



Annual Report 2017

GENERAL INFORMATION



Country of incorporation and domicile

Lesotho

Nature of business and principal activities

Commercial Banking

Directors

Mr. R. Elias (Chairperson – Non-Executive – from 4th November 2015)
Ms. M. Masheane (Non-Executive – from 1st February 2015)
Adv. T. Kao (Non-Executive – from 4th November 2015)
Mr. D. Plaatjies (Non-Executive – from 1st March 2016)
Mr. L. Mokotjo (Non-Executive – from 1st July 2016)
Mr. M. Leqhaoe (Managing Director)

Registered Office

Mafike House
Opposite Maseru Book Centre
Kingsway Road
Maseru, Lesotho

GENERAL INFORMATION



Bankers

Nedbank Lesotho Ltd

PO Box 1001. Maseru 100.
115-117 Griffith Hill. Kingsway Street

Standard Lesotho Bank Ltd

Kingsway, Maseru, Lesotho

Auditors

PricewaterhouseCoopers with Sheeran and Associates

No. 1 Link House, Kingsway Road
Maseru

Corporate Secretary

R. Makara

Company registration number

I2004/163



TABLE OF CONTENTS

LIST OF ABBREVIATIONS	4
CORPORATE STATEMENTS	5
LESOTHO POSTBANK FINANCIAL HIGHLIGHTS	6
OUR JOURNEY	7-8
CHANNELS NETWORK	9
CHAIRPERSON'S STATEMENT	11-14
CORPORATE GOVERNANCE	15-19
THE MANAGING DIRECTOR'S REPORT	20-36
FINANCIAL STATEMENTS	



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	EuropayMastercard Visa
EXCO	Executive Committee
FCC	Finance and Credit Committee
FIA	Financial Institutions Act, 2012
GOL	Government of Lesotho
GOVCO	Governance Committee
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
HOR	Head of Risk
IASB	International Accounting Standards Board
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
NUCCAW	National Union of Commerce, Catering and Allied Workers
PAL	Payments Association of Lesotho
POS	Point of Sale
RISCO	Risk and Compliance Committee
RTGS	Real Time Gross Settlement System
SADC	Southern African Development Countries
SIRESS	SADC Integrated Regional Electronic Settlement System
WSBI	World Savings Banks Institute

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.

Core Values

Customer First

Accountability

Professionalism

Integrity

Competence

Innovation

Teamwork

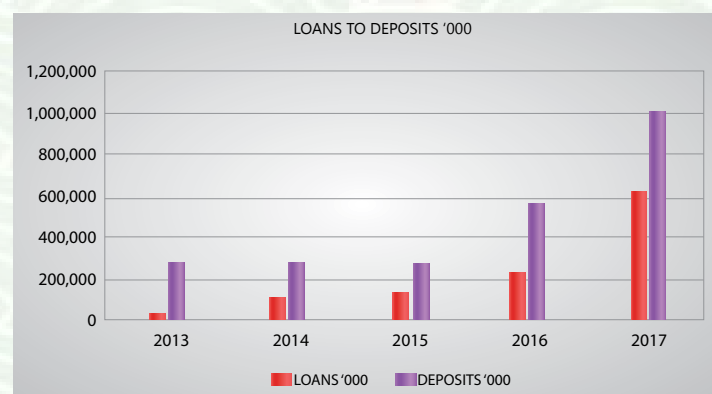
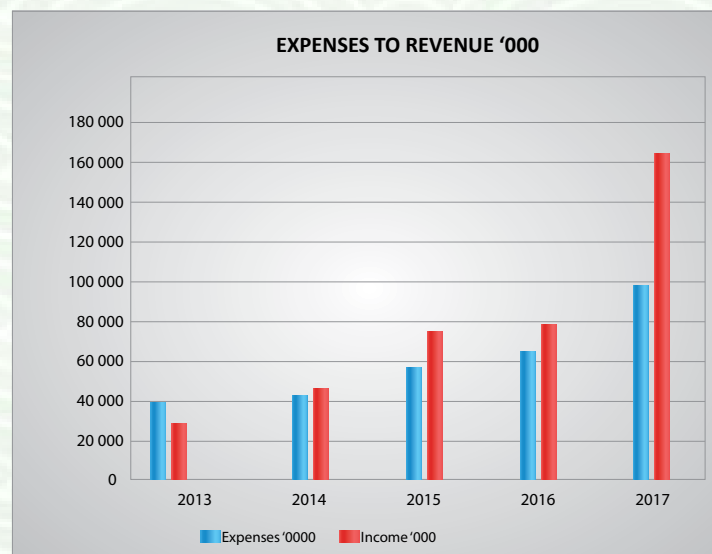
Our Maxim

Affordable. Accessible. Anytime.

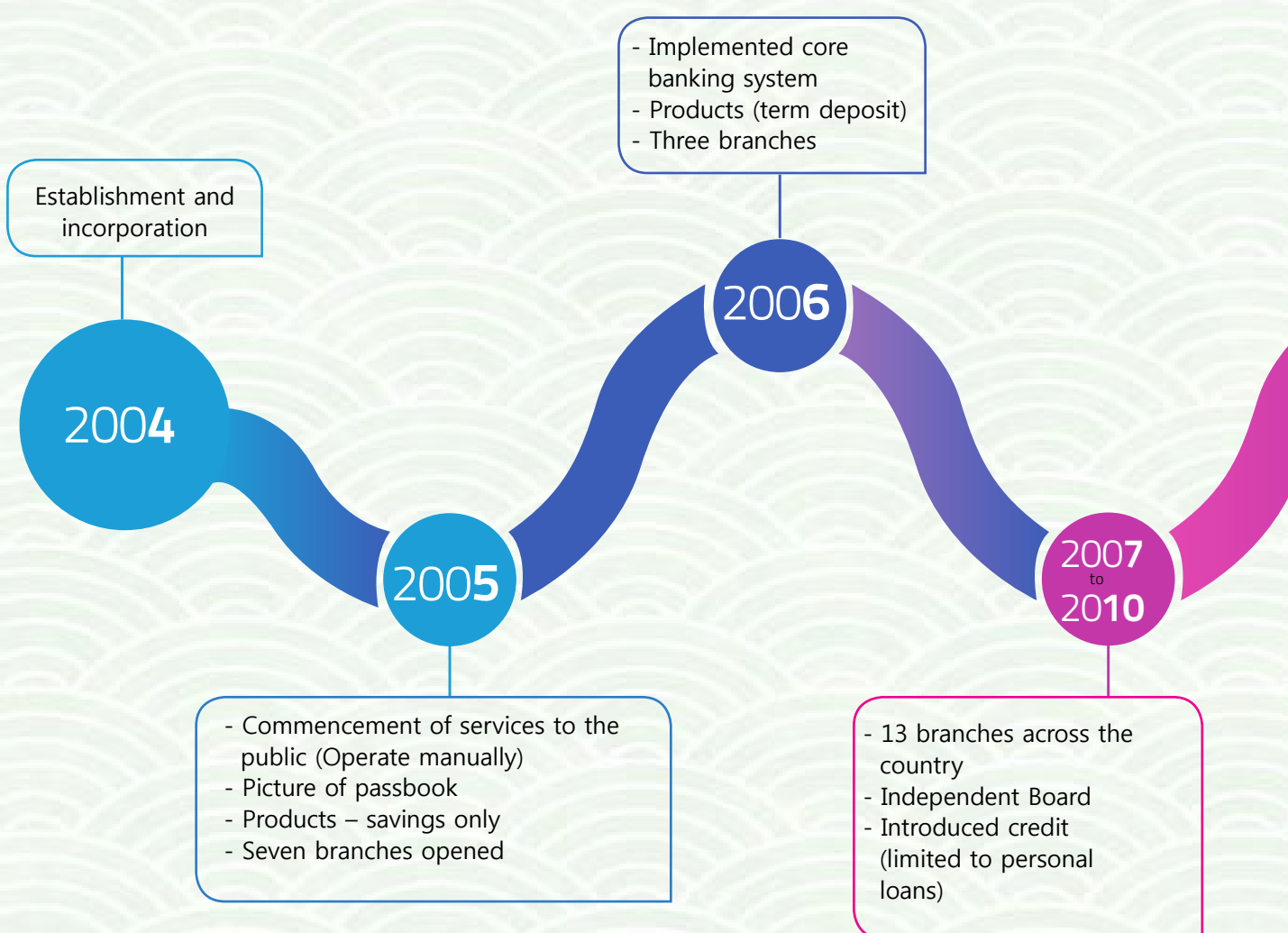
FINANCIAL HIGHLIGHTS



Year	LOANS '000	DEPOSITS '000	EXPENSES '000	INCOME '000
2013	20 247	272 498	39 431	29 601
2014	130 708	286 018	44 881	53 205
2015	160 900	297 557	56 802	74 203
2016	232 747	588 828	69 077	78 719
2017	643 007	1 008 116	97 658	166 688



OUR JOURNEY AT A GLANCE



OUR JOURNEY AT A GLANCE



- New Managing Director
- Introduced debit cards in closed loop
- First four ATM's
- Acquired NORSAD shares in NORSAD Financial Services

2011
to
2013

- Increased board oversight
- Fourteen branches in operation
- Business loans availability
- New Head Office
- Continued profits
- Regulatory compliance

2015
to
2016

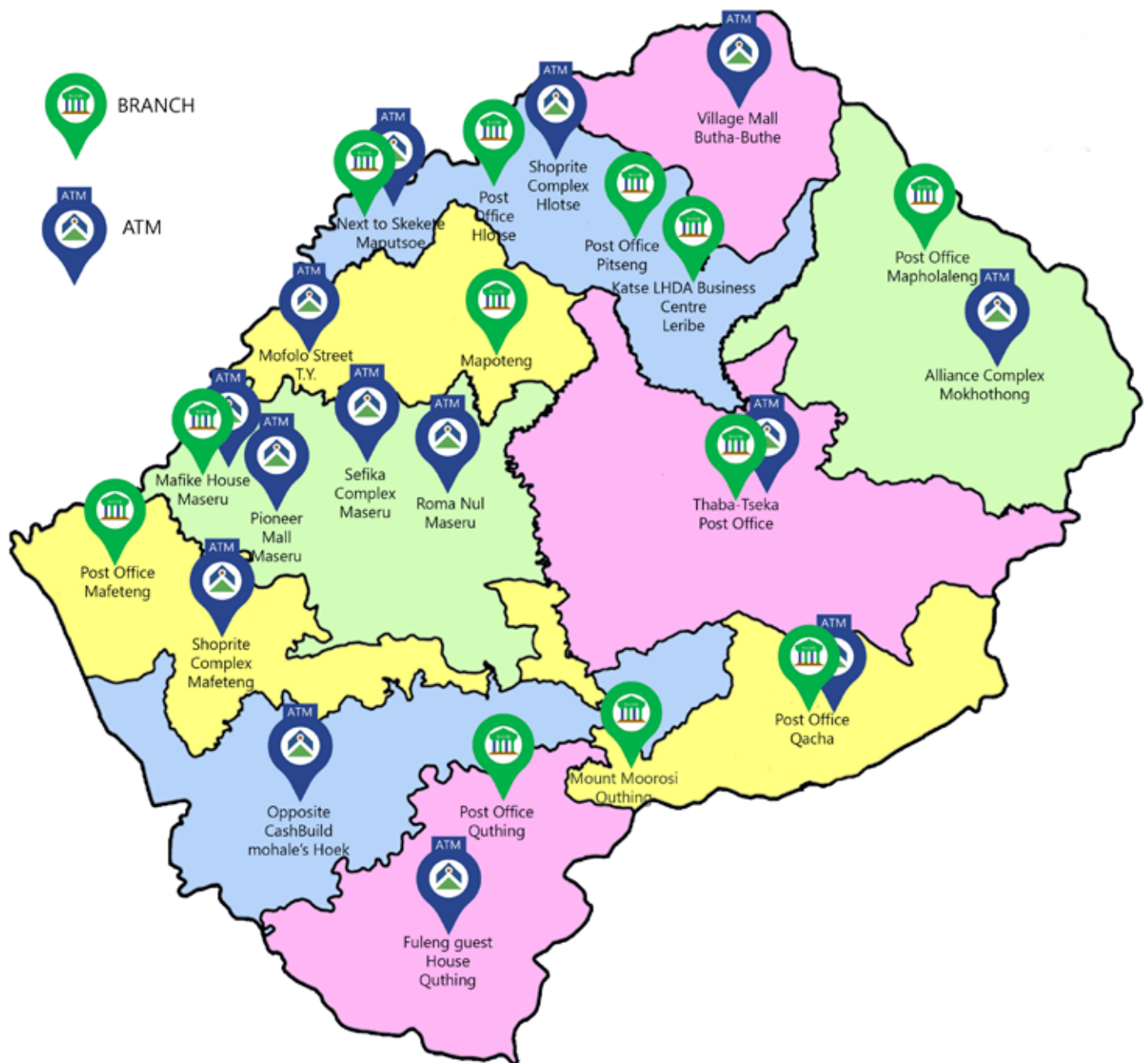
2014

- Third Managing Director
- Increased EXCO membership
- Increased lending
- Introduced risk management
- Sales culture cultivated
- Increased ATM's to 10
- Recorded profits for the first time

2017

- Upgrade of core banking system
- Increased market share
- Balance sheet growth
- Profitability trend high
- Staffing increase

CHANNELS NETWORK





CHAIRPERSON'S STATEMENT



It is with great pleasure that I present to you the annual report for the year ending the 31st December 2017.

Our 2017 results demonstrate both the strength and the potential of the Bank. Strong revenue growth more than covered the cost of business investment, and increased lending laid a foundation for future performance. The results continue to build upon the recent positive trends in all key areas of performance of the Bank.

REVIEW OF PERFORMANCE

During the year ended 31 December 2017, the Bank generated a profit before tax of M53,7 million which is 8 times the 2016 comparable number. Profit after tax was M41,2 million reflecting more than a 10-fold increase from 2016.

Interest income more than doubled to M117 million from M52 million in 2016 and likewise other operating income nearly doubled to M42,7 million from M22,4 compared to the previous year.

From 2016 to 2017 personnel expenses increased a modest 28% compared with the income increases. This increase was mainly due to increases in the staff complement of the Bank. Other operating expenses increased by 50% in the year under review.

