2019 ANNUAL REPORT

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

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March 30, 20**20**

Hon. Dr. Moeketsi Majoro, MP,
Minister of Finance
Office of Minister of Finance
P O Box 395
MASERU 100
Lesotho

Honourable Minister,

I have the honour to transmit the Annual Report of the Central Bank of Lesotho for the year 2019 which includes:

1. a review of economic developments during the year

2. pursuant to Section 53(1) of the Central Bank of Lesotho Act No.2 of 2000;

   a) The Bank's annual financial statements for the year ended December 31, 2019 certified by the auditors Moteane, Quashie & Associates and SNG Grant Thornton.

   b) A report on the operations and activities of the Bank during 2019.

Yours sincerely,

A. R. Matlanyane (Ph.D)
GOVERNOR

CENTRAL BANK OF LESOTHO
2019 ANNUAL REPORT

for the year ended December 31, 2019

The contents of this 2019 annual report are pursuant to Sections 46 and 53 of the
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:

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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

Dr. Maluke Letete
Non-Executive Director

Mrs. Sophia Mohapi
Non-Executive Director

Adv. Kuena Thabane
Non-Executive Director

Mr. Matooane Letsoela
Non-Executive Director

EXECUTIVE MANAGEMENT

Dr. Retšelisitsoe Matlanyane
Governor

Dr. Masilo Makhetha
First Deputy Governor

Ms. 'Mathabo Makenete
Second Deputy Governor

Mr. Lehlomela Mohapi
Director of Research Department

Mr. Bohlale Phakoe
Director of Financial Markets Department

Mr. Mokotjo Mphaka
Director of Other Financial Institutions Supervision Department

Mr. Fusi Morokole
Director of Operations Department

Mrs. Puseletso Tau
Acting Director of Banking Supervision & Financial Stability

Mr. Thabiso Makula
Director of ICT Department

Mrs. 'Mamakhaola Mohale
Director of Internal Audit Department

Mr. Napo Rantsane
Director of Corporate Affairs Department

Mrs. Rebecca Ralebakeng
Acting Director of Finance Department

Mrs. 'Mateboho Morojele
Director of Human Resources Department

Mrs. Mpono Mosaase
Director of Enterprise Risk Management Department

Foreword by the Governor

FOREWORD BY THE GOVERNOR

Dr. Retšelisitsoe Matlanyane
Governor

THE YEAR 2019 BEGAN with optimism for global economic recovery but rising trade tensions and policy uncertainty soon took a toll leading to weakening growth. The global economy experienced a synchronized growth slowdown in 2019, owing to uncertain trade policies, falling investment spending and contraction in manufacturing production. Global growth weakened to 2.9 per cent in 2019 compared with 3.6 per cent in 2018. Advanced economies were faced with structural issues, including ageing population and slowing productivity, which impacted negatively on long-term growth and potential output. The decline in the global output was however moderated by monetary policy easing in advanced economies. Most countries in the emerging and developing economies, especially China and India also faced structural issues, which constrained growth. The uncertain international trade policy in the US caused disruptions in the global trading system. Monetary policy stance remained accommodative across all countries with the US and the European Union continuing with monetary easing during the year.

During the year, the domestic economy showed some recovery despite heightened risks emanating from challenging fiscal position and deteriorating global demand. Economic growth is estimated to have accelerated by 1.5 per cent in 2019 compared with a contraction of 0.5 per cent in the preceding year. The observed economic performance was supported by both the secondary and tertiary sectors, while the primary sector's performance remained subdued. The secondary sector benefited mainly from the construction sub-sector while the tertiary was supported by the financial sector. Overall the commencement of the work related to Lesotho Highlands Water Project phase ii and improved implementation of the Government of Lesotho road construction works are expected to positively influence economic growth in Lesotho.
The average annual inflation was recorded at 5.2 per cent in 2019 compared with 4.7 per cent in 2018. The acceleration in average inflation was mainly due to increases in food inflation. While food inflation remained high throughout the year, non-food inflation declined in the second half of the year reflecting falling energy prices.

Monetary policy conditions continued to be accommodative with the CBL key policy rate ending the year at 6.50 per cent compared with 6.75 per cent in 2018. The Bank continued to implement monetary policy through the use of treasury bills. To this end the level of foreign reserves remained adequate to support the parity between the local loti and the South African rand.

