (3) years strategy, the management have formulated the policies and operational plans which were approved by the Board of Directors.

6.1.1 Corporate Governance Structure

The Board of Directors has four (4) Sub-Committees as illustrated below. The Board of Directors delegates its powers to the Sub-Committees to promote independent judgment, assist with balance of power and effective discharge of the duties entrusted in the Board. The Board and its Sub – Committees convene formal meetings at least quarterly.





CORPORATE GOVERNANCE

6.1.2 The Board of Directors and its Sub – Committees

The Board comprised the following members in 2016. The Board Members have been appointed on a three (3) year contract except for the Managing Director who is on a five (5) year contract.

BOARD OF DIRECTORS	GOVERNANCE COMMITTEE	AUDIT, RISK AND COMPLIANCE COMMITTEE	FINANCE AND CREDIT COMMITTEE	BOARD INFORMATION TECHNOLOGY COMMITTEE
Mr. R. Elias (Chairman)	Mr. T. Kao	Ms. M. Masheane	Mr. R. Elias	Mr. D. Plaatjies
Ms. M. Masheane	Mr. R. Elias	Mr. D. Plaatjies	Mr. T. Kao	Ms. M. Masheane
Mr. T. Kao	Mr. D. Plaatjies	Mr. L. Mokotjo	Mr. L. Mokotjo	Mr. L. Mokotjo
Mr. D. Plaatjies				
Mr. L. Mokotjo				
Mr. L. Molefi (Managing Director)				

6.2 Board and Sub Committees' meetings

In fulfillment of its mandate, the Board of Directors and its Sub-Committees are mandated to convene meetings at least quarterly. Below are the number of Board and Committee meetings convened for the year 2016:

	ORDINARY	EXTRAORDINARY	AGM
BOARD	4	3	1
GOVCO	4		
ARCCO	4		
FCC	4	1	
BITCO	4		



THE MANAGING DIRECTOR'S REPORT

The Board of the Lesotho PostBank approved a 2016-18 three-year strategic plan in December 2015. The Managing Director's report is aligned to the 2016-18 Strategic Plan (the Strategy).

7.1 Strategic Pillars



CORPORATE REPORT

Our business model is supported by the 6 pillars that have been identified as critical success factors that will assist the Bank to deliver sustainable financial results. These factors are premised on attracting and retaining quality employees, educating our customers on financial literacy, providing compliant and responsible financial services, focusing on customers for excellent service delivery as well as building relationships with key stakeholders.

• People

The Bank has adopted a recruitment strategy that seeks to attract and retain relevant skills in the market and to ensure that each and every employee contributes to the success and image of the Bank by upholding values that foster a culture of integrity, professionalism, competence, accountability, teamwork, innovation and “putting the customer first”.

Furthermore, the Bank has implemented a performance management system (PMS) through the Balanced Score Card that assesses individual performance in accordance with the Bank’s performance management policy.

• Education

The Bank prides itself as the Basotho Bank and hence has embarked on an aggressive financial inclusion strategy whereby it aims to help the SMME sector grow. This is evidenced by a series of customer forums that the Bank conducts across the country with different small business owners to engage them on the services the Bank is offering them.

The customer forums are mainly centred around financial literacy and simplified Banking whereby business owners are urged to visit the Bank openly present their banking needs to the Bank officials who would then tailor a solution for them in a highly simplified manner.

The Bank recently signed an MOU with the Lesotho National Farmers Union to provide training on farmers on financial record keeping. This is one of the many activities that the Bank is trying to bridge the financial services education gap between the Bank and its customers.

• Products

In line with the growth strategy, the Bank has reviewed its products and services with a view to expand the range of base accounts, and deposit and lending facilities to address the respective needs of all customer segments. An expanded product suite, appropriately packed, priced and positioned, will enable the Bank to acquire additional and more profitable clients, while still catering for the downstream needs of the existing client base.

In accordance with its core mandate, the Bank has incorporated development-oriented initiatives such as affordable cash deposits for low-income earners, informal traders and micro enterprises by introduction of the Ntataise product (to encourage a culture of saving and investing), as well as value based fees for transactional Banking services for higher end segment of the market.

A broad spectrum of Bank products has been developed covering transactional, investments and lending products.