As a result of this performance, the Bank's Cost-to-Income ratio dropped from over 10,7 in 2016 to 1,8 in 2017 reflecting dramatic improvement in the Bank's operating efficiency.

It should be indicated that the deposit base increased by more than 100% in 2017 as compared to the previous year. This is an evident growth towards sustainability. However, the Bank still intends to further work on acquiring the long term deposits and business deposits.



Mr. Retšepile Elias
Board Chairperson

The Bank's total assets increased by 63% to M1,329 million in 2017 from M815 million in 2016 with loans and advances growing strongest at more than 250% growth year on year.

The Bank's balance sheet growth was underpinned by deposit growth of over 70% year-on-year and over 40% growth in equity in 2017.

Overall 2017 was a good year for Lesotho PostBank and reflects enormous growth since the Bank started its operations. Gratitude is therefore extended to the Shareholder for the unequivocal support that has been furnished throughout the years of the Bank's existence. Further, applause is extended to the Management and the Staff of the Bank for the evident hard work in 2017.

CHAIRPERSON'S STATEMENT



CHALLENGES AND WAY FORWARD

In the midst of these achievements, the Bank encountered several challenges. It is important to mention that:

1. Financial Support

The Bank is evidently growing quickly and thus requires further capital to grow to be more relevant to the varied need of Basotho and to compete effectively. The Board continues to engage with the shareholder to explore ways for the Bank to shore up its capital to reinforce the Bank's sustainability.

2. Mobilization of Deposits

The Bank's ability to mobilize business and corporate deposits remains below target mainly due to underdeveloped digital platforms such as internet and mobile banking. The Bank aims to install and upgrade these platforms during 2018.

3. Product Offering

The Board of Directors seeks to align the Bank with the relevant Shareholder's policies hence alignment with the financial inclusion, access to finance and financial literacy. The Bank intends to introduce products offering that will include the underbanked economically active Basotho such as the people involved in the agricultural sector. It should be emphasized that the Bank has signed and is implementing various agreements with the representatives of the underbanked sectors such as the Ministry of Small Businesses which represents the Micro, Small and Medium Enterprises as well as with Lesotho National Farmers Union which represents the indigenous agricultural sector.

4. Stakeholder Management

The Lesotho PostBank operates within an integrated

socio economic environment in which it needs to maintain optimal relationships, hence maintenance and improvement of the relationships with the shareholder, regulators, customers, communities and suppliers as the stakeholders is a priority objective of the Bank.

The Bank should be seen lending a helping hand to the destitute communities and at times of disaster, hence the formation of the Board Sub-Committee responsible for Corporate Social Responsibility is mandatory. The Bank should also explore the means at which it will assist in the environmental preservation.

5. Leadership Developments

The Board of Directors of Lesotho PostBank makes great effort to enhance and refine governance and strategic growth at the Bank to take it up to world standards. The Board continually engages with Management to guide and oversee the growth. Likewise, the Board engages with the Shareholder to highlight and keep the critical issues facing the Bank in the Shareholder's view. These efforts will continue in 2018.

The Board operated with less than optimal size of membership during 2017. The Board has engaged with the Shareholders and identified and emphasized the gaps that need to be filled in the depth, breadth, skill, experience and diversity amongst the Board of Directors to ensure astute and effective steering of the Bank to better growth and performance. Thus, endowing the Board of Directors with a full complement of skilled and knowledgeable candidates is a priority. This will not only enable rotation of directors and business continuity but also enhance the productivity of the Board of Directors through diverse skills.

CHAIRPERSON'S STATEMENT

Furthermore, a key step is to fill all the vacant positions in the Executive Management for the effective implementation of the Bank's strategic objectives. Further, there is a great need to continually capacitate the Executive Management so as to increase productivity and relevance in the financial sector which is forever changing.

6. Appreciation

In closing I would like to thank my fellow directors for sharing their wisdom and knowledge with the group and for their active participation in Boardroom debates. It is indeed a privilege to lead this forum. The Bank has continued to show growth under trying economic times and on behalf of the Board I thank Management for ensuring that we have continued to realise significant milestones evidenced by the growth trajectory of the Bank.

At the same time we express our sincerest appreciation to the Shareholders and our customers for their unwavering support and commit to diligently keep building upon the high standards witnessed in the past few years.

Again we thank the Banking Regulator for its oversight and guidance of our industry and for the constructive manner in which they engage with the Bank.

The achievements outlined in this annual report would not have been possible without the commitment and dedication of our staff and we thank everyone at head office and at our offices and branches across the country for their contributions.



CHAIRPERSON'S STATEMENT



BOARD OF DIRECTORS

Lesotho PostBank has a Board of Directors which has been mandated to exercise oversight and leadership role. There was no major change in the composition of the Board of Directors in 2017 save to mention that one of the Directors will retire in the first quarter of 2018.

The impediment of the mentioned retirement is that the principle of diversity and rotation within the Board will be diminished. Further, the retirement of the board member will leave the composition of the Board with the minimum number that is prescribed by the law.

REGULATORY COMPLIANCE AND LEGAL

The Board of Directors is ultimately responsible for the compliance of the Bank. In executing the mandate thereof, the Board of Directors has delegated its powers to the Compliance Function. It should be noted that Lesotho PostBank has adopted a zero tolerance to non-compliance. It should be emphasized that in a quest to curb the compliance and legal risk, the Board of Directors has approved all the compliance and legal policies for 2017.

It should however be indicated that the increase in the regulatory environment had burdened the Bank's compliance hence an increase in the cost of compliance. In 2017, there was an introduction of the IFRS 9, implementation of the Basel II.5 and other regulations that were enacted in 2016.

It should be emphasized that the key focus for the Board of Directors in 2017 was to ensure good risk management and control environment. This was emphasized by the robust deliberations within the Audit, Risk and Compliance Committee.

The Board of Directors approved 12 policies in 2017 in a quest to assist the management to perform their obligations with proper guidance. The Board of Directors further approved both the Capital and Operational Budget for 2018.

The rapport between the Compliance Function and the key stakeholders thus the regulator has greatly improved hence a major boost in the stakeholder management.

The key focus for the Compliance Function was sensitizing employees of the Bank about the compliance issues. It is important to mention that compliance trainings were conducted in all the Bank's thirteen (13) branches. The Compliance Function also put more focus on the compliance monitoring and 12 out of 17 planned audits were conducted across the Bank's business units.

CORPORATE GOVERNANCE



4.2 The Board of Directors and its Sub – Committees



Mr. R. Elias
Chairperson
(B.Econ., M.Econ.)

Mr. Retšepile Elias is the founder and executive director of Nala Capital Advisors, a financial and investment advisory firm registered and operating in Lesotho. He was previously employed as the Managing Director of African Alliance Lesotho, Pan-African investment banking group for four (4) years after having previously worked at Central Bank of Lesotho for fifteen (15) years. Mr. Elias is a holder of a Bachelor's Degree in Economics attained from the National University of Lesotho and a Masters degree in Money and Banking from University of Free State. He further qualified as an Accredited Fellow of the Macro Economic and Financial Institute (MEFMI) – an intergovernmental finance and economic think-tank, consulting and training institute of Southern African countries. He has through-out his career held and continue to hold various positions of responsibility including among others; board-level positions that have provided him with substantial experience. He has worked for prestigious institutions such as; Letšeng Diamonds, Lesotho National Development Corporation, Public Service Pension Fund schemes and Alliance Insurance Ltd. He has over the years acquired extensive business

and professional experience that makes him a valuable and relevant as far as steering the strategic and operational objectives of the Lesotho PostBank are achieved. This allows him to add significant value to the strategic and operational direction of the Lesotho PostBank.



Ms. M. Masheane
Non Executive Member
(BComm.,
M.A.Acc.,CIMA
Adv Dip. MA,
PRINCE)

Ms. Motšeo Masheane is an accountant by profession. She obtained a B.Comm Degree in Accounting from the National University of Lesotho. She furthered her studies at Western Illinois University USA, and successfully completed her Masters in Accountancy program. She was awarded an Advanced Diploma in Management Accounting by the Chartered Institute of Management Accountants (CIMA). She is also a certified Projects in Controlled Environments (PRINCE) 2 Practitioner. She worked as a lecturer at the National University of Lesotho for nearly 15 years. She later joined the Government of Lesotho (GoL) in 2006 during the inception of the Public Financial Management (PFM) Reforms, first as the Integrated Financial Management Information System (IFMIS) Project Manager. She then assumed a new role as the

CORPORATE GOVERNANCE



Accountant General from 2010 to 2013. She has been in the Private Sector since then, first actively working with Regional Entities as a PFM Advisor and later rejoined formal employment as an Accountant. She has served on various Boards locally she is currently Lesotho PostBank's Board Member, Chair of Audit Risk and Compliance Committee and a member of the Board Information Technology Committee.



Advocate T. Kao
Non Executive Member
(LLB., PDGLL., PGDip.
(Business Management))

Mr. Thato Kao successfully completed his LLB in 2000 and subsequently he got admitted as an Advocate of the High Court of Lesotho. Following his admission, he served as an Arbitrator at the Directorate of Dispute Prevention and Resolution (DDPR) and later joined Association of Lesotho Employers and Business (ALEB). He therefore possesses a wealth of experience in industrial relations, particularly as the employers' representative. Before he ventured into business and consulting, He worked for Standard Lesotho Bank and Standard Bank in South Africa where he worked in both Credit and Risk departments. He also holds Post graduate diploma in labour law as well as in business management.



Mr. D. Platjies
Non Executive Member
(BSc)

Mr. Dennis Platjies has a gigantic wealth of experience which he gathered in his 17 years of service in the Information Communications Technology Industry. Of the 17 years in his service, 5 years represents a period in which Mr. Dennis Platjies worked in different ICT management positions. He is presently part of the Executive Management Committee at one of the prestigious local Telecommunications service providers, where he is responsible for overseeing the ICT managers and the different network engineers. His experience traverses across Information Technology infrastructure, Billing Management and Mobile Financial Services. He has managed several strategic ICT projects in his different roles in ICT and has been part of the evolution on Mobile Financial Services Ecosystem. He holds a Bachelor of Science degree in Computer Science and Physics and has attended several training on ICT and Executive Development programs.

CORPORATE GOVERNANCE



Mr. L. Mokotjo
Non Executive Member
(B.Econ., M.Econ.)

Mr. Lefa Mokotjo has over 30 years experience working in the Government of Lesotho in different positions from Directorship to Principal Secretary. He led various government ministries which include: Agriculture and Food Security, Planning and Economic Development, Trade and Industry, Employment and Labour, Home Affairs, Public Safety and Chieftainship Affairs. He recently participated in the Digital Migration Project spearheaded by the Ministry of Communications, Science and Technology. He was an Ambassador of Lesotho to the People's Republic of China in 1999 to 2016. He has attended different training programs which include Corporate Governance, IT Governance, International Financial Reporting Standards and Economics of Regulation. He holds a M.A. Economics from Washington State University and a B.A Economics from the National University of Lesotho.



Mr. M. Leqhaoe
Managing Director
(FCIS, FCIBM, CBCI,
PGDipl. in Strategic
Management &
Corporate Governance,
Certified Expert
Negotiator, MBA)

Mr. Molefi Leqhaoe is a guru of banking and has a vast experience gathered from 3 various banks locally. He has served in different positions in the banking industry ranging from operations, finance, credit, retail and business banking departments. In his professional experience, he has occupied different positions, from most junior, middle as well as senior positions. Currently, he is working for Lesotho PostBank as the Managing Director. Prior to his engagement with Lesotho PostBank, he worked at Lesotho Bank, Standard Lesotho Bank, Econet Lesotho and First National Bank. He was the member of UOFS MBA alumni and he is currently Fellowship member of Institute of Chartered Secretaries, an international institution dealing with Corporate Governance, Institute of Chartered Business Managers, a Certified Member of Institute of Business Continuity and Certified Expert Negotiator. He has massive experience in operational as well as strategic issues of private companies especially in the banking industry. He is also a Mentor and a Coach in Ethical Leadership, Strategy, Corporate Governance, Business Continuity, Risk Management, Structured Deals, Business Rescue and Re-organisation etc.

CORPORATE GOVERNANCE

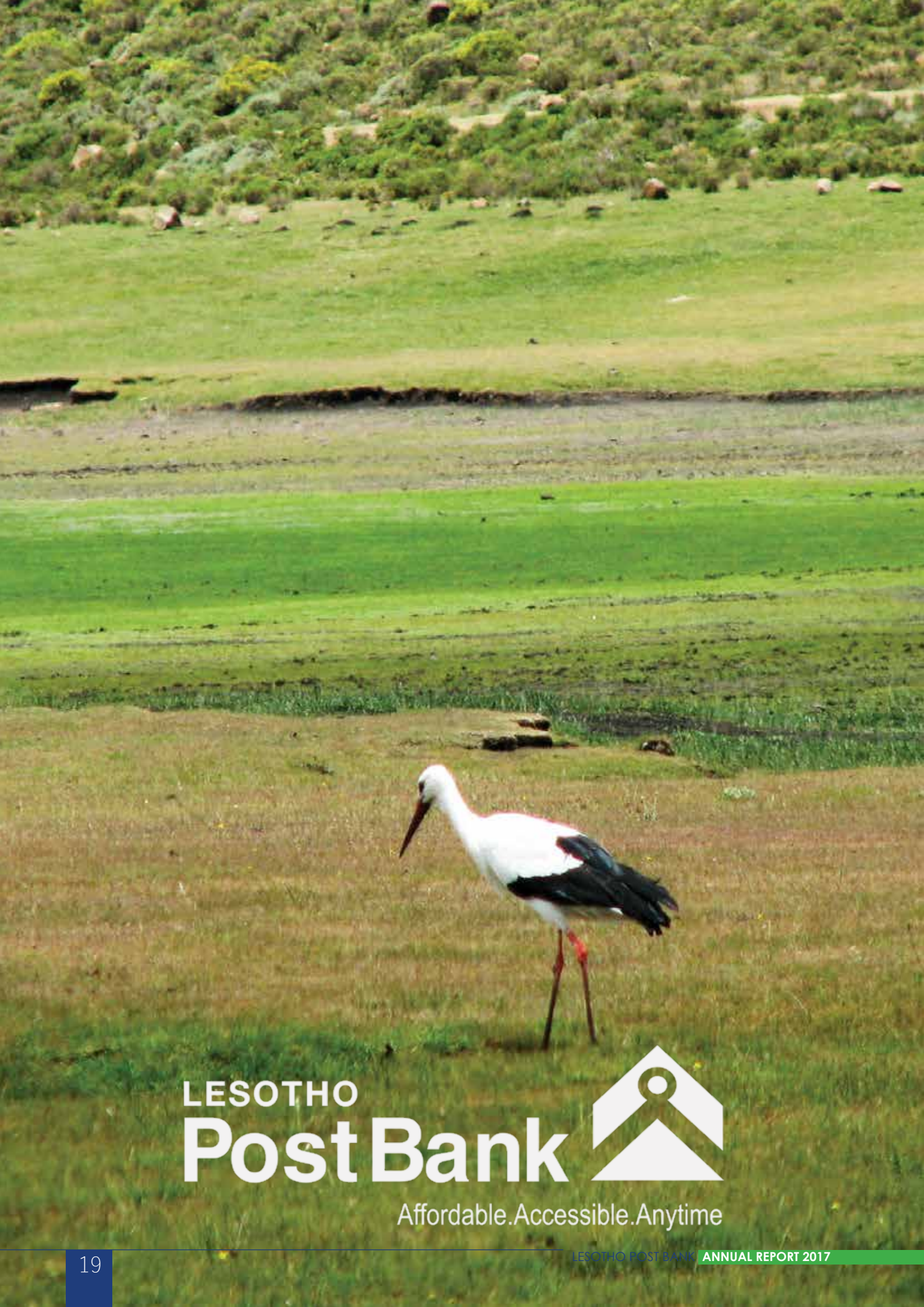


Board Composition and membership to Sub Committees

NAME	BOARD	ARCCO	FCC	GOVCO	BITCO
Mr. Retšepile Elias	✓		✓	✓	
Mr. Dennis Plaatjies	✓	✓		✓	✓
Mr. Thato Kao	✓		✓	✓	
Mr. Lefa Mokotjo	✓	✓	✓		✓
Ms. Motšeo Masheane	✓	✓			✓
Mr. Molefi Leqhaoe	✓				