The Bank continued with supervision and regulation of the financial sector, capital and money market development, overseeing national payments systems and managing foreign reserves. The implementation of the Financial Sector Development Strategy reached completion at the end of 2019. While significant milestones have been achieved during the implementation of the strategy, there is still more to be done. As such, the Bank in collaboration with the Ministry of Finance will consult with the stakeholders in the sector on the follow-up strategy. One of the major milestones of the review year was the enactment of the Pensions Act 2019. The Act will see the Bank assuming the supervision and regulation of the pensions sector. The Bank will fast track the preparation of the implementing regulations for swift implementation of the law. It is expected that this Act will provide the necessary resources to finance development

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FOREWORD BY THE GOVERNOR

projects in Lesotho. The domestic banking sector remains well capitalised. The work of developing the Crisis Management and Resolutions Frameworks has commenced.

On capital market development, there has been significant progress achieved in providing the necessary infrastructure for Government of Lesotho efforts to raise domestic resources. The Bank will continue to support the Government bond market.

The work of the Bank is largely knowledge-based. As such continuous capacity building and reskilling remain critical at all levels. Each year substantial resources are committed to training our professionals in various central banking areas. As a follow-up to the “stop-think-click” cybersecurity awareness campaign launched in 2018, the Bank rolled out cybersecurity training for the Board and all levels of staff in 2019. Another theme that was prominent in our training programme this year, again for staff at all levels, was ethics. The executive committee underwent a business continuity management refresher training in 2019.

2019 marked the adoption of the revised strategy of the Bank. The revised strategy still emphasises the dual effectiveness of executing statutory functions as well as corporate operations. It brings to the fore service excellence, operational excellence and stakeholder focus as broad strategic themes that underlie the work of the Bank to 2023.

The operating environment is becoming increasingly uncertain and complex with each passing year. The ability to identify and anticipate foreseeable risks and to respond to unforeseeable risks is a key attribute that all our governance and assurance structures should be alive to at all times. To date, the quality of leadership in the Bank – from the Board down to our middle management – provides comfort that the those entrusted with key responsibilities are up to the task.

The Bank remains committed to becoming a model institution for professionalism and excellence. These are the virtues that we encourage everyone in the Bank to project and be guided by in their work ❑

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

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According to the IMF's January 2020 update, global growth weakened to 2.9 per cent in 2019 from 3.6 per cent in 2018.

THE ECONOMIC REPORT

1.1 INTERNATIONAL ECONOMIC DEVELOPMENTS

1.1.1 The World Economy

The global economy experienced a synchronized growth slowdown in 2019, owing to uncertain trade policies, falling investment spending and contraction in manufacturing production. According to the IMF's January 2020 update, global growth weakened to 2.9 per cent in 2019 from 3.6 per cent in 2018. In particular, advanced economies were faced with structural issues, including ageing population and slowing productivity, which impacted negatively on long-term growth and potential output. The decline in the global output was however moderated by monetary policy easing in advanced economies. Most countries in the emerging and developing economies, especially China and India also faced structural issues, which constrained growth.

Global trade volumes fell dramatically during the review period. Growth in global trade fell to 1.1 per cent in 2019, from a 3.6 per cent in 2018. Trade weakened in advanced economies, and emerging and developing economies alike. This was reflected by a fall in both exports and imports. The uncertain international trade policy in the US caused disruptions in the global trading system. The trade conflicts between the US and China only subsided during the fourth quarter, following their agreement on a first phase trade deal. However, uncertainty remained with regard to the implementation of this trade deal. There were also trade conflicts between the US and some of its allies, including European Union and some countries in North America. The falling trade volume dragged down industrial production, and hurt business investment decisions.

On the price developments front, inflation was generally subdued in advanced economies - trending below its official target rate for a substantial number of countries. In the emerging market economies, inflation picked up for a number of countries, due to higher costs of food and energy. Monetary policy stance remained accommodative in advanced economies. The US and the European Union continued with monetary easing, during the year. This supported employment creation, with unemployment falling to record lows in advanced economies. Monetary policy was considered relatively accommodative even in the emerging and developing economies.