CORPORATE REPORT

• Service

The Bank's philosophy on sales is to put the 'customer first' hence all endeavours are aimed at ensuring complete customer service and satisfaction. In this regard, the Bank has endorsed a service charter, as contained below, that serves as a guiding tool for employees to deliver their services.

In addition, the Bank has a complaints management process that is aimed at addressing all service related issues, be it complaints and compliments. Customers are highly encouraged to share the sales experience which management undertakes to follow through for improved customer experience.

In an effort to continuously improve customer service and experience, the Bank saw it necessary to relocate all its business locations in Maseru to one building so that the customer is served in a speedy manner from customer service centre to the Banking hall and to the Head office for timely referral of issues that are not handled at the branch. While the Bank acknowledges that there is still need for another place of business for improved access, the new Bank premises have come highly convenient to the customer in terms of all services being available in one location.

Insert Picture of Mafike Building

In addition, the Bank(in 2016) opened its 14th branch in Mafeteng in order to bring financial services closer to the people and enable economic growth.





CORPORATE REPORT

Insert Picture of Mafeteng branch launch

The Bank is committed to providing the highest standards of service. To this end, we completed the core Banking system upgrade in May 2017 to improve customer service delivery by introduction of new services such as SMS notification.

• Sales

The Bank has deployed Sales and Customer Service Consultants throughout all its branches to drive sales and retain customers. Targets have been set periodically and are being monitored monthly, based on sales plans.

Below are the service points that the customer can interact with the Bank on.

Insert Branch foot print

Insert ATM footprint

• Stakeholder relationship

The Bank seeks to be viewed by the different stakeholders as a collaborative partner that promotes growth of all the partners it deals with and also as improving the lives of the communities within which it operates. The Bank's contribution in this regard has been duly recognised through numerous accolades it received; including the Diamond Arrow award where the bank was voted Outstanding - 1st Overall in Investment Services by PMR. africa. We were also recognized by the Lesotho National Development Corporation as the most promising Bank in Lesotho.

Insert Pictures of the trophies.

Through concerted effort in all the 6 pillars of success articulated above, the Bank was able to record the following financial highlights in the past three years 2016.

• Prospects

The Management and staff of the Bank continues to deploy all efforts towards making Lesotho PostBank a financially viable retail Bank, committed to improving the quality of life of Basotho and to exceed stakeholders' and customers' expectations.

We are therefore looking forward to getting more accolades in future as a result of the new strategies that we are implementing to better serve the needs and requirements of Basotho. Our future prospects include;

- To record profits in millions of double digits due to increased deposits received.
- To drive sustainable Corporate Social Responsibility
- To be business partner of Government of Lesotho through participation in its implementation of



CORPORATE REPORT

National Strategic Objectives of employment creation and financial inclusion.

- To promote financial literacy in the general Basotho Population
- To remain the most affordable Bank in Lesotho with regards to Banking fees.
- Assist Government of Lesotho in Financial Management.

8.1 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 GOL is also a key customer with the highest deposits in the Bank.

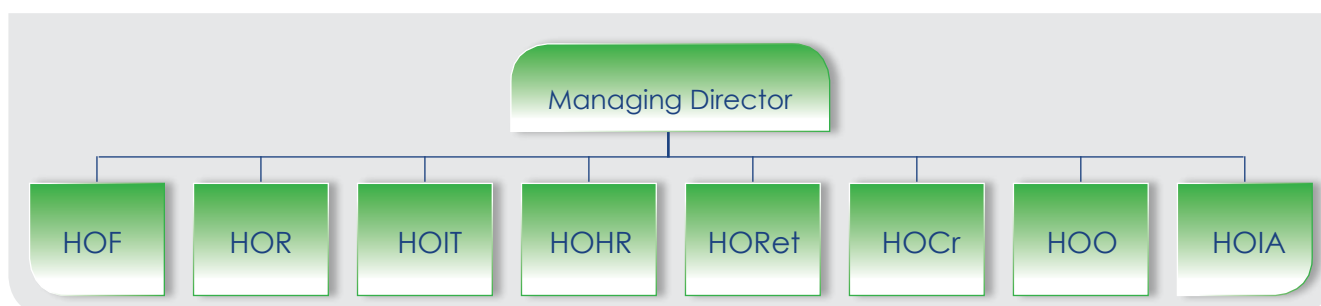
The Central Bank of Lesotho regulates the financial industry and passes laws that are binding for the LPB. The Lesotho Postal Services provides the infrastructure that houses the LPB's branch network and thereby increases outreach. The Bank is committed to cementing its relationship with these key stakeholders.