Attendance of the Board and Its Sub Committees for 2017

NAME	BOARD	ARCCO	FCC	GOVCO	BITCO
Mr. Retšepile Elias	10/10		4/4	5/7	
Mr. Dennis Plaatjies	9/10	4/4		7/7	
Mr. Thato Kao	10/10		4/4	7/7	
Mr. Lefa Mokotjo	9/10	4/4	4/4		4/4
Ms. Motšeo Masheane	10/10	4/4			4/4
Mr. Molefi Leqhaoe	10/10				



LESOTHO
Post Bank



Affordable. Accessible. Anytime

MANAGING DIRECTOR'S REPORT



The 2016-18 Strategy for Lesotho PostBank was premised on deposit mobilization to propel and speed up Bank growth. The year 2017 marked the second year of execution of this Strategy. The year ushered in a rainbow season full of successes in many areas of Lesotho PostBank amidst local and global market challenges. Looking back at the decisions the Bank took in crafting its Strategy, it is gratifying to note that most of its objectives were achieved within budget, the required level of quality and on time.

The next strategic focus is largely on addressing national issues such as provision of micro savings platform, access to affordable credit for businesses, easily accessible transactional platform.

The Executive Committee continued to show unwavering commitment to strategy execution and monitoring so as to ensure milestone achievement of all Bank's objectives. The Board's oversight ensured that Executive Management focused on key strategic issues.

The industry risk challenges were enormous but the Bank put in place systems and processes to

guard against any negative forces; cyber-crime, money laundering and other related security issues. This institution is growing thus the need for more resources to ensure effective and efficient operations. In responding to this factor, the Bank increased the head count by roughly twenty (20) percent in order to ensure application and reality of "customer first" core value. I believe the season of delivery of excellence has come and the culture of Lesotho PostBank is going in the right direction. Our customers are the most important part of this Basotho Bank hence the strive to keep their demands and needs first.

The Bank received an award for the 1st overall winner on the leading and achievers in the banking industry in Lesotho. This in itself is an indication that the Bank has attained recognition from customers and other stakeholders.

The Bank was further recognised and awarded "The Highest Rated in Investment Services in Lesotho Award and Highest Rated in Companies/Institutions Demonstrating Exceptional Managerial and Corporate Governance Qualities in Lesotho". The Bank's profile was featured in PMR Africa and PMR Magazine publications. It is worth noting that LPB won these awards in 2016 and 2017 consecutively. The competition posed a mountain of challenges but LPB demonstrated amazing attitude by scooping second position in profitability against the industry giants. This is the results of hard work, commitment and determination from LPB staff who untiringly provided their skills and knowledge in contribution towards excellent performance and customer service.

The Bank continued to plough back into the communities it serves as well as the public at large.

MANAGING DIRECTOR'S REPORT



OPERATIONAL ACHIEVEMENTS

I. Lending

The Loan Book grew by 176% in 2017 as compared to 39% in 2016. The total credit extended to businesses amounted to M40.9 million compared with M25 million the year before. Of the M40.9 million, M15.9 million was lent to micro, small, medium enterprises (MSME's). To this end the Bank extended credit to 123 businesses using the Partial Credit Guarantee Schemes from the Lesotho National Development Corporation and the Ministry of Finance. The total cover was M3.2 million and M13.5 million respectively. These strides in lending addressed two strategic issues, namely, supporting small businesses for economic growth and supporting initiatives of the Government of Lesotho

The quality of the loan book has been observed to be exceptionally good with the level of non-performing loans sitting at 3% while the arrears at around 1% of the total loan book. The specific Impairments are also within the acceptable level of 1%, with the total impairments being within 3% of the total loan book. This performance has enabled the bank to experience a remarkable profit of M53.7 million before tax, thus a growth of 780%. Further controls are to be enforced in the coming year 2018 to maintain the quality loan book.

II. Human Resources

With the rapid growth of the Bank, it became necessary to have commensurate growth of human capital. The staff compliment was 247 compared to 198 in 2016. The departments that were capacitated were Business Banking which was separated from Retail Banking to give it more focus; Internal Audit to provide assurance during this rapid growth, Retail Banking to keep pace with branch growth. A position of Corporate Affairs manager was created to focus on external relationships, stakeholder

management and strategy execution. This is a key position that supports the Managing Director's office at a high level.

Training has become very critical as the Bank moves forward. Staff have to keep up to date with developments in such areas as banking, information technology, corporate governance and credit management. The Board and senior management attended training in IT Governance and King iv Corporate Governance.

III. Technology Projects

The Bank successfully upgraded its core banking system, Flexcube, in May 2017 replacing the system that was implemented in 2005 which was obviously obsolete and provided limited service excellence. The current system is guaranteed to meet the needs and the expectations of the customers. This Project was completed on time, well within budget and met the business objectives. The Bank prided itself in this achievement.

Following this implementation, the Bank embarked on a project to introduce digital channels thereby transforming the channels landscape of the LPB. This Project commenced in September and is scheduled for completion in the second quarter of 2018. The said digital channels include Mobile Banking, Internet Banking, Mobile Wallet, Merchant POS and Agency Banking.

IV. Outlook

The global economic recovery is good news to developing economies like Lesotho because the fact that in the world's largest economies the inflation rate is low and the global trade is improving, it means that Lesotho exports produce will get a market as strong economic growth stimulates aggregate demand. Apart from that, a fast-paced economic growth will be stimulated by strong job gains, which normally translate to higher demand,

MANAGING DIRECTOR'S REPORT



which expected to drive up the prices for our precious diamonds, and will mean higher diamond revenues as well as textile exports particularly in the US given the prevailing AGOA agreements.

SA economy has also started a recovery path after a technical recession in the second quarter of this year and the recovery in commodity prices is expected to play a pivotal in the economic recovery as SA is a net exporter of various commodities.

In the domestic front, the mining industry is expected to spur economic growth, however, the kick start of LHDA Phase II is also going to present a lot of opportunities for the private sector and LPB is expected to play an important role in financing sub-contractors in this project. There must be a proper

strategy developed to tap the potential business that will be coming through with this project.

Interest rates are expected to remain flat in short to medium term in the region given that the SA inflation is expected to remain within the target range of 3% – 6% until 2019. However, given the forecasts the inflation is not in any way going to influence unless the SA MPC decides to take advantage to reduce interest rates given the low inflation environment in order to support the slow economic growth but in decline can only be within the maximum of 50 basis points which can only be done in different MPCs. If SARB can be more accommodative than this then it would have significant influence on general prices, which effectively will influence inflation rate.



MANAGING DIRECTOR'S REPORT



Mr. M. Leqhaoe
Managing Director
(FCIS, FCIBM, CBCI, PGDipl. in Strategic
Management & Corporate Governance,
Certified Expert Negotiator, MBA)



Mr. Thomas Marabe
Head of Operations
(CA.(L), MBA, CBCI)

Mr. Thomas Marabe started work as tutor after which he was involved in finance departments in organisation within different industries such as NGOs, Parastatals, and insurance. He was an Internal Auditor before joining the Operations department within Lesotho PostBank.

His incredible experience goes over 21 years of work experience in various industries. Marabe is both an academic and a professional in possession of both MBA Degree from the University of Free State and Chartered Accountant Lesotho. He

has obtained valuable corporate training in all the years of employment ranging from general administration, financial management, crafting and executing strategy, and corporate governance. He is a member of Lesotho Institute of Accountants, the Institute of Internal Auditors (Lesotho) and Business Continuity Institute.



**Mrs. Nkomoti Motsapi
Nketekete**
Head of Finance
(BAcc., CA.(L))

Mrs. Nkomoti Motsapi-Nketekete was the Head of Finance at Lesotho PostBank until end of November 2017. Her responsibilities were mainly in the management and planning of the Bank's financial

MANAGING DIRECTOR'S REPORT



resources. During her tenure at Lesotho PostBank, Mrs. Nketekete held various positions in Internal Audit and Finance over a period of 11 years. Prior to joining the Bank, Mrs. Nketekete worked as a Tax Auditor at the Lesotho Revenue Authority for 4 years. She holds a Bachelor's degree in Accounting and has also completed the Chartered Accounting qualification with the Association of Chartered Certified Accountants (ACCA).



Mr. Themba Sopeng
Head of Credit
(B.Econ.)

Mr. Themba Sopeng has over 11 years banking experience, mainly in Credit. He started his career with FNB Lesotho in 2007, and joined Standard Lesotho Bank for a short stint (8 months) in 2015, before joining Lesotho PostBank in October 2015. His experience within the said area ranges from junior positions, middle as well as senior positions. Currently, he holds a position of Head of Credit in Lesotho PostBank.

He attained a Degree in B. Com (Economics) from the University of Free State in 2004. He also has a number of short-term qualifications and trainings, which includes Advanced Certificate in Banking Services, FNB Commercial Property Training and FNB Commercial Credit Processes Training.



Mr. Mahase Mahooana
Head of Information
Technology
(BSC)

Mr. Mahase Mahooana is a certified Oracle Professional with solid experience in database administration, systems administration, business applications support and development. He is a Computer Science Graduate with over 21 years as an IT professional in banking and telecommunications industries. His professional experience extends over the borders of Lesotho having worked in Europe for more than 6 years. He was Applications Manager for Econet Telecom Lesotho implementing and supporting information systems ranging from ERP, mobile wallet, mobile insurance, services provisioning prior to joining Lesotho PostBank.



Ms. Itumeleng Matela
Head of Human Resources
(Msc Human Resource
Development, BA PA/
SAS, Certified Recruitment
Assessor.)

Ms. Itumeleng Matela started her career as a human resources generalist and later specialised in training & development, competency assessment and remuneration and benefits before assuming managerial and strategic leadership roles. She was engaged in numerous Government Ministries as Director of Human resources and later joined the banking sector seven years ago assuming a position of Head of Human Resources.

MANAGING DIRECTOR'S REPORT



Matela was instrumental in provision of Human Resources services during the establishment of various state owned institutions such as Lesotho Revenue Authority, Metolong Authority, Roads Directorate and overseeing transformation of the Personnel cadre in the Public Service. Her work experience in Human Resources Management runs over 24 years mostly acquired in the public sector and currently in the private sector.

This former member of the National Manpower Development Secretariat and current Member of the Directorate of Corruption and Economic Offences (DCEO) Recruitment and Appointments Council has vast experience in operational as well as strategic issues relating to Human Resource and also thriving in entrepreneurship.



Mr. Molefi Khama
Head of Risk
(CAIB (SA), BCom Banking,
and CBCI)

Mr. Molefi Khama is currently occupying the position of Head of Risk in Lesotho Postbank. He has over 26 years banking experience. Big part of his banking experience (22 years) was with Standard Lesotho Bank following its acquisition of Barclays Bank PLC, then Stanbic Lesotho which took over Lesotho Bank. He was engaged in various areas within the Bank such as branch operations, retail, business

and corporate banking and credit department. His banking experience ranges from junior positions, middle as well as senior positions. He He is currently studying with UNISA and pursuing PGD in Risk Management.



Ms. Ntolo Letele
Head of Internal Audit
(Bcom. Acc, CIMA Dip MA)

Ms. Ntolo Letele holds a BComm Accounting Degree from University of Port Elizabeth, and was also awarded a Diploma in Management Accounting by Chartered Institute of Management Accountants (CIMA). She signed off her articles with South African Institute of Chartered Accountants (SAICA) and is a member of Institute of Internal Auditors (IIA) as well as Chartered Institute of Management Accountants (CIMA). She has over 11 years' experience which includes, internal audit, external audit, governance, risk and compliance as well as financial control assurance. She worked at Moores Rowland, Price Waterhouse Coopers (PWC), Auditor General of South Africa (AGSA), Momentum, FirstRand Bank Group, and currently as Head of Internal Audit for Lesotho PostBank.

