2016 ANNUAL REPORT

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

March 31, 20**17**

Honourable Tlohang Sekhamane,
Minister of Finance
Office of Minister of Finance
P O Box 395
MASERU 100
Lesotho

Dear **Honourable Minister**,

I have the honour to submit the Annual Report of the Central Bank of Lesotho for the year 2016.

(a) It includes a review of economic developments during the year.

(b) And, in accordance with Section 53 (1) of the Central Bank of Lesotho Act No.2 of 2000, it also includes:

i) the Bank's annual financial statements for the year ended December 31,2016 certified by the auditors Deloitte and Touche and Lettac; and

ii) a report on the operations of the Bank during 2016.

Yours faithfully,

A. R. Matlanyane (PhD)
Governor - Mookameli

CENTRAL BANK OF LESOTHO 2016 ANNUAL REPORT

for the year ended December 31, 2016

The contents of this 2016 annual report regards the requirements of Section 53 (1) of the Central Bank of Lesotho Act No. 2 of 2000.

The *Annual Report* is available on the Bank of Lesotho's website at **www.centralbank.org.ls**.

For further information, contact:

Public Relations Office
Corporate Affairs Department
Central Bank of Lesotho
P.O. Box 1184
Corner Airport & Moshoeshoe Road
Maseru 100, Lesotho
Telephone: +266 2231 4281 / 2223 2000 • Facsimile: +266 2231 0051 / 2223 10557 / 2232 2767
Email: **info@centralbank.org.ls**
Website: **www.centralbank.org.ls**

GOVERNANCE, MISSION & OBJECTIVES

Ownership and Governance

The Central Bank of Lesotho is a statutory organisation fully owned by the Government of Lesotho.

The Central Bank enjoys a fair amount of independence in formulating and implementing monetary policy. The Governor, who is also the chairman of the Board of Directors, together with the two Deputy Governors, are appointed by His Majesty The King on the advice of the Prime Minister. The Minister of Finance appoints the other Board Members.

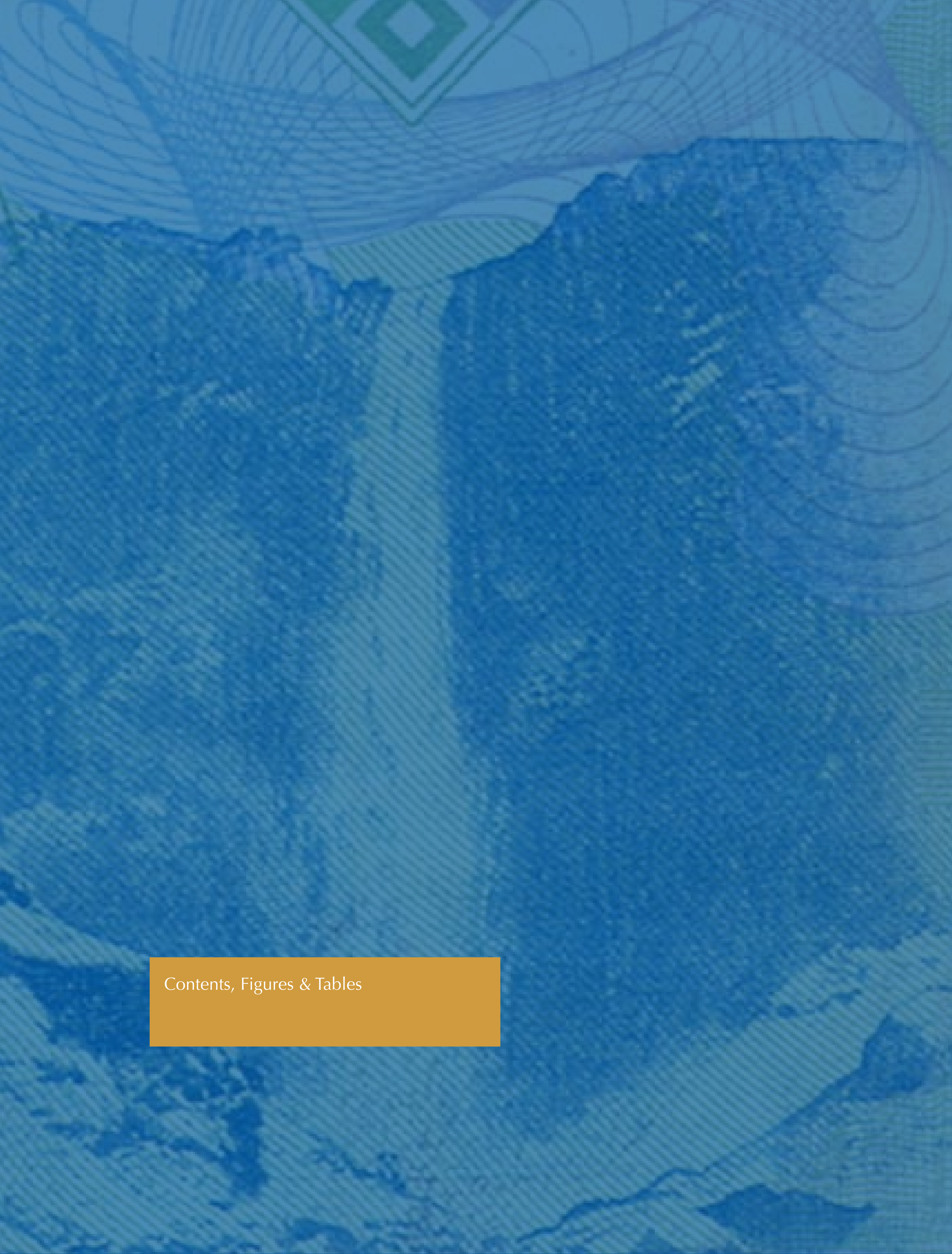
Mission Statement

The Mission of the Central Bank of Lesotho is to achieve and maintain monetary and financial system stability to support balanced macroeconomic development of Lesotho.

Objectives

The principal objective and mandate of the Central Bank of Lesotho, as stipulated in the Central Bank of Lesotho Act of 2000, is to achieve and maintain price stability.
Other statutory functions of the Bank are:

- To foster the liquidity, solvency and proper functioning of a stable market-based financial systems;
- To formulate, adopt and execute the monetary policy of Lesotho;
- To issue, manage and redeem the currency of Lesotho;
- To formulate, adopt and execute the foreign exchange policy of Lesotho;
- To license, register and supervise institutions pursuant to the Financial Institutions;
- To own, hold and manage its official international reserves;
- To act as a banker and advisor to, and as fiscal agent of the Government of Lesotho;
- To promote the efficient operations of the payments system;
- To promote the safe and sound development of the financial system; and
- To monitor and regulate the capital market.



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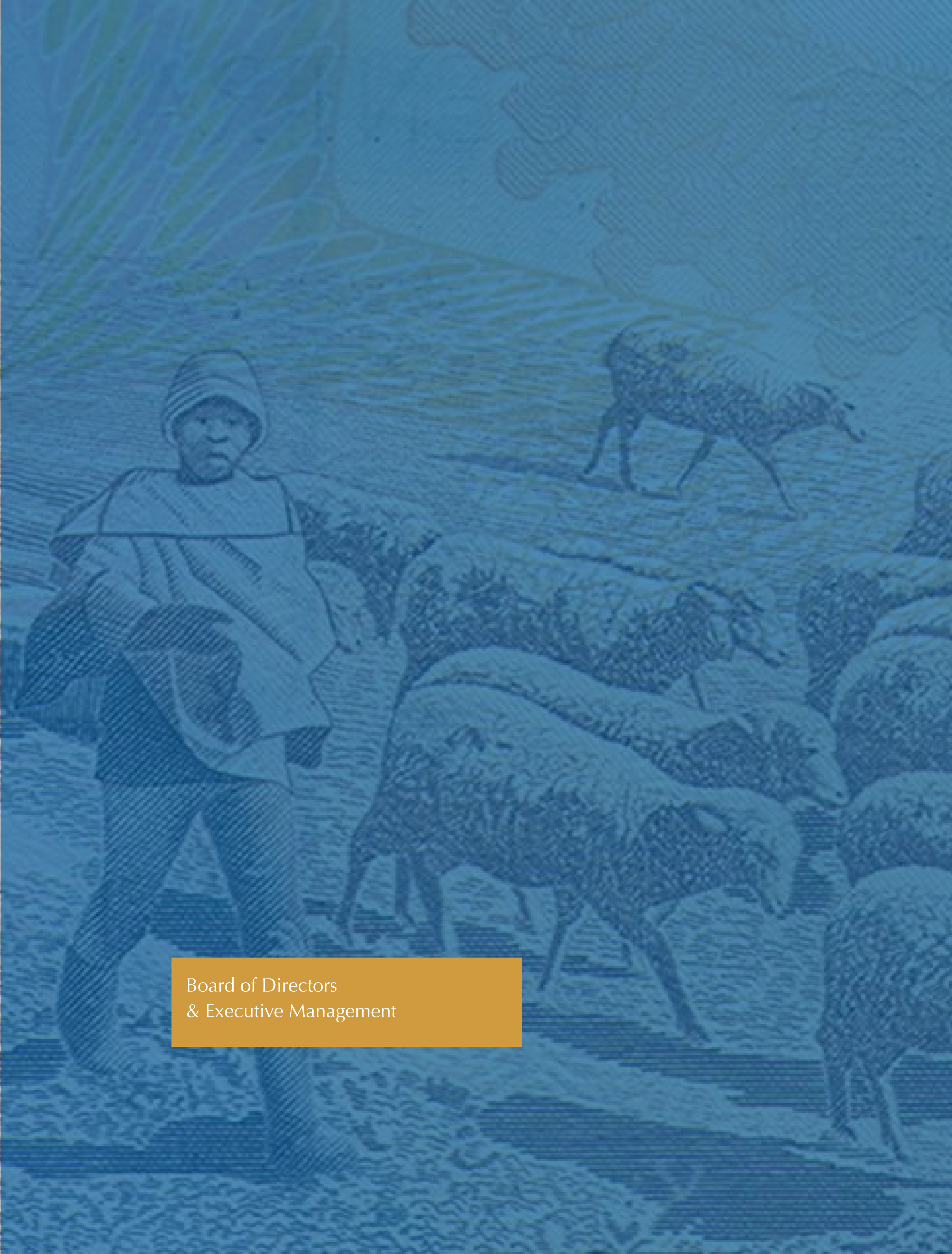

Board of Directors & Executive Management

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BOARD OF DIRECTORS

Dr. Retšelisitsoe Matlanyane
Executive Chairman

Dr. Masilo Makhetha
Executive Director

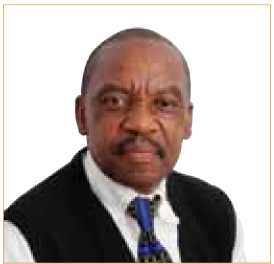
Ms. 'Mathabo Makenete
Executive Director

Mrs. Neo Phakoana-Foulo
Non-Executive Director

Mrs. Octavia Letebele
Non-Executive Director

Dr. Maluke Letete
Non-Executive Director

Mrs. Sophia Mohapi
Non-Executive Director



Adv. Sekake Malebanye KC
Non-Executive Director

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EXECUTIVE MANAGEMENT

Dr. Retšelisitsoe Matlanyane
Governor

Dr. Masilo Makhetha
First Deputy Governor

Ms. 'Mathabo Makenete
Second Deputy Governor

Mr. Seabata Ntelo
Operations Department

Mr. Lehlomela Mohapi
Research Department

Mr. Bohlale Phakoe
Financial Markets Department

Mr. Mokotjo Mphaka
Supervision Department

Mr. Samuel Mahooana
ICT Department

Mrs. 'Mamakhaola Mohale
Internal Audit Department

Mr. Napo Rantsane
Corporate Affairs Department

Mrs. 'Mapheko Mohapi
Finance Department (a.i.)

Mrs. 'Mateboho Morojele
Administration Department (a.i.)

Mr. Teboho Mpheteng
Enterprise Risk Management Department (a.i.)

Dr. Sephooko Motelle
Deputy Director of Supervision Department (a.i.)

Foreword by the Governor

FOREWORD BY THE GOVERNOR

Dr. Retšelisitsoe Matlanyane
Governor

The report is against the backdrop of a very challenging environment both globally and domestically. The world economic activity was subdued in 2016 even though signs of gaining momentum became visible in the second half of the year. The global economy was estimated to have grown by 3.1 per cent in 2016, marginally slowing down from 3.2 per cent in 2015. The advanced economies were largely responsible for the slow growth while the emerging and developing markets remained resilient in the face of rising economic and political uncertainties.

The year 2016 was marked by a number of events, which indicated elevated geo-political uncertainty in the global economy including the Brexit vote outcome, the rise of populism and inward looking policies by a number of advanced countries. The US presidential election outcome was a reflection of this rising anti-globalization sentiment. Similar dissenting voices are emerging in a number of European countries political discourses. Central to these are the dissatisfaction about the distribution of benefits accruing from trade, regaining national sovereignty, and tightening immigration and border controls.

Domestically, the economy is coming out of a very difficult year characterised by severe drought and rising food prices in 2015. The effects of these were propagated into 2016 with the food prices necessitating a Government subsidy on locally produced grain-based products. The situation was exacerbated by the sharp decline of about 27 per cent in the SACU receipts, which comprise about half of Government revenue. Nevertheless the economy recovered slightly with the growth acceleration to 2.5 per cent from 1.6 per cent recorded in 2015.

The work of the Bank during the reporting period continued to be guided by the 2015-2019 Strategic Plan, which is the anchor for annual planning, milestone setting, resource allocation and risk management. Strategy execution is monitored vigilantly by the Executive Committee and the Board and much work continues to put it in the hearts, the heads and the hands of everyone in the Bank so as not to lose sight of where we are all going.

The core work of formulating and executing monetary policy, supervising and regulating the financial sector, developing financial markets and financial markets infrastructure and reserves management continued with vigour during the reporting period. The Bank is embarking on the programme of improving the supervision and regulation of the non-bank financial institutions with the support of the World Bank. Bank supervision framework is also being updated to Basel II.5.

The Bank was engaged in advisory, advocacy and awareness work during the reporting period. In addition to mandatory presentations and reporting to the Minister and to Cabinet (at the invitation of the Minister), the Bank had the audience of varied stakeholders including the Public Accounts Committee and the Senate as well as the private sector. The Bank also mounted awareness campaigns against the emergence of pyramid schemes through various communication channels.

FOREWORD BY THE GOVERNOR

As an institution, the Bank has grown both in size and in maturity. Growing scope of functions has necessitated response through growing the human resources headcount and the infrastructure. The assurance and governance structures of the Bank are strong and robust. These have translated into deepening responsibility and accountability at all levels. I am convinced that the Bank is on course towards being a model institution, with model professionals ❑

A. R. Matlanyane (PhD)
Governor • Mookameli oa Banka

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1

The Southern African region experienced devastating drought and high temperature conditions associated with the El Niño during the 2015/2016 agricultural season.

THE ECONOMIC REPORT

1.1 INTERNATIONAL ECONOMIC DEVELOPMENTS

1.1.1 The World Economy

The Southern African region has experienced devastating drought and high temperature conditions associated with the El Niño weather phenomenon during the 2015/2016 agricultural season. El Niño is a climatological phenomenon characterized by a warming in sea temperatures across the central and east-central Equatorial Pacific that causes a large scale ocean-atmosphere climate interaction . It usually results in below-normal rainfall in Southern Africa as was the case with the 2015/2016 El Niño. In addition to the drought, the 2015/2016 El Niño was also characterized by very high temperatures. Scientists around the world have forecasted the 2015/2016 El Niño to be one of the most severe in 30 years. The El Niño and its accompanying adverse climatological conditions are disastrous for the Southern African region. As a consequence of the 2015/2016 El Niño's devastating effects, the Food and Agricultural Organization (FAO) of the United Nations has identified Lesotho, Malawi, Mozambique, Swaziland and Zimbabwe, as high priority countries in need of humanitarian relief.

According to the Disaster Management Authority (DMA), the 2015/2016 El Niño started in February 2015 and culminated into predominantly dry conditions in Lesotho from October to December in the same year. It was accompanied by the devastating heat wave, with temperatures in excess of 40 degrees Celsius, during the months of November and December. The drought and high temperature coincided with the crops planting season in Lesotho. El Niño and its accompanying weather conditions are not a new phenomenon and Lesotho has suffered its dire consequences in the past. According to the Lesotho Meteorological Service (LMS), very strong El Niño years were 1972/1973, 1982/1983, 1991/1992 and 1997/1998 while 2002/2003 and 2009/2010 were moderate. The 2015/2016 is regarded as one of the strong ones, the consequences of which have started manifesting while more effects are expected to unfold as the year 2016 progresses.

1.1.2 Selected Advanced Economies

a) The United States (US)

The US Gross Domestic Product (GDP) is estimated to have increased by 1.6 per cent in 2016 compared to 2.6 per cent growth realised in 2015. The growth was due to the strong consumption spending, exports, general government spending and Federal government spending. The growth was, however, curtailed by a decline in private inventory spending and non-residential fixed investment together with an increase in imports. Labour market conditions improved in the US with unemployment rate decelerating to 4.7 per cent in 2016 from 5.0 per in 2015. The labour market also benefitted from a 2.9 per cent increase in average wages in 2016.

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Globally, inflation developments were mixed between advanced and emerging economies in 2016.

The consumer inflation accelerated from 0.7 per cent in 2015 to 2.1 per cent in 2016, which was above the US desired target rate of 2.0 per cent. The increase was at the back of an increase in energy costs, rising medical care and education costs. However, the rise in inflation was somewhat moderated by declining food prices. The Federal Open Market Committee (FOMC) increased the key rate by 25 basis points to 0.75 per cent in 2016 as it continued with its policy normalisation following improved economic conditions characterised by buoyant economic activity, improved labour market conditions and rising inflation rate.

b) The Euro Area

According to the International Monetary Fund (IMF) estimates, real GDP in the Euro Area was estimated to have increased by 1.7 per cent in 2016 compared to 1.5 per cent in 2015. The growth during the period under review was driven by consumption spending, government spending and investment. Unemployment rate declined from 10.4 per cent in 2015 to 9.6 per cent in 2016. The strong economy supported employment creation in the Euro Area during the review period.

The annual inflation increased sharply to 1.1 per cent in 2016 relative to 0.2 per cent recorded in 2015. The increase in inflation was driven mainly by energy and services costs. The Governing Council of the European Central Bank (ECB) cut the policy rate to zero per cent in 2016, from 0.05 per cent in 2015 in a bid to support economic recovery as well as to meet the target inflation rate of 2.0 per cent. The bank continued with its asset purchase programme in 2016, which was expanded to €80 billion per month until April 2017.

c) Japan

The Japanese economy is estimated to have expanded by 0.9 per cent in 2016, slightly slower than 1.2 per cent increase in 2015. Growth benefited from increased industrial production, especially manufacturing, which was supported by strong exports. Exports were particularly boosted by a moderate recovery in the global economic activity. Furthermore, GDP growth was supported by government spending and investment, whereas private investment declined hence weighing down on growth. Japan registered an unemployment rate of 3.1 per cent in 2016, declining from 3.4 per cent in the previous year.

Japanese economy experienced a deflation of 0.1 per cent during the year under review, compared to an inflation of 0.7 per cent in 2015. The deflationary pressures resulted from declining prices of fuel, electricity and water, transport and communication, and housing. Bank of Japan continued with Quantitative and Qualitative Easing (QQE) measures. However, the Bank introduced two significant changes to its monetary policy framework, to speed up time to achieving a 2.0 per cent inflation target. The changes included: (i) QQE with negative interest rates and (ii) QQE with yield curve control. As a result, the bank cut the rate of interest into the negative territory, to support economic recovery.

1.1.3 Selected Emerging Market Economies

a) China

China's real GDP growth was estimated to have slowed to 6.7 per cent in 2016, down from 6.9 per cent growth realised in 2015, reflecting the rebalancing of the Chinese economy. The growth rate was however, consistent with the government target rate of 6.5 - 7.0 per cent in 2016. Growth was mainly driven by the strong activity in the services and secondary sector industries, which benefitted from government stimulus programs. Unemployment rate declined from 4.1 per cent in 2015 to 4.0 per cent in 2016 as government intensified implementation of pro-employment policies. These were policy measures taken by government to increase employment opportunities in the country, especially for marginalised population to achieve inclusive growth.

Consumer inflation rose to 2.0 per cent in 2016 from 1.4 per cent in 2015, largely driven by food prices, transportation and communications and health care costs. After cutting the rate by 25 basis points to 4.35 per cent in 2015, the People's Bank of China maintained the key rate constant in 2016. The Bank decided to take a neutral stance to contain financial risks while also supporting growth.

b) India

The real GDP was estimated to have slowed down to 6.6 per cent in 2016, following a 7.6 per cent growth in 2015. Growth was mainly driven by the services, manufacturing and agriculture sectors, despite the disruptions emanating from demonetisation exercise in the last quarter of 2016. Growth was also supported by a rise in consumption spending and exports as well as government stimulus support to the economy.

The annual consumer inflation rate decelerated from 5.4 per cent in 2015 to 3.4 per cent in 2016. The reduction in inflation was mainly driven by the slowdown in food prices. A negative shock on consumption, which was induced by the demonetisation by the Indian Authorities, resulted in cash shortages and thus a moderation in inflation. With the inflationary pressures easing in 2016, the Reserve Bank of India cut the benchmark repo rate by 25 basis points to 6.25 per cent. The move to cut the repo rate was taken in an effort to support economic growth, while also ensuring that the inflation target of 5.0 per cent was met.

[1] Demonetisation was the move by the Indian Authorities to withdraw high denominated notes (500 and 1000 rupee notes) from circulation, indicating that the notes would cease to be considered as legal tender. This led to closure of some firms and also the consumers were not able to pay for goods and services as these notes comprised the largest share of currency in circulation.

Unemployment situation worsened in South Africa amid weak performance of the economy.

c) South Africa (SA)

The annual GDP growth was estimated to have decelerated to 0.3 per cent in 2016 down from 1.3 per cent realised in 2015. The slowdown reflected weak developments in the primary sector, characterised by dwindling mining and quarrying output together with a fall in output of agriculture, forestry and fishing industries. Moreover, the South African economy has been under pressure during the period under review emanating from factors which include El Niño-induced drought, collapse of commodity prices and unstable political environment. Unemployment situation worsened in South Africa amid weak performance of the economy. Unemployment rate increased from 24.5 per cent in 2015 to 26.5 per cent in 2016. The main cause behind the worsening labour conditions was mining and transport industries where more jobs were shed compared to other industries.

The consumer price inflation rose from 4.6 per cent in 2015 to 6.4 per cent in 2016, breaching the upper boundary of the inflation target band. The acceleration was mainly driven by food prices and the weak currency. In response to the pick-up in inflation rate, the South African Reserve Bank (SARB) hiked the repo rate by 0.75 percentage points to 7.0 per cent. The move by the Bank was to arrest inflation while at the same time making sure it does not interfere with recovery of the economy.