There are several other stakeholders such as the Financial Intelligence Unit, law enforcement agencies and our customers (both internal and external)

8.2 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.



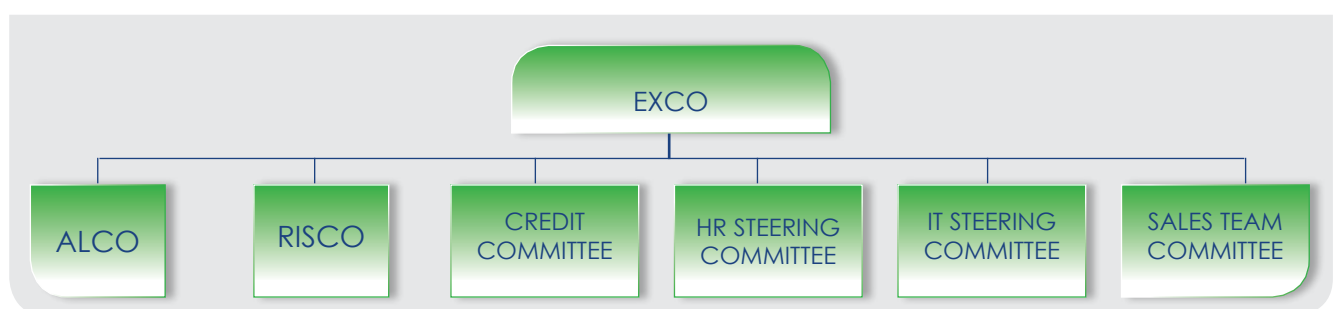


CORPORATE REPORT

8.3 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 adhoc 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 adhoc 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.

8.4 Risk Management

Since 2015, the bank has been on full implementation of all components of Integrated Risk Management approach (also known as Enterprise-wide Risk Management) in order to manage risk proactively and effectively. Under this risk management approach, all risks facing the bank are managed under the risk function as opposed to managing them separately.



CORPORATE REPORT

Since risk is very dynamic; and even influenced by both internal and systemic factors, continuous embedment of risk management culture continues to be undertaken on an ongoing basis. Further to the aforementioned facts, new entrants are also taken through risk management during inductions briefing sessions.

In view of the wide scope of operational risk, on top of the existing position of Operational Risk Manager (ORM), a position of Enterprise Risk Manager (ERM) was created and filled in the year under review and is now fully functional. The ORM role is concentrated on managing operational risk throughout the entire branch network of the bank, while ERM's responsibilities are in all the bank's support functions.

The bank pledges to the approach of "Every employee is a risk manager" since each and every staff member is responsible for identifying and reporting any risk any relevant structures within the bank. Further; and as part of proactive risk management, structure of departmental risk committees chaired by risk champions were established and are still functional. 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

Since 2015, the Bank has been rolling out business continuity in phases and all phases have been completed except for evacuation plans, which are expected to be developed once Mafike House Project Phase II has been completed.

The bank's IT Disaster Recovery Site (DRS) is still at Mafeteng; and is housed in the same building with our Mafeteng Branch. In view of proximity, this qualifies with the Regulator's requirement of 15 KMs location from the primary site, which is currently in Maseru. Due to some technical challenges, annual DR site testings were not fully completed (about 90% of tests were successful). The said challenges are being given high priority attention in order to have those resolved.

In order to achieve effective risk management, the following risk mitigants, inter alia, continue to be undertaken:

- a. The Board approved business continuity policy and plans which were rolled out in 2015
- b. All ATMs are still being protected with the dye staining devices in order to render cash worthless in case of ATM bombing.
- c. Monthly risk meetings continue to be held to discuss different risks faced by the bank.
- d. Ongoing staff training fraud awareness continues to be done.

8.5 Compliance

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

During the 2016 Central Bank's inspection, the overall status of compliance risk was considered to be moderate. In the Financial Intelligence Unit inspection, it was indicated that the standard of compliance with combat of the money laundering laws needs rigorous action and implementation hence an attempt was made to recruit a person



CORPORATE REPORT

to deal with money laundering issues within the bank.