MANAGING DIRECTOR'S REPORT



REPORTS

CORPORATE AFFAIRS

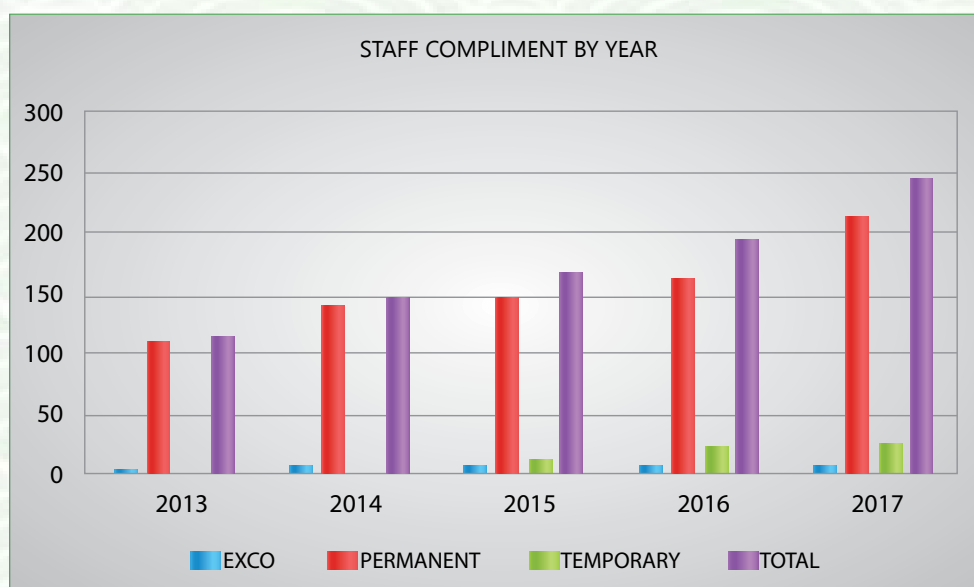
The Corporate Affairs Division was established in 2017. The office is charged with corporate communication; the responsibility of promoting effective communication with both internal and external stakeholders to ensure improvement of the corporate brand image and reputation of the Bank. The core existence of this office is founded on strategy evaluation ; implementation and monitoring of the Bank strategy and to influence desired results. During the year of operation, the office was instrumental in tracking departmental strategic activities that were planned in line with corporate strategy for the year. The greater contribution was in the achievement of main strategic goals of the Bank;

- a) Financial Sustainability
- b) The Social Mandate and
- c) Corporate Social Investment

Going forward, the focus will be directed to strengthening the process of strategy monitoring through effective tracking the activities that inform the departmental objectives in order to ensure absolute success.

HUMAN RESOURCES

From 2013, there has been a steady increase in the staff complement, this came as a result of the organization's growth as outlined by the graph below:



MANAGING DIRECTOR'S REPORT



The Lesotho PostBank's Human Resource department is charged with the responsibility of ensuring that employees are well-versed in their areas of expertise. This addresses the process of recruitment, remuneration, health and safety, staff retention as well as training and development. In appreciation of its staff, LPB includes people pillar in its strategic success pillars to demonstrate and highlight the importance it places on this resource. The highlight for the year was implementation of the performance management system, and a move towards performance related pay. Incentives will be paid to staff based on organisational performance while bonus on individual contribution and performance.

The introduction of incentives and bonuses is a motivation factor to boost staff morale for their contribution and hard-work to support the Bank and ensure achievement of its goals. A review of the salary structure was also undertaken and will be implemented in 2018 based on board approval. Training in areas of leadership development were implemented to capacitate the Executive and Management team, as well as training Sales and Customer Care staff members in line with the approved training plan. Re-training on the performance management system was conducted throughout the branches for newly appointed staff

and as a refresher to address challenges. Other in-house courses were conducted by the compliance and risk cluster in branches and by IT on information security.

Employee turnover has remained relatively low; about 2.9% comprises voluntary resignations while about 6.3% is a result of dismissals. On employer employee relations climate general staff are members of NUCCAW, the Bank and the union have good relations. Staff grievances have remained low attributable to increase in staff meetings and branch visits by HR management team. Disciplinary hearings have reduced although most of staff exits are attributed to cases of misconduct ranging from fraud, theft and staff not acting in the best interest of the Bank.

The Human Resource Steering Committee's main objectives are to ensure that all committee members are aware of their duties and responsibilities as members of the HR Committee and that applicable legislation and regulations affecting their conduct are clearly understood. Furthermore, to ascertain that the principles of good Corporate Governance adhered to in all dealings on behalf of the Bank. The committee achieved over 50% meeting attendance in the past year.

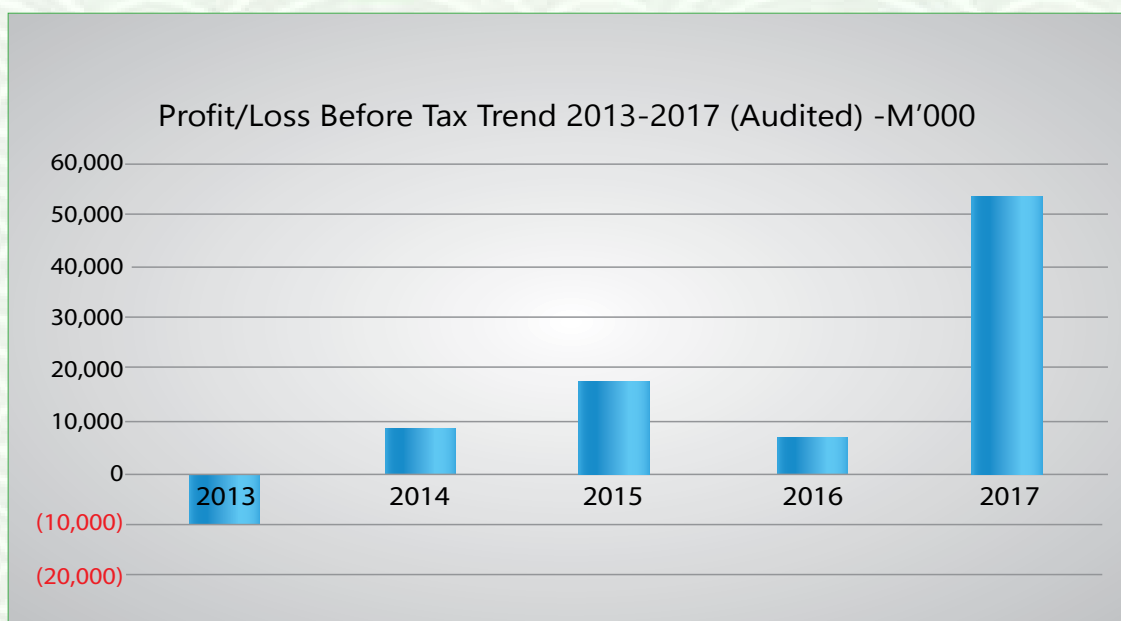
MANAGING DIRECTOR'S REPORT



FINANCE

Profit before tax for the year was M53.7 million compared to M6.1 million registered in 2016 as a result of cost containment measures which management put in place coupled with upswing in income generated from operations emanating from the improved product and services.

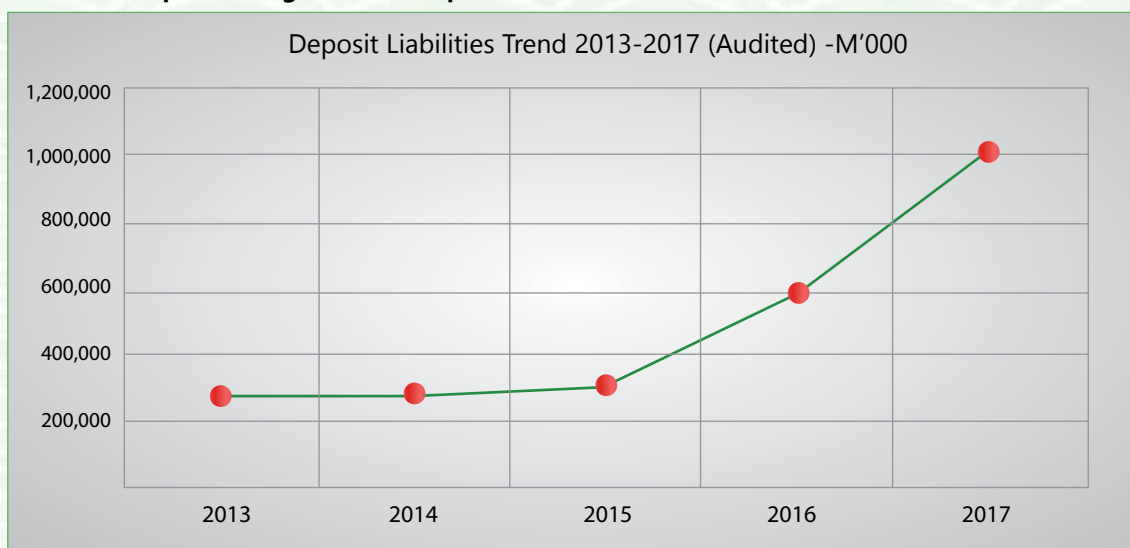
The chart below illustrates the growth in profitability:



MANAGING DIRECTOR'S REPORT

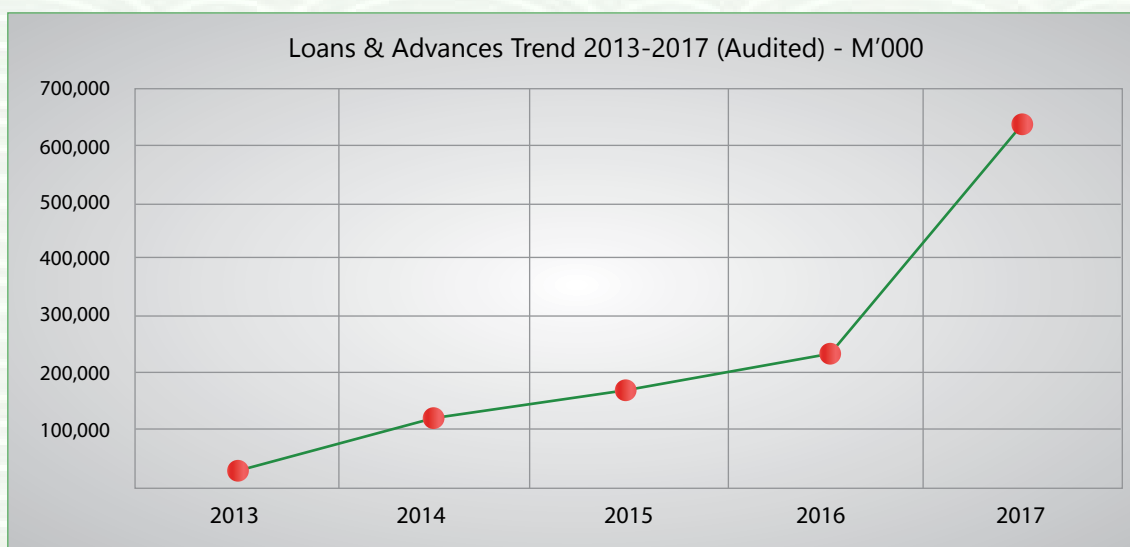


The chart below depicts the growth in deposit liabilities:



Deposit liabilities of M1 billion have increased by 72% year-on-year, inflating the loan book in line with the upturn in income.

The chart below displays the growth in loans and advances:



Loans and Advances were M643 million, this being a hike of 176% from 2016 and this translated into a positive growth in the income recorded. The higher loan book growth rate was registered in both Retail and Business segments.

MANAGING DIRECTOR'S REPORT



CREDIT

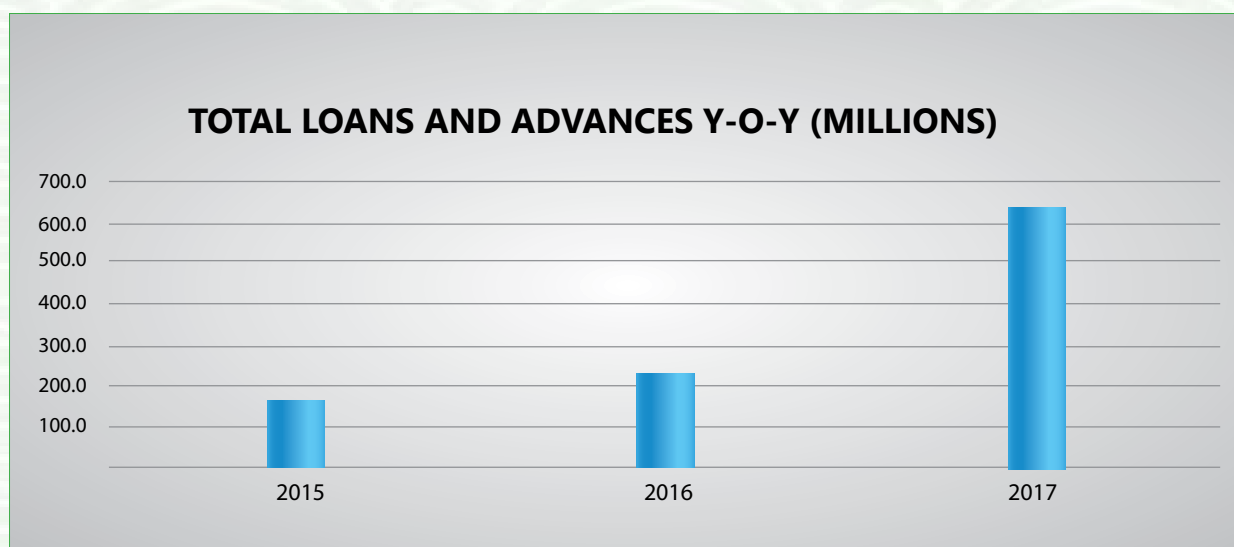
MANAGEMENT OF CREDIT RISK

The Credit Risk (Default Risk) is the potential for financial loss due to the failure of the counterparty to fulfil its obligations to pay the Bank in accordance with agreed terms. This risk is managed through the Credit Policies and Procedures. The Credit Committee is there to ensure close monitoring of this risk.

The Loan Book has significantly grown by 176% in

2017 as compared to 39% in 2016. The major driver to this positive trend is the Government support through deposits and the economic demand for financial inclusion which is the key strategy to Lesotho PostBank. Also, there have been more take overs from other financial institutions specially to retail unsecured sector which was unbearably indebted. The Lesotho PostBank came in to relieve such customers through the set take home affordability ratio as well as affordable credit products which was made possible by the competitive interest rates and affordable Credit Life Insurance.