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Table 1	Selected Economic Indicators, 2011 – 2015* (Percentage changes unless otherwise)				
Indicators	2011	2012	2013	2014	2015*
World Output	3.5	3.3	3.4	3.2	3.1
Advanced Economies	1.2	1.2	1.9	2.1	1.6
Of which:				12.4	12.9
United States	**2.2**	**1.7**	**2.4**	**2.6**	**1.6**
Euro Area	-0.9	-0.3	1.1	2.0	1.7
Japan	1.7	1.4	0.0	1.2	0.9
United Kingdom	1.3	1.9	3.1	2.2	2.0
Emerging and Developing Economies	5.3	5.0	4.6	4.5	4.8
Of which:					
Africa					
Sub Saharan	4.3	5.2	5.1	3.4	1.6
South Africa	**2.2**	**2.3**	**1.6**	**1.3**	**0.3**
Developing Asia	7.0	7.0	6.8	6.7	6.3
China	7.9	7.8	7.3	6.9	6.7
India	5.6	6.6	7.2	7.6	6.6
Consumer prices					
Advanced Economies					
Of which:				1.6	0.7
United States	**2.1**	**1.5**	**1.6**	**0.1**	**1.2**
Euro Area	2.5	1.3	0.4	0.0	0.3
Japan	-0.1	0.3	2.8	0.8	-0.2
United Kingdom	2.8	2.6	1.5	0.1	0.7
Emerging and Developing Economies					
Of which:					
Africa					
Sub Saharan	9.3	6.6	6.3	7.0	11.3
South Africa	**5.7**	**5.8**	**6.1**	**4.6**	**6.4**
Developing Asia	4.6	4.6	3.5	2.7	3.1
China	2.6	2.6	2.0	1.4	2.1
India	9.9	9.4	5.9	4.9	5.5
World Trade Volume	2.8	3.5	3.8	2.7	1.9
(Goods and Services)					
Exports					
Advanced Economies	2.3	3.2	3.8	3.6	1.8
Emerging and Developing Countries	3.8	4.5	3.5	1.3	2.9
Imports					
Advanced Economies	1.2	2.3	3.8	4.2	2.4
Emerging and Developing Countries	5.5	5.3	4.5	-0.6	2.3
Source	IMF World Economic Outlook, October 2016; and World Economic Outlook Update, January 2017 * IMF Projections. *IMF Projections				

Unemployment situation worsened in South Africa amid weak performance of the economy.

1.1.3 Commodity Price Developments

a) Gold Prices

The price of gold realised a sustained increase during 2016 due to elevated uncertainty in the global financial markets emanating from the increased geo-political risks, including the Brexit. The increased uncertainty in the global markets led to increased demand for gold as a safe haven asset. In the year under review the price of gold increased by 7.5 per cent to US$1249. In Maloti terms, the price increased from M14 890.15 in 2015 to M18 395.57 in 2016.

b) Platinum Prices

The platinum price declined by 6.2 per cent to US$ 989.35 in 2016, following a 23.6 per cent fall in 2015. The reduction in the price of platinum was induced by a slowdown in demand from China (China being the largest consumer of platinum) together with increased recycling activities globally to meet supply for jewellery production. In Maloti terms, the price of platinum increased by 7.8 per cent to M14 563.28 in 2016.

c) Oil Prices

The price of oil remained under pressure for the rest of 2016 due to the continued oversupply in the global markets. Generally, crude oil prices declined in 2016 in line with the collapse of other commodities although it recovered towards the end of 2016, supported by the agreement between Organization of the Petroleum Exporting Countries (OPEC) and some non-OPEC countries to cut oil production. The decline in oil prices was further exacerbated by the lifting of sanctions against Iran. Oil prices fell by 36.3 per cent to US$31.79 in 2016, following a 58.2 per cent decrease in 2015. The demand for oil was relatively low following the slowdown of the Chinese economy which is the largest consumer of oil. In Maloti terms, the price of oil declined by 26.8 per cent to M467.95.

d) Maize Prices

The price of white maize increased by 30.5 per cent to US$298.43 in 2016 compared to a 9.3 per cent rise in 2015, while the price for yellow maize surged by 9.7 per cent to US$228.27, in contrast to a 0.9 per cent decline in 2015. The sharp increases in the prices of maize were due to a shortfall in supply relative to demand. The output of maize was severely affected by El Niño induced drought in some parts of the world, including Southern Africa which uses maize as a staple food. In addition, the weaker currencies negatively affected maize prices in importing countries. In maloti terms, the price of white and yellow maize increased by 49.9 per cent to M 4392.83 and 26.1 per cent to M3360.20, respectively.

e) Wheat Prices

The price of wheat decreased by 4.4 per cent to US$301.88 in 2016 compared with a decline of 8.9 per cent in 2015. The fall in wheat prices was attributed to the oversupply of wheat in the global markets, as a result of more than expected harvest in the US and Russia-the largest world producers of wheat. In most countries which were net importers of wheat, prices were affected by weak currencies hence in Maloti terms, the price of wheat increased by 9.9 per cent to M4443.69.

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1.1.5 Currency Movements

The Rand hence the Loti depreciated, on average by 15.0 per cent, 2.6 per cent and 15.2 per cent against the US Dollar, the Pound and the Euro, respectively, during the year under review. The weak performance of the Rand in 2016 was attributable to amongst others SA's fragile political environment, low growth outlook as well as concerns about the possible downgrade by the credit rating agencies. The rand/dollar exchange rate was further affected by the monetary policy tightening in the US as well as the unexpected outcome of the US Presidential Elections.

The depreciation of the rand was however, partly offset by the positive developments in SA, including, unexpected increase in economic growth in the second quarter of 2016 as well as SA's narrowing of the current account deficit. These developments, together with improved commodity prices led to the strengthening of the rand exchange rate during the third and the fourth quarters of 2016. In addition, the pound depreciated sharply following the Brexit vote resulting in the strengthening of the Rand against the Pound.

1.2 Domestic Economic Developments

1.2.1 Real Sector Developments

Trends in Output and Income

Output growth was estimated to have accelerated to 2.5 per cent in 2016 compared with a growth of 1.6 per cent registered in 2015. The acceleration was due to improved economic activity in both the secondary and tertiary sectors during the review year, while the primary sector's performance deteriorated further. The fall in the primary sector was attributed to a contraction by the agriculture, forestry and fishing, and mining and quarrying subsectors.

Real Gross National Income (GNI), which includes net income from abroad was estimated to have moderated to 2.3 per cent in 2016 from a growth of 2.5 per cent in 2015. The moderation was a result of the slowdown in income receivable from the rest of the world, particularly migrant mine workers remittances, other income from workers in South Africa, interest earned by the central bank and commercial banks from abroad. GNI per capita was estimated to have grown by 1.8 per cent in 2016 compared with an increase of 2.1 per cent in 2015.

Table 2 Aggregate Economic Indicators (Percentage Change, 2012=100)

	2012	2013	2014	2015	2016*
GDP	5.4	2.0	4.5	1.6	2.5
GNI	3.5	1.5	2.9	2.5	2.3
GDP Per Capita	5.1	1.7	4.1	1.2	2.0
GNI Per Capita	3.2	1.1	2.5	2.1	1.8

Source Bureau of Statistics, *CBL Projections

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The weak performance of the Rand in 2016 was attributable to amongst others SA's fragile political environment.

Sectoral Performance

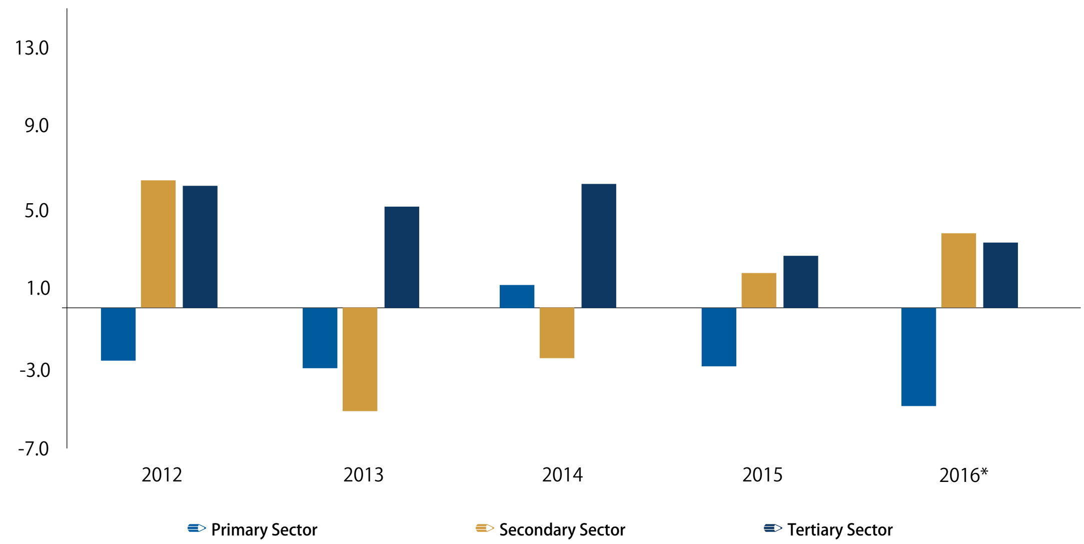
a) The Primary Sector

The primary sector was estimated to have contracted further by 4.3 per cent in 2016 compared with a 2.9 per cent decline observed in 2015. The poor performance of the sector was attributed to reduced output by the agriculture, forestry and fishing, and the mining and quarrying subsectors.

The agriculture, forestry and fishing subsector was estimated to have contracted by 0.9 per cent in 2016 compared with a decline of 4.4 per cent in 2015. The decline resulted from the weak performance by the crops subsector, which registered a further decline of 15.0 per cent compared with a decline of 7.4 per cent the year before. Crop production was mainly affected by lack of rainfalls experienced during the ploughing season due to the El Niño episode which hit the country. Area planted declined by 33 per cent in the 2015/2016 ploughing season, which caused the Government of Lesotho to declare a state of emergency in light of the drought that was expected to worsen during the course of the review year.

The mining and quarrying subsector growth was estimated to have declined further by 8.9 per cent in the review year, compared with a slight decline of 0.8 per cent in 2015. The subsector's main draw back was due to reduced diamond production in 2016 and lower recovery of exceptionally large diamonds by the Letšeng Diamond mine during 2016.

Figure 1 Sectoral Real Growth Rate (Percentage)



Source: Bureau of Statistics, *CBL Projections

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b) The Secondary Sector

The manufacturing subsector was estimated to have grown by 3.6 per cent in 2016 compared with a growth of 2.4 per cent in 2015. The growth of the subsector resulted from improvements in the components of the subsector, namely, food products and beverages, textiles, clothing, footwear and leather, and other manufacturing. Food manufacturing's good performance was attributed to increased demand for food products during 2016 in the economy. The textile, clothing, footwear and leather products realized a growth of 3.9 per cent in 2016 compared with 4.8 per cent observed in 2015. The moderated growth was attributed to a slow growth in exports of textiles to the US market. However, exports to the Southern African Customs Union (SACU) region improved significantly especially exports of textiles destined to the South African market.

The electricity and water subsector was estimated to have grown by 0.4 per cent in 2016 compared with a decline of 1.4 per cent in 2015. The improvement in the subsector's performance was attributed to the growth in its subcomponents. The water and sewage subcomponent benefited from increased water and sewage line connections. The building and construction subsector was estimated to have grown significantly by 6.3 per cent in 2016 compared with an increase of 4.5 per cent in 2015. The main contributor to the observed growth was the plant expansion works at the Liqhobong Diamond mine. In addition, ongoing construction of both rural and urban roads contributed to the observed trend.

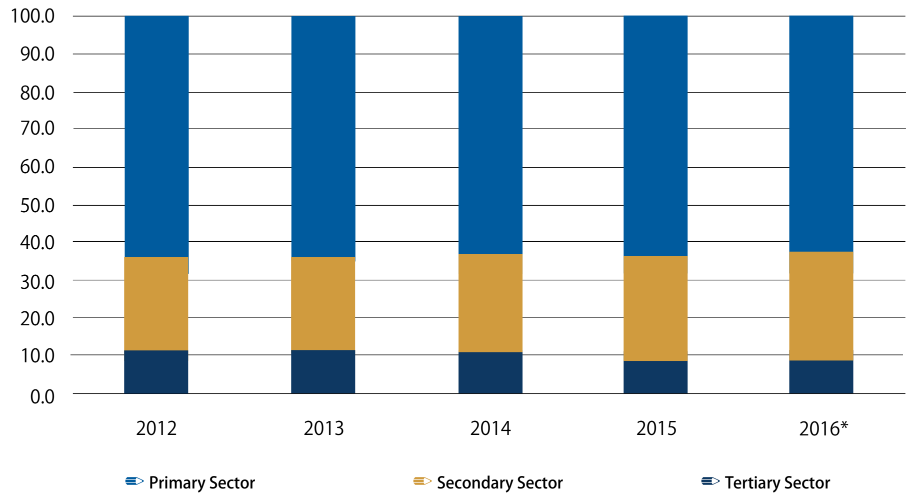
c) The Services Sector

The services sector was estimated to have grown by 3.1 per cent in 2016 compared with 2.9 per cent growth in 2015. The sector was mostly supported by the information and communication subsector. In addition, the wholesale and retail trade, insurance and pension funding, professional, scientific and technical activities supported the sector, signaling higher demand for goods and services in the economy during 2016.

The health and social work subsector was estimated to have registered a high growth of 8.6 per cent in 2016 compared with an 8.9 per cent growth in 2015. The high performance by the subsector came about after the Millennium Challenge Corporation (MCC) funded health projects which made it possible for the rural population to access health facilities in the remote areas. The project focused on building and renovating clinics and bringing health facilities closer to the rural areas.

The manufacturing subsector was estimated to have grown by 3.6 per cent in 2016 compared with a growth of 2.4 per cent in 2015.

Figure 2 Sectoral Shares in GDP at Factor Cost (Percentages)

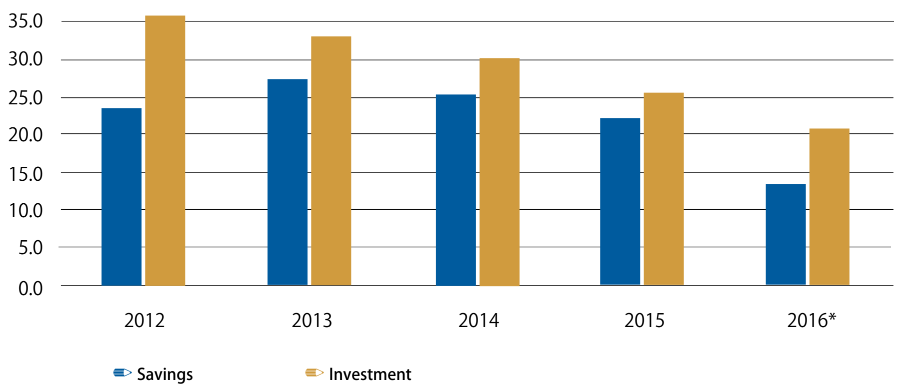


Source: Bureau of Statistics, *CBL Projections

Savings and Investment

Gross national savings was estimated at 13.0 per cent of GNI in 2016 compared with 22.2 per cent of GNI in 2015. Total investment as a share of GNI was recorded at 20.6 per cent in 2016 compared with 25.5 per cent in the previous year. The saving-investment gap as a share of GNI widened to -7.6 per cent in 2016 compared with -3.3 per cent recorded in the preceding year. The widening of the saving-investment gap resulted from a decline in national savings, which mainly reflected a significant deterioration in government saving to 1.0 per cent as a share of GNI in 2016 from 10.2 per cent in 2015 while the private sector savings remained at 12.0 per cent in 2016.

Figure 6 **Savings and Investment** (As a percentage of GNI)



Source: Bureau of Statistics, *CBL Projections

Employment, Wages and Prices

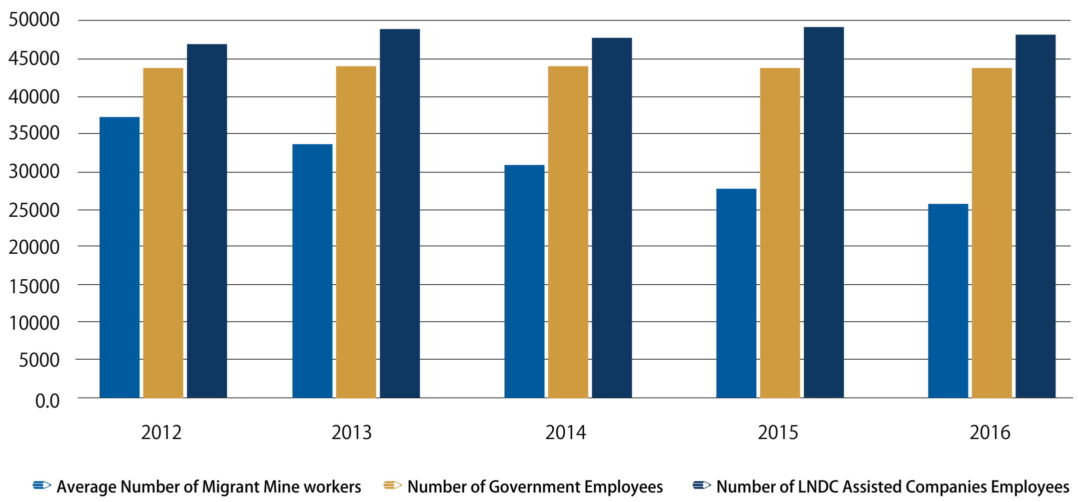
a) Employment Trends

The employment statistics covers the Lesotho National development Corporation (LNDC) assisted companies, government employees and migrant mineworkers. The manufacturing sector remained the largest employer in the economy during 2016. Employment by LNDC assisted companies declined to 47 054 in December 2016 from 48 693 in December 2015. This represented a decline of 3.4 per cent in the year under review compared with an increase of 4.2 per cent observed in 2015. The reduced employment by LNDC-assisted companies mainly emanated from Woven Garments factories, which recorded 8.1 per cent decline in 2016. The decline reflected subdued demand for our products in the US markets because products in the Woven Garment factories are destined for the US market. The Government of Lesotho (GoL) was the second largest employer in 2016, the government employed 44 388 people compared with 44 120 employees in 2015. This represented 0.6 per cent increase in government employees relative to a decline of 0.8 per cent observed in 2015.

Migrant mineworkers employment has been on a declining trend for the past five years, their number fell to 26 229 employees in 2016 from 27 949 employees in the previous year. This represented an annual drop of 6.2 per cent in 2016 compared with a decline of 8.0 per cent registered in 2015. The drop signaled non recruitment of new workers as retrenchments take place and an indication of challenges faced by the South African mines.

The manufacturing sector remained the largest employer in the economy during 2016.

Figure 4 Employment Trends



Source: The Employment Bureau of Africa (TEBA), Lesotho National Development Corporation, Ministry of Finance

b) Wages

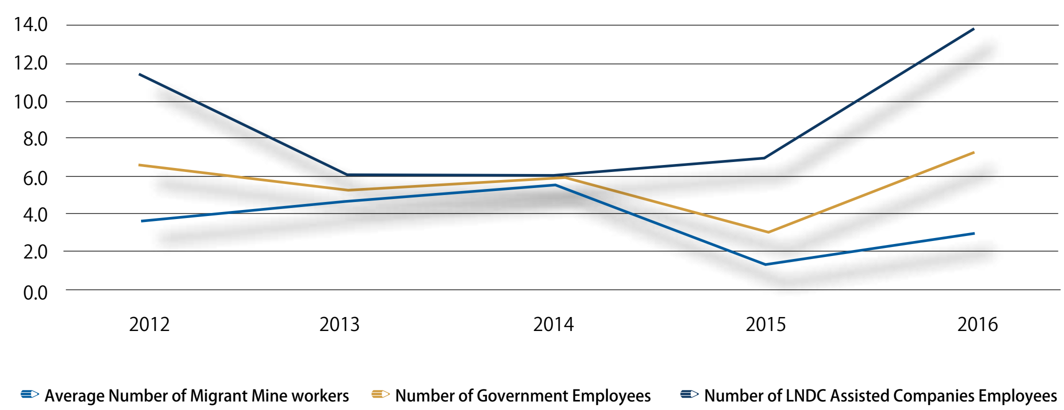
The general minimum wage increased by an annual average of 10.0 per cent in the 2016/2017 fiscal year, as determined by the Lesotho Wages Advisory Board. The rate of increase was higher than the 3.0 per cent adjustment in the previous fiscal year. The 10.0 per cent increment was applied across all the sectors. With regard to government employees, a salary adjustment of 4.0 per cent was made in the 2016/2017 fiscal year compared with 6.0 per cent increase in the 2015/2016 fiscal year. This includes old age pensioners. The adjustment was made in line with the rising cost of living.

c) Price Developments

Lesotho average inflation rate was 6.6 per cent in 2016 compared to the average of 3.2 per cent obtained in the year 2015. The acceleration in the annual average inflation rate was mainly driven by increases in food and nonalcoholic beverages category, and to some extent by housing, electricity, gas and other fuels and education categories. Inflationary pressures from the food and nonalcoholic beverages emanated from the food prices due to the El Niño episode which occurred towards the end of 2015 reducing domestic cereal production. In addition since Lesotho depends heavily on maize imports to meet the local consumption needs maize meal prices remained generally high in 2016 mirroring those in key exporter, SA due to drought-reduced harvests and higher importing costs from SA.

Inflation moderated in the second half of the year in response to the introduction of the 30 per cent subsidy by the GoL on all locally produced grain-based products. This was done in an effort to reduce the impact of high food prices on the poor.

Figure 5 Lesotho Consumer Price Index (Annualized Percentage Changes)



Source: Bureau of Statistics

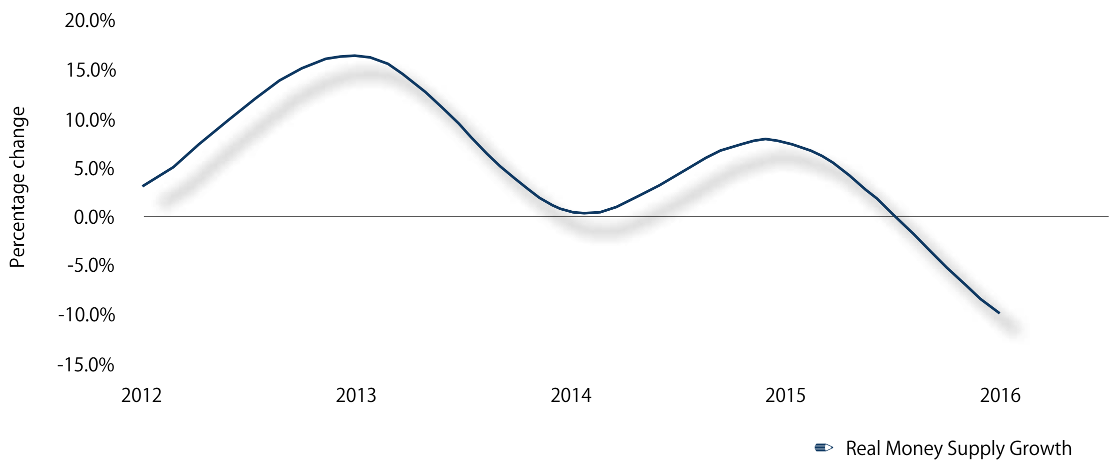
1.2.2 Monetary and Financial Developments

Money Supply

Following an increase of 12.6 per cent in 2015, money supply (in nominal terms) declined by 4.8 per cent in 2016. This development is attributed to a 15.4 per cent weakening in net foreign assets moderated by a more than 100 per cent growth in domestic claims. In real terms, money supply fell by 9.6 per cent in December 2016 compared to an increase of 7.1 per cent in December 2015. Components of broad money (M2), narrow money (M1) and quasi money can also be used to explain the observed changes in money supply. During the period under review, M1 and quasi money recorded a 7.9 per cent and 1.4 per cent decline, respectively. This is relative to an increase of 7.8 per cent and 35.7 per cent in the former and the latter respectively for the period ending December 2015. In the period ending December 2016, the fall in M1 was due to a 4.8 per cent fall in currency outside depository corporations as well as a 7.1 per cent drop in transferable deposits.

Money supply fell by 9.6 per cent in December 2016 compared to an increase of 7.1 per cent in December 2015.

Figure 6 Changes in Money Supply (Annualized Percentage Changes)



Source: Central Bank of Lesotho

Net Foreign Assets

Net foreign assets (NFA) registered a 15.4 per cent decline during the period ending in December 2016 against growth of 15.4 per cent during the previous year. Both the central bank's NFA and the commercial banks' NFA declined by 13.2 per cent and 22.5 per cent respectively. Commercial banks' NFA was adversely affected by a 32.7 per cent decline in the deposits with non-residents. The central bank NFA decline was due to a fall in deposits in the central bank which are dominated by government deposits.