8.6 Internal Audit

Internal Audit is an independent, objective assurance and consulting activity. Our role is to help the bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

In keeping with the Institute of Internal Auditors (IIA) International Standards that Internal Audit activity should be independent, Head of Internal Audit reports functionally to the Audit Committee and administratively to the Managing Director. Our audits are conducted in accordance with the IIA International Standards for the Professional Practice of Internal Audit. We also follow the Information Systems Audit and Control Association's (ISACA) COBIT standards when conducting information technology audits.

Internal Audit achieved 45% of its departmental audits as compared to 36% for 2015. The slight improvement came as a result of Internal Audit focusing mainly on high risk areas, despite the scarcity in resources. Currently the departmental structure is fully manned, and it is expected that the 2017 plan will be executed satisfactorily.

8.7 Human Resources

The human resources department is committed to ensuring that the bank engages the people at the right time with the right competencies and values to achieve the strategic goals and objectives of the bank. Recruitment plays a key role in the many activities of the bank. In 2016 engagement of executives was finalised except for one position which remains outstanding. Moreover, other key positions were filled by candidates who were appointed from within the bank. This is due to the value the bank places on the importance of people. This further indicates an improved level of competence of our staff as some of these positions were also advertised externally. Opening of Mafeteng Branch also created employment for several people around the Mafeteng area.

A key highlight for the year however was a successful implementation of the performance management system which was rolled out to all levels of the bank. Performance Management forms part of the many initiatives introduced to drive a performance culture. As a result of the employee and company performance reviews, employees received a performance bonus as a result of the profit generated by the bank. This was considered an important milestone since it was a first since the bank was established. In order to keep up with the dynamic work environment in which we operate, efforts were also made to capacitate staff in managerial positions with leadership skills. Workshops in management of discipline and employee conduct were also held to enable managers to deal with emerging risks of cases of fraud within the bank. Other trainings were on health and safety matters, treasury management, AML & KYC and were intended to improve regulatory compliance.

The commencement of core banking system Project led to assigning key staff from their normal duties to the project. This led to some staff members managing a heavy workload and having to engage some temporary staff to assist where necessary.

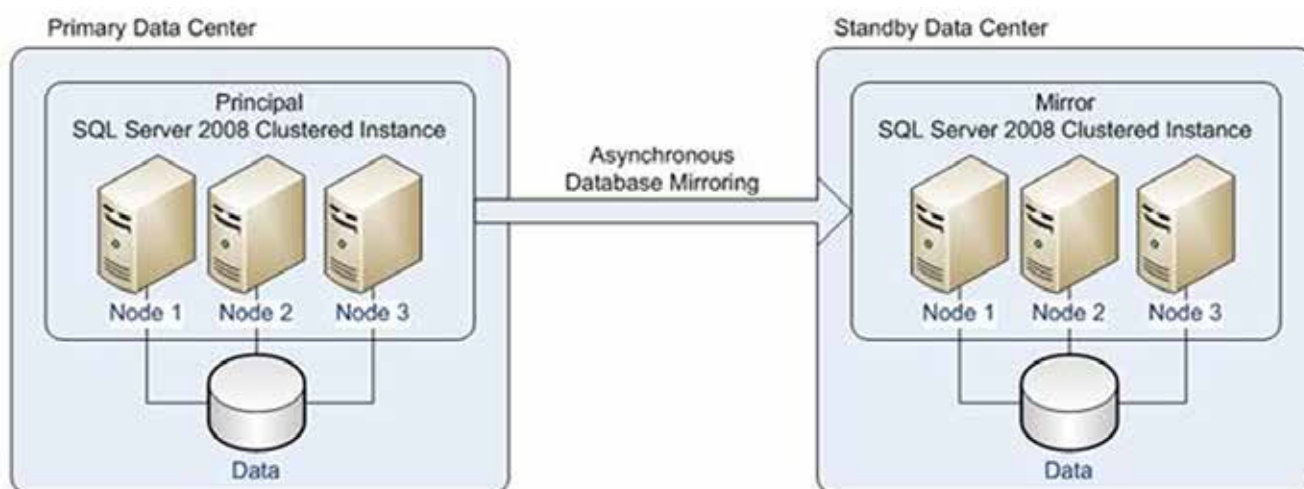
Our move to new operating premises towards the end of the year has improved the level of staff morale and has

CORPORATE REPORT

addressed a variety of health safety concerns that the bank had. Staff turnover remained relatively low and resulted from voluntary terminations and dismissals.