Below is the graph showing the total loans and advances:



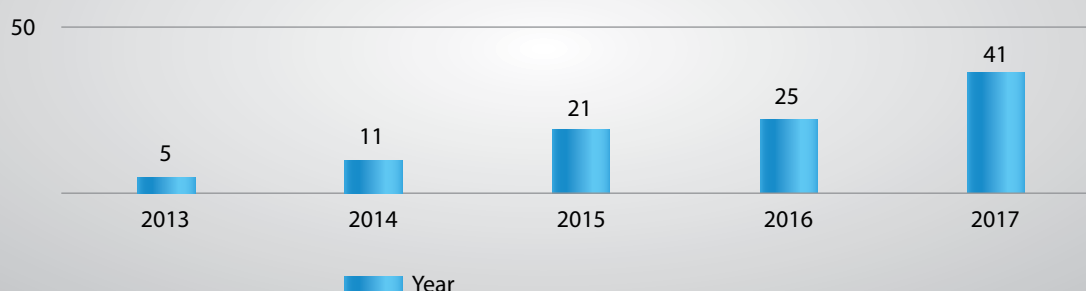
MANAGING DIRECTOR'S REPORT



The MSMEs financed in the Year 2017 amount to M15.8 million, thus 533 informal businesses towards financial inclusion. This portfolio has been assisted under relaxed Banking requirements to ensure easy access to Finance. Another M25.1 million has been extended to 53 formal businesses such as SMEs and Corporates.

The Government Partial Credit Guarantee Scheme came into play by assisting with the required collateral. As a result, new loans given to business customers have increased from M25million in 2016 to M41million.

DISBURSED BUSINESS LOANS Y-O-Y (MILLIONS)



The quality of loans and advances have remained under acceptable level with the impairments sitting at 1% for specific impairments while the overall impairments, inclusive of general are at 3% to the total loans and Advances. The non performing book is at 3%. All these ratios are below the industry average. This indicates that about 97% of total loans and advances are performing. This quality book is as a result of strong internal credit controls as well as quality credit evaluation in line with delegated lending limits approved by the Board.

The management of the healthy loan book above is also enforced by matching the risk appetite to the Bank's strategic plan, arrears levels and the impairment levels hence more percentage of the

book towards retail loans due to their low risk levels which will enable the introduction of further products in 2018 such as agricultural finance and short term loans under stable financial performance. All the retail facilities have credit life insurance covering death and disability.

IASB has issued IFRS 9 Financial Instruments, which replaces the IAS39 Financial Instruments: Recognition and Measurement, and is effective in the year 2018. This standard has introduced the new expected credit loss (ECL) impairment model. The bank will ascertain compliance with the IFRS 9 by ensuring that the 2018 Financials are in line with this requirement.

MANAGING DIRECTOR'S REPORT



INFORMATION TECHNOLOGY

LPB's IT Department supports business processes and operations and helps branches conduct their daily operations and functions properly. These processes are conducted through the information systems and infrastructure acquired and maintained by the department. The IT Department has five objectives:

- 1) To adopt best practices in IT governance and management
- 2) To leverage on technology for innovation of products and services for value creation
- 3) To improve on systems availability, information security and services delivery
- 4) To improve the integrity and access of information for decision making
- 5) To improve management of human resources for better effectiveness and efficiency

The Bank completed the upgrade its Core Banking System in May 2017 at a cost of M41.4 million. This project came as a result of some introspection by management that the current core banking system was outdated and could no longer support the business demands in terms of new products and competitiveness for growth. Also, the system could no longer meet regulatory requirements in certain areas such as management of dormant accounts. Finally, the underlying technology has to be refreshed to allow for robustness in architecture and ability for the system to integrate with supporting systems that will allow the Bank to introduce digital channels for better outreach.

As part of the core banking system upgrade, the Bank introduced a loans origination system that has a workflow and document imaging capabilities. This system automates origination of loans applications

at branches by providing all the scanned supporting documents used for vetting and approval by the Credit Department at Head Office through a workflow that allows storage and retrieval of such documents without having to move hard copies from office to office; the imaging system will also help to capture customer KYC documents.

The Bank had to put its goal of introducing EMV interoperability on hold in order to upgrade its core banking system as it is foundation or platform which all other banking system depends on. EMV interoperability will allow cardholders of other banks to use LPB ATMs and swiping machines and in turn also allow LPB cardholders to transact at other banks' network of ATMs and swiping machines. could not support open loop facilities such as using LPB bank card to other banks' ATMs.

The Bank initiated a project in the later part of 2017 to introduce digital or electronic channels that will enable customers to transact conveniently through self-service on mobile phones and computers, and from agents that will be deployed around the country to offer services on behalf of the Bank in order to improve outreach.

RETAIL BANKING

Delivery channels

Lesotho PostBank has experienced enormous growth in many areas of business. This growth propelled the acquisition of additional ATMs to provide service solutions to overwhelming customers' demand. A total of seventeen (17) ATMs and fourteen (14) branches across the country including an Agency in Maseru were placed where customers could easily access and enjoy convenient services. In its quest to put customer first, the Bank plans to increase the delivery channels to reach These channels will

MANAGING DIRECTOR'S REPORT

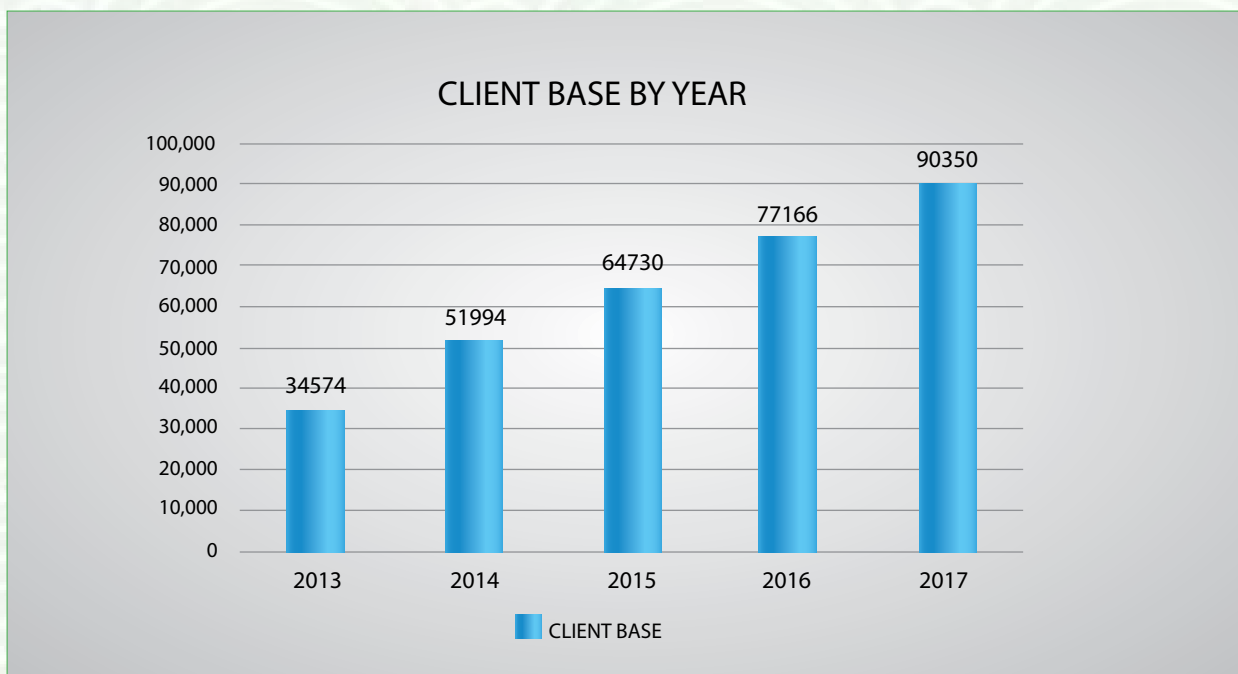


be increased with the new channels that the Bank plans to introduce in 2018.

Sales

The Bank engaged Sales department into different strategic activities that strengthened and supported the delivery of successful performance through in sales volumes and revenue. Sales and Customer Consultants were deployed throughout its branches

to drive sales, penetrate the market with enhanced approach to new clients acquisition and ensured retention of the existing customers. The targets were set periodically and monitored monthly based on the individual branch sales plans and base. The Bank's ability to customize products to meet the demands of customers was core to increase in sales.



SERVICE

One of the strategic pillars that the Bank stands on is outstanding customer service. This speaks to helping customers efficiently, in a friendly manner. In pursuit of excellent service to its customers, the Bank recruited the Service Officer, who is specifically responsible for, ensuring that active service culture is common amongst LPB staff. Providing good customer service is an essential that sets Lesotho

PostBank above its competitors.

Through the introduction of additional products and channels, the Bank desires to continue serving clients in an affordable and accessible manner anytime.

MANAGING DIRECTOR'S REPORT



INTERNAL AUDIT

The Internal Audit function is governed by the Board-approved Internal Audit charter from which it derives its mandate and conducts its activities, in accordance with Internal Auditing standards. Key initiatives to ensure provision of high quality risk-based audit services aligned to the Bank's strategy and objectives, included more proactive data analytics and rolling out proactive assurance.

During 2017, we embarked on sessions throughout the Bank in order to raise awareness about Internal Audit as a steward for good corporate governance. This resulted in improved relations with our customers and appreciation of our mandate. The focus was also on embedding the risk culture and ensuring combined assurance with other assurance providers within the Bank to avoid duplication of efforts.

The Internal Audit reports functionally to the Audit Committee. During the year, the committee received regular reports from Internal Audit on any weaknesses in controls that were identified, and considered corrective actions to be implemented by management. The committee meeting frequency is four times a year on quarterly basis, and during 2017, three meetings were held.

Internal Audit achieved 72% of its departmental audits as compared to 45 % for 2016. The huge improvement came as a result of Internal Audit focusing mainly on high risk areas, and rolling out proactive assurance.

RISK MANAGEMENT

The purpose of the department:

- To champion the Enterprise-Wide Risk Management through adoption of proactive and forward-looking risks management approach.
- The Risk Department also remains the custodian of ALL risks within the Bank.

Risk Oversight

Although the Board has ultimate responsibility in managing the bank-wide risks, it (the Board) has delegated this responsibility to its sub-committees as per table below:

COMMITTEE	OVERSIGHT OVER	MEETING FREQUENCY	MODE OF MONITORING
Finance and Credit Committee	Credit Risk	Quarterly	Quarterly Management Reports
Audit, Risk and Compliance Committee	Enterprise-wide Risk Compliance Risk Internal Audit	Quarterly	Quarterly Management Reports
Board IT Committee	IT Risk	Quarterly	Quarterly Management Reports

MANAGING DIRECTOR'S REPORT



At Management level, the following Risk Committees have been established and are responsible for managing risks as listed below and:

COMMITTEE	OVERSIGHT OVER	MEETING FREQUENCY
Credit Committee	Credit Risk	Monthly
Assets & Liabilities Committee	Balance Sheet Management	Monthly
IT Steering Committee	IT Risk	Monthly
Risk and Compliance Committee	<ul style="list-style-type: none"> ·Enterprise Risk ·Compliance Risk ·Internal Audit 	Monthly

Emerging Risk

With the introduction of Digital Channels where customers will access services through the Internet, it became necessary for the Bank to engage security experts to conduct vulnerability assessment and penetration testing as part of the project as cyber-crime has increased globally in recent years. To this end, work started in December 2017 with the anticipation to address the vulnerabilities and do confirmatory testing by end of Q2, 2018.

Ongoing Risk Management

In view of the ever changing environment; during the year under review, the Bank has been reviewing its risk profile by:

(a) Conducting routine disaster recoveries. To test the bank's business resiliency should a disaster strike, the bank undertook routine disaster recovery (DR) site tests and where gaps are identified, those (the gaps) are documented and corrective action plan is developed and implemented.

(b) Conducting risk audits. In order to achieve proactive risks management, the Risk Function develops Annual Risk Audit Plan for the year

and thereafter conducts independent risk audits were conducted, reports produced; together with corrective action plans aimed at closing whatever shortcomings were identified over controls.

(c) Conducting Risk and Control Assessment (RCA). For effective and proactive risk management, and testing the adequacy of internal controls systems, the Bank continuously undertakes risk control self-assessment and the same process was undertaken during the course of 2017.

(d) Periodic risk monitoring and reporting. During the current year, the Risk Function has been monitored and reported to the relevant risk governance Committees as listed above.

The following goals and/or plans were achieved by Risk Department

- Instill risk culture throughout the bank. As the bank is growing and new people joining in, Risk Department has continually been embedding risk culture throughout the bank by conducting risk trainings and holding risk awareness.

MANAGING DIRECTOR'S REPORT



- Routine risk assessments on banks branches and other departments within the bank were undertaken during the year under review. Risks (existing and emerging) were identified, evaluated, reported, and are being monitored continuously.
- Routine tests of disaster recoveries were conducted as planned for the year and acceptable pass level was achieved.

OPERATIONS

Marketing

As part of our marketing strategy to improve brand awareness and visibility, radio programmes, print media and adverts were placed in local radio stations and newspapers to keep clients informed about products and Bank activities. In order to promote our existence as the only Basotho Bank, adverts were placed on bill boards in strategic places at the south, north and various places at the city centre including information on digital screen. In order to engage the community that we serve and uphold the notion of financial inclusion, road shows were held throughout the country, as well as service day which was intended to educate Basotho on financial literacy.

Corporate Social Investment (CSI)

The Bank has been keeping sufficient focus and attention on Corporate Social Investment activities in 2017. The initiatives undertaken covered broad sectors which include transport, education, science

and technology, social welfare, ex-miners to mention but a few. Our intention is to forge partnerships and give back to the community, while at the same time playing a role to enable customers to make sound banking decisions and choose suitable banking products for their specific needs.

Agriculture

The Bank is working towards opening a department which will focus on agriculture due to its specialized nature. To this end, support was extended to the wool and mohair farmers show which is an annual event with trophies and prizes for the winners. The Bank believes that the agricultural sector is well poised to address the needs of Basotho by creating jobs and eliminating hunger and poverty.

Infrastructure Development

After relocating the Bank to Mafike House in 2016, the Operations Department through the Projects team commenced with phase II of the Mafike Building in 2017. This was done through building store rooms in the basement as well as the executive lounge/ training centre. Furthermore, as part of ensuring that the Bank operates in an environment suitable for staff members and clients that are served, the Maputsoe Branch was relocated to a new building with adequate space in 2017.

As part of growing the franchise and giving adequate access to the Bank's services, the Operations Department installed seven more ATM's within the country thus increasing the ATM network from ten to Seventeen.