Table 3 Banking System's Net Foreign Assets (Million Maloti: End of period)

	2012	2013	2014	2015	2016
Commercial banks	2487	3237	3039	3859	2992
Assets	2570	3627	3329	4244	3330
Liabilities	-82.8	-390.7	-289.9	-385	-337.6
Central Bank	7654	9599	10666	11958	10382
Assets	8564	10964	12066	13740	11920
Liabilities	-909.3	-1366	-1401	-1782	-1539
Net Foreign Assets	10141	12835	13705	15817	13374

Source Central Bank of Lesotho

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Domestic Credit

Domestic credit, including claims on government, more than doubled during the review period as was the case in the previous year. This was mainly due to a sharp fall of 32.2 per cent in the Central Bank's liabilities to central government (government deposits) coupled with a 2.9 per cent increase in the banking system's claims on central government in the form of government securities. The decline in central government claims on the banking system was driven by a 42.3 per cent drop in their transferable deposits with the Central Bank for the period ending December 2016 relative to a 7.7 per cent increase in December 2015.

Credit to private sector continued on an upward trajectory albeit at a declining rate as it recorded a 3 per cent growth in 2016 compared to an increase of 7.4 per cent during the previous year. In terms of the distribution, credit to households constitutes 65 per cent of the total while business enterprises take the remaining 35 per cent. Despite the continued year-on-year growth in private sector credit, the fact that it is propelled by household credit and not credit to business enterprises, a more productive sector of the economy, is concerning.

Table 4 Domestic Credit (Million Maloti: End of Period)

	2011	2012	2013	2014	2015
Claims on Government (Net)	-2593	-3149	-4,178	-4963	-4773
Claims on Central Government	965.1	1318.9	1,499.50	1460.5	1916
Liabilities to Central Government	3557.7	4467.8	5,677.30	6423.1	6689.3
Claims on Public NFCs (Official entities)	1.4	-0.1	0	0	0
Claims on Private Sector	2687	3778.2	4,556.10	5121.3	5501.7
Claims on Households	1491	2307.3	2997.8	3306.2	3398.2
Claims on Business Enterprises	1196	1470.8	1558.3	1815.1	2103.4
Domestic Claims	107	639.1	390	168.6	696.36

Source Central Bank of Lesotho

Credit extension

a) Trends of Credit Extended to Business Enterprises

Credit extended to business enterprises dropped by 6.6 per cent during the review period compared to a 15.9 per cent increase during the period ending December 2015. Historically large recipients of enterprise credit – mining and manufacturing – experienced a decline in credit extended to them due to a number of reasons such as bank runoffs, unutilized overdraft facilities and the payment of overdrafts. The largest share of credit in 2016 went to real estate and business services.

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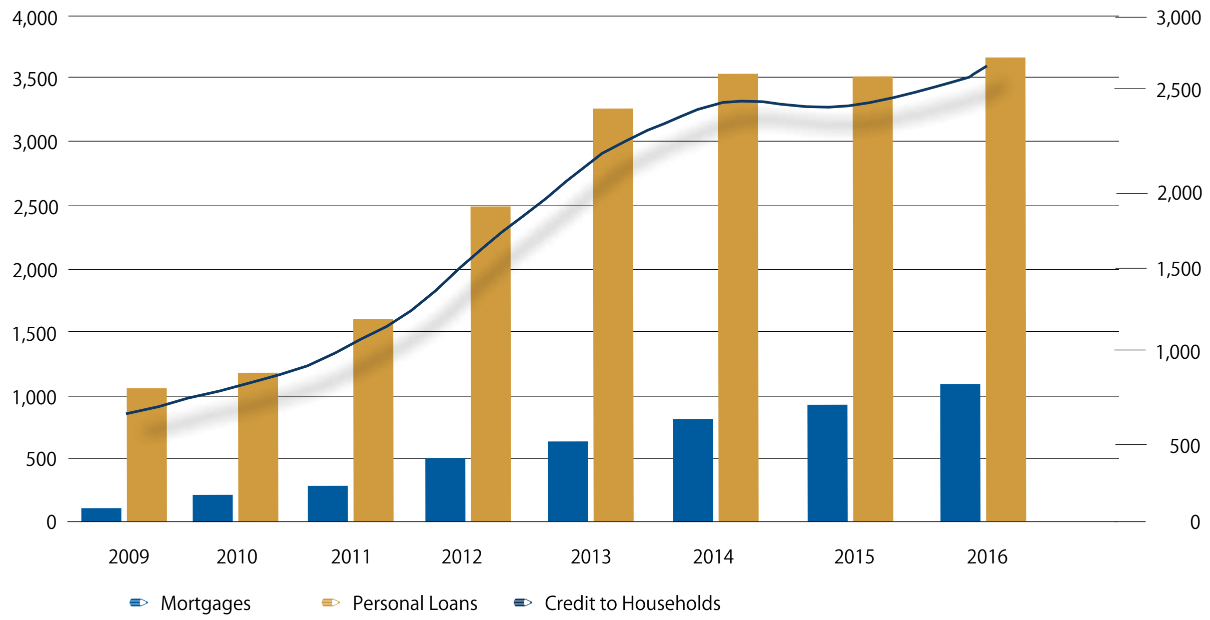
Domestic credit, including claims on government, more than doubled during the review period as was the case in the previous year.

Table 5 Trends of Credit to Business Enterprises (Millions of Maloti)	2012	2013	2014	2015	2016
Agriculture	11.3	16.3	17.4	18.1	25.3
Mining	152	185.4	358.7	406.9	363.8
Manufacturing	226	320.7	445.4	481.7	319.4
Electricity, gas and water	33.9	36.8	40.4	32.9	38.5
Construction	181.4	212.7	171.2	228.2	313.5
Transport, Storage and Communication	130.2	112.3	188.5	235.3	185.7
Wholesale, Retail, Hotel & Restaurant	246.9	225.7	153.2	235.8	184.7
NBFIs, Real Estate and Business Services	443.3	204.8	429.9	444.6	509.5
Community, Social & Personal Service	45.8	243.6	10.3	19.8	26.4
Total	**1 470.8**	**1 558.3**	**1815.1**	**2103.4**	**1966.7**
Source: Central Bank of Lesotho					

b) Credit Extension to Households

Following a 2.8 per cent rise in 2015, credit extended to households registered a relatively higher growth of 8.8 per cent in 2016. Behind the acceleration was an 18.3 per cent rise in mortgages and a 5.9 per cent increase in personal loans. During the review period, share of personal loans stood at 76.4 per cent compared to 77.6 per cent in 2015. On the other hand, mortgages share of credit extended to households registered 23.3 per cent in 2016 compared to 21.4 per cent in 2015. The adjustment in the distribution pattern was a result of efforts by the banking sector aimed at mitigating the level of concentration risk by ensuring a sustainable balance between secured and unsecured lending.

Figure 7 Credit Extension to Households (Million Maloti: End Period)



Source: Central Bank of Lesotho

Commercial Banks Liquidity

During the review period, commercial banks liquidity stood at 72.4 per cent compared to 82.6 per cent in 2015. This was mainly caused by 32.6 per cent decline in balances due from banks in SA and a 4.8 per cent drop in total deposits. Credit to deposit ratio increased from 59.8 per cent in 2015 to 64.6 per cent in the reporting year, 2016. This is largely explained by the fall in deposits in 2016.

During the review period, commercial banks liquidity stood at 72.4 per cent compared to 82.6 per cent in 2015.

Table 6 Commercial Banks' Liquidity	2012	2013	2014	2015	2016	2015
Credit to Deposit Ratio	**55.80%**	**58.00%**	**61.40%**	**59.80%**	**64.55%**	**59.80%**
Private Sector Credit	3 546.6	4 465.1	4918.2	5432.2	5584.59	5432.2
Total Deposits	6 359.3	7 698.7	8004.3	9084.4	8651.19	9084.4
Liquidity Ratio	**70.80%**	**83.00%**	**85.20%**	**82.59%**	**72.38%**	**82.59%**
Notes and Coins	342.9	396	361.6	476.34	582.42	476.34
Balances Due from Banks in Lesotho	931.3	1 859.6	2149.5	2343.9	2127.76	2343.9
Balances Due from Banks in SA	2 397.3	3 416.7	3142.7	3760.6	2533.81	3760.6
Surplus funds	-5.7	50.9	303.9	96.344	170.392	96.344
Government Securities	839.1	664.9	864	825.42	846.959	825.42
Total	**5 599.1**	**5 069.1**	**4 504.9**	**6 388.0**	**6821.7**	**7502.6**
Source: Central Bank of Lesotho						

Interest Rates

In December 2015, the Central Bank of Lesotho (CBL) introduced the CBL rate[2] at 6.25 per cent. In December 2016 the CBL rate stood at 7 per cent. The CBL Rate was largely aligned to monetary policy stances in the Common Monetary Area (CMA) region. In line with these developments, domestic interest rates increased in the review period with the prime rate (industry average) increasing from 10.94 per cent to 11.69 per cent. The 91 day Treasury Bill rate also increased from 6.49 per cent to 6.58 per cent.

[2] This policy rate is envisaged to serve as a signal of the Bank monetary policy stance at any given point in time with the aim of aligning costs of funds domestically to those in the region particularly those in South Africa which is Lesotho's monetary policy anchor economy.

Table 7 Interest Rates	12-Dec	13-Dec	14-Dec	15-Dec	16-Dec
CBL Rate	-	-	-	6.25	7
91-days TB Rate	5.37	5.18	6.25	6.49	6.58
Lombard Rate	9.37	9.18	10.25	10.49	10.58
Commercial Banks					
Call	0.77	0.77	0.99	1.03	1.19
Time					
31 days	0.91	0.91	1.23	0.48	0.44
88 days	1.41	2.85	2.85	1.04	1.12
6 months	1.69	1.69	2.31	2.26	2.53
1 year	2.34	2.34	3.21	3.26	3.52
Savings	0.84	0.84	0.86	0.51	0.56
Prime*	**9.92**	**9.92**	**10.44**	**10.94**	**11.69**
South Africa				**10.94**	**11.69**
Repo	5	5	5.75	6.25	7
T Bill Rate – 91 Days	4.95	5.24	6.12	6.98	7.61
Prime	9	8.5	9.25	9.75	10.5

Source Central Bank of Lesotho and South African Reserve Bank (SARB)

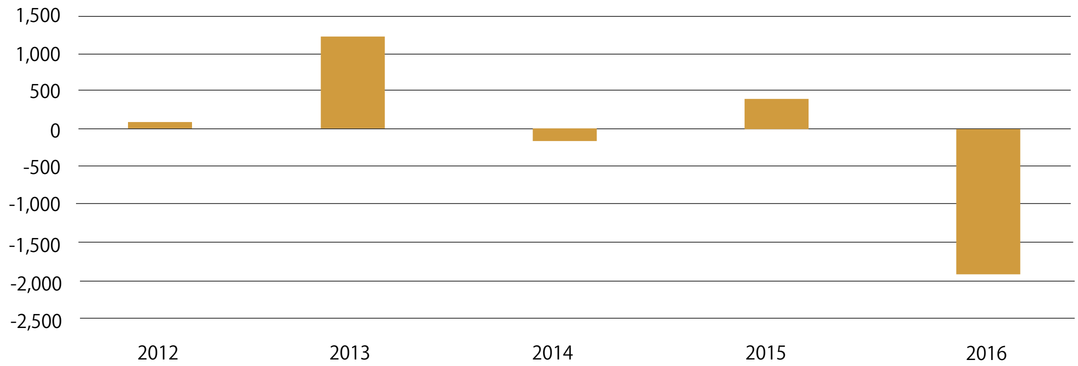
1.2.3 Government Finance Operations

Fiscal Performance

The Government primary budget balance registered a fiscal deficit of 6.6 per cent of GDP in 2016 compared to a fiscal surplus of 2.6 per cent of GDP in 2015. After the payment of interest on public debt, the fiscal deficit increased to 7.5 per cent of GDP in 2016 relative to a marginal fiscal surplus of 1.5 per cent of GDP in 2015. In the review year, total expenditure increased by 9.9 per cent compared with a rise of 4.1 per cent in the previous year, while total revenue declined by 8.5 per cent from a rise of 7.5 per cent the year before. Government indebtedness receded to 39.6 per cent of GDP at the close of the reporting period compared with the 55.6 per cent at the close of 2015.

Total revenue decreased from M15.16 billion in 2015 to M13.87 billion in the year under review mainly as a result of the 24.5 per cent fall in the SACU receipts..

Figure 8 **Fiscal Balance** (Million Maloti)

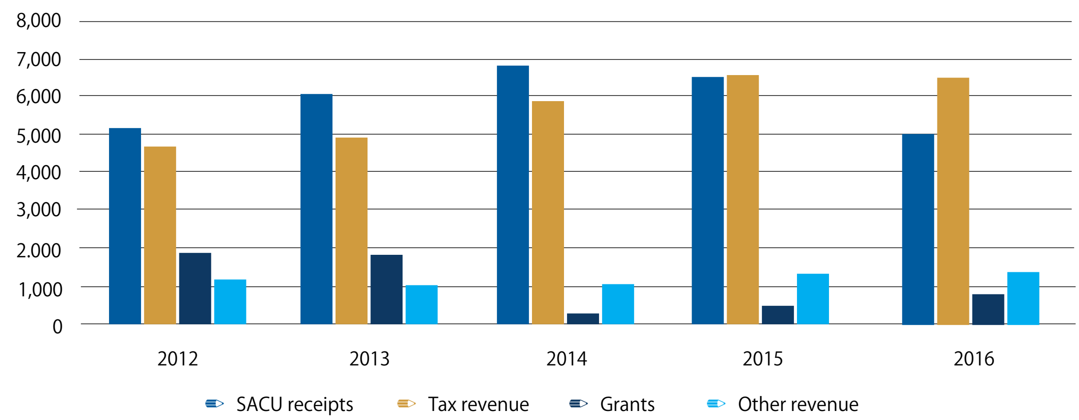


Source: Ministry of Finance (MoF) and CBL estimates

Revenue

Total revenue decreased from M15.16 billion in 2015 to M13.87 billion in the year under review mainly as a result of the 24.5 per cent fall in the SACU receipts. The SACU receipts typically accounts for about 45 per cent of total revenue but the decline in 2016 resulted in the share of 35.8 per cent, which was the lowest since the crisis. All other revenue components increased with grants leading the depicting the highest increase of 40.6 followed by the 'other revenue' category with 5.6 per cent and tax revenue with a modest 0.5 per cent increase.

Figure 9 **Sources of Government Revenue** (Million Maloti)

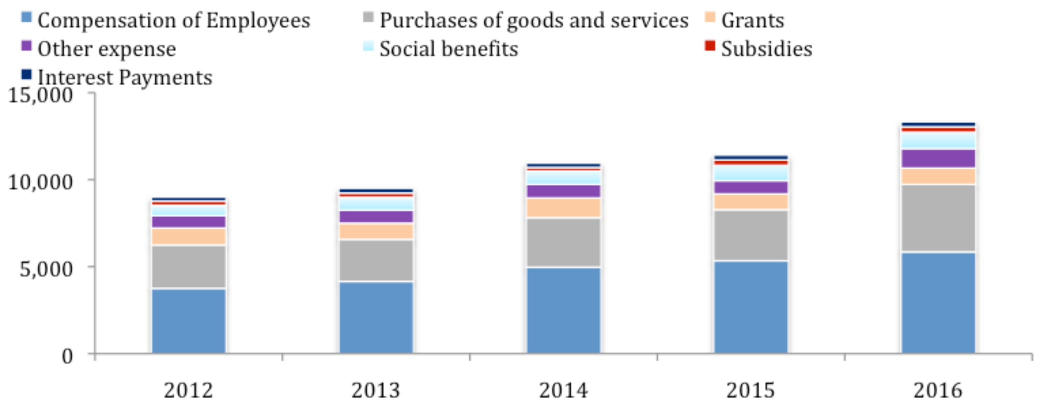


Source: Ministry of Finance (MoF) and CBL estimates

Expenses

Much of the increase in total expenditure was driven by the acceleration in recurrent expenditure (expenses) of M13.33 billion in 2016 compared with M11.41 million in 2015. The drivers of the increase in expenses constituted all components of expenses. Student grants and 'non-life insurance premiums' contributed more to increase of 47.3 per cent in 'other revenue'. International travel and transport costs increased by 90.1 per cent, while the operating costs of the Government were raised by 37.8 per cent, and thus, both categories added to a rise of 32.0 per cent on 'purchases of goods and services'. Other categories of expense which also increased included: 'compensation of employees' and 'social benefits' in which salaries and old age pension were adjusted by 4.0 per cent increase in 2016/2017. Interest payments, mainly interest on 10-year bonds, further contributed to a rise in expenses. The interest on bonds in 2016 has been paid on only the 7-year and 10-year bonds since the 3-year and 5-year bonds were redeemed in 2013 and 2015, respectively. Subsidies also contributed to the rise in expenses as the Government subsidized the prices of locally produced grain-based products by 30.0 per cent.

Figure 10 Sources of Government Revenue (Million Maloti)



Source: Ministry of Finance (MoF) and CBL estimates

> Student grants and 'non-life insurance premiums' contributed more to increase of 47.3 per cent in 'other revenue'.

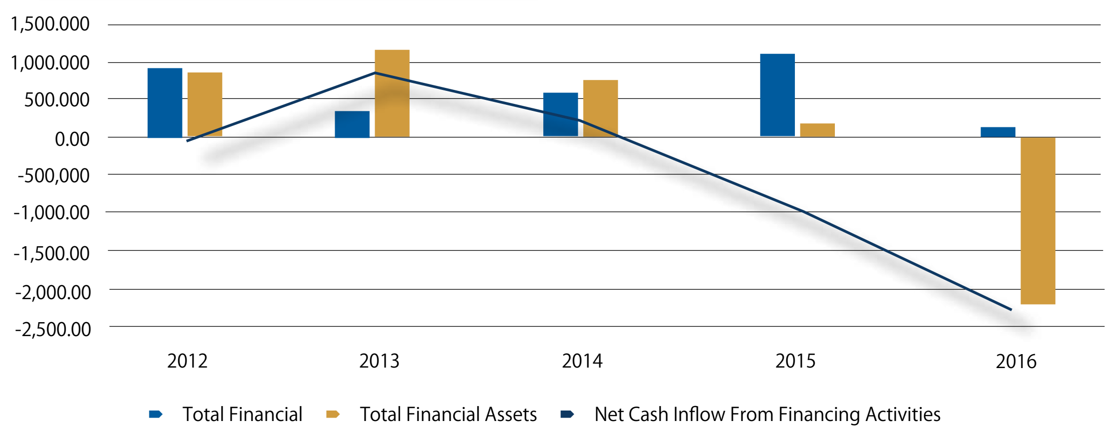
Non-Financial Assets

The capital expenditure or non-financial assets category constituted M2.92 billion in 2016 compared with M3.37 billion in 2015. It declined by 13.2 per cent in 2016 relative to a rise of 3.8 per cent in 2015. This fall in non-financial assets was driven by less spending on other structures (roads, bridges and dams) and non-residential buildings. Machinery and equipment increased by 15.7 per cent during the review period.

Financial Assets and Liabilities

The Government 'cash flows from financing activities' showed drawdown of deposits to the tune of M2.29 billion during the year 2016 compared with M0.97 billion in the previous year. The 'net acquisition of domestic financial assets' dropped by M2.20 billion in 2016 relative to an increase of M0.14 billion in 2015. However, the domestic loan assets, as part of domestic financial assets, were increased by M43.88 million. The net incurrence of liabilities increased by M0.99 billion in the current year compared with a significant rise of M1.11 billion in the previous year. The domestic liabilities (mainly IMF extended credit facility loan on-lent by CBL) fell by M47.14 million while the foreign loans increased by M145.96 million.

Figure 11 Financial Assets and Liabilities (Million Maloti)



Source: Ministry of Finance (MoF) and CBL estimates

Table 8 Summary of Government Budgetary Operations (Millions of Maloti)	2012	2013	2014	2015	2016
Revenue		**12,674.46**	**13,699.78**	**14,104.16**	**15,157.69**
Tax revenue	4,636.25	4,882.97	5,876.38	6,637.62	6,672.68
Grants	1,795.99	1,783.35	364.93	510.24	717.46
Other revenue	1,079.31	1,000.96	1,073.66	1,429.75	1,510.28
SACU receipts	5,162.91	6,032.49	6,789.19	6,580.08	4,966.28
Expense	**-9,001.11**	**-9,508.61**	**-10,954.24**	**-11,413.87**	**-13,326.90**
Compensation of Employees	-3,753.27	-4,155.75	-4,967.88	-5,336.49	-5,848.44
Purchases of goods and services	-2,493.21	-2,413.85	-2,850.34	-2,936.15	-3,877.08
Interest Payments	-230.86	-278.13	-256.56	-283.16	-292.51
Subsidies	-249.84	-246.42	-201.63	-304.19	-307.67
Grants	-972.13	-926.28	-1,129.73	-906.34	-937.45
Social benefits	-593.50	-736.13	-762.23	-882.44	-937.01
Other expense	-708.32	-752.06	-785.87	-765.11	-1,126.74
Net Cash Inflow From Operating Activities	**3,673.35**	**4,191.17**	**3,149.92**	**3,743.81**	**539.80**
Nonfinancial Assets		**-3,614.38**	**-2,977.11**	**-3,244.44**	**-3,369.10**
Fixed Assets	-3,614.38	-2,977.11	-3,244.44	-3,369.10	-2,923.01
Buildings and structures	-1,683.18	-1,418.06	-2,098.78	-1,485.47	-1,356.22
Machinery and equipment	-325.60	-263.92	-158.36	-161.85	-187.29
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00
Cash deficit(-)/surplus(+)	**58.97**	**1,214.06**	**-94.51**	**374.71**	**-2,383.20**
Net Cash Inflow From Financing Activities	**38.33**	**-860.66**	**-205.70**	**973.71**	**2,294.12**
Financial assets (net)	**-3,614.38**	**-2,977.11**	**-3,244.44**	**-3,369.10**	**-2,923.01**
Domestic	-867.24	-1,176.59	-768.30	-137.09	2,195.31
Foreign	0.00	0.00	0.00	0.00	0.00
Liabilities (net)	**905.57**	**315.93**	**562.60**	**1,110.81**	**98.81**
Domestic	384.80	44.13	53.56	383.23	-47.14
Foreign	520.77	271.80	509.04	727.58	145.96
Statistical Discrepancy	**97.30**	**353.40**	**-300.21**	**1,348.42**	**-89.08**

Source Ministry of Finance (MoF) and CBL estimates

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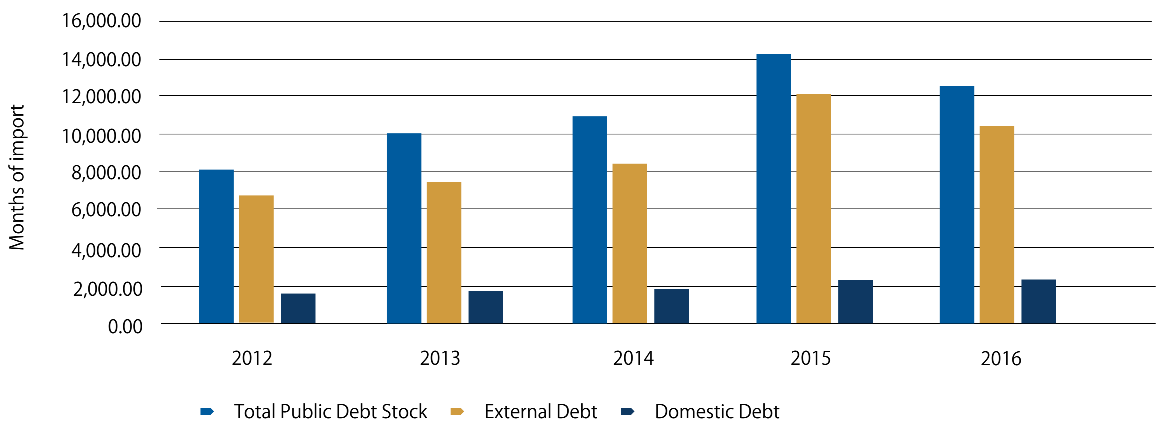
The public debt stock decreased from the revised M14.15 billion in 2015 to M12.54 billion in 2016.