8.8 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.

8.9 Operations

Projects

During the year 2016, the Bank completed the Mafike Refurbishment Project that was given by Government for use Postbank. However, before it could be ready for the purpose, it had to be refurbished with budgeted amount of M18m. The project was planned to have been completed in September 2016 but due to many challenges that were



CORPORATE REPORT

emerging as the Project unfolded, there was a delay of about two months which resulted in occupancy date to be 6th December 2016.

Flexcube Project

The core-banking system upgrade project has since started in May 2016 and the expected date of completion is April 2017. As at 31 December 2016, the project was 30% complete. The project is going smoothly with the project team reporting to management on monthly basis about the progress.

The project cost is estimated M42m. This project came as a result of some introspection by management that our current system was outdated and could no longer support the business demands in terms of new products. The system could not support open loop facilities such as using LPB bank card to other banks' ATMs. Through the system upgrade, we have will be able to able to connect to the word such that LPB card holders can use them anywhere after registering with EMV.

Upcoming Projects

For the year 2017, we planned to install the first 8 ATMs in the first quarter of 2017 in addition to the current 10 in operation. The ATMs will be placed at Butha-Buthe, Maputsoe, Teyateyaneng, Roma, Mafeteng, Mohale's Hoek, Mokhotlong, Maseru Bus stop area. This will bring the total of LPB ATMs to 18. It is also planned to procure 10 ATMs for 2017 provided our capital requirements are met by the Shareholder.

The Cashflow Management Systems is also another project planned to be starting from the first quarter of 2017 with the expected month of completion to be September 2017 with an estimated cost M3.2m.

Marketing

The existence of marketing section ensures that the bank deals with branding, and public relations activities. During the year, the bank focused more on below the line segmental marketing to ensure that its marketing advertising efforts are tailored to each segment targeted. Moreover, the bank focused on cementing its relationship with its key stakeholders and customers to ascertain its preference over the other financial institutions that provide similar services.

Since one of the LPB's objective are to entrench financial literacy in the community and provide access to finance. The bank took part in activities that were geared towards educating the community about finance and to be financial savvy.

In an endeavor to educate and ensure that the community is bankable, the bank launched a product called 'Ntataise' targeted at Street Vendors. Several fees were waived to ensure that the product suits the targeted segment and ensure that it address the issue of access to finance to micro enterprises.

Corporate Social Investment (CSI)

Over and above the mentioned responsibilities, the section is a custodian of Corporate Social Investment (CSI) in the bank. The bank provided assistance in various CSI initiatives the tune of M400, 000. This was made in a broad



CORPORATE REPORT

spectrum of sectors from agriculture, education, science and technology, to mention but a few. It also supported in entrepreneurship activities.

Wool and Mohair

As an indigenous bank, we take pride in ensuring that address the needs of Basotho especially in the low end of the pyramid. The bank continued to support Wool and Mohair Farmers Association's District and National Shows hereby winners are awarded animal medicinal packages medicine for their folk. Other Wool and Mohair Wool Shed organized ceremonies and the bank partook in the events by contributing towards ensuring that the occasions became a success.

Education

The Bank donated 41 used computer and 2 printers to 23 School across LPB branches. Moreover, gave out school uniform to vulnerable children, supported to entrench Science and Technology in the county by supporting Science Week, UCMAS, etc. It further supported with an award of Best B Com student in the National University of Lesotho.

The bank cemented the relationship with its clients in this section by enduring that that their respective endeavors are supported and implemented to their satisfaction or request.

Entrepreneurship Activities

In an endeavor to ensure that local producers' produce is marketed, the bank support in several farmers' initiatives such as Peach Festival, Farmers Market, Customer Day Forums to educate business people about finances and products available which they can utilize to grow their businesses.

These are but few activities the bank did to ensure that it bring back to the community that has support it for years in its existence.