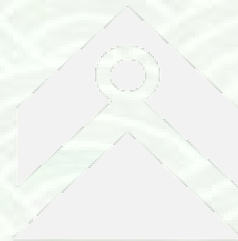


SECTION B

AUDITED FINANCIAL STATEMENTS

LESOTHO

PostBank



Affordable. Accessible. Anytime.



LESOTHO

PostBank



Affordable. Accessible. Anytime.

Lesotho PostBank Limited
(Registration number I2004/163)
Statutory Annual Financial Statements
for the year ended 31 December 2017

Lesotho PostBank Limited
(Registration number I2004/163)
Statutory Annual Financial Statements for the year ended 31 December 2017

General Information

Country of incorporation and domicile	Lesotho
Nature of business and principal activities	Retail Banking
Directors	R. Elias (Chairman) T. Kao (Non Executive) M. Masheane (Non Executive) D. Plaatjies (Non Executive) L. Mokotjo (Non Executive) M. Leqhaoe (Managing Director)
Registered office	Mafike House Building Kingsway Maseru Kingdom of Lesotho
Bankers	Nedbank Lesotho Standard Lesotho Bank
Auditors	Sheeran & Associates Chartered Accountants (Lesotho)
Secretary	R. Makara
Bank registration number	I2004/163

Lesotho PostBank Limited
(Registration number I2004/163)
Non-statutory Annual Financial Statements for the year ended 31 December 2017

Directors' Responsibilities and Approval

The directors are required in terms of the Companies Act of Lesotho 2011 to maintain adequate accounting records and are responsible for the content and integrity of the non-statutory annual financial statements and related financial information included in this report. It is their responsibility to ensure that the non-statutory annual financial statements fairly present the state of affairs of the company 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 non-statutory annual financial statements.

The non-statutory 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 company 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 company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company 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 non-statutory 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 company's cash flow forecast for the year to 31 December 2018 and, in light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

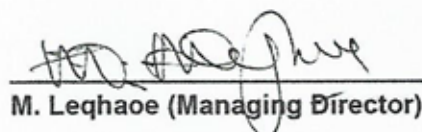
The external auditors are responsible for independently and reporting on the company's non-statutory annual financial statements. The non-statutory annual financial statements have been examined by the company's external auditors and their report is presented on pages 5 to 7.

The non-statutory annual financial statements and additional schedules set out on pages 8 to 41, which have been prepared on the going concern basis, were approved by the directors on 28 March 2018 and were signed on its behalf by:

Approval of financial statements



R. Elias (Chairman)



M. Leqhaoe (Managing Director)

Directors' Report

1. Incorporation

The company was incorporated in Lesotho on 01 April 2004 and commenced operations on 24 January 2005, but was officially launched on 9 March 2005.

The directors have pleasure in submitting their report on the statutory annual financial statements of Lesotho PostBank Limited for the year ended 31 December 2017.

2. Review of activities

Main business and operations

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

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

Net profit of the Bank was M 41 204 249 (2016: M 3 934 896 profit), after taxation of M 12 533 697 (2016: M 2 184 912).

3. Going concern

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

4. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

5. Share capital

There have been no changes to the authorised or issued share capital during the year under review.

6. Directorate

The directors in office at the date of this report are as follows:

R. Elias (Chairman)
T. Kao (Non Executive)
M. Masheane (Non Executive)
D. Plaatjies (Non Executive)
L. Mokotjo (Non Executive)
M. Leqhae (Managing Director)

7. Auditors

Sheeran & Associates continued in office as auditors for the company for 2017.

8. Secretary

The company secretary is R. Makara.

9. Subsidies by government grant

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

SHEERAN & ASSOCIATES

Chartered accountants (Lesotho)

No 1 Rosah Villa
Katlehong Near Maseru Mall
Pope John Paul II and
Katlehong Road
Maseru

Postal Address
Private Bag A420
Maseru 100
Lesotho

Telephone (00266) 2231 7169
Fax (G3 auto) (00266) 2232 7927
Email reception@sheeranandassociates.com

Independent Auditors' Report

To the shareholders of Lesotho Postbank Limited

Report on the audit of the Financial Statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lesotho Postbank Limited (the Bank) as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

Lesotho Postbank Limited's financial statements set out on pages 8 to 41 comprise:

- the statement of financial position as at 31 December 2017;
- the statement of profit and loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Bank in accordance with *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)*. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Lesotho Postbank Limited Annual Financial Statements for the year ended 31 December 2017, which includes the Directors' Report. Other information does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and the requirements of the Lesotho Companies Act, 2011, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards of Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards of Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Sheeran & Associates
SHEERAN & ASSOCIATES
 Chartered Accountants (Lesotho)

Date: 29 March 2018

Statement of Financial Position as at 31 December 2017

	Notes	2017 M	2016 M
Assets			
Property, plant and equipment	4	51 965 990	56 791 830
Intangible assets	5	44 000 186	6 727 389
Deferred tax	6	8 594 895	3 580 942
Treasury bills and bonds	7	146 223 453	77 256 458
Inventories	8	538 393	1 050 799
Trade and other receivables	9	16 840 641	7 740 999
Investments	10	48 108 553	50 712 244
Loans and advances	11	643 006 904	232 747 324
Cash and cash equivalents	12	370 295 429	379 003 078
Total Assets		1 329 574 444	815 611 063
Equity and Liabilities			
Equity			
Share capital	13	37 000 000	37 000 000
Reserves		40 033 811	16 993 035
Retained income		70 709 906	50 107 781
		147 743 717	104 100 816
Liabilities			
Deferred tax liability	6	3 125 285	1 924 500
Loan impairments	11	19 748 047	5 739 361
Trade and other payables	14	20 817 240	20 470 177
Deferred income	15	114 683 818	93 527 893
Corporate tax liability		15 340 407	1 020 810
Deposits	16	1 008 115 930	588 827 506
Total Equity and Liabilities		1 329 574 444	815 611 063

The accounting policies on pages 13 to 23 and the notes on pages 24 to 41 form an integral part of the statutory annual financial statements.

Lesotho PostBank Limited
(Registration number I2004/163)
Statutory Annual Financial Statements for the year ended 31 December 2017

Statement of Profit or Loss and Other Comprehensive Income

	Notes	2017 M	2016 M
Capital grant income	19	6 978 785	3 381 122
Other operating income	20	42 789 479	22 468 749
Interest income	21	116 919 765	52 869 310
Depreciation and amortisation	23	(5 449 111)	(3 381 122)
Employee costs	23	(38 173 260)	(29 802 456)
Other operating expenses	23	(54 035 801)	(35 893 397)
Profit/(loss) before taxation	22	69 029 857	9 642 206
Finance costs	21	(15 291 911)	(3 522 398)
Profit before taxation		53 737 946	6 119 808
Taxation	24	(12 533 697)	(2 184 912)
Profit for the year		41 204 249	3 934 896
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Other comprehensive income		-	-
Total comprehensive income for the year		41 204 249	3 934 896

The accounting policies on pages 13 to 23 and the notes on pages 24 to 41 form an integral part of the statutory annual financial statements.

Lesotho PostBank Limited
(Registration number I2004/163)
Statutory Annual Financial Statements for the year ended 31 December 2017

Statement of Changes in Equity

	Share capital	Share premium	Total share capital	Statutory reserve	Norsad Revaluation Reserve	Total reserves	Retained income	Total equity
	M	M	M	M	M	M	M	M
Balance at 01 January 2016	20 000 000	14 500 000	34 500 000	11 026 678	3 551 247	14 577 925	48 313 737	97 391 662
Profit for the year	-	-	-	-	-	-	3 934 896	3 934 896
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	3 934 896	3 934 896
Issue of share premium	-	2 500 000	2 500 000	-	-	-	-	2 500 000
Transfer between reserves	-	-	-	2 140 852	-	2 140 852	(2 140 852)	-
Fair value adjustment on Norsad Investment	-	-	-	-	274 258	274 258	-	274 258
Total contributions by and distributions to owners of company recognised directly in equity	-	2 500 000	2 500 000	2 140 852	274 258	2 415 110	(2 140 852)	2 774 258

Lesotho PostBank Limited
(Registration number I2004/163)
Statutory Annual Financial Statements for the year ended 31 December 2017

Statement of Changes in Equity (Continued)

	Share capital	Share premium	Total share capital	Statutory reserve	Norsad Revaluation Reserve	Total reserves	Retained income	Total equity
Opening balance as previously reported	20 000 000	17 000 000	37 000 000	30 811 511	3 825 505	34 637 016	32 810 607	104 447 623
Adjustments								
Prior year adjustments	-	-	-	(17 643 981)	-	(17 643 981)	17 297 174	(346 807)
Balance at 01 January 2017 as restated	20 000 000	17 000 000	37 000 000	13 167 530	3 825 505	16 993 035	50 107 781	104 100 816
Profit for the year	-	-	-	-	-	-	41 204 249	41 204 249
Other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	41 204 249	41 204 249
Transfer between reserves	-	-	-	20 602 124	-	20 602 124	(20 602 124)	-
Fair value adjustment on Norsad Investment	-	-	-	-	2 438 652	2 438 652	-	2 438 652
Total contributions by and distributions to owners of company recognised directly in equity	-	-	-	20 602 124	2 438 652	23 040 776	(20 602 124)	2 438 652
Balance at 31 December 2017	20 000 000	17 000 000	37 000 000	33 769 654	6 264 157	40 033 811	70 709 906	147 743 717
Note	13	13	13					

The accounting policies on pages 13 to 23 and the notes on pages 24 to 41 form an integral part of the statutory annual financial statements.

Lesotho PostBank Limited
(Registration number I2004/163)
Statutory Annual Financial Statements for the year ended 31 December 2017

Statement of Cash Flows

	Notes	2017 M	2016 M
Cash flows from operating activities			
Cash (used in) generated from operations	25	(48 243 318)	(29 345 073)
Interest income		116 919 765	52 869 310
Finance costs		(15 291 911)	(3 522 398)
Tax paid	26	(2 027 268)	(3 995 896)
Net cash from operating activities		51 357 268	16 005 943
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(62 640 652)	(45 937 584)
Property, plant and equipment capitalised from projects	4	61 368 672	-
Disposal of property, plant and equipment	4	1 143 627	-
Purchase of other intangible assets	5	(37 970 595)	(2 924 375)
Sale of other intangible assets	5	202 880	-
Movement in loans and advances		(396 249 894)	(64 456 918)
Maturity of Norsad Investment		2 603 691	5 895 751
Purchase of treasury bills and bonds		(68 966 995)	(11 841 558)
Net cash from investing activities		(500 509 266)	(119 264 684)
Cash flows from financing activities			
Share premium proceeds	13	-	2 500 000
Movement in deposits		419 288 424	291 270 757
Movements in capital grants		21 155 925	49 618 874
Net cash from financing activities		440 444 349	343 389 631
Total cash movement for the year		(8 707 649)	240 130 890
Cash at the beginning of the year		379 003 078	138 872 188
Total cash at end of the year	12	370 295 429	379 003 078

The accounting policies on pages 13 to 23 and the notes on pages 24 to 41 form an integral part of the statutory annual financial statements.

Accounting Policies

1. Corporate information

The statutory annual financial statements have been prepared in accordance with International Financial Reporting Standards, and the Companies Act of Lesotho 2011. The statutory annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in Maloti.

1.1. Significant accounting policies

The annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") interpretations issued and effective at the time of preparing these annual financial statements and the Companies Act of Lesotho, as amended.

These accounting policies are consistent with the previous period.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the statutory annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the statutory 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 statutory annual financial statements.

Significant judgements include:

Trade receivables, Held to maturity investments and Loans and receivables

The company 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 company 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.

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 company 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 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 company for similar financial instruments.

Accounting Policies

1.2 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 company 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 company 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 company 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 company 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 company 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 company to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

1.3 Property, plant and equipment

Property, plant and equipment are tangible assets which the company holds for its own use or for rental to others and which are expected to be used for more than one year.

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 company, and the cost of the item can be measured reliably.

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 company. 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

1.3 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, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.4 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	10 - 15 years

Accounting Policies

1.5 Financial instruments

Classification

The company 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. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Financial assets classified as at fair value through profit or loss which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:

- in rare circumstances
- if the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through profit or loss category.

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.

Initial recognition and measurement

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

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

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

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

Derecognition

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

Fair value determination

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

Accounting Policies

1.5 Financial instruments (continued)

Impairment of financial assets

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

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

Impairment losses are recognised in profit or loss.

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

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

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Loans to shareholders, directors, managers and employees

These financial assets are classified as loans and receivables.

Trade and other receivables

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

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.

Accounting Policies

1.5 Financial instruments (continued)

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 company has the positive intention and ability to hold to maturity are classified as held to maturity.

Effects of exchange rate changes

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

1.6 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.

Accounting Policies

1.6 Income tax (continued)

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 and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits 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.

1.7 Leases

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

Operating leases – lessee

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

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

1.8 Inventories

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

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

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

Accounting Policies

1.8 Inventories (continued)

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

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Impairment of non-financial assets

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

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

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

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

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

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

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

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

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

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

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

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

1.10 Share capital and equity

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

Accounting Policies

1.10 Share capital and equity (continued)

Ordinary shares are classified as equity.

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

Provisions are not recognised for future operating losses.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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

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

Long-term employee benefits

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

1.13 Government grants

Government grants are recognised when there is reasonable assurance that:

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

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

Accounting Policies

1.13 Government grants (continued)

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

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

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

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

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

1.14 Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

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

Interest income and expenses

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

1.15 Borrowing costs

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

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

The capitalisation of borrowing costs commences when:

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

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

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

Accounting Policies

1.15 Borrowing costs (continued)

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

1.16 Translation of foreign currencies

Foreign currency transactions

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

At the end of the reporting period:

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

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

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

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

Notes to the Statutory Annual Financial Statements

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> Annual improvements 2014 - 2016: IFRS 12 Disclosure of Interest in other entities Amendments to IAS 7: Disclosure initiative Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses 	<ul style="list-style-type: none"> 01 January 2017 01 January 2017 01 January 2017 	<ul style="list-style-type: none"> The impact of the standard is not material. The impact of the standard is not material. The impact of the amendments is not material.