Public Debt

The public debt stock decreased from the revised M14.15 billion in 2015 to M12.54 billion in 2016. This was equivalent to 39.6 per cent of GDP in 2016 which was down from 55.6 per cent of GDP in the previous year. The fall in the public debt, apart from new debt and amortization changes during the course of the year, was largely attributable to the declining external debt stock which was due to the strength in Loti against major foreign currencies in which external debt was denominated.

The external debt stock contributed 82.3 percentage share of the total public debt stock in the current year, leaving 17.7 per cent to the domestic (including IMF-ECF loan) in 2016 compared with 16.2 percentage share in the previous year. When excluding the IMF-ECF loan from the domestic debt, the ratio fell to 11.5 percentage share in 2016 compared with 9.3 percentage share in the previous year.

Figure 12 Public Debt by Residency (Million Maloti)



Source: Ministry of Finance (MoF) and CBL estimates

Table 9 Public Debt Stock and Select Ratios (Millions of Maloti)	2012	2013	2014	2015	2016
Total Public Debt Stock*	**8,100.70**	**9,930.52**	**10,706.84**	**14,154.59**	**12,535.80**
External Debt	**6,447.40**	**8,067.50**	**8,717.32**	**11,862.07**	**10,313.71**
Bilateral Loans (concessional)	355.70	491.70	767.30	1,137.67	972.95
Multilateral Loans	5,687.70	7,052.80	7,330.02	9,764.07	8,577.32
Concessional	5,110.70	6,135.60	6,424.37	8,312.45	6,918.58
Non-concessional	577.00	917.20	905.65	1,451.61	1,658.74
Financial Institutions (non-concessional)	0.00	0.00	57.00	0.72	0.60
Suppliers' Credit (non-concessional)	404.00	523.00	563.01	959.62	762.83
Domestic Debt	**1,653.30**	**1,863.02**	**1,989.52**	**2,292.52**	**2,222.09**
Banks	1,337.78	1,544.81	1,578.73	1,937.44	1,742.43
Treasury Bonds	401.66	307.68	321.69	468.03	466.39
Treasury Bills	456.33	402.54	407.25	395.61	395.20
IMF-ECF loan (on-lent by CBL)	479.78	834.58	849.79	1,073.81	880.84
Non-bank	315.53	318.21	410.79	355.08	479.66
Treasury Bonds	210.70	181.40	232.07	154.84	268.50
Treasury Bills	104.83	136.81	178.72	200.24	211.16
Total debt as % of GDP	40.72	45.30	45.23	55.65	39.62
External debt as % of GDP	32.41	36.80	36.82	46.63	32.59
Domestic debt as % of GDP	8.31	8.50	8.40	9.01	7.02
External debt as % of total	79.59	81.24	81.42	83.80	82.27
Domestic debt as % of total	20.41	18.76	18.58	16.20	17.73
Concessional as % of External debt	84.78	82.15	82.50	79.67	76.51

Source: Ministry of Finance (MoF) and CBL estimates, (*end of period exchange rate)

1.2.4 External Sector Developments

Overall Balance

Lesotho's external sector position deteriorated in 2016, driven by the widening current account deficit. The weakness of external sector was also attributed to the reduction in foreign assets during the review year. Consequently, the overall balance decreased by M1.8 billion in 2016 which was equivalent to 5.7 per cent of GDP, in contrast with an increase of M1.6 billion or 5.8 of GDP in the previous year. The weakening in the external sector position was reflected in the decline in months of import cover to 5.2 months in 2016, from 6.3 months realized in the previous year..

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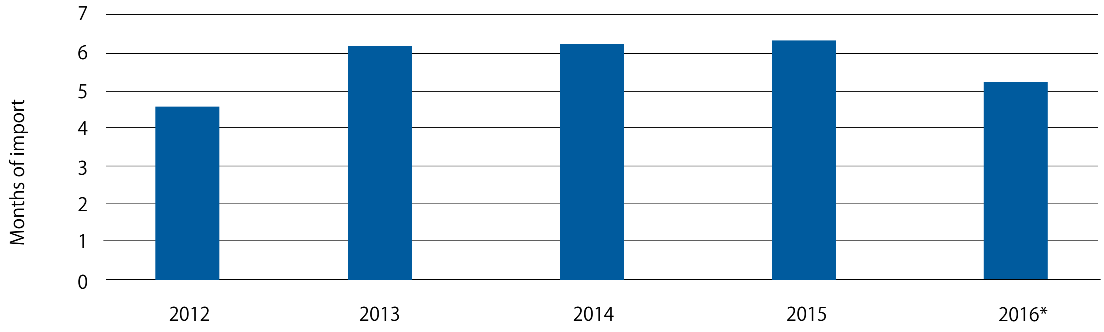
Lesotho's external sector position deteriorated in 2016, driven by the widening current account deficit.

Figure 13 Reserves in Months of Imports



Source: Central Bank of Lesotho, * Preliminary estimates

Table 10 Summary of Balance of Payments (As Percentage of GDP)

	2012	2013	2014	2015	2016*
Current Account	-13.7	-7.0	-6.3	-3.7	-9.3
Goods	-47.8	-44.9	-44.0	-35.0	-33.4
Services	-15.4	-14.5	-13.9	-11.8	-11.4
Primary Income	16.3	16.3	14.2	13.6	13.3
Secondary Income	33.2	36.1	37.5	29.6	22.1
Capital Account	7.3	6.7	1.5	1.6	2.2
Financial Account	-4.8	4.7	-6.8	-5.0	-11.4

Source Central Bank of Lesotho, * Preliminary estimates

Current Account

In 2016, the current account deficit widened to M2.9 billion or 9.3 per cent of GDP, following a deficit of M1.1 billion equivalent to 3.7 per cent of GDP in the previous year. The worsening current account deficit was largely driven by an increase in the deficit in trade account (goods and services) which registered 44.8 per cent of GDP during the review year, compared with 46.8 per cent of GDP in the previous year. The observed performance of current account was also influenced by the narrowing of the secondary income account surplus, largely due to a decline in SACU receipts during the review year. However, the improvement in the primary income account dampened the growth in the current account deficit in 2016.

The increase in trade deficit emanated from the rise in the deficit in goods and services accounts. In particular, the deficit in goods account was underpinned by the escalation of merchandise imports, which more than offset the rise in exports. Merchandise imports rose by 7.2 per cent in 2016, compared with a rise of 11.7 per cent in the previous year.

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Merchandise exports grew by 10.0 per cent in the review year, compared with a rise of 25.5 per cent in the previous year. The slowdown in exports emanated from a sharp fall in diamond exports, which fell by 14.7 per cent during the review year, in contrast with an increase of 21.5 per cent in the previous year. The fall in diamond export was due to a decline in diamond production coupled with lower prices in the international diamond market in 2016. Textiles and clothing exports continued to grow during the review year although at a lower rate compared to 2015. An increase of 18.4 per cent in 2016 was recorded in textiles and clothing exports compared to 35.2 per cent in the previous year. Textiles and clothing exports, benefitted from Lesotho's increase in market share within the SACU region while textile exports to the US remained under pressure.

Lesotho continued to be a net importer of services during the review year. The deficit in services account declined by 5.0 per cent in 2016 compared with an increase of 6.0 per cent in the previous year. The improvement in services account reflected a rise in tourism services receipts during the review year. However, an increase in payments for transportation services, in particular, freight services on imported goods from non-SACU region together with a rise in payments for Lesotho's foreign embassies abroad partly offset the gains from increased tourism receipts. Relative to GDP, services account registered a deficit of 11.4 per cent in the review year, following a deficit of 11.8 per cent in the previous year.

The primary income account balance rose by 7.0 per cent, equivalent to 13.3 per cent of GDP in 2016, lower than a rise of 19.4 per cent or 13.6 per cent of GDP in the preceding year. The observed performance was driven largely by an increase in receipts for compensation of employees and returns on foreign portfolio investments by both CBL and commercial banks. The growth in the primary income account was also boosted by a rise in receipts from SA for maintenance and operational costs of Lesotho Highlands Development Authority (LHDA) dams.

The secondary income balance declined by 18.4 per cent in the review year, compared with a fall of 1.8 per cent in the previous period. The decline in the secondary income was mainly attributed to lower SACU receipts which take the largest share in the account. SACU receipt fell by 24.5 per cent in 2016, higher than a decline of 3.1 per cent in the previous year. As a percentage of GDP, secondary income account registered 22.2 per cent in the review year, compared with 29.6 per cent in the preceding period.

Capital Account

The capital account balance continued to be a surplus in 2016. Traditionally, Lesotho's capital account has been in surplus due to the substantial inflows of funds from development partners. In 2016, the net capital account inflows surged by 46.8 per cent following a 36.4 per cent increase realised in 2015. This reflected increased funding for government activities by the donor community. As a share of GDP, the capital account inflows rose to 2.3 per cent in 2016 from 1.5 per cent recorded in 2015.

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Lesotho continued to be a
net importer of services
during the review year.

Financial Account

The financial account continued to be under pressure in 2016 due to the fragile domestic economy characterized by weak fiscal stance and thus a deteriorating external position. The financial account registered a higher deficit of M3.6 billion or 11.4 per cent of GDP in 2016 compared to a deficit of M1.5 billion, equivalent to 4.6 per cent of GDP, in 2015. The deficit was a result of the substantial fall in foreign assets of the Central Bank following a 24.5 per cent decline in SACU revenue. The reduction in SACU revenues in 2017, weighed heavily on the capacity of the government to build its deposits with the Central bank and thus a decline in official reserves. The lower inflows of foreign direct investment however, had a moderating effect on the net borrowing of the financial account. The lower incurrence of FDI liabilities mainly resulted from the winding down of construction activities at Liqhobong diamond mine from the third quarter of 2016 ❑

2

Bank is responsible for the implementation of monetary policy which, under the CMA arrangement, involves maintaining the peg between the Loti and the Rand.

CENTRAL BANKING ACTIVITIES

2.1 MONETARY POLICY

Pursuant to Sections 5 and 6 (c) & (d) of the Act, the Bank is responsible for the implementation of monetary policy which, under the CMA arrangement, involves maintaining the peg between the Loti and the Rand. In the review period the Bank convened six (6) sittings of the Monetary Policy Committee (MPC). The MPC considered global and domestic economic conditions, global financial markets conditions, net international reserves (NIR) developments and outlook in order to determine the NIR target floor (which is the level of NIR below which the parity of the Loti and the Rand would be compromised) and the CBL Rate. In the reporting period the Bank improved the communication of its monetary policy decisions by holding a press briefing after each sitting just before posting the Statement on the website.

The introduction of the CBL Rate in 2015 was the first pillar of the 3-pillar monetary policy framework improvement project. In the review year, the second pillar of the project which entailed development of an active liquidity management model was completed with such a model constructed using the autonomous components of the Banks balance sheet that influence the liquidity of the banking sector. In-sample tests and dry runs of the model were conducted and its performance was satisfactory. The model data requirements were being finalized at the close of the period and the full rollout of active liquidity management is anticipated from the beginning of 2017.

2.2 ECONOMIC RESEARCH AND REPORTS

The Bank is mandated by Sections 41(3) and 46(1) of the Act to conduct economic research and analysis and on the basis of that proffer relevant advice to the Government of Lesotho. Section 46(2) empowers the Bank to publish the research and analysis it undertakes in a manner it sees fit. At a very basic level, the Bank compiles quarterly economic reports which are then submitted to the Office of the Minister of Finance in the form of a Cabinet Information Papers and are published for public consumption. The review period saw compilation and publication of the Quarterly Reviews for the quarters ending in December 2015 (published in March 2016), March, June and September of 2016.

The Bank also prepares a semi-annual medium term Macroeconomic Outlook which it usually disseminates in the form of a multi-stakeholder economic briefing seminar. The reporting period saw the research function enhanced with the launch of the centralised statistical database which has also been made accessible to the public through the Bank's website; and with the launch of the CBL Research Bulletin, which is a platform or a medium for disseminating the research output produced by the staff of the Bank.

2.3 FINANCIAL STABILITY

Advances in enhancing the Financial Stability function

The Bank continued to expand its set of financial soundness indicators (FSIs) as well as increase the coverage to include the non-bank sector. This has facilitated the production of the Financial Stability Watch which analyses trends of the FSIs and distil any implications arising from them for financial stability. In addition, the Bank produced the first Banking Sector Stress Testing Report during the year. Another key aspect of the function is macro-prudential policy. In an effort to build a macro-prudential policy framework, the Bank has successfully completed two research papers on i) The Role of the Financial Cycle in Macroprudential policy decision-making: when to accumulate or reduce counter-cyclical buffers and, ii) The Anatomy of the Real Estate Sector in Lesotho. The two papers are central to the development of a macro-prudential policy framework for Lesotho and are being used to shape the macro-prudential policy tool-kit for the country.

Financial Soundness Indicators

The macroeconomic environment remained fairly stable during the period under review. Inflation moderated and continued on a downward trajectory. Volatility in the loti remained a threat to the domestic financial stability and was mainly influenced by SA political developments and the resurgent commodity prices and capital flows. A number of structural imbalances continued to be a threat to financial stability. For instance, the cost of intermediation was higher in Lesotho than in other CMA countries during the period under review, implying that risk was priced more in Lesotho than in the rest of other CMA countries. The cost of funding, measured by money market spread, also remained high.

Nonetheless, the banking industry remained adequately capitalised during 2016 and continued to maintain a good quality of assets. The level of liquidity remained fairly adequate to withstand shocks to banks' balance sheet and the industry remained profitable. Despite increasing during the last quarter of 2016, banks' exposure to foreign exchange risk remained relatively low during the year.

- **Capital Adequacy**: The ratio of total regulatory capital to risk-weighted assets was 18.0 percent for the period under review and remained above the minimum capital adequacy ratio of 8 percent. The ratio was slightly higher than the one recorded in 2015. The ratio of tier-1 capital to risk-weighted assets also increased from 13.8 percent in 2015 to 17.1 percent in 2016. These levels of capital were sufficient to absorb expected or unexpected shocks that may have arisen.

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The Bank continued to expand its set of financial soundness indicators as well as increase the coverage to include the non-bank sector.

- **Earnings and Profitability**: The banking industry remained profitable during 2016, showing that banks efficiently utilised their resources (assets and capital) to generate income. Return of Equity (ROE) increased significantly by 20.67 percentage points to 61.5 percent. The increase in the ratio was as a result of an increase in net income across the industry. However, Return of Assets (ROA) remained relatively unchanged. The ratio of net interest margin to gross income was 58.0 percent in 2016. This ratio decreased marginally in comparison to the ratio observed in 2015. The ratio of non-interest expense to gross income rose from 52.2 percent in 2015 to 54.7 percent 2016. This shows that administration expenses relative to income had increased as compared to December 2015. But the increase in expenses was offset by growth in gross income, which offset the impact of growth in expenses in the ratio.

- **Asset Quality**: Non-Performing Loans (NPLs) management in the banking sector improved during 2016. As illustrated in Figure 4, the ratio of non-performing loans to total gross loans declined by 0.3 percentage points to 3.6 percent and the ratio of large exposures to capital decreased by 26.4 percentage points to 124.5 percent.

- **Liquidity**: The ratio of liquid assets to short-term liabilities decreased from 63.5 percent in 2015 to 52.4 percent in 2016 as reflected in. This was as a result of both the liquid assets and short term liabilities during the review period. For 2016, the ratio of liquid assets to total assets declined by 9.0 percentage points from to 31.4 percent recorded in 2015. The customer deposit to total (non-interbank) loans ratio is a measure of liquidity that compares the stable deposit base with gross loans excluding interbank activity[3]. In 2016, the ratio was 149.4 percent, reflecting a decline of 13.9 percentage points from the ratio observed in 2015. This was due to a decline in customer deposits during the year.

- **Sensitivity to Market Risk**: The banks' exposure to foreign risk, measured by the net open position in foreign exchange to capital, increased in 2016. The ratio increased to 42.0 percent in comparison to 18.6 percent that was observed in 2015 due to increase in assets denominated in foreign currencies.

[3] IMF (2006) Financial Soundness Indicators, Compilation Guide.

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Table 11	Financial Soundness Indicators (FSIs)					
		2012	2013	2014	2015	2016
		Dec	Dec	Dec	Dec	Dec
Capital Adequacy	Regulatory capital to risk-weighted assets	0.136	0.121	0.137	0.152	0.180
	Regulatory Tier 1 capital to risk-weighted assets	0.124	0.114	0.130	0.138	0.171
	Nonperforming loans net of provisions to capital	0.039	0.110	0.080	0.078	0.074
Assets Quality	Nonperforming loans to total gross loans	0.025	0.037	0.041	0.039	0.036
	Large exposures to capital	1.661	1.547	1.634	1.509	1.245
Earnings & Profitability	Return on assets	0.011	0.012	0.011	0.011	0.011
	Return on equity	0.398	0.427	0.405	0.408	0.615
	Interest margin to gross income	0.564	0.559	0.584	0.576	0.580
	Noninterest expenses to gross income	0.536	0.528	0.511	0.522	0.547
Liquidity	Liquid assets to total assets	-	0.353	0.406	0.404	0.314
	Liquid assets to short-term liabilities	-	0.716	0.561	0.635	0.524
	Customer deposits to total (non-interbank) loans	1.700	1.251	1.742	1.633	1.494
Sensitivity to Market Risk	Net open position in foreign exchange to capital	-	0.323	0.087	0.186	0.420
Deposit Takers	Capital to Assets	0.116	0.115	0.111	0.105	0.132
	Large Exposures to Capital	1.661	1.547	1.634	1.509	1.245
	Gross asset position in Financial Derivatives to Capital	-	0.001	0.005	0.009	0.020
	Gross liability position in Financial Derivatives to capital	-	0.070	0.054	0.081	0.001
	Personnel Expenses to noninterest expenses	0.632	0.518	0.532	0.495	0.489
	Customer deposits to total (non-interbank) loans	1.700	1.251	1.742	1.633	1.494
	Foreign-currency-denominated loans to total loans	0.000	0.000	0.000	0.000	0.000
	Foreign-currency-denominated liabilities to total liabilities	-	0.039	0.030	0.037	0.028
Source	Ministry of Finance (MoF) and CBL estimates					

2.4 Regulation and Supervision

Bank Supervision

The supervisory aspects entailed largely activities under the Basel 2 migration project as well as strengthening the early warning framework. For example, under the Basel Project, the Bank has considered, among other deliverables, the following analytical reports: i) *Likely impact of the Basel II requirements on capital in commercial banks in Lesotho*, ii) *Status-assessment of stress-testing practice in commercial banks in Lesotho*, iii) *a comparative analysis of treatment of impairments under international financial reporting standard 9 and Basel II requirements and iv) Consultative paper on ICAAP guidelines.*

Banking supervision and regulation was, in recent years, modernized through the enactment of the Financial Institutions Act (FIA) in 2012, which replaced the FIA of 1999. In the reporting period, the 16 sets implementing of regulations were gazetted and published, ushering a comprehensive and modern banking supervision and regulatory regime.

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The supervisory aspects entailed largely activities under the Basel 2 migration project as well as strengthening the early warning framework.

Summary of Banking Sector Performance in 2016

The banking industry comprised of four (4) banks, three of which were subsidiaries of South African banks and one local bank. In terms of national outreach, delivery channels included branches, Automated Teller Machines (ATMs), and Point of Sale (POS) terminals as follows: there were total of 49 Branches, 194 ATMs and 1339 point of sales (POS). A total of 1721 employees were absorbed within the banking industry as at 31 December 2016.

The industry's total assets amounted to M13.2 billion in December 2016, largely dominated by foreign subsidiaries which accounted for 97 per cent. The banking sector's total assets continued to be largely concentrated in the top-two banks, with a significant proportion of 80.5 per cent in December 2016. The first two quarters of 2016 saw the industry's total assets increasing due to growth in financial intermediation, while contraction in total assets was observed in the second half of the year, due to a decline in balances with South African banks and investment securities.

The industry's total deposits stood at M8.79 billion in December 2016. Balances with banks in SA, which represents a larger share in placements, declined substantially in response to a decline in banks deposits. The industry continued to be challenged by the liquidity funding structure which is dominated by corporate funding, making it vulnerable to huge withdrawals by top depositors.

The NPLs continued to decline throughout the year, even though past due loans continued on an increasing path in the loan book. Some credit facilities belonging to top 20 borrowers from the manufacturing and construction sectors were adversely classified. To curb the credit risk, the provisioning picked up momentum on the back of implementation of Financial Institutions (Assets Classification) Regulations 2016. The industry's major source of income continued to be dominated by interest income on loans, interest income on placements and commission income. A large share of expenses constituted interest expenses, salaries and other operating expenses. The industry remained profitable as a result of high levels of interest income, particularly from loans and advances, low level of NPLs.

In general, the industry remained sound and stable as reflected by satisfactory financial performance and capital positions. However, most of the players were in the process of improving their core banking systems hence operational risk is anticipated to increase.

Strengthening Non-Bank Financial Institutions Supervision and Regulation

The Non-Banks Financial Institutions represent a diverse set of financial institutions comprised of Credit Only and Deposit Taking Micro-Finance Institutions (MFIs); Money Transfer Institutions; Credit Bureau; Financial Leasing Institutions; and Money Lenders. These institutions are supervised and regulated within the Non-Banks Supervision Division (NBSD). NBSD is also charged with the responsibility of implementing several projects aimed at building requisite financial infrastructure, fostering financial inclusion and improving access to finance.

Under the MFIs the Central Bank, with the assistance of the World Bank under the First Initiative, has been reviewing the Deposit Taking and Credit Only MFIs Regulations with the aim of creating an appropriate legal and regulatory framework. Another area of focus, in the review period, under this program has been the review and development of the Financial Consumer Protection framework.

The establishment of the Secured Transactions Regime on Movables and the Collateral Registry is another area of priority that the Central Bank has been driving. Thus far, a prototype state of the art electronic registry or system has been developed and the Security in Movable Property Bill was being finalised.

Under Financial Leasing, there were still no players in 2016 since the Financial Leasing Regulations were enacted into Law in 2013. The Central Bank further pursued development of the leasing market by undertaking the market research and reviewing the legal framework with a view to identifying and reducing barriers to entry into the leasing space by prospective players.

The Credit Information Bureau is another project which has been implemented by the Bank recently. In the period under review, much focus has been on improving data coverage into the Bureau and building supervisory and regulatory frameworks within the Central Bank. As at the end of December 2015, the total number of individuals' records in the bureau constituted over 7 per cent of the adult population and the electronic reporting system and the entire supervisory and regulatory frameworks were developed and implemented.

Insurance Sector Regulation

For the year 2016, the Central Bank of Lesotho has been focusing on the regulatory reforms which touched on a number of areas in the financial sector. In the insurance sector, a review of the Insurance Act of 2014 is under way which, among others, is intended to strengthen the governance framework for insurance companies and to accommodate the risk based supervision. In order to support the current regulatory regime, seven (7) sets of Insurance Regulations were published in 2016. These include, among others, regulations on solvency, financial reporting good practice for insurers and intermediaries.

The pension industry is one other area where through the assistance of the World Bank, Pension Bill was drafted and it is at the advanced stage of enactment. The Bill is intended to make the Bank the regulator of the pension industry, which will close the regulatory gaps in this area. The envisaged scope of application is on both the occupational and non-occupational pension funds.

The Credit Information Bureau is another project which has been implemented by the Bank recently.

2.5 Financial Markets

Market Development

The year started with the launch of the Maseru Securities Market (MSM), which was a culmination of the work that was done in the previous year, when the legal and technology infrastructure were put in place. During the curse of the reporting period, the Bank engaged various stakeholders on the possibility of ceding their shareholding in certain companies and have those listed on the MSM. The conversations are still on-going in this regard. Apart from that, there are three applications for corporate bond issuances on the MSM that were under consideration at the close of the reporting period.

The Government bonds market experienced a slow start with substantial under-subscription on the offerings. Following some sensitization campaigns, the market picked up with observed increases in individual and corporate participations. Bi-weekly Treasury bills auctions, which are primarily for monetary policy purposes were all successful during the review period.