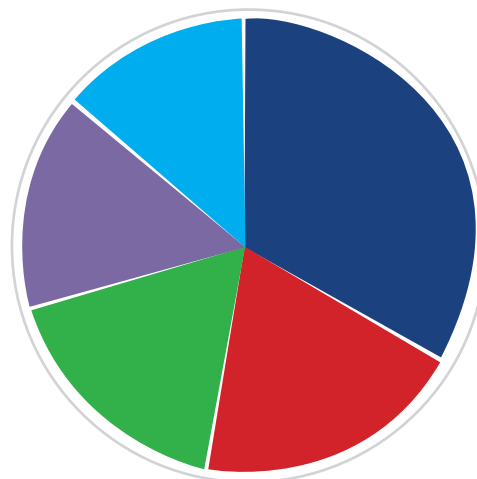
CORPORATE REPORT

8.10 Finance

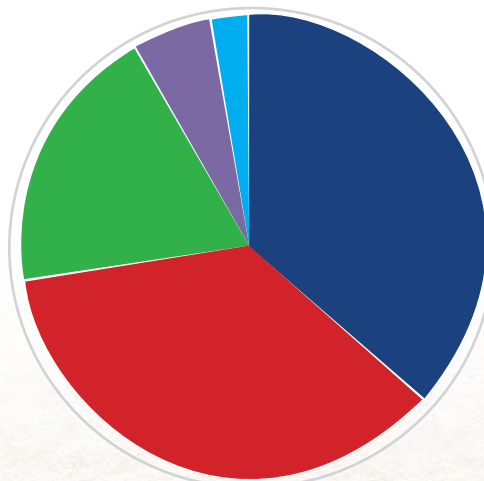
Profit before tax was M6.5 million compared to M17.4 million in 2015. Profit was higher in 2015 due to a foreign exchange gain of M13.6 million on the Bank's investment held in US dollars. In 2016 the Bank recorded a foreign exchange loss of M6 million on this investment.

Growth in deposits and advances contributed to the reported levels of profit. The balances in these contributing factors as well as profit levels are depicted below:

Deposits 2012-2016

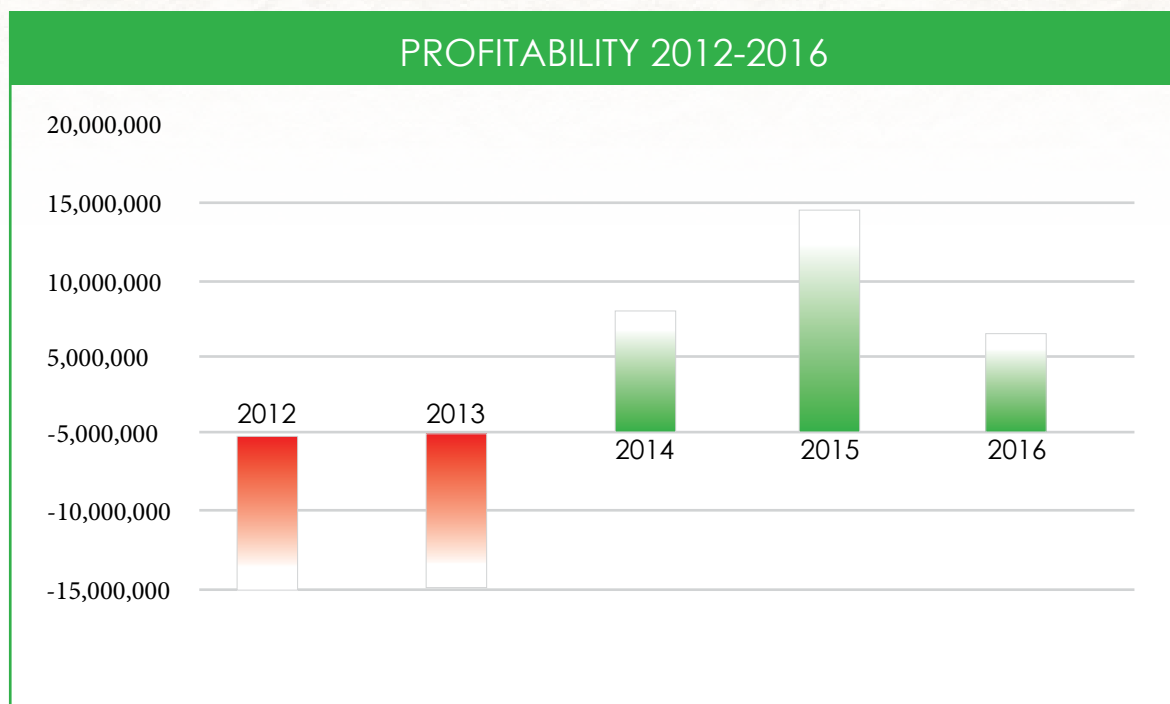


Advances 2012-2016





CORPORATE REPORT



8.11 Core Business

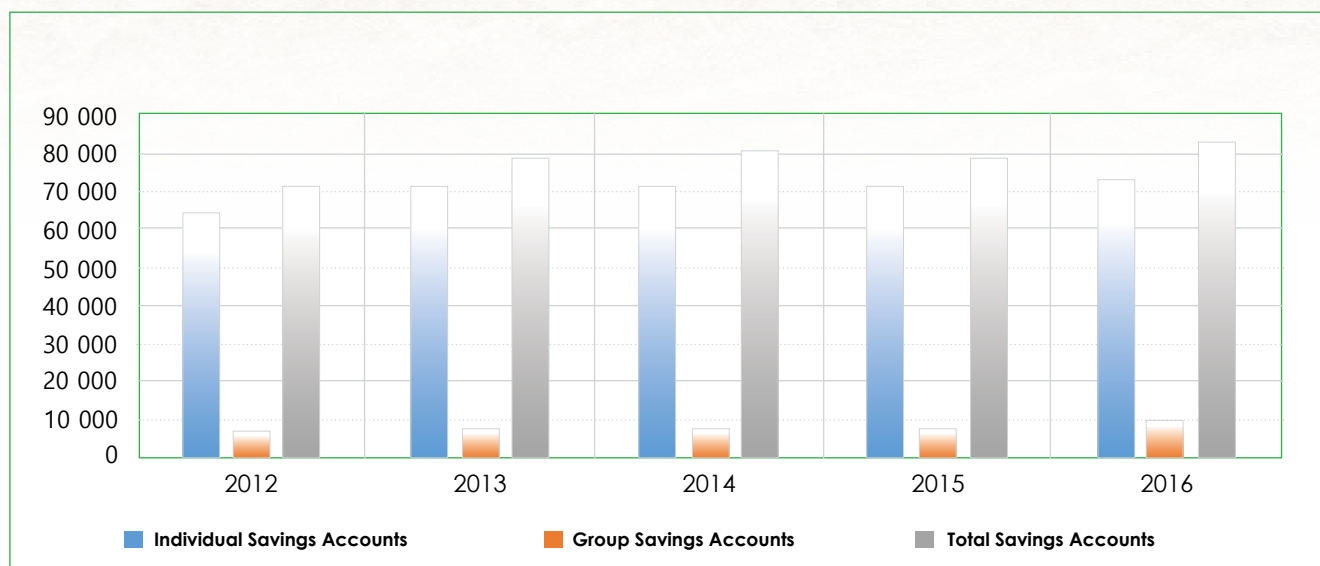
8.11.1 Customer Base

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	2012	2013	2014	2015	2016
Individual Savings Accounts	64 740	71 759	72 253	71 626	73 436
Group Savings Accounts	7 361	7 661	7 900	8 007	9 963
Total Savings Accounts	72 101	79 420	80 153	79 633	83 399



CORPORATE REPORT



8.11.2 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
Savings and Lending Associations	1,150
Wool and Mohair	252
Agriculture businesses (green houses)	221
Basali Khoebong (Women's Group)	150
TOTAL	1,773



CORPORATE REPORT

8.11.3 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 the total number of LPB's ATM's.

8.11.4 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 Service Officer whose responsibility will be to make sure that high level of good customer is practiced throughout the Bank.

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.

8.11.5 Lending

- The Bank continued yet again to show a continued steady growth in the loan book in 2016. Gross Loans and advances grew by M65543m to M231443m (2015: 166 900m), which is growth of 39% (2015: 24%). Loans Interest income grew by 46% (2015: 50%) to M35 094m (2015: 24 751M), as a result of an increase in advances. The loan sector analysis (fig. 1) and the yearly trend on the loan book growth (fig. 2), can be seen below:



CORPORATE REPORT



CORPORATE REPORT



Mafike House, Kingsway, Maseru - Lesotho
P.O. Box
Tel: (+266) 5200 0242
Email: info@lpb.co.ls
Website: www.lpb.co.ls