2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 January 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> IFRS 17: Insurance contracts Amendment to IAS 40 Investment property: Transfers of investment property Annual improvements 2014 - 2016: IFRS 1 First-time adoption of IFRS IFRIC 22: Foreign currency transactions and advance consideration IFRIC 23: Uncertainty over income tax treatments Annual improvements 2014 - 2016: IAS 28 Investments in associates and joint ventures Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture IFRS 16 Leases IFRS 9 Financial Instruments 	<ul style="list-style-type: none"> 01 January 2021 01 January 2018 01 January 2018 01 January 2018 01 January 2019 01 January 2018 Date to be determined 01 January 2019 01 January 2018 	<ul style="list-style-type: none"> Unlikely there will be a material impact Unlikely there will be a material impact Unlikely there will be a material impact Unlikely there will be a material impact Unlikely there will be a material impact Unlikely there will be a material impact Unlikely there will be a material impact Unlikely there will be a material impact We are in the process of assessing the Bank's business model, changes to credit risk and incorporation of forward looking information under IFRS 9. The overall impact is dependent on the finalisation and assessment of these matters.

Notes to the Statutory Annual Financial Statements

2. New Standards and Interpretations (continued)

• IFRS 15 Revenue from Contracts with Customers	01 January 2018	Unlikely there will be a material impact
• Amendments to IFRS 15: Clarifications to IFRS 15 Revenue from Contracts with Customers	01 January 2018	Unlikely there will be a material impact
• Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	01 January 2018	Unlikely there will be a material impact
• Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	01 January 2018	Unlikely there will be a material impact

3. Risk management

Capital risk management

The bank's objectives when managing capital are to safeguard the bank's ability to continue as a going concern in order to ensure that there are adequate liquid assets to meet demands by depositors and also to provide returns for shareholders and benefits for other stakeholders. The bank attains these objectives by maintaining a reserve balance with the Central Bank and liquid assets amounting to not less than three percent and twenty five percent respectively of the aggregate of deposit liabilities. The bank has maintained adequate capital and the minimum liquidity required. The bank had a capital adequacy ratio of 14.92% compared to 8% as per the Financial Institutions (Risk-Based Capital Requirements) Regulations 1999 section 5 and Basel 1 requirements. The bank was also compliant with the reserve account balance of M 23.4 million (average for the week at M 18.4 million) while the amount required by the Financial Institutions Act was M 17.1 million. In respect of the minimum liquidity requirement of 25% arising from Liquidity Requirement Regulation 2000, the bank had M 159.1 million which was in excess of the M 142.7 million required as dictated by depositors' funds.

There are no externally imposed capital requirements.

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

Financial risk management

Financial risk management is the practice of economic value in a firm by using financial instruments to manage exposure to risk: Credit risk and market risk, foreign exchange risk, liquidity risk, inflation risk. Similar to general risk management, financial risk management requires identifying its sources, measuring it, and plans to address them.

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

Principles of risk management

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

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

Notes to the Statutory Annual Financial Statements

3. Risk management (continued)

Liquidity risk

Liquidity risk is the risk that the bank will not be able to meet its financial obligations as they fall due. The bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities, when due, both under normal and stressed conditions, without incurring losses or risking damage to the bank's reputation.

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

At 31 December 2017	Payable on Call	Less than 1 year
Saving deposit liabilities	905 984 298	-
Term deposit liabilities	102 131 632	-
Other liabilities	-	2 233 129
At 31 December 2016	Payable on Call	Less than 1 year
Saving deposit liabilities	502 744 895	-
Term deposit liabilities	86 082 611	-
Other liabilities	-	11 716 185

Interest rate risk

Lesotho Postbank Limited has interest rate risk exposure only in the Banking book not the trading book. The bank's interest rate risk arises from deposit liabilities. Deposit liabilities issued at fixed rates expose the bank to fair value risk. During 2017 and 2016, the bank's deposit liabilities at fixed rate were denominated in Maloti (functional currency). Interest Rate Risk in the Banking book is the risk that a bank's profitability and/or earnings are impacted by significant changes in interest rates.

The bank is exposed to interest rate risks in South Africa and Lesotho. The bank does not make use of interest rate derivatives and therefore 100% of the interest-bearing financial assets and liabilities had a variable interest rate. The interest rate risk is measured by the use of Net Interest Income (NII) Sensitivity Analysis performed on a 12 months forecast income statement.

Fair value interest rate risk

Financial instrument	Current interest rate	Payable / Receivable on Call	Due in less than a year	Due in more than a year	Restricted	Due after five years
Cash in current banking institutions	7.36 %	127 577 894	226 341 322	-	-	-
Savings deposits liabilities	1.75 %	902 302 906	-	-	-	-
Term deposits liabilities	4.00 %	-	108 721 836	26 819 000	-	-
Balances with central bank of Lesotho	- %	-	-	-	32 148 806	-
Treasury bills	7.06 %	-	106 836 900	-	-	-
Treasury bonds	9.30 %	-	-	26 097 923	-	13 288 630
Loans and advances	21.00 %	-	220 975 364	422 031 540	-	-

Sensitivity Analysis

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

Notes to the Statutory Annual Financial Statements

3. Risk management (continued)

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

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

	Assets/ Liabilities 2017	Assets/ Liabilities 2016	2017 +1%	2017 -1%	2016 +1%	2016 -1%
Cash and cash equivalent	370 295 429	379 003 078	3 702 954	(3 702 954)	3 790 031	(3 790 031)
Treasury bills	106 836 900	67 116 800	1 068 369	(1 068 369)	671 168	(671 168)
Treasury bonds	39 386 553	10 139 658	393 865	(393 865)	101 397	(101 397)
Savings deposits	905 984 298	502 744 895	9 059 843	(9 059 843)	5 027 449	(5 027 449)
liabilities						
Term deposits	102 131 632	86 082 611	1 021 316	(1 021 316)	860 826	(860 826)
liabilities						
Effect on profitability	-	-	15 246 347	(15 246 347)	10 450 871	(10 450 871)

Credit risk

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

Credit risk is controlled and managed through proper credit assessments aligned to credit policies and processes. Historically, LPB has acquired a lot credit risk exposure mostly to the personal market through personal loans. And as the Bank continues to growth it has split its credit portfolio in business and retail loans. Nonetheless, these personal loans are mostly collected at sources and this measure is already another credit risk management technique used to manage the potential risk of default. The business loans are relatively small and starting to growth however caution is taken to ensure that this side of business is closely monitored as currently most of non-performing loans emanate from the business side.

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

	2017 M	2016 M
Financial instrument		
Loans and advances	623 258 857	227 007 963
Treasury bills	106 836 900	67 116 800
Treasury bonds	39 386 553	10 139 658
Balances with local banks	115 233 480	187 434 335
Balances with external banks	200 020 912	155 187 304

Treasury bills are held with the Central Bank of Lesotho at an effective interest of 7.06% (2016: 7.71%).

Notes to the Statutory Annual Financial Statements

3. Risk management (continued)

Foreign exchange risk

As part of the presentation of market risks, IFRS 7 requires disclosure on how hypothetical changes in foreign currency exchange rates affect the price of financial instruments.

The bank does not hedge foreign exchange fluctuations.

The Bank is exposed to foreign exchange risk as a result of on balance sheet asset in the form of Norsad Investment which is denominated in US Dollars. The exposure is currently being managed through provisions in maloti terms.

Foreign currency exposure at the end of the reporting period

	2017 M	2016 M
Non current assets		
Cash and cash equivalent (SA Rands)	370 295 429	379 003 078
Exchange rates used for conversion of foreign items were:		
1 USD	M12.3551	M13.90367

4. Property, plant and equipment

	2017			2016		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Furniture and fixtures	5 935 725	(1 015 352)	4 920 373	2 621 535	(1 450 456)	1 171 079
Motor vehicles	1 668 784	(416 379)	1 252 405	1 202 002	(880 074)	321 928
Office equipment	8 865 454	(5 186 264)	3 679 190	6 846 580	(4 654 956)	2 191 624
IT equipment	22 386 378	(7 439 789)	14 946 589	19 299 790	(8 836 262)	10 463 528
Leasehold improvements	14 236 405	(1 582 113)	12 654 292	1 273 942	(606 956)	666 986
Prefabricated buildings	2 377 242	(832 371)	1 544 871	2 377 242	(704 336)	1 672 906
Motor bikes	77 559	(62 047)	15 512	77 559	(58 816)	18 743
Capital Work in Progress	12 952 758	-	12 952 758	40 285 036	-	40 285 036
Total	68 500 305	(16 534 315)	51 965 990	73 983 686	(17 191 856)	56 791 830

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals/ Capitalised	Depreciation	Total
Furniture and fixtures	1 171 079	4 586 100	(290 323)	(546 483)	4 920 373
Motor vehicles	321 928	1 181 913	(154 942)	(96 494)	1 252 405
Office equipment	2 191 624	2 560 365	(61 011)	(1 011 788)	3 679 190
IT equipment	10 463 528	7 128 277	(576 488)	(2 068 728)	14 946 589
Leasehold improvements	666 986	13 147 603	(60 863)	(1 099 434)	12 654 292
Prefabricated buildings	1 672 906	-	-	(128 035)	1 544 871
Motor bikes	18 743	-	-	(3 231)	15 512
Capital Work in Progress	40 285 036	34 036 394	(61 368 672)	-	12 952 758
	56 791 830	62 640 652	(62 512 299)	(4 954 193)	51 965 990

Notes to the Statutory Annual Financial Statements

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Depreciation	Total
Furniture and fixtures	936 537	444 563	(210 021)	1 171 079
Motor vehicles	442 129	-	(120 201)	321 928
Office equipment	1 880 273	937 576	(626 225)	2 191 624
IT equipment	4 537 199	7 496 043	(1 569 714)	10 463 528
Leasehold improvements	720 219	70 000	(123 233)	666 986
Prefabricated buildings	1 799 692	-	(126 786)	1 672 906
Motor bikes	26 499	-	(7 756)	18 743
Capital Work in Progress	3 295 634	36 989 402	-	40 285 036
	13 638 182	45 937 584	(2 783 936)	56 791 830

5. Intangible assets

	Cost / Valuation	2017 Accumulated amortisation	Carrying value	Cost / Valuation	2016 Accumulated amortisation	Carrying value
Computer software	50 376 692	(6 376 506)	44 000 186	12 903 474	(6 176 085)	6 727 389

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Closing balance
Computer software	6 727 389	37 970 595	(202 880)	(494 918)	44 000 186

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Closing balance
Computer software	4 400 201	2 924 375	(597 187)	6 727 389

Notes to the Statutory Annual Financial Statements

	2017 M	2016 M
6. Deferred tax		
Deferred tax liability		
Property plant and equipment	(3 125 285)	(1 924 500)
Deferred tax asset		
Leave provision	193 083	192 015
ATM fraud provision	425 442	-
Gratuity provision	829 639	575 294
Legal fees provision	1 350 101	750 000
Audit fee provision	164 942	178 920
Loan impairment provision	4 937 012	1 471 999
Provision for staff bonus	694 676	412 714
Total deferred tax asset	8 594 895	3 580 942

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Deferred tax liability	(3 125 285)	(1 924 500)
Deferred tax asset	8 594 895	3 580 942
Total net deferred tax asset	5 469 610	1 656 442

Reconciliation of deferred tax asset / (liability)

At beginning of year	1 656 442	1 906 051
Taxable / (deductible) temporary difference movement on audit fee provision	(13 979)	28 921
Taxable / (deductible) temporary difference movement on leave provision	1 067	(34 521)
Taxable / (deductible) temporary difference on gratuity provision	254 345	249 743
Taxable / (deductible) temporary difference on loan impairment provision	3 465 014	104 265
Taxable / (deductible) temporary difference movement on property, plant and equipment	(1 200 784)	(1 613 770)
Taxable / (deductible) temporary difference on ATM provision	425 442	-
Taxable / (deductible) temporary difference movement on legal fees provision	600 101	750 000
Taxable / (deductible) temporary difference on provision for staff bonus	281 962	265 753
	5 469 610	1 656 442

Notes to the Statutory Annual Financial Statements

	2017 M	2016 M
7. Treasury bills and bonds		
Treasury Bills	103 217 701	67 116 800
Interest receivable	3 619 199	-
Treasury Bonds	38 839 977	10 139 658
Discount/ (premium)	546 576	-
Total	146 223 453	77 256 458

Treasury bills disclosed matures within one year.

Treasury Bills are Securites issued by Central Bank on behalf of Government of Lesotho. Treasury bills are issued at discount and mature within 12 months. Thus there are 91 days, 182 days, 273 days and 364 days Treasury bills. LPB buy and hold the securities to maturity. The face value of the treasury bills at year end, inclusive of interest receivable, is M 106 836 900 (2016: M67 116 800) and the total interest receivable at year end is M3 619 199.

Treasury bonds are debt instruments issued by the central of Lesotho on behalf of the government of Lesotho. The central bank issue bonds 3, 7 and 10 years bonds. The Bonds can either be bought at discount or at premium. Just like treasury bills, LPB buys and holds bonds to maturity. The face value of the bonds as at year end was M39 million (2016: M10 million). The Central Bank pays coupon payment twice a year.

8. Inventories

Stock held	538 393	1 050 799
------------	---------	-----------

Inventory is measured at the lower of cost and net realizable value.

9. Trade and other receivables

Prepayments	2 837 390	2 096 630
Withholding tax on investments	2 073 925	817 016
Accrued interest receivable	8 738 281	4 827 353
Other receivables	3 191 045	-
	16 840 641	7 740 999

Trade and other receivables past due but not impaired

At 31 December 2017, none of the trade and other receivable balances are past due or impaired.

10. Investments

The investment in Norsad was granted to the Lesotho Post Bank in 2011 by the Lesotho government. The investment is denominated in US dollar.