Reserves Management

In the context of the global economy that has struggled to recover from the financial crisis, the investment environment has been very difficult, characterized by subdued yield across the board. The investment environment during the reporting period was largely the same, with major markets continuing to struggle with the exception of the US where some recovery was observed.

There were two challenging circumstances that made reserves management more difficult during the reporting period. First, the South African bond market which had been doing relatively well amid capital flows to emerging market economies had a difficult year in 2016 with the rating agencies keeping it on the radar for a possible downgrade and that affected yields from the Rand portfolios. Secondly, the Government deficit, which was largely financed by drawdown of deposits, affected the overall size of the portfolio negatively.

2.6 Payment and Settlement Systems

Lesotho Wire Performance in 2016

Since its launch in 2006, Lesotho Wire (LSW) has been the backbone of the payment and settlement system in Lesotho. In 2016, this system continued to process and settle significant interbank transactions in the country. In 2016, the system processed and settled a total of 23,917 transactions valued at approximately M34.26 billion compared to 27,683 transactions to the tune of M28.06 billion processed and settled in 2015. On the one hand, this represents approximately 7.0 per cent decline in terms of transaction volumes from 2015. On the other hand, it represents 22 per cent growth in terms of transaction values from the same year. On average, this system processed and settled a total of 26,816 interbank transactions valued at approximately M27.92 billion per year between 2013 and 2016.

Shoprite Domestic Money Transfer

In 2016, Shoprite Lesotho in collaboration with Standard Lesotho Bank (SLB) launched Shoprite Domestic Money Transfer Service in Lesotho. This was after witnessing successful launch of Shoprite cross-border Money Transfer Service for inbound remittances in the previous year and its significant uptake by masses of Lesotho diaspora working and residing in SA as a channel for remitting money to relatives and friends in Lesotho. Similar to its predecessor, this facility allows Basotho people to send and receive money to and from relatives and friends living and working in different parts of the country at the nearest Shoprite Stores.

Mobile Money in Development Lesotho

Mobile money in Lesotho grew significantly in transaction volumes and values over the years since its launch in 2012. In 2016, these systems collectively processed a total of 29.69 million transactions worth about M4.21 billion compared to 16.76 million transactions valued at approximately M1.95 billion processed in 2015. This represents approximately 77.0 per cent and 116 per cent growth in transaction volumes and values respectively. Thus, the service continues to increase financial inclusion in Lesotho.

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The Bank continued to expand its set of financial soundness indicators (FSIs) as well as increase the coverage to include the non-bank sector.

2.7 International Cooperation

The Bank continued to participate in meetings and conferences of various international organizations to which it is a member. These include the International Monetary Fund (IMF) /World Bank, Southern African Development Community Committee of Central Bank Governors (SADC CCBG), Common Monetary Area (CMA), Southern African Customs Union (SACU), Association of African Central Banks (AACB), Alliance for Financial Inclusion (AFI) and Financial Stability Board Regional Consultative Group for Sub-Saharan Africa.

In 2016, the Bank completed the study for CCBG on Reserves Management Trends and Practices in SADC Member States. The study surveyed reserve management practices and developments among SADC central banks with a view to reviewing reserves management trends within the region in order to inform policy decisions. The study has been published on the CCBG website. During the IMF/World Bank spring meetings, the Governor Matlanyane participated as a panellist in the Small Middle Income Countries (SMICs) seminar under the theme of 'Climate Change: Policy Challenges for SMICs'. The presentation shared Lesotho experience with El Nino induced drought that severely affected the economy in 2015/16 and the policy responses ❑

3

The Bank is mandated by Sections 41(3) and 46(1) of the Act to conduct economic research and analysis and on the basis of that proffer relevant advice to the Government of Lesotho.

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CORPORATE ACTIVITIES REPORT

3.1 GOVERNANCE MATTERS

The Bank has a unitary Board which comprises of five (5) Non-Executive Directors and three (3) Executive Directors. The Non-Executive directors are independent of management and free of any business or other relationship with the Bank that could materially affect their unfettered and independent judgment in the exercise of their fiduciary duties. The Board is collectively responsible for the execution of the mandate of the Bank as enshrined in the Act. The Board sets the Bank's strategy, oversees management, and provides leadership for the successful execution of the statutory functions and for the long term sustainability and success of the Bank.

In order to assist the Board carry out its responsibilities, the Board has established the Audit Committee, the Risk and IT Governance Committee, and the Human Resource and Remuneration Committee. These Committees have prescribed charters in terms of which they undertake their respective roles as delegated by the Board. Matters that have been dealt by these Committees are referred to the Board for decision with clear recommendations. Further, each Committee provides reports to the Board on the matters that it dealt with periodically. Apart from these Committees, there is the Executive Committee, which comprises of the Governor, who is also the Chairperson, the Deputy Governors, and Heads of Department. The Executive Committee acts with delegated authority from the Board and is responsible for day to day operations of the Bank and reports to the Board periodically. In line with section 13 (2) of the Act, which requires the Board to meet as frequently as possible and not less than once in every two months, the Board of Directors convened eleven (11) meetings during the Financial Year 2016.

3.2 ASSURANCE MATTERS

Risk Management

The Bank's risk register was aligned to the Strategic Plan in the review period. This represented a fundamental shift from what was previously a process-based risk register. The revised risk register was approved by the Board and served as foundation for the development of the risk profile as well as business unit risk action plans. Significant improvements in quarterly reporting on the progress towards implementing risk action plans were observed in the reporting period. All business units have action plans and are reporting on their implementation regularly.

Business Continuity Management

The first main activity in this function was to update and review the Business Continuity Plan (BCP) with the inclusion of the following BCM plans: ICT Disaster Recovery (DR) plan, Crisis Management plan, and Communicable Diseases Response (CDR) plan, and the Business Impact Analysis (BIA) results of 2015 and 2016. The reviewed BCP was approved by the Board in August, 2016.

Following the approval, awareness campaign was conducted, where the revised BCP was work-shopped throughout the Bank, from Management to the rest of the staff. The BCP was also tested by way of a "dry run" to assess readiness of critical functions in the event of a disaster. The testing of the temporary Disaster Recovery (DR) Site was carried out periodically to ensure its functionality and readiness at all times.

The Internal Audit Function

To enable effective outcomes for 2016, the Internal Audit Department provided a combination of assurance services and consulting services. All services were executed following the mandatory guidance namely; definition of internal audit, code of ethics and *International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA)*

In 2016, a flexible Annual Audit Plan which addressed the highest risks within Bank, consistent with the Internal Audit Charter and Strategic Plan was developed and followed towards achievement of the overall objective for the assurance service. The Annual Audit Plan was informed by Internal Audit Department (IAD) own assessment of risk and materiality in addition to consultation with management to ensure the plan was aligned to key risks facing the Bank. Some of the value adding audit assignments undertaken in 2016 includes Enterprise Architecture & IT Governance, Corporate Governance and Corporate Strategy Implementation. The assurance objective involved assessing the efficiency and effectiveness of system of internal control, risk management and governance.

IAD as a key strategic partner to management played an important consultancy role by independently observing and providing advice to management on issues of governance, risk management and controls pertaining to the implementation of the new enterprise resource planning (ERP) and a new core banking system Quantum Central Banking Solution (QCBS). Progress of the project, challenges, successes, risks and IAD's views were highlighted in monthly reports to the Project Board and Executive Management. The Audit Committee was kept abreast of the project through quarterly reports.

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The Bank's risk register was aligned to the Strategic Plan in the review period.

3.3 MAJOR PROJECTS

The ERP and Core Banking Project

The reporting period was characterised by the work on the major systems upgrade project to implement an Enterprise Resource Planning (ERP) system and a Core Banking System. The two systems were replacing the Bank's legacy core banking and general ledger platform, MIDAS, which apart from showing signs of obsolescence, was becoming difficult to support. The reason for the two systems in place of one was borne out of the ideal scenario of having the Bank's banking operations and enterprise operations on separate platforms. The core banking system is a banking platform while the ERP is a generic system that is used by all types of enterprise organizations for functions such as accounting, financial reporting, procurement and similar functions. The projects were commissioned to go live, albeit in a parallel run with the MIDAS at the end of November 2016.

The Bank Extension Project

Significant strides were registered on the project with the structural components of the project completed during the reporting period. Components relating to the electrical, mechanical, exterior facade and interior aesthetics were being mobilized at the close of the period.

The initial project completion date of end of February 2017 was extended due to various reasons ranging from complexities of the work itself to weather related conditions that were not provided for in the initial project timeline. At the close of the reporting period the revised project completion date is end of August 2017.

3.4 CORPORATE SERVICES

Human Resources

The Bank has grown in staff head count and talent pool as well as striving to do more in the scope of its functions. In response to these, a decision was made that Human Resources Management (HRM) cannot continue to occupy the role of a corporate support function as has been the case to date. It became apparent that HRM must become a strategic partner as opposed to the corporate support function. To that end, the work to reorganize and realign the function to the strategic configuration of the Bank was commissioned and a blueprint of how the function is to be organised was in place at the close of the review period.

CORPORATE ACTIVITIES REPORT

Staff movements that occurred in 2016 resulted in the net increase of 10 additional staff members. The number of recruitments into the new positions was 18. The Bank separated, for various reasons, with 8 staff members.

ICT Support, Security & Governance

ICT support in the Bank is the responsibility of the ICT Department, which provides centralized ICT services with the ultimate objective of supporting the business functions and the strategic direction of the Bank through delivery, maintenance and support of information systems and infrastructures.

The review year saw the approval and rollout of the Information Security Policy, in response to the emerging cybercrime threat. Counter measures were embarked upon, which included engagement of critical business areas to be on high alert with regard, but not limited to phishing emails. The Bank started monitoring of cybercrime incidents and trends locally and internationally. On top of the fortification of the whole infrastructure, arrangements are underway to embark on a more comprehensive cyber security program.

With regard to the holistic Information Technology Governance, the Bank has embarked on a process of adopting COBIT 5 as well as implementation of ITIL processes in line with the pre-defined roadmap ❑

4

This report details the salient aspects of the governance framework of the Central Bank of Lesotho (the Bank).

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CENTRAL BANK OF LESOTHO
BANKA E KHOLO EA LESOTHO

Financial Statements
for the year ended December 31, 2016

General Information

Nature of business and principal activities
Statutory body duly continuing in existence in terms of the Central Bank of Lesotho Act No. 2 of 2000.

Registered office
Cnr Airport & Moshoeshoe Roads Maseru 100 Lesotho

Postal address
P.O. Box 1184 Maseru 100 Lesotho

Auditors
Deloitte & Touche and LETACC

Secretary
Mr. Napo Rantsane (Adv.)

Lawyer
Webber & Newdigate

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Central Bank of Lesotho

Financial Statements • Corporate Governance Report

for the year ended December 31, 2016

This report details the salient aspects of the governance framework of the Central Bank of Lesotho (the Bank). The Bank is committed to ensuring that its policies and practices comply with the highest standards of corporate governance. The Board of Directors of the Bank are committed to ensuring that the Bank adheres to the principles of accountability, transparency and integrity in all its dealings and interactions with all its stakeholders.

Report for the year

The Bank has a unitary Board which comprises five (5) Non-Executive Directors and three Executive Directors. The Non-Executive Directors are independent of management and free of any business or other relationship with the Bank that could materially affect their unfettered and independent judgement in the exercise of their fiduciary duties.

The Governor is the Chairperson of the Board and sets its tone. She is responsible for the effective organisation and conduct of the Board's affairs. She builds and maintains an effective working relationship with all Board Members, and encourages robust and constructive debate, as well as equal participation in all deliberations of the Board.

The Board is collectively responsible for the execution of the mandate of the Bank as enshrined in the Central Bank of Lesotho Act No.2 of 2000 (the Act). The Board sets the Bank's Strategy, oversees management, and provides leadership for the successful execution of the statutory mandate and for the long term sustainability and success of the Bank.

In order to assist the Board in carrying out its responsibilities, the Board has established the Audit Committee, the Risk and IT Governance Committee, and the Human Resources and Remuneration Committee. These Committees have prescribed charters in terms of which they undertake their respective roles as delegated by the Board. Matters reviewed by these committees on behalf of the Board are referred to the Board for decision with clear recommendations. Furthermore, each committee provides reports to the Board on the matters that it dealt with periodically.

Apart from these committees, there is an Executive Committee, which comprises of the Governor, Deputy Governors and Heads of Departments and also acts with delegated authority from the Board. The Executive Committee is responsible for the day to day operations of the Bank. This committee also provides reports to the Board periodically.

The Board is responsible to facilitate an induction programme for members of the Board upon appointment through the Board Secretary. The Board Secretary also plays an active role to provide regular training to capacitate the Board as a whole on issues of central banking and corporate governance trends in order to enhance its efficiency. In addition, the Board also has access to the services and advice of the Board Secretary.

In line with Section 13 (2) of the Act, which requires the Board to meet as frequently as possible and not less than once in two months, the Board of Directors convened eleven (11) meetings during the 2016 financial period.

Mr. Napo Rantsane
Director of Corporate Affairs
Secretary to the Board

The Audit Committee is a sub-committee of the Board of Directors of the Bank established in terms of section 20 of the Central Bank of Lesotho Bye-Laws of 2005. The Committee comprises four independent non-executive directors. The general mandate and responsibility of the Committee is to review the Bank's business reporting processes, the systems of internal controls and the management of business risks, the audit process, as well as the appointment of the external auditors. The Committee is also responsible for monitoring the Bank's process of compliance with the applicable laws and regulations and its own code of business conduct.

During the financial year under review, the Committee convened nine times in the performance of its oversight role. The Committee members are satisfied that the Bank's internal financial controls are adequately designed and effectively operated to form a sound basis for the preparation of reliable financial reports. This assessment is based on reports from both internal and external auditors and Management. The Committee considered and approved the annual internal audit plan. Members reviewed the reports of the Internal Audit Department on control weaknesses and Management's corrective actions. The Head of the Internal Audit Department reports functionally to the Audit Committee and administratively to the Governor.

The Audit Committee is satisfied with the independence of the external auditors of the Bank. This assessment was made after considering the representations of independence from the external auditors, continuous monitoring and approval of non-audit services, and a formal partner rotation process.

In consultation with Management, the Committee reviewed and approved the external auditors' audit scope, approach, and audit fees for the year under review. The Audit Committee is satisfied with the formal procedures that govern the provision of non-audit services by the external auditors. This is monitored through the reporting and approval of such activities at the Audit Committee meetings.

The Committee members are satisfied that the Bank implemented appropriate processes and controls to ensure compliance with all applicable laws and regulations as they relate to financial reporting. This is based on the Committee's review of reports received from both internal and external auditors, as well as from the Management.

The Audit Committee is satisfied that the Bank managed its Information Communications Technology capability and controls in an appropriate manner to support the integrity of financial reporting. This is based on the Committee's regular review of reports from IT management as well as the internal auditors.

On behalf of the audit committee:

Mrs. Octavia Letebele
Chairperson Audit Committee

Central Bank of Lesotho

Financial Statements • Directors' Responsibilities and Approval

for the year ended December 31, 2016

The Directors are required in terms of the Central Bank of Lesotho Act No.2 of 2000 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Bank at the end of the financial year and the results of its operations and cash flows for the year ended 31 December 2016, in conformity with the Central Bank of Lesotho Act No.2 of 2000 and according to the policies set in note 1 of the annual financial statements The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with the Central Bank of Lesotho Act No.2 of 2000 and according to the policies set in note 1 of the annual financial statements and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates consistently applied.

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

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

The annual financial statements have been prepared on a going concern basis, and the Directors have every reason to believe that the Bank has adequate resources in place to continue in operation for the foreseeable future.

The annual financial statements were approved by the Board of Directors on 29 March 2017 and are signed on its behalf by:

Dr. Retšelisitsoe Matlanyane
Governor

Mr. Sekake Malebanye KC
Director

Deloitte.

Accountancy Firm

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CENTRAL BANK OF LESOTHO

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Central Bank of Lesotho which comprise the statement of the financial position as at 31st December 2016 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements as contained on pages 11 to 55 including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank for the year ended 31st December 2016, are prepared, in all material aspects, in accordance with the accounting policies described in Note 1 to the financial statements and the requirements of the Central Bank of Lesotho Act No. 2 of 2000.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Board for Accountants *'Code of Ethics for Professional Accountants (CIESBA) Code)* together with the ethical requirements for that are relevant to our audit of the financial statements in Lesotho, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis for Accounting and Restriction on Distribution and Use

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Bank in complying with the requirements in the Central Bank Act No. 2 of 2000. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Bank, the Government of Lesotho and the International Monetary Fund and should not be distributed to our used by other parties. Our opinion is not modified in respect to this matter.

Other Information

The Directors are responsible for the other information. The other information comprises the Corporate Governance Report, the Director's Responsibility and Approval Report, the Audit Committee Report and the Director's Report. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 and, in doing so, consider whether the other information is materially consistent 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, 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 Director for the Financial Statements

The Central Bank of Lesotho Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the Bank's accounting policies and the requirements of the Central Bank Act No. 2 of 2000 and for such internal controls as the Directors determine is necessary to enable the presentation of the financial statements that are free from material misstatements, 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 realistic alternative but to do so.

Auditor's 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 use an auditor's 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 ISAs will always detect a material misstatement when it exists. Misstatement can arise from fraud or error and are considered material if, individually or in 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 ISAs, we exercise professional judgement and maintain professional skepticism through the audit. We also:

- Identify and asses 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 the 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 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 event 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 auditor's 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 auditor's 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.

The engagement partners on the audit resulting in this independent auditor's report are Stephen Munro and Letuka Sephelane.

Deloitte & Touche

Deloitte & Touche
Registered Auditors
Per Stephen Munro
Partner
March 29, 2017

LETACC.

LETACC
Firm of Chartered Accountants and Auditors
Per Letuka Sephelane
Partner
March 29, 2017

Central Bank of Lesotho

Financial Statements • Directors' Report

for the year ended December 31, 2016

The Directors present their annual report, which forms part of the audited annual financial statements of the Central Bank of Lesotho, for the year ended 31 December 2016. The annual financial statements are expressed in Maloti, the local currency of Lesotho and the functional currency of the Bank that is at par with South African Rand.

1. Review of activities

Nature of business

The Bank is constituted and governed by the Central Bank of Lesotho Act No.2 of 2000 (the Act). In terms of this Act, the Bank's primary objective is the achievement and maintenance of price stability.

Financial results

The Bank has chosen to use International Financial Reporting Standards (I FRS) as a guide in deciding on the most 'appropriate' accounting policies to adopt and as a model for the presentation and disclosure framework followed in its annual financial statements. However, the Act takes precedence over IFRS in areas where there are conflicts between the Act and IFRS. As a result certain criteria set out in IFRS have not been followed where appropriate. In addition, the Bank considers certain recognition and measurement principles as well as disclosures inappropriate to its functions. The Bank's financial statements, therefore discloses less detail than would be required under IFRS.

The financial results of the Bank are set out in the statement of profit or loss and other comprehensive income on page 10. The residual profits, after a transfer of the foreign exchange currency translation to the designated foreign currency translation reserves, and after appropriations have been allocated to the general and other reserves, are paid over to the Government of Lesotho Consolidated Fund as dividends in accordance with Section 21 (5) of the Act. These appropriations have been fully disclosed in the statement of changes in equity on page 10. Amounts paid and due in terms of the Act were as follow:

	M '000
31 December 2016	147,566
31 December 2015	184,232

2. Amounts due to Government of Lesotho

Amounts due to the Government of Lesotho Consolidated Fund in terms of Section 21 (5) of the Act are set out in the statement of financial position on page 67.

3. Share capital

There were no changes in the Bank's authorised share capital during the year under review. The entire issued share capital is held by the Government of Lesotho.

4. Directors

The Directors of the Bank during the year and to the date of this report are as follows:

Name	Date of appointment	Term of Office ended	Position held
Dr. A. R. Matlanyane	January, 2012		Governor and Chairman
Dr. M. P. Makhetha	January, 2012		First Deputy Governor
Ms. M. G. Makenete	January, 2012		Second Deputy Governor
Mrs. N. Foulo	December, 2014		Non-Executive Director
Mrs. S. Mohapi	December, 2014		Non-Executive Director
Mr. S. Malebanye KC	May, 2015		Non-Executive Director
Mrs. O. Letebele	May, 2015		Non-Executive Director
Dr. M. Letete	July, 2015		Non-Executive Director

5. Secretary

Name	Date of appointment	Position held
Mr. N. Rantsane (Adv.)	March 2015	Director of Corporate Affairs

6. Events subsequent to balance sheet date

The Directors are not aware of any material events that could cause changes in the annual financial statements, which may have occured between the financial year end and date of this report.

7. Auditors

Deloitle & Touche and LETACC carried out the statutory audit of the Bank.

Dr. Retšelisitsoe Matlanyane
Governor

Mrs. Octavia Letebele
Director

29-March-2017

Central Bank of Lesotho

Financial Statements • Statement of Financial Position

for the year ended December 31, 2016

	Notes	2016 M	2015 M
Assets			
Cash and balances with Banks	2	5 710 314	7 709 255
Accrued interest due from Banks	3	12 049	8 189
Investment in unit trust	4	701 863	795 293
Investment in SWIFT	5	555	847
Treasury notes and bonds	6	3 859 285	4 353 916
Treasury Bills	7	246 015	-
IMF Subscription Account	8	1 284 076	751 788
IMF Holding of Special Drawing Rights (SDR)	9	641 390	984 665
IMF Funded PRGF Advances	10	877 458	1 073 290
Lesotho Government Securities	11	7	336
Deferred currency expenditure	12	15 775	29 275
Loans to Staff	13	80 264	69 457
Other assets	14	13 177	14 644
Property, plant and equipment	15	617 753	423 386
Intangible assets	16	9 370	14 505
Deferred taxation	26	-	4 887
Total Assets		**14 069 351**	**16 233 733**
Equity and Liabilities			
Liabilities			
Notes and coins issued	17	1 335 835	1 324 805
Deposits	18	505 397	555 803
Lesotho Government Deposits		4 878 626	6 408 528
IMF Maloti Currency Holding	19	1 052 545	669 138
IMF Special Drawing Rights Allocation	20	604 844	708 236
IMF-PRGF Facility	21	877 458	1 073 290
Taxation payable	22	4 599	27 569
Due to Government of Lesotho Consolidated Fund	23	147 566	184 232
Other liabilities	24	72 030	78 140
Long-term employee benefit obligation	25	105 460	94 263
Deferred taxation	26	12 946	-
Total Liabilities		9 597 306	11 124 004
Equity			
Share capital	27	100,000	100,000
General reserve		282 916	253 402
Rand compensatory reserve		563 200	505 660
SDR revaluation reserve		43 433	145 443
Foreign exchange revaluation reserve		3 360 498	4 070 690
Property revaluation reserve		141 413	129 082
Bond /Unit trust revaluation reserve		(19 415)	(94 548)
		4 472 045	5 109 729
Total equity and liabilities		14 069 351	16 233 733

Central Bank of Lesotho

Financial Statements • Statement of Profit or Loss and Other Comprehensive Income

for the year ended December 31, 2016

	Notes	2016 M '000	2015 M '000
Interest income	28	558 782	552 065
Interest expense	29	(3 776)	(4 866)
Net interest income		**555 006**	**547 199**
Other income	30	38 691	38 455
Revaluation (loss)/ gain on foreign exchange activities		(812 202)	1 375 302
Operating (loss)/ profit		**(218 505)**	**1 960 956**
Operating expenses	31	(348 768)	(267 514)
(Loss)/ profit before taxation		**(567 273)**	**1 693 442**
Taxation	32	(62 060)	(84 748)
(Loss)/Profit for the year		**(629 333)**	**1 608 694**
Other comprehensive income:			
Bond/ unit trusts fair values			
Decrease in bond/unit trusts fair values		100 177	(115 692)
Tax effect		(25 044)	28 923
Net movement		75 133	(86 769)
Property revaluation reserve			
Increase in property revaluations		16 442	27 719
Tax effect		(4 111)	(6 930)
Tax effect adjustment	26	-	(11 250)
Net movement		12 331	9 539
Rand compensatory reserve			
Increase in reserve		57 540	46 334
Tax effect		-	-
Net movement		57 540	46 334
Actuarial gains and losses on employee benefits			
Actuarial (loss)/ gain for the year		(7 719)	(16 415)
Tax effect		1 930	4 104
Net movement		(5,789)	(12,311)
Other comprehensive(loss)/ income for the year net of taxation		**139 215**	**(43 207)**
Total comprehensive income		**(490 118)**	**1 565 487**

Financial Statements • Statement of Changes in Equity

for the year ended December 31, 2016

	Share capital	General reserve	Rand compensatory reserve	SDR revaluation reserve	Foreign Exchange revaluation reserve	Property revaluation reserve	Bond /Unit trust revaluation reserve	Accumulated profit/(loss)	Total equity
	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000
Balance at 01 January 2015	**100 000**	**216 555**	**459 326**	**78 246**	**2 762 585**	**119 543**	**(7 779)**	**-**	**3 728 476**
Profit for the year	-	-	-	-	-	-	-	1 608 692	1 608 692
Transfer of foreign exchange	-	-	-	67 197	1 308 105	-	-	(1 375 302)	-
Decrease in bond/unit trust fair values	-	-	-	-	-	-	(86 769)	-	(86 769)
Rand compensatory receipts	-	-	46 334	-	-	-	-	-	46 334
Asset revaluations for the year	-	-	-	-	-	9 539	-	-	9 539
Actuarial fair value loss	-	-	-	-	-	-	-	(12 311)	(12 311)
Transfer to general reserve	-	36 847	-	-	-	-	-	(36 847)	-
Dividends	-	-	-	-	-	-	-	(184 232)	(184 232)
Total changes	-	36 847	46 334	67 197	1 308 105	9 539	(86 769)	-	1 381 253
Balance at 01 January 2016	**100 000**	**253 402**	**505 660**	**145 443**	**4 070 690**	**129 082**	**(94 548)**	**-**	**5 109 729**
(Loss)/profit for the year	-	-	-	-	-	-	-	(629 333)	(629 333)
Transfer of foreign exchange translation to designated reserve	-	-	-	(102 010)	(710 192)	-	-	812 202	-
Increase in bond/unit trust fair values	-	-	-	-	-	-	75 133	-	75 133
Asset revaluation for the year	-	-	-	-	-	12 331	-	-	12 331
Rand compensatory receipts	-	-	57 540	-	-	-	-	-	57 540
Actuarial fair value loss	-	-	-	-	-	-	-	(5 789)	(5 789)
Transfer to General Reserve	-	29 514	-	-	-	-	-	(29 514)	-
Dividends	-	-	-	-	-	-	-	(147 566)	(147 566)
Total Changes	-	29 514	57 540	(102 010)	(710 192)	12 331	75 133	-	(637 684)
Balance at 31 December 2016	**100 000**	**282 916**	**563 200**	**43 433**	**3 360 498**	**141 413**	**(19 415)**	**-**	**4 472 045**

Central Bank of Lesotho

Financial Statements • Statement of Cash Flows

for the year ended December 31, 2016

	Notes	2016 M	2015 M
Cash flows from operating activities			
Cash generated from operations	33	(2 743 286)	1 024 344
Interest income	28	558 782	552 065
Interest expense	29	(3 776)	(4 866)
Tax paid	22	(94 307)	(61 919)
Rand compensatory reserve		57 540	46 334
Payments to Government of Lesotho Consolidated Fund	23	(184 232)	(131 166)
Net cash from operating activities		(2 409 279)	1 424 792
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(193 389)	(146 068)
Sale of property, plant and equipment	15 & 30	143	1 713
(Increase) in deferred currency expenditure	12	13 500	(3 088)
Purchase of intangible assets	16	(288)	(2 014)
(Increase)/decrease in other assets	14	1 466	(233)
(Increase)/Decrease in loans to staff	13	(10 806)	(8 627)
(Increase)/Decrease in Lesotho Government Securities	11	329	246
(Increase)/Decrease in Treasury notes, bonds and unit trust		588 061	(536 315)
Increase in SWIFT		292	(847)
Net cash from investing activities		399 308	(696 488)
Cash flows from financing activities			
Movements in notes and coins	17	11 030	159 068
Total cash movement for the year		(1 998 941)	887 372
Cash at the beginning of the year		7 709 255	6 821 883
Total cash at end of the year	2	5 710 314	7 709 255

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1. Presentation of financial statements

These financial statements are prepared in accordance with the requirements of the Central Bank of Lesotho Act, No. 2 of 2000. The Bank has chosen to use International Financial Reporting Standards (IFRS) as a guide in deciding on the most appropriate accounting policies to adopt and as a model for the presentation and disclosure framework followed in its financial statements. However, the Act takes precedence over IFRS in areas where there are deviations between the Act and IFRS. As a result certain criteria set out in IFRS have not been followed where applicable. The financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the revaluation of land and buildings, financial instruments classified as available-for-sale, financial assets and liabilities held at fair value through profit and loss and derivative instruments. All monetary figures appearing in the financial statements, unless otherwise indicated, are stated in Maloti.

The preparation of financial statements require the use of certain critical accounting estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

1.1 Property, plant and equipment

Owner-occupied properties

Property, plant and equipment comprises owner occupied properties and equipment held for use in the supply of services or for the Bank's administrative purpose. These are all initially recorded at cost. Properties under development are reflected at cost.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.

Subsequent to initial recognition, buildings are reflected at a valuation based on fair value as determined by an independent professional valuers, less accumulated depreciation.

Increases in the carrying amount arising on revaluation of buildings are credited to reserves in equity. Decreases that offset previous increases of the same asset are charged against property revaluation reserves directly in equity.

Unrealised surpluses or deficits arising on revaluation of property, plant and equipment are transferred to a Revaluation Reserve Account.

The most recent independent valuation for Buildings was performed for the year ended December 2016. All other items of property, plant and equipment were last valued at 31 December 2010 as they are not considered material.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Item	Rates
Buildings	1.5%
Housing furniture	10%
Office furniture	10%
Motor vehicles	25%
IT equipment	20%
Office and sports equipment	20%
Housing equipment	20%
Security equipment	20%

1.1 Property, plant and equipment (continued)

Buildings in progress are not depreciated until they are ready for use for intended purpose..

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other income/ expenses' in the profit and loss.

When revalued assets are sold, the amounts included in property revaluation reserves are transferred to profit and loss.

1.2 Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

1.3 Financial instruments

Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held to maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets. Subsequent to initial recognition these assets are measured at fair value. These categories are used to determine how a particular financial asset is recognised and measured in the financial statements.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.They are included in current assets, except for maturities greater than 12 months after the financial year end date. These are classified as non-current assets. Subsequent to initial recognition loans and receivable are carried at amortised cost using the effective interest rate method less any provision for impairment.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that on initial recognition are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the financial year end date. Subsequent to initial recognition available for sale financial assets are carried at fair value.

The main classes of the financial assets classified as available for sale assets are Treasury notes and Bonds and Unit trusts.

1.3 Financial instruments (continued)

(d) Held-to-maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after the financial year end date. Subsequent to initial recognition these are measured at armortised costs. These are classified as non-current assets. The financial assets that the Bank classifies as held to maturity are Treasury Bills.

Initial recognition and measurement

Regular purchases and sales of financial assets are recognised on the settlement-date. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through statement of profit and loss and other comprehensive income. Financial assets carried at fair value through statement of profit and loss and other comprehensive income are initially recognised at fair value, and transaction costs are expensed in the profit and loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for- sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'other income/expenses' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss and other comprehensive income as part of other income when the Bank's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; and subsequently transferred to equity refer to note 123. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of profit and loss and other comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the profit and loss as part of other income when the Bank's right to receive payments is established.

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

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Impairment of financial assets

The Bank shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised.

1.3 Financial instruments (continued)

Available-for-sale financial assets

Where an available-for-sale asset is impaired, and an increase in the fair value of the financial asset was previously recognised in equity, the increase in fair value of the financial asset recognised in equity is reversed to the statement of profit and loss and other comprehensive income to the extent that the asset is impaired and recognised as part of the impairment loss.

Any additional impairment loss is recognised in the statement of profit and loss and other comprehensive income. If in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, where the instrument is a debt instrument, the write-down is reversed through profit and loss. An impairment loss in respect of an equity instrument classified as available- for-sale is not reversed through the statement of profit and loss and other comprehensive income.

An available-for-sale-instrument is generally considered impaired if a significant or prolonged decline in the fair value of the security below its cost has occurred. Where an available-for-sale asset which has been remeasured to fair value directly through equity is impaired, and a loss on the financial asset was previously recognised directly in equity, the cumulative net loss that had been recognised in equity is transferred to the statement of comprehensive income and is recognised as part of the impairment loss.

Financial assets carried at amortised cost

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions; and
- Initiation of bankruptcy proceedings;

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income in impairment charge for credit losses.

1.3 Financial instruments (continued)

Financial liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows consist of cash and balances with banks and short-term negotiable securities. Cash flows arising from operating funds are stated after excluding the impact of foreign currency translation differences on asset and liability classes.

Cash and balances with banks comprise coins and bank notes and balances with other central and commercial banks. Short-term negotiable securities are highly liquid investments of maturities less than 3 months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.4 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of profit and loss and other comprehensive income, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws thet have been substantively enacted by the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the financial year end date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax related to fair value re-measurement of available-for-sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognised in the statement of profit and loss and other comprehensive income together with the deferred gain or loss.

Deferred 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 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.

1.5 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the Bank are classified as operating leases. Payments received under operating leases are recognised in the statement of profit and loss and other comprehensive income on a straight-line basis over the period of the lease. Leases of property where the Bank has substantially all the risks and rewards of ownership are classified as operating leases.

Leases, where the bank transfers substantially all the benefits and risks of ownership, are classified as finance leases. (Finance leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor).

1.6 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Depreciation ceases once classified as held for sale.

1.7 Share capital

(a) Share capital is classified as equity. The entire issued share capital is held by the Government of Lesotho.

(b) Dividends on ordinary shares.

Dividends paid to the Government of Lesotho Consolidated Fund in terms of Section 21 (5) of the Central Bank Act are set out in the statement of changes in equity and recognised in the period in which it was earned.

1.8 Employee benefits

(a) Post employment benefits

The Bank participates in a multi employer defined benefit pension plan, the assets of which are held in a separate trustee administered fund. The pension plan is funded by payments from employees and the employer taking into account the recommendations made by the independent qualified Actuaries. The pension contributions are recorded in profit and loss via the salaries account.

(b) Other long-term employee benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the statement of financial position date are discounted to their present value.

Long-term employee benefits include:

- Severance pay - this is calculated as two weeks salary for each completed year of service from 1993.
- Gratuity - this is calculated at 12.5% of the average of the annual salary of the last three years multiplied by number of years of service.

(c) Actuarial gains/losses

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the defined benefit obligation are charged or credited to other comprehensive income.

(d) Accrual for leave pay

Employee benefits in the form of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the statement of financial position date.

1.9 Provisions

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.10 Revenue

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate. Net interest income includes fair value adjustments on interest-bearing financial instruments held at fair value, excluding financial instruments held for trading.

Non-interest revenue

Non-interest revenue includes dividends from investments, fees and commission from banking, insurance and related transactions, net revenue from exchange and securities trading and net gains on the realisation or revaluation of investment banking assets.

1.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost by using the effective interest rate method.

1.12 Translation of foreign currencies

(a) Functional and presentation

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements of the Bank are presented in Maloti Lesotho currency, which is the functional currency of the bank.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised first in the statement of profit and loss and other comprehensive income and then transferred to the statement of changes in equity under foreign currency reserves as required by the Central Bank of Lesotho Act, of 2000.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised initially in profit and loss, and subsequently transferred to equity.

1.13 Impairment of non-financial assets

Assets that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1.14 Claims on staff

Claims on staff represent aggregate advances to staff, short-term to long-term.

1.15 Deferred currency expenditure

Expenditure incurred in connection with printing, minting and issue of Maloti Notes and Coins is amortised over a period of three years. The appropriateness of this amortisation period is reviewed from time to time by the Directors.

1.16 Dividend distribution

Dividend distribution to the Government of Lesotho is recognised as a liability in the Bank's financial statements in the period in accordance with the Central Bank Act No.2 of 2000. The entire profit as defined by Section 21(5) of the Act (net profit after allocations to reserves) is payable as dividends to the Government of Lesotho's Consolidated Fund and therefore the amount Due to Lesotho Consolidated Fund.

1.17 Notes and coins

The Bilateral Monetary agreement between the Government of the Republic of South Africa and the Government of the Kingdom of Lesotho states that both Rand currency issued by the South African Reserve Bank and Maloti currency issued by the Central Bank of Lesotho are legal tender within Lesotho and are convertible at par. Notes and coins are measured at the face value. Notes and coins represent the value of currency (Maloti) in circulation.

1.18 IMF Holding of Special Drawing Rights and IMF subscription account

Upon joining the International Monetary Fund (IMF), Lesotho was allocated special drawing rights, currently the IMF subscription account, which holds Lesotho's subscription in IMF amounts to 69 800 000 units. The Central Bank of Lesotho administers the Special Drawing Rights (SDR) on behalf of the Government of Lesotho for the allocation in the financial records of the Bank.

The units are translated daily using a basket of 4 major currencies. The SDR Allocation was initially recorded as a liability, and the corresponding entry as the Holdings account under external assets. When the SDRs are utilised by the Government, the Holdings account decreases. The SDR Allocation account accrues interest expense at an average rate of 0.015% and the Holdings account earns interest income of 0.015%. Annually, the rights and IMF liabilities are translated at the ruling SDR rate and the difference on revaluation is taken to the SDR Revaluation Reserve.

1.19 IMF Funded PRGF Advances

This IMF loan was secured under the Poverty Reduction and Growth Facility. The Ministry of Finance tranche is now accounted for through the Bank's records to present the amount due to the IMF. The loan has been on-lent to the Government of Lesotho. The IMF loan is stated at amortised cost by using the effective interest rate method. Interest expense and exchange rate differences are borne by the Government of Lesotho.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform with changes in presentation in current year.

1.21 General Reserve

The General Reserve has been allocated in terms of Section 21(2)(b) of the Central Bank of Lesotho Act No. 2 of 2000.

1.22 Rand Compensatory Reserve

The Rand Compensatory Reserve represents amounts received by the Bank from the Government of Lesotho, being the Bank's share of the Rand Compensatory payments received by the Government, in terms of the Multilateral Monetary Agreement amongst the Government of Namibia, Swaziland, Lesotho and the Republic of South Africa. The Government has directed that this amount be treated as a reserve.

1.23 Foreign Exchange Revaluation Reserve Account

In terms of Section 54 of the Central Bank of Lesotho Act No. 2 of 2000, the gains and losses arising from any changes in the valuation of the Bank's assets or liabilities in, or denominated in, gold or foreign currencies, or Special Drawing Rights as a result of changes in the exchange rate for the Maloti or of any change in the values, parities or exchange rates of such assets with respect to the Maloti shall be carried to a special account called the Foreign Exchange Revaluation Reserve Account and SDR Revaluation Reserve Account. The profits or losses arising from such change are included in the statement of profit and loss and other comprehensive income and are then transferred from distributable reserves to a non-distributable Foreign Currency Revaluation Reserve in terms of Section 54 of the Central Bank of Lesotho Act No.2 of 2000.

1.24 SDR Revaluation Reserve

The SDR Revaluation Reserve represents unrealised gains and losses on the revaluation of SDR denominated balances.

1.25 Property Revaluation Reserve

The Property Revaluation Reserve represents unrealised gains and losses on the revaluation of Property, Plant and Equipment.

1.26 Bond/Unit Trust Revaluation Reserve

The Bond Revaluation Reserve represents unrealised gains and losses on the revaluation of Bonds and Unit Trusts held by the Bank.

1.27 Financial Risk Management

Financial risk factors

The Bank's activities expose it to a variety of financial risks. Taking risks is core to the financial business and sometimes losses are inevitable consequences. The Bank's aim is therefore to achieve a balance between risk and return and minimize potential adverse effects on its financial performance. There are written policies that address specific areas of risk, such as foreign exchange risk, interest rate risk and credit risk.

(a) Market Risk

(i) Foreign Exchange Risk

The Bank does business internationally, with some of its obligations in foreign currencies. This exposes it to the foreign exchange risk, which arises from future transactions, liabilities and investments which are denominated in a currency which is not the bank's functional currency.

In order to manage the foreign exchange risk exposure, the Bank holds functional currencies in which its obligations are denominated in the ratio of their historic cash flows. As of 31st December 2016, if the currency had weakened/strengthened by 5% against the functional currencies, the Bank's foreign assets would have been 2.31% (2015: 2.12%) higher/lower as a result of foreign exchange losses/gains on valuation of foreign currency denominated assets.

1.27 Financial Risk Management (continued)

Financial risk factors

Interest Rate Risk

Interest rate risk is the uncertainty associated with value of an interest paying asset due to the variability in interest rates. The Bank owns significant interest paying assets and this makes it exposed to interest rate risk.

In order to manage the interest rate risk, the Bank spreads its investments across the yield curve as per its risk profile. To introduce stability of the returns, the Bank makes investments in different proportions in maturity buckets, providing some degree of diversification.

As at 31 December 2016, if interest rates had fallen by 1%, the Bank's revenue would decline by 20%, based on the simulation performed. However, if rates had increased by 1%, revenue would increase by 22%.

(b) Credit risk

Credit risk arises from a possibility of counterparties failing to honour their obligations in favour of the Bank on financial instruments and deposit with them. The Bank has credit exposure to banks, sovereign and supranational institutions. Credit exposure to these institutions is monitored frequently with limits set for individual institutions. For banks, only independently rated institutions that are rated at least 'medium grade investment' (grade B), are accepted. During the period, no limits were exceeded and counterparties rating have been within acceptable grades.

(c) Liquidity risk

Liquidity risk is the risk that the Bank's liquid assets will be unable to provide for foreseen and unforeseen financial obligations. In managing this risk, the Bank sets aside and monitors closely a portion of reserves in the working capital tranche to cater for these obligations. The limits of this tranche were determined by the analysis of historical payment patterns over a period of time.

Refer to the Risk Management Statements on pages 38 to 56.

In terms of the Central Bank of Lesotho Act No.2 of 2000, in the case of any year at the end of which the general reserve of the Bank does not exceed the minimum paid-up capital of the Bank, one third of the net profits will be allocated to general reserve and in case where general reserve exceeds paid up capital but not less than four times, one sixth of the net profits will be allocated to general reserve. However, where the general reserve of the Bank exceeds four times the paid-up capital, with the approval of the Minister, further allocations may be made from time to time to the general reserve to increase it beyond four times the minimum paid-up capital. At the end of 2008 and 2009 the general reserve had reached more than four times the paid-up capital of the Bank and further allocations were not made to the general reserve. However, in 2010, there was an increase in the issued share capital and further allocations were made.

1.28 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the No.1 and No.2 accounts which total SDR 57,214,433 (2015: SDR 31,063,193) in favour of the IMF. GOL chose to substitute non-interest bearing notes for a portion of the balance held in its Fund's No. 1 account and the securities substituted for currency are recorded in the Securities Account. GOL's holding in IMF SDR Department is posted in the No.1 account and is used for the Fund's operational transactions e.g. purchases and repurchases, whereas the No. 2 account is used for the payment of operational expenses incurred by the Fund in Maloti. The Bank revalues the IMF accounts in its Statement of Financial Position in accordance with the practices of the IMF Treasury Department. The revaluation of the SDR rates by the IMF is effected annually on 30 April, and whenever there are IMF transactions using the Maloti. The IMF accounts have been revalued using the latest prevailing SDR rates in IMF website.

1.29 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Income taxes

The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Employee benefits

The leave, severance and gratuity obligations have been valued using the Projected Unit Credit discounted cashflow method. This method was used to determine the past-service liabilities at the valuation date and projected annual expenses in the year following the valuation date.

The key assumptions used in the calculations are economic and demographic assumptions, withdrawal and mortality rates. In the valuation the real discount rate of 0.58% pa has been used.

The assets and liabilities relating to the employees of the company cannot be separately determined and is therefore treated as defined contribution plan. Refer to further disclosure in note 25 and 35.

(c) Fair values

All financial assets are disclosed at values approximating their fair values. The following bases are used in determining fair value:

i) Balances due to and from banks

The amounts include inter-bank placement and items in course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. Fixed deposits are shown at current value including accrued interest.

ii) Loans and advances

Loans and advances are shown net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Where significant concentrations of non-market related loans exist appropriate impairment has been effected.

iii) Investment securities

Investment securities held as available for sale are shown at fair value. Other instruments such as treasury bills are based on the contracted value, including accrued discount, which is considered to approximate the current fair value.

1.29 Critical accounting estimates and judgements (continued)

(d) Impairment of available-for-sale financial assets

The Bank follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

1.30 Memorandum Accounts

The Bank hold various amounts of monies on behalf of the Government of Lesotho on a restricted basis in a fiduciary capacity only.These monies are controlled by Government and any gains or losses related to these amounts accrue to the Government. All memorandum account balances are kept off the Balance Sheet as they do not belong to the Bank and do not meet the definition of an asset of the Bank. Refer to note
43 which provides further details of the memorandum accounts.

	2016 M '000	2015 M '000
2. Cash and balances with Banks		
Cash and cash equivalents		
Foreign cash on hand	1 625	1 969
Rand currency holding	121 640	44 884
Cash in transit	-	26 900
Total cash and cash equivalents	123 265	73 753
Current and Call Accounts:		
Foreign Banks	38 588	116 740
South African Banks	2 220 174	4 410 205
Total Current and Call Accounts	2 258 762	4 526 945
Fixed Deposits:		
Foreign Banks	1 635 975	1 749 645
South African Banks	1 692 312	1 358 912
Total Fixed deposits (with maturity shorter than 3 months)	3 328 287	3 108 557
Balances with banks (with maturity shorter than 3 months)	5 587 049	7 635 502
Total cash and balances with Banks	**5 710 314**	**7 709 255**
3. Accrued interest due from Banks		
Accrued interest receivable:		
ZAR call accounts	508	850
ZAR fixed deposit accounts	10 788	6,987
Foreign call and fixed deposit accounts	753	352
	12 049	8 189
4. Investment in unit trust		
2016	Available for sale	Total
Unit trusts at fair value	701 863	701 863
2015	Available for sale	Total
Units trusts at fair value	795 293	795 293

The unit trusts were purchased from the Bank for International Settlement (BIS) in 2012. These are treated as available- for-sale instruments and changes in market values are recorded directly in the Bond/unit trust revaluation reserve. The number of units remained constant at 376,076 converted at $136.055979 (2015: 376,076 at $135.444889) at an exchange rate of 13.7170 (2015: 15.6131) to the US Dollar.

	2016 M '000	2015 M '000
5. Investment in Swift		
Investment in SWIFT	555	847

The investment in SWIFT relates to share allocation based on the financial contribution to SWIFT for network-based services.

6. Treasury notes and bonds

2016

	At fair value through profit and loss	Available-for- sale	Total
US Bonds at fair value	1 386 024	655 388	2 041 412
ZAR Bonds at fair value	-	1 773 931	1 773 931
US Bonds accrued interest	4 907	1 980	6 887
ZAR Bonds accrued interest	-	37 055	37 055
	1 390 931	**2 468 354**	**3 859 285**

2015

	At fair value through profit and loss	Available-for- sale	Total
US Bonds at fair value	1 569 104	661 868	2 230 972
ZAR Bonds at fair value	-	2 073 459	2 073 459
US Bonds accrued interest	4 174	1 354	5 528
ZAR Bonds accrued interest	-	43 957	43 957
	1 573 278	**2 780 638**	**4 353 916**

The Treasury notes and bonds held by the Bank are treated as available-for-sale instruments and revaluations are done monthly. However, Treasury notes and bonds managed by the World Bank, starting in 2008, through the Reserves Advisory Management Program (RAMP) are treated as held-for-trading instruments and are stated at fair value through profit and loss.

7. Treasury Bills

	2016	2015
US Treasury Bills		
Treasury Bills	246 015	-

The treasury bills are debt securities issued by the US treasury departments for a term of one year and are treated as securities held to maturity. All treasury bills are subject to fixed interest rate risk rate.