Norsad Finance (400 shares)	48 108 553	50 712 244
Norsad Finance (400 shares)		
Opening balance as at 01/01/2017 at fair value	50 712 244	56 607 995
Fair value gain	2 285 849	274 259
Foreign exchange (loss)/gain	(4 889 540)	(6 170 010)
Closing balance as at 31/12/2017 at fair value	48 108 553	50 712 244

Notes to the Statutory Annual Financial Statements

	2017 M	2016 M
11. Loans and advances		
Loans and advances	643 006 904	232 747 324
Provisions for losses - general	(12 176 708)	(2 330 942)
Provisions for losses - specific	(7 571 339)	(3 408 419)
	623 258 857	227 007 963

At 31 December 2017, advances of M 66 078 829 (2016:M 4 187 511) were past due but not impaired. These relate to customers of whom there is not recent history of default. The ageing of these and is shown below:

Advances - Aged analysis (Gross)

Aged current	533 677 773	215 179 496
1 to 30 days	66 078 829	4 187 512
30 to 60 days	8 053 014	3 406 459
60 to 90 days	3 265 771	19 504
90 days and over	31 931 517	9 954 353
	643 006 904	232 747 324

Impairment provision - Advances - Aged analysis

Aged current (General provision)	12 176 708	2 330 942
30 to 60 days	130 410	142 504
60 to 90 days	143 909	1 950
90 days and over	7 297 020	3 263 965
	19 748 047	5 739 361

Representing the carrying value of individually impaired trade debtors.

For 2016 the general provision was 1% of the total loan book and in 2017 it is 2% of portfolio on normal status.

Advances - Aged analysis (Fully performing)

Aged current	599 756 602	213 875 215
30 to 60 days	8 053 014	4 187 512
60 to 90 days	3 265 771	3 406 459
90 days and over	-	19 504
	611 075 387	221 488 690

Collateral held and other credit enhancements on past due advances

9 087 085	5 850 000
-----------	-----------

Collateral held and other credit enhancements at fair value

12 559 348	6 300 000
------------	-----------

Notes to the Statutory Annual Financial Statements

	2017 M	2016 M
11. Loans and advances (continued)		
Movement on the provision for impairment of Loans and Advances are as follows:		
At 1 January	5 731 361	5 428 437
Increase in provision	14 016 686	1 864 290
Actual bad debts write off from the provision	-	(1 561 366)
At 31 December	19 748 047	5 731 361
Sector analysis		
Retail	597 775 124	206 594 260
Business corporate	32 813 993	16 548 178
Business SME's	6 812 078	8 609 681
Business MSME's	5 605 709	995 205
	643 006 904	232 747 324
12. Cash and cash equivalents		
For the purpose of the statement of cash flows, cash, cash equivalents and bank overdrafts include total cash assets less bank overdrafts:		
Cash and other cash items	22 892 231	14 326 555
Balances with Foreign Banks	200 020 912	153 646 903
Balances with Central Bank	32 148 806	23 768 741
Balances with local banks	115 233 480	187 260 879
	370 295 429	379 003 078
Cash and cash equivalents held by the entity that are not available for use by the bank.	32 148 806	23 768 741
Credit quality of cash at bank and short term deposits, excluding cash on hand		
The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:		
Credit rating		
AAA	347 403 198	364 676 523
Cash and other cash items	22 892 231	14 326 555
	370 295 429	379 003 078
13. Share capital		
Authorised		
20 000 000 Ordinary shares of M1 each	20 000 000	20 000 000
Issued		
20 000 000 Ordinary shares of M1 each	20 000 000	20 000 000
Share premium	17 000 000	17 000 000
	37 000 000	37 000 000

Notes to the Statutory Annual Financial Statements

	2017 M	2016 M
14. Trade and other payables		
Other payables	3 926 340	5 681 658
Unallocated loan cheque payments	-	4 958 820
Loan insurance payable	1 497 839	1 075 706
Provision for legal fees	5 400 403	3 000 000
Provision for ATM fraud	1 701 770	-
PAYE and withholding tax payable	1 402 777	885 266
Accrued leave pay	772 330	768 061
Bonus provision	2 778 703	1 650 856
Accruals for gratuity	3 318 557	2 301 177
Provisions for assets written off	18 521	148 633
	20 817 240	20 470 177

15. Deferred income

Unutilised Government grant at year end is not recognized in the income statement until all the conditions of the grant have been met.

Unutilised government grant

Opening balance	70 293 711	29 166 268
Grant received	35 000 000	53 000 000
Reallocation to adjust property, plant and equipment	(2 405 525)	-
Government grant utilised for capital expenditure	(66 574 854)	(11 872 557)
Utilised for expenses	(4 642 835)	-
	31 670 497	70 293 711

All fixed assets of the bank are purchased through the use of the Government grant. The portion of the Government grant that is utilized for the purchase of assets is recognized as a liability (capital grant) and it is amortised to the income statement at the same rate as the depreciation for the fixed assets.

Unrealised capital expenditure

Opening balance capital grant	23 234 182	14 742 749
Utilised for purchases of fixed assets	66 574 854	11 872 557
Unwinding to profit and loss in line with depreciation	(5 449 208)	(3 381 124)
Disposal of property, plant and equipment (carrying value realised)	(1 346 507)	-
	83 013 321	23 234 182

Total unrealised deferred income

114 683 818	93 527 893
--------------------	-------------------

16. Deposits

Savings and current deposits	905 984 298	502 744 895
Fixed term and special deposits	102 131 632	86 082 611
	1 008 115 930	588 827 506

Notes to the Statutory Annual Financial Statements

	2017 M	2016 M
17. Financial assets by category		
The accounting policies for financial instruments have been applied to the line items below:		
2017		
	Loans and receivables	Total
Loans and advances	623 258 857	623 258 857
Trade and other receivables	16 840 641	16 840 641
Cash and cash equivalents	370 295 429	370 295 429
Treasury bills and bonds	146 223 453	146 223 453
	1 156 618 380	1 156 618 380
2016		
	Loans and receivables	Total
Loans and advances	227 007 963	227 007 963
Trade and other receivables	7 740 999	7 740 999
Cash and cash equivalents	407 036 189	407 036 189
Treasury bills and bonds	77 256 458	77 256 458
	719 041 609	719 041 609
18. Financial liabilities by category		
The accounting policies for financial instruments have been applied to the line items below:		
2017		
	Financial liabilities at amortised cost	Total
Trade and other payables	20 817 240	20 817 240
Deposits	1 008 115 930	1 008 115 930
	1 028 933 170	1 028 933 170
2016		
	Financial liabilities at amortised cost	Total
Trade and other payables	20 470 177	20 470 177
Deposits	588 824 159	588 824 159
	609 294 336	609 294 336
19. Capital grant income		
Capital grant income	6 978 785	3 381 122

Notes to the Statutory Annual Financial Statements

	2017 M	2016 M
20. Other operating income		
Fees earned	42 036 168	21 958 573
Bad debts recovered	554 411	-
Dividend income	198 900	510 176
	42 789 479	22 468 749
21. Net interest income		
Interest income		
Cash and short term funds	28 914 188	13 242 168
Treasury bills and other securities	7 526 596	4 917 710
Loans and advances	80 478 981	34 709 432
Total interest income	116 919 765	53 254 153
Saving deposits	(3 101 552)	(838 049)
Term deposits	(12 190 359)	(2 684 349)
	(15 291 911)	(3 522 398)
Net interest income/(expense)	101 627 854	49 731 755
22. Operating profit (loss)		
Profit/(loss) before taxation for the year is stated after charging (crediting) the following, amongst others:		
Auditor's remuneration - external		
Audit fees	600 000	600 000
Employee costs		
Salaries, wages, bonuses and other benefits	38 173 260	29 802 456

Notes to the Statutory Annual Financial Statements

	2017 M	2016 M
23. Expenses by nature		
Employee Costs	38 173 260	29 802 456
Depreciation and amortisation	5 449 111	3 381 122
Staff welfare	1 977 124	1 529 725
Security	1 815 973	1 974 887
Advertising	1 804 900	1 064 334
License fees	6 082 133	4 732 597
Bad debts provision	14 698 675	4 980 131
Lease rentals on operating lease	1 225 902	3 109 813
Transportation and valuables	1 358 770	1 120 852
Travel - local	1 365 218	670 734
Training	1 581 516	1 013 154
Insurance	502 295	853 880
Printing and stationery	3 003 591	1 819 812
Provision for legal fees	2 400 403	3 000 000
Communication expense	1 590 771	1 400 523
Loss on exchange difference	5 042 343	6 170 010
Other expenses	9 586 187	2 452 945
Total administrative expenses	97 658 172	69 076 975
24. Income tax expense		
Major components of the Income tax expense		
Current		
Local income tax - current period	16 346 865	1 935 303
Deferred		
Provision for staff bonus	(281 962)	(265 753)
Leave provision	(1 067)	34 521
Property, plant and equipment	1 200 784	1 613 770
Loan impairment provision	(3 465 014)	(104 265)
Audit fee provision	13 979	(28 921)
Gratuity provision	(254 345)	(249 743)
Provision for legal fees	(600 101)	(750 000)
Provision for ATM fraud	(425 442)	-
	(3 813 168)	249 609
	12 533 697	2 184 912

Notes to the Statutory Annual Financial Statements

	2017 M	2016 M
24. Income tax expense (continued)		
Reconciliation of the Income tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting profit	53 737 946	6 119 808
Capital grant adjustment	(6 978 785)	(3 381 122)
	<u>46 759 161</u>	<u>3 085 493</u>
Tax at the applicable tax rate of 25% (2016: 25%)	11 689 790	771 373
Tax effect of adjustments on taxable income		
Tax effect of adjustments on taxable income	843 907	1 413 539
	<u>12 533 697</u>	<u>2 184 912</u>
25. Cash used in operations		
Profit/(loss) before taxation	53 737 946	6 119 808
Adjustments for:		
Depreciation and amortisation	5 449 111	3 381 122
Interest income	(116 919 765)	(52 869 310)
Finance costs	15 291 911	3 522 398
Prior period error	-	1 701 770
Fair value adjustment Norsad	2 438 652	274 028
Changes in working capital:		
Inventories	512 406	(274 473)
Trade and other receivables	(9 099 642)	(4 912 333)
Trade and other payables	346 063	13 711 917
	<u>(48 243 318)</u>	<u>(29 345 073)</u>
26. Tax paid		
Balance at beginning of the year	(1 020 810)	(3 081 403)
Current tax for the year recognised in profit or loss	(16 346 865)	(1 935 303)
Balance at end of the year	<u>15 340 407</u>	<u>1 020 810</u>
	<u>(2 027 268)</u>	<u>(3 995 896)</u>
27. Commitments		
Operating leases – as lessee (expense)		
The Bank has entered into various non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under the operating leases are as follows:		
Minimum lease payments due		
- within one year	568 140	983 563
- in second to fifth year inclusive	1 051 733	2 447 110
	<u>1 619 873</u>	<u>3 430 673</u>

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

Notes to the Statutory Annual Financial Statements

2017
M

2016
M

28. Related parties

Relationships
Shareholders
Related entities

Government of Lesotho
Government of Lesotho (100% shareholding)
Lesotho Revenue Authority
Lesotho Postal Services
Central bank of Lesotho

Related party balances

Balances with related parties

Central Bank of Lesotho (Treasury Bills)	106 836 900	67 116 800
Central Bank of Lesotho (Treasury Bonds)	39 386 553	10 139 658
Central Bank of Lesotho (Reserve Account)	32 148 806	23 768 741
Government of Lesotho (Deferred income)	30 257 751	66 734 051
	208 630 010	167 759 250

The balance of M 106 836 900 (2016: M 67 116 800) invested in Central Bank of Lesotho is for Treasury bills.
The balance of M 39 386 553 (2016: M 10 139 658) is held at the Central Bank of Lesotho for the reserve as per Financial Institutions (Liquidity Requirements) Regulations 2000 section 5.

Related party transactions

Interest paid to (received from) related parties

Central Bank of Lesotho	(7 263 084)	(4 923 429)
-------------------------	-------------	-------------

Rent paid to (received from) related parties

Government of Lesotho (JHI)	151 957	2 030 255
Government of Lesotho (Postal Services)	331 963	1 079 558
	483 920	3 109 813

Grants paid to (received from) related parties

Government of Lesotho	(35 000 000)	(53 000 000)
-----------------------	--------------	--------------

Notes to the Statutory Annual Financial Statements

29. Directors' emoluments

Executive

2017

	Emoluments	Other benefits	Total
M. Leqhaoe (Managing Director)	1 039 425	93 886	1 133 311

2016

	Emoluments	Other benefits	Total
M. Leqhaoe (Managing Director)	1 034 671	87 391	1 122 062

Non-executive

2017

	Directors' fees	Committees fees	Total
R. Elias (Chairman and Non Executive)	78 512	53 245	131 757
T. Kao (Non Executive)	62 250	74 046	136 296
M. Masheane (Non Executive)	64 851	71 151	136 002
D. Plaatjies (Non Executive)	62 250	75 323	137 573
L. Mokotjo (Non Executive)	62 250	75 012	137 262
	330 113	348 777	678 890

2016

	Directors' fees	Committees fees	Total
R. Elias (Non Executive)	102 857	13 392	116 249
M. Williams (Chairman and Non Executive)	35 000	-	35 000
N. Sekome (Non Executive)	25 000	12 321	37 321
T. Kao (Non Executive)	70 000	11 742	81 742
M. Masheane (Non Executive)	66 429	34 284	100 713
D. Plaatjies (Non Executive)	70 000	29 463	99 463
L. Mokotjo (Non Executive)	40 000	11 250	51 250
	409 286	112 452	521 738

30. Events after the reporting period

The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

Notes to the Statutory Annual Financial Statements

	2017 M	2016 M
31. Prior period errors		
31.1 In the prior year, it was noted that the incorrect amounts were recorded as Interest receivable. This has since been corrected, and the impact on the balances are as follows:		
Statement of Financial Position		
Loans and advances decrease	-	346 806
Retained earnings decrease	-	(346 806)
Opening retained earnings	(346 806)	-
	(346 806)	-
Statement of Profit or Loss and Other Comprehensive Income		
Profit and loss decrease	-	(346 806)
31.2 In the prior years, transfers were made to the statutory reserve. The incorrect amounts were however, transferred.		
The correction of the error results in adjustments as follows:		
Statement of Financial Position		
Retained earnings increase	-	17 643 981
Statutory reserve decrease	-	(17 643 981)
Opening retained earnings increase	17 643 981	-
	17 643 981	-
Effective Opening Balance - Statutory Reserve		
Opening balance before adjustments	-	30 811 511
Correction of 2016 profit allocation to statutory reserve	-	(17 643 981)
Opening balance after adjustments	-	13 167 530

NOTES

NOTES

[illegible]



Mafike House – Kingsway Road, Maseru, Lesotho
Private Bag A121, Maseru 100
Tel: (+266) 2231 7842
Fax: (+266) 2231 7832
Website: www.lpb.co.ls