8. IMF Subscription Account

	2016	2015
Balance at beginning of year	751 788	585 573
Quota increase	619 932	-
Exchange revaluation	(87 644)	166 215
Balance at end of year	**1 284 076**	**751 788**

The Lesotho Government Quota in the International Monetary Fund (IMF) increased from SDR 34,900,000 in 2015 to SDR 69,800,000 in 2016. The local currency equivalent of the subscription account in the statement of financial position is converted at the year end rate of 0.0497992 (2015: 34,900,000 at 0.0464227).

9. IMF Holding of Special Drawing Rights (SDR)

	2016	2015
Balance at beginning of year	984 665	779 925
Net transactions - (decrease) / increase in rights	(339 666)	772
Exchange revaluation	(3 609)	203 968
Balance at end of year	**641 390**	**984 665**

The value of SDR 34,864,805. (2015: SDR 45,710,797) allocated by the International Monetary Fund less utilisation is converted at 0.0497992 (2015: 0.0464227).

	2016 M '000	2015 M '000
10. IMF Funded PRGF Advances		
Balance at beginning of year	1 073 290	849 081
Paid during the year	(41 881)	(15 600)
Exchange revaluation	(153 951)	239 809
Balance at end of year	**877 458**	**1 073 290**

These are funds secured under the IMF Poverty Reduction and Growth Facility (PRGF) and on-lent to the Government of Lesotho. The SDR equivalents and translation thereof are shown in note 21.

11. Lesotho Government Securities

	2016	2015
Maturing within 1 month	7	336

Treasury bills are debt securities issued by the Lesotho Treasury Department for a term of three months, six months, nine months or a year. All bills are subject to fixed interest rate risk and are held to maturity.

12. Deferred currency expenditure

	2016	2015
Balance at beginning of year	29 275	26 187
Expenditure incurred	3 003	15 373
Amortised during the year	(16 503)	(12 285)
Balance at end of year	**15 775**	**29 275**

Expenditure incurred in connection with printing, minting and issue of Maloti notes and coins is amortised over three years.

13. Loans to staff

	2016	2015
Housing loans	40 119	31 093
Car loans	20 052	19 218
Furniture loans	2 009	1 368
Other loans and advances	17 993	17 778
Other receivable	91	-
	80 264	**69 457**

The loans issued to staff members during the year are repayable monthly and attract interest rate at 3% per annum.

14. Other assets

	2016	2015
Other prepayments	4 085	6 114
Other receivables	9 092	8 530
	13 177	**14 644**

15. Property, plant and equipment

	2016 M '000			2015 M '000		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
CBL land and buildings	106 267	(15 389)	90 878	100 933	(14 240)	86 693
Lehakoe land and buildings	148 036	(18 482)	129 554	138 520	(16 409)	122 111
Residential land & buildings	20 177	(1 880)	18 297	18 585	(1 601)	16 984
Housing furniture	383	(377)	6	383	(376)	7
Office furniture	9 385	(6 551)	2 834	9 121	(6 252)	2 869
Motor vehicles	11 636	(10 091)	1 545	10 189	(8 893)	1 296
Office equipment	33 836	(25 407)	8 429	33 578	(20 859)	12 719
Office computer	25 700	(17 171)	8 529	22 030	(14 370)	7 660
Lehakoe furniture	3 240	(2 865)	375	3 240	(2 758)	482
Sports/music equipment	7 846	(7 406)	440	7 823	(7 134)	689
Housing equipment	205	(192)	13	205	(186)	19
Security equipment	16 783	(11 769)	5 014	17 963	(11 324)	6 639
Work in progress	351 839	-	351 839	165 218	-	165 218
Total	**735 333**	**(117 580)**	**617 753**	**527 788**	**(104 402)**	**423 386**

15. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Total
CBL land and buildings	86 693	-	-	5 334	(1 429)	90 878
Lehakoe land and buildings	122 111	-	-	9 516	(2 080)	129 554
Residential land and buildings	16 984	-	-	1 592	(279)	18 297
Housing furniture	7	-	-	-	(2)	6
Office furniture	2 869	482	(33)	-	(484)	2 834
Motor vehicles	1 296	1 447	-	-	(1 198)	1 545
Office equipment	12 719	282	(10)	-	(4 563)	8 429
IT equipment	7 660	3 806	-	-	(2 940)	8 529
LRCC furniture	482	-	-	-	(108)	375
Sports and music equipment	689	26	-	-	(275)	440
Housing equipment	19	-	-	-	(6)	13
Security equipment	6 639	725	(100)	-	(2 165)	5 014
Work in progress	165 218	186 621	-	-	-	351 839
	423 386	**193 389**	**(143)**	**16 442**	**(15 529)**	**617 753**

15. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
CBL land and buildings	76 884	102	(1 495)	-	12 719	(1 517)	86 693
Lehakoe land and buildings	115 165	51	-	-	9 070	(2 175)	122 111
Residential land and buildings	11 289	3	-	-	5 930	(238)	16 984
Housing furniture	29	-	(3)	-	-	(19)	7
Office furniture	2 698	651	(1)	-	-	(479)	2 869
Motor vehicle	2 628	45	-	-	-	(1 377)	1 296
Office equipment	5 553	5 724	-	6 471	-	(5 029)	12 719
IT equipment	6 727	3 333	(1)	-	-	(2 399)	7 660
LRCC furniture	485	107	(7)	-	-	(103)	482
Sports & music equipment	1 697	49	(1 050)	-	-	(7)	689
Housing equipment	25	-	-	-	-	(6)	19
Security equipment	8 819	32	-	-	-	(2 212)	6 639
Work in progress	50 493	135 971	-	(21 246)	-	-	165 218
	282 492	**146 068**	**(2 557)**	**(14 775)**	**27 719**	**(15 561)**	**423 386**

	2016 M'000	2015 M'000

16. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	49 752	(40 382)	9 370	40 093	(25 588)	14 505

Reconciliation of intangible assets - 2016

	Opening balance	Transfers	Amortisation	Total
Computer software	14 505	288	(5 423)	9 370

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Transfers	Amortisation	Total
	1 692	2 014	14 775	(3 976)	14 505

All computer software are written off over a 3 year period on a straight line basis.

17. Notes and coins issued

	2016	2015
Notes	1 318 629	1 307 891
Coins	17 206	16 914
	1 335 835	**1 324 805**

The Bilateral Monetary agreement between the Government of the Republic of South Africa and the Government of the Kingdom of Lesotho states that both Rand currency issued by the South African Reserve Bank and Maloti currency issued by the Central Bank of Lesotho are legal tender within Lesotho and are convertible at par.

18. Deposits

	2016	2015
Deposits from Banks - Non-interest bearing		
Banks	495 920	545 794
Other Deposits - Non-interest bearing		
International Institutions	3 074	3 874
Parastatals and others	6 403	6 135
	505 397	**555 803**

19. IMF Maloti Currency Holding

	2016	2015
Securities account	224 862	317 873
General resources account	827 683	351 265
	1 052 545	**669 138**

20. IMF Special Drawing Rights Allocation

	2016	2015
Balance at beginning of year	708 236	551 998
Exchange revaluation	(103 392)	156 238
Balance at end of year	**604 844**	**708 236**

Lesotho's allocation by IMF of SDR32,878,186 is converted at 0.0497992 (2015: 0.0464227).

	2016 M'000	2015 M'000
21. IMF-PRGF Facility		
Balance at beginning of year	1 073 290	849 081
Paid during the year	(41 881)	(15 600)
Exchange revaluation	(153 951)	239 809
	877 458	**1 073 290**

This IMF loan was secured under the Poverty Reduction and Growth Facility. The Ministry of Finance tranche is accounted for through the Bank's records to present the amount due to the IMF. The balance due to the IMF amounted to SDR47,697,000, converted at 0.0497992 as at 31 December 2016 (2015: SDR 49,825,000 at 0.0464227). The loan has been on-lent as per note 9. Interest expense and exchange rate differences are borne by the Government of Lesotho.

	2016 M'000	2015 M'000
22. Taxation payable/(receivable)		
Balance at beginning of year	27 569	15 335
Paid during the year	(94 307)	(61 919)
Current year charge	71 337	74 153
Balance at end of year	**4 599**	**27 569**
23. Due to Government of Lesotho Consolidated Fund		
Balance at beginning of year	184 232	131 166
Paid during the year	(184 232)	(131 166)
Profit appropriations for the current year	147 566	184 232
Balance at end of year	**147 566**	**184 232**

The Foreign exchange differences which are not taxable, are eliminated from the Profit after tax, after which a portion is transferred to the Government of Lesotho Consolidated Fund and the General Reserve account in terms of Section 21 of the Central Bank of Lesotho Act No. 2 of 2000.

	2016 M'000	2015 M'000
Profit after tax appropriates as follows:		
(Loss)/profit after tax (after actuarial (loss)/gain on employee benefits)	(635 122)	1 596 381
Gain on foreign exchange activities	812 202	(1 375 302)
Profit after tax net of gain on foreign exchange activities	177 080	221 079
Transfer to General Reserve	(29 514)	(36 847)
	147 566	**184 232**
24. Other liabilities		
Donations - Referral Hospital	48 214	48 214
Divisional cheques accounts	459	626
Other	5 418	7 476
Various accruals	17 939	21 824
	72 030	**78 140**

The donations account relates to the construction expenses which have been earmarked for the building of a new hospital. At 31 December 2016, the building of the new hospital had not begun, however the obligation had still existed.

	2016 M'000	2015 M'000
25. Long-term employee benefit obligation		
Provision for severance pay		
Opening obligation	25 141	22 909
Interest cost	2 516	2 381
Current service cost	2 481	1 646
Actuarial (gain)/ loss on employee benefits	(1 783)	1 957
Benefits paid	(2 684)	(3 752)
Closing obligation	25 671	25 141
Provision for gratuity		
Opening obligation	69 122	60 343
Interest cost	6 688	4 298
Current service cost	6 207	5 958
Actuarial loss/(gain)	9 242	13 923
Benefits paid	(11 470)	(15 400)
Closing obligation	79 789	69 122
Total	**105 460**	**94 263**
Net expense recognised in profit and loss (inclusive of leave pay provision)		
Current service cost	8 688	8 339
Interest cost	9 603	6 224
	18 291	**14 563**

26. Deferred taxation

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:

	2016 M'000	2015 M'000
Deferred tax asset/(liability)	(12 946)	4 887
Reconciliation of deferred taxation		
Balance at beginning of year	4 887	(1 346)
Movements in profit and loss	11 206	(6 491)
Movement in equity - current year	(29 039)	1 474
Movement in equity - tax adjustment*	-	11 250
Balance at end of year	**(12 946)**	**4 887**

* The 2015 tax adjustment relates to deferred tax not previously raised against historical revaluations of PPE.

		2016 M'000	2015 M'000
26.	**Deferred taxation**		
	Reconciliation of deferred taxation		
	Accelerated capital allowance for tax purposes	5 278	4 402
	Liabilities for Health care benefits accrued	27 481	24 585
	Deferred expenses	(5 039)	(12 479)
	Bond/unit trust revaluation reserve	6 472	31 517
	Property revaluation reserve	(47 138)	(43 138)
	Balance at end of year	**(12 946)**	**4 887**
27.	**Share capital**		
	Authorised		
	Authorised capital	100 000	100 000
	Issued		
	Issued and fully paid	100 000	100 000
	The entire issued share capital is held by the Government of Lesotho.		
28.	**Interest income**		
	Foreign currency deposits	391 690	373 412
	Foreign currency deposits	1 073	427
	Issued and fully paid	166 019	178 226
		558 782	**552 065**
29.	**Interest expense**		
	Interest on non financial Public Enterprises	35	46
	Amortisation of held to maturity liabilities	3 351	4 523
	IMF SDR allocation account	390	297
		3 776	**4 866**
30.	**Other income**		
	Rental income	363	390
	Profit on sale of bonds	2 176	4 147
	Interest on staff loans	1 388	1 228
	Lehakoe proceeds	10 960	15 792
	Other income	11 187	10 824
	Gain on instruments designated as fair value through profit and loss	12 741	6 918
	(Loss)/ profit on sale of fixed assets	(124)	(844)
		38 691	**38 455**

		2016 M'000	2015 M'000
31.	**Operating costs and expense per nature**		
	Administration and other expenses	74 443	58 303
	Auditor's remuneration	2 447	2 006
	Deferred currency expense amortised	16 503	12 286
	Intangible assets amortised	5 423	3 976
	Depreciation and impairments	15 529	15 561
	Property, plant and equipment maintenance expenses	16 049	15 284
	Loss on sale of other instruments	28 385	1 255
	Loss on revaluation of treasury notes and bonds	15 011	12 619
	Personnel costs:		
	Staff welfare expenses	19 486	13 034
	Non-executive directors' fees	976	825
	Executive directors' salaries	6 258	5 555
	Key management (heads of departments)	9 037	7 520
	Staff salaries and expenses	115 647	100 543
	Pension fund contributions	5 682	4 595
	Gratuity and severance pay (interest and service cost)	17 892	14 152
		348 768	**267 514**
32.	**Taxation**		
	Major components of the taxation expense		
	Current		
	Normal taxation for the year	73 266	78 257
	Deferred	(11 206)	6 491
	Deferred taxation arising on other profit and loss items	**62 060**	**84 748**
	Included in other comprehensive income		
	Tax on actuarial gain/ (loss)	(1 930)	(4 104)
	Reconciliation of the taxation expense		
	Chargeable profit (before foreign exchange gain/loss and after actuarial gain/loss)	(237 223)	301 723
	Statutory tax rate	25 %	25 %
	Permanent differences:		
	Donations	1,06 %	0,71 %
	50 % Entertainment	0,08 %	0,07 %
	Training expenses additional 25% Other	(1,16)%	(0,52)%
	Effective tax rate	0,37 %	1,47 %
	Effective tax rate	**25,35 %**	**26,73 %**

	2016 M'000	2015 M'000
33. Cash generated from operations		
(Loss)/Profit before taxation	(567 273)	1 677 025
Less: Acturial loss	-	(16 415)
	(567 273)	1 677 027
Adjustments for:		
Depreciation	15 529	15 561
Deferred computer software amortised	5 423	3 976
Loss on sale of assets	124	844
Interest income	(558 782)	(552 065)
Interest expense	3 776	4 866
Deferred currency amortisation	16 503	12 286
Actuarial losses	-	16 415
Loss/ (profit) on revaluation of treasury bills and bonds	2 270	5 701
Unrealised exchange rate fluctuation	73 238	(152 074)
Movement in deposits	(1 580 308)	50 903
Movement in accrued interest	(3 860)	399
Treasury bills	(246 015)	-
Changes in IMF Maloti currency holding	383 407	147 520
Changes in IMF subscription account	(532 288)	(166 215)
Other liabilities	5 087	6 449
Changes in IMF Special Drawing Rights Holding	343 275	(48 502)
Changes in IMF Special drawing rights (Asset)	(103 392)	-
	(2 743 286)	1 024 344

	2016 M'000	2015 M'000

34. Commitments

Contracted	175 278	309 900

These capital commitments are in respect of professional fees for the Bank's extension which will be funded from internal resources in 2016.

Uncontracted	-	18,000

The current year expenditure relates to professional indemnity relating to the Bank extension. The prior year expenditure related to the extension of the Bank's building project and software for core banking and ERP systems.

35. Post retirement obligations

Total employer contributions	5 682	4 595

The Bank contributes towards a post retirement pension scheme that covers all permanent employees. This fund is a multi-employer plan and the assets are held in the Corporate Bodies Pension Scheme managed by Lesotho National Insurance Company and the appropriations to the different contributors are not performed. The assets and liabilities relating to the employees of the Bank cannot be separately determined and is therefore treated as defined contribution plan.

36. Contingent liability

There are labour disputes against the Bank and the total amount being claimed is approximately M6.2 million. The Bank's lawyers and management hold a strong view that most of these cases leveled against the Bank are relatively weak and that the Bank will be successful in defending these cases.

		2016 M'000	2015 M'000

37. Related parties transactions/ balances

The Bank is owned by the Government of Lesotho.

A number of banking transactions are entered into with the Government as the Bank also acts as banker to the Government in the normal course of business.

The deposits with the Bank held by the Government is disclosed separately in the statement of financial position. All payments relating to taxes, property rates and service utilisation are made to Government.

Loans to staff are disclosed in note 13.

		2016 M'000	2015 M'000
Gross advances made during the year to:	Car loans	399	343
Heads of Departments and Division Heads	Furniture loans	100	142
	Housing loans	-	804
Balances due at end of December:			
Heads of Departments and Division Heads	Car loans	4 599	4 135
	Furniture loans	276	71
	Housing loans	7 529	5 706
General Staff	Car loans	15 053	14 740
	Furniture loans	1 733	1 155
	Housing loans	32 589	25 584
General Staff and Heads of Department	Other loans	17 993	17 778
Interest charged for the year:			
Heads of Departments and Division Heads	Car loans	124	120
	Furniture loans	276	-
	Housing loans	56	1

There were no loan advances made to the Governors in the current year, and previous loans were paid up as at 31 December 2016.

No provisions have been recognised in respect of loans given to related parties.'

The loans issued to directors and other key management personnel during the year are repayable monthly and have interest rates of 3% per annum.

The Bank however requires and accordingly has the following as collateral:

- terminal benefits
- title deeds and registered mortgages in relation to housing loans

Further, all short term and long term loans are covered by insurance policies to ensure recoveries in instances of death of employees.

	2016 M'000	2015 M'000

37. Related parties transactions/ balances (continued)

Annual remuneration to key management which includes car allowances and housing allowances:

	2016	2015
Executive Directors' salaries	6 110	5 555
Key management salaries	9 036	7 520

38. Financial assets by category

The financial assets have been categorised as follows :

2016

M '000

Financial assets	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Total
Cash and balances with Banks	5 710 314	-	-	5 710 314
Accrued interest due from Banks	12 049	-	-	12 049
Unit trusts	-	701 863	-	701 863
Investment in SWIFT	-	555	-	555
Treasury notes and bonds	-	2 468 354	1 390 931	3 859 285
Treasury bills	246 015	-	-	246 015
IMF Subscription Account	1 284 076	-	-	1 284 076
IMF Holding of Special Drawing Rights	641 390	-	-	641 390
IMF Funded PRGF Advances	877 458	-	-	877 458
Lesotho Government Securities	7	-	-	7
Loans to staff	80 264	-	-	80 264
	8 851 573	**3 170 772**	**1 390 931**	**13 413 276**

2015

M '000

Financial assets	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Total
Cash and balances with Banks	7 709 255	-	-	7 709 255
Accrued interest due from Banks	8 189	-	-	8 189
Unit trusts	-	795 293	-	795 293
Investment in SWIFT	-	847	-	847
Treasury notes and bonds	-	2 780 638	1 573 278	4 353 916
Treasury Bills	-	-	-	-
IMF Subscription Account	751 788	-	-	751 788
IMF Holding of Special Drawing Rights	984 665	-	-	984 665
IMF Funded PRGF Advances	1 073 290	-	-	1 073 290
Lesotho Government Securities	336	-	-	336
Loans to staff	69 457	-	-	69 457
	10 596 980	**3 576 778**	**1 573 278**	**15 747 036**

39. Financial liabilities by category

The financial liabilities have been categorised as follows:

2016

M '000

	Financial liabilities at amortised cost	Total
Notes and coins issued	1 335 835	1 335 835
Deposits	505 397	505 397
Lesotho Government Deposits	4 878 626	4 878 626
IMF Maloti Currency Holding	1 052 545	1 052 545
IMF Special Drawing Rights Allocation	604 844	604 844
IMF PRGF Facility	877 458	877 458
	9 254 705	**9 254 705**

2015

M '000

	Financial liabilities at amortised cost	Total
Notes and coins issued	1 324 805	1 324 805
Deposits	555 803	555 803
Lesotho Government Deposits	6 408 528	6 408 528
IMF Maloti Currency Holding	669 138	669 138
IMF Special Drawing Rights Allocation	708 236	708 236
IMF PRGF Facility	1 073 290	1 073 290
	10,739,800	**10,739,800**

40. Operating lease

Amount receivable within 12 months	180	360
Amount receivable within 13 to 24 months	270	396
	450	**756**

The above income is for the rental of houses owned by the Bank. The lease contracts are all for a period of 24 months.

41. Risk management

Risk is an inherent feature of the Bank's activities. The Bank is committed to managing these risks by applying appropriate structures, systems and procedures. These structures, systems and procedures evolve continuously in response to changes in the financial and economic environment in which the Bank operates.

Management structures

The organisational structure of the Bank is designed to ensure an appropriate allocation of responsibilities. This is supported by formal delegation of authority and segregation of duties to achieve sound internal controls.

Risk elements

The main risk elements in the Bank's activities are interest rate, market price, credit, market liquidity, operational, human resource, legal and reputational risks. These are discussed below:

41. Risk management (continued)

Market price risk

Market price risk is the risk of loss resulting from changes in market conditions and prices. In its monetary policy operations, the Bank may be obliged to accept certain market-related risks, which would not be fully compatible with pure commercial practice.

The Bank manages its market risks responsibly, utilising appropriate organisational structures and procedures. Exposures and limits are measured continuously and strategies are routinely reviewed by management on a regular basis.

The following table summarises the Bank's exposure to Foreign currency exchange rate fluctuations as at year end.

Currency 2016	**Value of Currency 000**	**Exchange Rate**	**Maloti Equivalent M'000**
Cash and balances with Banks			
South Africa	4 204 708	1,0000	4 204 708
United States	85 941	13,7170	1 178 850
Botswana	337	1,2880	450
England	19 570	16,8411	329 577
European Union	64	14,4413	918
Switzerland	178	13,4487	2 395
IMF	14 573	18,3965	268 077
Treasury notes, bonds and unit trusts			
South Africa	1 810 986	1.0000	1 810 986
United States	149 322	13,7170	2 048 299
Unit trust - US Dollar based	51 167	13,7170	701 863
Treasury Bills			
United States	17 935	14	246 015

Currency 2015	**Value of Currency 000**	**Exchange Rate**	**Maloti Equivalent M'000**
Cash and balances with Banks			
South Africa	7 961 056	1,0000	7 961 056
United States	302 929	15,6131	4 729 675
Botswana	543	1,3859	752
England	5 709	23,1535	132 192
European Union	653	17,0547	11 134
Switzerland	134	15,7626	2 114
IMF	45 711	21,6530	989 776
Treasury notes, bonds and unit trusts			
South Africa	2 117 416	1,0000	2 117 416
United States	143 245	15,6131	2 236 500
Unit trust - US Dollar based	50 938	15,6131	795 293

41. Risk management (continued)

Market liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments as they fall due.

The Bank maintains sufficient short-term liquid funds to meet obligations or commitments as they fall due. It also has sufficient reserves to absorb losses arising from market fluctuations.

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterpart to meet its contractual obligations. Credit risk arises from advances to and deposits the Bank makes with other institutions, and the settlement of financial instruments.

Credit risk policies are formulated by the Investment Technical Committee (ITC), which sets counterparty limits and security.

Operational risk

Operational risk is the risk of loss due to factors such as inadequate systems, management failure, ineffective internal controls, fraud, human error or other external events.

The Bank addresses these risks through comprehensive internal controls, back-up facilities, contingency planning and regular internal audit reviews.

Human resource risk

The particular nature of the Bank's activities necessitates specialised knowledge in certain areas.

In order to ensure an adequate knowledge base at all times, the Bank invests significantly in staff training and succession planning for key personnel.

Legal risk

Legal risk arises from any uncertainty of enforceability, whether through legal or judicial processes, of the obligations of the Bank's counterparties.

The Bank minimises such uncertainties through continuous consultation with internal and external legal advisers to better understand the nature of such risks and to improve the documentation and structure of transactions.

In addition, the Bank has put in place procedures designed to ensure compliance with all statutory and regulatory requirements.

Reputational risk

The Bank's objective of achieving and maintaining price stability in Lesotho exposes it to external scrutiny and possible criticism in the event of any failures. The Bank also strives for compliance with the Basel Core Principles for effective banking supervision. The Bank adheres to best practice established in keeping with international standards and, to this end, it maintains close liaison with its regional peers.

41. Risk management (continued)

Credit risk analysis

The table below shows the investment spread of the funds of the Bank globally and the credit rating of such institutions.

2016

Cash	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ZAR	121 640	121 640	ZAR	none	n/a
USD	1 516	1 516	USD	none	n/a
GBP	11	11	GBP	none	n/a
EUR	98	98	EUR	none	n/a
	123 265	**123 265**			

Current and call account	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA Bank	20 417	20 417	ZAR	none	P-2/Baa2
B.I.S	874	874	GBP	none	Supranational
B.I.S	1 144	1 144	USD	none	Supranational
B.I.S	175	175	EUR	none	Supranational
Bank of England	4 421	4 421	GBP	none	P-1/Aa1
Bank of N.Y	2 563	2 563	USD	none	P-1/Aa1
Bank of N.Y	61	61	ZAR	none	P-1/Aa1
Citi Bank N.Y	17 455	17 455	USD	none	P-2/A3
Citi Bank SA	5 001	5 001	ZAR	none	P-2/A3
Crown Agents	8 726	8 726	GBP	none	B/BB
Crown Agents	5 801	5 801	USD	none	B/BB
Deutsche Bankers trust	568	568	USD	none	P-1/A2
Deutsche Bundersbank	778	778	EUR	none	Aaa
Federal Reserve Bank of N.Y	(10 483)	(10 483)	USD	none	Aaa
First Rand	8 257	8 257	ZAR	none	P-2/Baa2
Investec Bank	7 178	7 178	ZAR	none	P-2/Baa2
NedBank	3 737	3 737	ZAR		P-2/Baa2
SIRESS	9 550	9 550	ZAR	none	P-2/Baa2
South African Reserve Bank	2 160 559	2 160 559	ZAR	none	P-2/Baa2
Special Rand Deposit	5 000	5 000	ZAR	none	P-2/Baa2
Standard Bank	284	284	ZAR	none	P-2/Baa2
Standard Chartered Botswana	450	450	BWP	none	A2
Standard Chartered London	3 852	3 852	GBP	none	P1/Aa3
Union Bank of Switzerland	2 394	2 394	CHF	none	P1/Aa3
	2 258 762	**2 258 762**			

41. Risk management (continued)

Fixed deposits	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	348 703	348 703	ZAR	none	P-2/Baa2
BIS	134 751	134 751	GBP	none	Supranational
Crown Agents	33 707	33 707	GBP	none	B/BB
Crown Agents	68 961	68 961	USD	none	B/BB
Crown Agents	116 138	116 138	ZAR	none	B/BB
FEDRES	260 623	260 623	USD	none	Aaa
Firstrand	235 000	235 000	ZAR	none	P-2/Baa2
ICBC ASIA	581 659	581 659	USD	none	P-2/Baa3
ICBC ASIA	164 759	164 759	ZAR	none	P-2/Baa2
Investec	466 000	466 000	ZAR	none	P-2/Baa2
NedBank	315 774	315 774	USD	none	P-2/Baa2
Standard Bank	210 699	210 699	ZAR	none	P-2/Baa2
Standard Chartered London	248 299	248 299	USD		P1/Aa3
Standard Chartered London	143 214	143 214	GBP	none	P1/Aa2
	3 328 287	**3 328 287**			

Accrued interest due from Banks	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	2 163	2 163	ZAR	none	P-2/Baa2
Citibank	1	1	ZAR	none	
Crown Agents	50	50	USD	none	B/BB
Crown Agents	887	887	ZAR	none	B/BB
Crown Agents	2	2	GBP	none	B/BB
Federal Reserve	7	7	USD	none	Aaa
Firstrand	1 083	1 083	ZAR	none	P-2/Ba2
Firstrand	1	1	ZAR	none	P-2/Baa2
ICBC ASIA	967	967	ZAR	none	P-2/Baa3
ICBC ASIA	519	519	USD	none	P-2/Baa3
Investec	3 485	3 485	ZAR	none	P-2/Baa2
Investec	1	1	ZAR	none	P-2/BAA4
Nedbank	1	1	ZAR	none	P-2/Baa2
Nedbank	1 464	1 464	ZAR	none	P-2/Baa2
South African Reserve Bank	415	415	ZAR	none	P-2/Baa2
Special Rand Deposit	88	88	ZAR	none	P-2/Baa2
Standard Bank	743	743	ZAR	none	P-2/Baa2
Standard Chartered London	159	159	USD	none	P1/Aa3
Standard Chartered London	13	13	GBP	none	P1/Aa3
	12 049	**12 049**			

41. Risk management (continued)

Treasury notes, bonds and unit trusts	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Federal Reserve Bank of New York	246 015	246 015	USD	none	Aaa

Treasury notes, bonds and unit trusts	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
South Africa	1 811 008	1 811 008	ZAR	none	P-2/Baa2
United States-BIS	701 863	701 863	USD	none	Aaa
United States-RAMP	1 390 931	1 390 931	USD	none	Aaa
United States	657 346	657 346	USD	none	Aaa
	4 561 148	**4 561 148**			

Loans to staff	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Housing Loans	40 119	40 119	LSL	Title deeds	n/a
Car loans	20 052	20 052	LSL	Terminal benefits	n/a
Furniture loans	2 009	2 009	LSL	Terminal benefits	n/a
Other loans and advances	18 084	18 084	LSL	Terminal benefits	n/a
	80 264	**80 264**			

2015

Cash	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ZAR	71 784	71 784	ZAR	none	n/a
USD	1 828	1 828	USD	none	n/a
GBP	6	6	GBP	none	n/a
EUR	135	135	EUR	none	n/a
	73 753	**73 753**			

41. Risk management (continued)

Current and call accounts	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA Bank	10 737	10 737	ZAR	none	P2/Baa2
B.I.S	50	50	EUR	none	Supranational
B.I.S	1 199	1 199	GBP	none	Supranational
B.I.S	1 297	1 297	USD	none	Supranational
Bank of England	30 600	30 600	GBP	none	P-1/Aa1
Bank of N.Y	40 453	40 453	USD	none	P-1/Aa1
Bank of N.Y	4 230	4 230	ZAR	none	none
Bank of N.Y RAMP	4 184	4 184	USD	none	P-1/Aa1
Citi Bank N.Y	13 189	13 189	USD	none	P-2/A3
Citi Bank SA	4 679	4 679	ZAR	none	P-2/Baa2
Commerz	10 100	10 100	EUR	none	P-1/A2
Crown Agents	180	180	GBP	none	F2/BBB
Crown Agents	816	816	USD	none	F2/BBB
Deutsche Bundesbank	849	849	EUR	none	N/R
Deutsche Bankers trust	647	647	USD	none	P-1/A1
Federal Reserve Bank of N.Y	2 811	2 811	USD	none	Aaa
First Rand	7 794	7 794	ZAR	none	P2/Baa2
Investec Bank	191 542	191 542	ZAR	none	P-2/Baa2
Nedbank	3 527	3 527	ZAR	none	P-2/Baa2
Siress	334	334	ZAR	none	Baa1
South African Reserve Bank	4 187 104	4 187 104	ZAR	none	P-2/Baa2
Standard Bank	258	258	ZAR	none	P-2/Baa2
Standard Chartered Botswana	752	752	BWP	none	N/R
Standard Chartered London	7 499	7 499	GBP	none	P-1/A+
Swiss Bank	2 114	2 114	CHF	none	P1/Aa3
	4 526 945	**4 526 945**			

Fixed deposits	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA Bank	339 509	339 509	ZAR	none	P-2/Baa2
CitiBank	101 528	101 528	ZAR	none	P-2/Baa2
Crown Agents	276 897	276 897	GBP	none	F2/BBB
Crown Agents	46 363	46 363	ZAR	none	F2/BBB
Crown Agents	203 120	203 120	USD	none	F2/BBB
FedralReseve N.Y	18 736	18 736	USD	none	Aaa
Firstrand	109 606	109 606	USD	none	P-2/Baa2
Firstrand	140 138	140 138	ZAR	none	P-2/Baa2
ICBC ASIA	156 131	156 131	ZAR	none	P-3/Baa3
Investec	308 496	308 496	ZAR	none	P-2/Baa2
NedBank	359 634	359 634	USD	none	P-2/Baa3
Standard Bank PLC	503 840	503 840	USD	none	P-3/Baa3
Standard Bank PLC	217 123	217 123	ZAR	none	P-3/Baa3
Standard Chartered London	281 106	281 106	USD	none	P-1/A+
Standard Chartered London	46 330	46 330		none	P-1/A+
	3 108 557	**3 108 557**			

41. Risk management (continued)

Accrued interest due from Banks	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	2 280	2 280	ZAR	none	P2/Baa2
Citibank	480	480	ZAR	none	P-2/Baa2
Crown Agents	8	8	GBP	none	F2/BBB
Crown Agents	854	854	ZAR	none	F2/BBB
Crown Agents	26	26	USD	none	F2/BBB
Firstrand	45	45		none	P-2/Baa2
Firstrand	710	710	ZAR	none	P-2/Baa2
ICBC ASIA	38	38	USD	none	P-3/Baa3
Investec	1 394	1 394	ZAR	none	P-2/Baa2
Nedbank	103	103	ZAR	none	P-2/Baa2
South African Reserve Bank	816	816	ZAR	none	P-2/Baa2
Standard Bank PLC	1 155	1 155	USD	none	P-3/Baa3
Standard Bank PLC	130	130	USD	none	P-3/Baa3
Standard Chartered London	141	141	USD	none	P-1/A+
Standard Chartered London	9	9	USD	none	P-1/A+
	8 189	**8 189**			

Treasury notes, bonds and unit trusts	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
South Africa	2 117 416	2 117 416	ZAR	none	Baa1
Unites States-BIS	795 273	795 273	USD	none	Aaa
United States-RAMP	1 573 279	1 573 279	USD	none	Aaa
United States	663 241	663 241	USD	none	Aaa
	5 149 209	**5 149 209**			

Loans to staff	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Housing Loans	31 094	31 094	LSL	Title deeds	n/a
Car loans	19 218	19 218	LSL	Terminal Benefits	n/a
Furniture loans	1 368	1 368	LSL	Terminal Benefits	n/a
Other loans and advances	17 778	17 778	LSL	Terminal Benefits	n/a
	69 458	**69 458**			

All financial assets were fully performing at year end.

AAA - Obligations rated AAA are judged to be of the highest quality, with minimal credit risk.

Aa - Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

41. Risk management (continued)

A - Obligations rated A are considered upper-medium grade and are subject to low credit risk.

B - Obligations rated B are considered speculative and are subject to high credit risk.

P-1 - Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.

P-2 - Issuers (supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.

n/a - Cash and reserve banks do not have a credit rating.

Sensitivity Analysis for the year ended 31 December 2016

The following tables below show the sensitivity of both currency and foreign investment risk should the exchange rate move either +5% or -5% directions and the overall impact on profit before tax and equity. However, unrealised gains and losses are only dealt with in equity in line with the Central Bank Act No.2 of 2000.

Data for currency and foreign investment risk
(figures in original currencies)

	December 31, 2016		December 31, 2015	
Currency	**Portfolio level**	**Exchange rate**	**Portfolio level in %**	**Portfolio level**
ZAR	6 015 716	1,00	7 961 056	1,00
USD	304 365	13,72	302 929	15,61
EUR	64	14,44	652	17,00
GBP	19 570	16,84	5 709	23,15
BWP	350	1,29	543	1,39
CHF	178	13,45	134	15,76
SDR	14 572	18,40	45 711	21,65

Base case
Data for currency and foreign investment risk
(figures in M '000)

	December 31, 2016		
Currency	**Portfolio level**	**Portfolio level in %**	**Exchange rate**
ZAR	6 015 716	53,90 %	1,00
USD	4 174 978	37,37 %	13,72
EUR	918	0,01 %	14,44
GBP	329 577	2,95 %	16,84
BWP	450	0,00 %	1,29
CHF	2 395	0,02 %	13,45
SDR	268 077	5,74 %	18,40
	10 792 111	**100 %**	

41. Risk management (continued)

Base case

Data for currency and foreign investment risk (figures in M '000)

	December 31, 2015		
Currency	**Portfolio level**	**Portfolio level in %**	**Exchange rate**
ZAR	7 961 056	57,58 %	1,00
USD	4 729 674	34,21 %	15,61
EUR	11 134	0,08 %	17,05
GBP	132 192	0,96 %	23,15
BWP	752	0,01 %	1,39
CHF	2 114	0,02 %	15,76
SDR	989 775	7,16 %	21,65
	13 826 697	**100 %**	

Base case

Data for currency and foreign investment risk (figures in M '000)

			December 31, 2016	
Currency	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	6 015 716	52,69 %	-	1.00
USD	4 383 727	38,35 %	(208 533)	14,40
EUR	964	0,01 %	(46)	15,16
GBP	346 056	3,03 %	(16 479)	17,68
BWP	473	0,00 %	(23)	1,35
CHF	2 514	0,02 %	(120)	14,12
SDR	281 481	5,89 %	(13 403)	19,30
	11 030 931	**100 %**		

% Change 2.21%

5% increase in exchange rate

Data for currency and foreign investment risk (figures in M'000)

			December 31, 2015	
Currency	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	7 961 056	56,38 %	-	1,00
USD	4 966 158	35,17 %	(247 193)	16,39
EUR	11 690	0,08 %	(556)	17,91
GBP	138 802	0,98 %	(6 610)	24,31
BWP	790	0,01 %	(38)	1,46
CHF	2 219	0,02 %	(106)	16,55
SDR	1 039 265	7,36 %	(49 489)	22,74
	14 119 980	**100 %**		

% Change 2.12%

41. Risk management (continued)

5% increase in exchange rate

Data for currency and foreign investment risk

(figures in M'000)

		December 31, 2016		
Currency	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	6 015 716	55,17 %	-	1,00
USD	3 966 229	36,34 %	208 533	13,03
EUR	872	0,01 %	46	13,72
GBP	313 098	2,87 %	16 479	16,00
BWP	428	0,00 %	23	1,22
CHF	2 275	0,02 %	120	12,78
SDR	254 674	5,58 %	13 403	17,46
	10 553 292	**100 %**		

% Change -2.21%

5% decrease in exchange rate

Data for currency and foreign investment risk

(figures in M'000)

		December 31, 2015		
	Portfolio level	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	7 961 056	58,45 %	-	1,00
USD	4 493 191	33,79 %	24 193	14,83
EUR	10 577	0,08 %	556	16,20
GBP	125 583	0,90 %	6 610	22,00
BWP	715	0,01 %	38	1,32
CHF	2 008	0,01 %	105	14,97
SDR	940 287	6,76 %	49 489	20,57
	13 533 417	**100 %**		

% Change - (2.12%)

41. Risk management (continued)

Interest rate risk

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's profit.

2016

Currency	Cash	0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	2016	2016	2016	2016	2016	2016
	M '000	M '000	M '000	M '000	M '000	M '000
ZAR	116	4 088	735	879	197	6 016
USD	2	1 619	602	1 952	-	4 171
EUR	-	1	-	-	-	1
GBP	-	330	-	-	-	330
Other	-	271	-	-	-	241
Total	**118**	**6 309**	**1 337**	**2 831**	**197**	**10 759**

Base case yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	8,06 %	8,50 %	7,38 %	7,75 %
USD	1,04 %	0,88 %	0,94 %	- %
EUR	(0,39)%	- %	- %	- %
GBP	0,24 %	- %	- %	- %
Other	0,00 %	- %	- %	- %

100 Basis points increase in yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	9,06 %	9,50 %	8,38 %	8,75 %
USD	2,04 %	1,88 %	1,94 %	- %
EUR	0,61 %	- %	- %	- %
GBP	1,24 %	- %	- %	- %
Other	1,00 %	- %	- %	- %

100 Basis points decrease in yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	7,06 %	7,50 %	6,38 %	6,75 %
USD	0,04 %	- %	- %	- %
EUR	- %	- %	- %	- %
GBP	- %	- %	- %	- %
Other				

41. Risk management (continued)

Nominal return in base case yields	0-6 mnth	6 mnth - 1yr	1-5 yr	5yr+		
	M'000	M'000	M'000	M'000		
ZAR	329	62	65	15		
USD	17	5	18	-		
EUR	-	-	-	-		
GBP	1	-	-	-		
Other	-	-	-	-	Nominal Income	% Change
	-	-	-	-	513	-

Nominal return in increasing yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	370	70	74	17		
USD	33	11	38	-		
EUR	-	-	-	-		
GBP	4	-	-	-		
Other	-	-	-	-	Nominal Income	% Change
	-	-	-	-	617	20

Nominal return in decreasing yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	289	55	56	13		
USD	0,62	-	-	-		
EUR	-	-	-	-		
GBP	-	-	-	-		
Other	-	-	-	-	Nominal Income	% Change
	-	-	-	-	414	(19)

Sensitivity: For a 1 percentage increase in yields, income increase by 20%

For a 1 percentage decrease in yields, income decreases by -19%

41. Risk management (continued)

Interest rate risk

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Bank's profit.

2015

Currency	Cash	0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	2015	2015	2015	2015	2015	2015
	M '000	M '000	M '000	M '000	M '000	M '000
ZAR	42	5 802	-	827	1 291	7 961
USD	2	2 078	346	2 263	42,00	4 730
EUR	-	11	-	-	-	11
GBP	-	132	-	-	-	132
Other	-	993	-	-	-	993
Total	**44**	**9 016**	**346**	**3 090**	**1 333**	**13 827**

Base case yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	6,98 %	7,75 %	7,63%	7,25 %
USD	0,48 %	0,89 %	0,92 %	0,71 %
EUR	0,02 %	- %	- %	- %
GBP	0,84 %	- %	- %	- %
Other	- %	- %	- %	- %

100 Basis points increase in yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	7,98 %	8,75 %	8,63 %	8,25 %
USD	1,48 %	1,89 %	1,92 %	1,00 %
EUR	1,02 %	- %	- %	- %
GBP	1,84 %	- %	- %	- %
Other	1,00 %	- %	- %	- %

100 Basis points decrease in yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	5,98 %	6,75 %	6,63 %	6,25 %
USD	- %	- %	- %	- %
EUR	- %	- %	- %	- %
GBP	- %	- %	- %	- %

41. Risk management (continued)

Nominal return in base case yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	405	-	63	94		
USD	10	153	1 026	-		
EUR	-	-	-	-		
GBP	1	-	-	-	Nominal Income	% Change
	-	-	-	-	1 752	-

Nominal return in increasing yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	463	-	71	106		
USD	31	156	1 048	0,42		
GBP	-	-	-	-		
EUR	2	-	-	-		
Other	10	-	-	-	Nominal Income	% Change
	-	-	-	-	1 890	8

Nominal return in decreasing yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	347	-	54	81		
USD	-	149,00	1 004	-		
EUR	-	-	-	-		
GBP	-	-	-	-		
Other	-	-	-	-	Nominal Income	% Change
	-	-	-	-	1 635	(7)

Sensitivity: For a 1 percentage increase in yields, income increases by 8%
For a 1 percentage decrease in yields, income decreases by 7%

41. Risk management (continued)

Liquidity risk

The table below summarises the remaining contractual maturities of the Bank's financial liabilities based on undiscounted cash flows:

2016

	Redeemable on demand	Maturing within 1 month M'000	Maturing after 1 but within 6months	Maturing after 6 but within 12 months	Maturing after 1 but within 5 years	Maturing after 5 years	Total
Financial assets	**M'000**		**M'000**	**M'000**	**M'000**	**M'000**	**M'000**
Cash and balances with banks	2 382 027	3 328 287	-	-	-	-	5 710 314
Accrued interest due from banks	508	9 828	1 713	-	-	-	12 049
Treasury Notes, Bonds and Unit trusts *	-	-	-	-	3 170 217	1 390 931	4 561 148
IMF accounts	1 925 466	-	-	-	-	-	1 925 466
Lesotho Government	-	-	7	-	-	-	7
Securities	80 264	-	-	-	-	-	80 264
Loans to staff	-	-	-	-	37,879	31,579	69,458
Investment in SWIFT	555	-	-	-	-	-	555
Total Financial Assets	**4 388 820**	**3 338 115**	**1 720**	**-**	**3 170 217**	**1 390 931**	**12 289 803**
Financial liabilities							
Notes & coins issued	1 335 835	-	-	-	-	-	1 335 835
Deposits	505 397	-	-	-	-	-	505 397
Lesotho Government	4 878 626	-	-	-	-	-	4 878 626
Deposits							
IMF Accounts	1 657 389	-	-	-	-	-	1 657 389
Total Financial liabilities	**8 377 247**	**-**	**-**	**-**	**-**	**-**	**8 377 247**
Net liquidity gap	**(3 988 427)**	**3 338 115**	**1 720**	**-**	**3 170 217**	**1 390 931**	**3 912 556**

* Discounted cash flows

41. **Risk management** (continued)

Liquidity risk

2015

	Redeemable on demand	Maturing within 1 month	Maturing after 1 but within 6months	Maturing after 6 but within 12 months	Maturing after 1 but within 5 years	Maturing after 5 years	Total
		M'000					
Financial assets	**M'000**		**M'000**	**M'000**	**M'000**	**M'000**	**M'000**
Cash and balances with banks	4 796 177	2 913 078	-	-	-	-	7 709 255
Accrued interest due from banks	851	7 339	-	-	-	-	8 190
Treasury Notes, Bonds and Unit trusts *	-	33 894	407 077	323 385	3 298 623	1 086 230	5 149 209
IMF accounts	2 809 743	-	-	-	-	-	2 809 743
Lesotho Government							
Securities	-	-	336	-	-	-	336
Loans to staff	-	-	-	-	37 879	31 579	69 458
Investment in SWIFT	847	-	-	-	-	-	-
Total Financial Assets	**7 607 618**	**2 954 311**	**407 413**	**323 385**	**3 336 502**	**1 117 809**	**15 747 038**
Financial liabilities							
Notes & coins issued	1 324 805	-	-	-	-	-	1 324 805
Deposits	555 803	-	-	-	-	-	555 803
Lesotho Government							
Deposits	6 408 528	-	-	-	-	-	6 408 528
IMF Accounts	2 450 664	-	-	-	-	-	2 450 664
Total Financial liabilities	**10 739 800**	**-**	**-**	**-**	**-**	**-**	**10 739 800**
Net liquidity gap	**(3 132 182)**	**2 954 311**	**407 413**	**323 385**	**3 336 502**	**1 117 809**	**5 007 238**

* Discounted cash flows

	Notes	2016 M'000	2015 M'000
42. Fair value information			
Levels of fair value measurements		-	-
Level 1		-	-
Available for sale financial assets		-	-
Treasury notes and bonds		2 468 332	2 780 638
Unit trusts		701 863	795 293
Financial assets designated at fair value through profit or loss		-	-
Treasury notes and bonds		1 390 931	1 573 278
Investment in SWIFT		555	847
		4 561 681	**5 150 056**

43. Memorandum Accounts

The Bank holds the following amounts on behalf of Government on a restricted basis in a fiduciary capacity only. The Government controls these monies and any gains or losses arising are for the benefit of Government. The Bank does not perform any other functions or decision making relating to these amounts other than carrying out the instructions issued to them by Government. The following amount represents the total amount of monies separately identified according to Government instructions and held on behalf of Government in bank accounts as Memorandum Accounts:

	2016	2015
Amounts in USD		
Deutsche Bank Trust Company America	**8 906 652**	**4 610 613**
Amounts in Euro		
Deutsche Bundesbank	**413 095**	**752 535**

As per the Bank's accounting policy in 1.30, these amounts have not been recorded on the Balance Sheet.

44. Subsequent Events

No material events that could cause changes in the financial statements have been identified have been identified between the financial year end and date of this report.

Notes

Central Bank of Lesotho
Corner Airport and Moshoeshoe Roads
Maseru Central • P. O. BOX 1184 • Maseru 100

For quiries, enquiries and comments, please contact:
Phone: (+266) 2223 2094 / 2223 2095
Fax: (+266) 2231 0051
E-mail: info@centralbank.org.ls