Other key events which shaped global developments, included escalating trade tensions, including tariff war between the US and China, lingering Brexit uncertainty, and other idiosyncratic country risks. Again, there was volatility in the global economy and securities markets, which led to increased demand for safe haven assets, as reflected in amongst others, the price of gold.

Economic activity in the US economy lost momentum in 2019 with real GDP growth slowing to 2.3 per cent down from 2.9 per cent in 2018.

1.1.2 Selected Advanced Economies

The United States (US)

Economic activity in the US economy lost momentum in 2019 with real GDP growth slowing to 2.3 per cent down from 2.9 per cent in 2018. This was driven by deterioration in the external sector, and contraction in investment spending. Manufacturing output also remained under pressure especially in

the second half of the year. However, consumer spending was more resilient during the year. The uncertainty with regard to trade policy, and prolonged tariff war with China hurt business confidence. The slowdown in economic growth rate also reflected the fading of stimulus from tax cuts in 2017. Unemployment rate fell to 3.5 per cent, from 4.0 per cent in 2018, driven mainly by consistent employment gains especially in the services sector.

The annual inflation rate rose to 2.3 per cent in 2019, from 1.9 per cent in 2018. The pick-up in the inflation rate was driven mostly by energy prices although this was moderated by a slowdown in the food prices. The Federal Open Market Committee (FOMC) cut the fed funds rate to 1.75 per cent in 2019, from 2.5 per cent in 2018. The move to revert to a more accommodative stance was taken to sustain economic expansion, and support strong jobs market.

The Euro Area

Escalating risks associated with US-China trade conflict worsened the external sector of the Euro Area and therefore led to the weakening economic activity in 2019. The real GDP slowed to 1.2 per cent in 2019 compared to 1.9 per cent growth in the previous year. The slowdown was mainly driven by a decline in industrial output and trade. This was however, moderated by the services sector, which remained strong during the review year. The region's unemployment rate fell to 7.4 per cent in 2019, from 7.9 per cent in 2018. Employment gains emanated from additional jobs in the services sector during the review period.

The decline in the cost of energy and food led to easing inflation in the Euro Area as it fell from 1.6 per cent in 2018 to 1.3 per cent at in 2019. The European Central Bank (ECB) kept the key policy rate unchanged at zero per cent in 2019 while also maintaining its Quantitative Easing programme in a bid to support economic growth. It intensified the asset purchases programme, as it resumed with buying bonds to the tune of 20 billion US dollars monthly starting in November 2019. Furthermore, it signaled to keep the rates at zero or even lower, with the aim to drive inflation rate towards its target rate of 2.0 per cent.

Japan

Japan's real GDP grew by 0.7 per cent in 2019, following a modest increase of 0.3 per cent in 2018. Growth was driven mostly by increased government spending, resilient consumption spending as well as private investment spending. Growth was however, constrained by the sales tax hike during the last quarter of 2019 together with the uncertainty surrounding global trade policy. New jobs were created in non-agricultural industries, including construction and services related industries, thus leading to a fall in unemployment rate to 2.2 per cent in 2019, from 2.4 per cent in 2018.

Consumer inflation rate rose to 0.8 per cent in 2019, relative to 0.3 per cent in 2018, reflecting increasing costs of food and housing. The Bank of Japan maintained an accommodative monetary policy stance in 2019, by keeping the key policy rate unchanged at -0.1 per cent. It also decided to maintain the Qualitative and Quantitative Easing (QQE), which comprises government and corporate bonds and other asset class purchases, in their current levels. The policy stance was taken to support economic growth and to ensure inflation converges to the target rate of 2 per cent in a sustainable manner.

United Kingdom (UK)

Economic growth in the UK improved moderately by 1.4 per cent in 2019, slightly above 1.3 per cent in 2018. The UK economy continued to growth despite the negative effects of Brexit developments,

falling global demand and uncertain global trade policies. The economy benefited from the services sector and consumption spending. The unemployment rate was 3.8 per cent in 2019, falling from 4.0 per cent in 2018. This was due to relatively resilient services sector which continued to add new jobs in the economy.

Inflation pressures subsided in 2019 with inflation falling to 1.5 per cent, from 2.1 per cent in 2018. The slowdown resulted from declining costs of housing, food and utilities. The Bank of England kept the key policy rate steady at 0.75 per cent in 2019, while continuing with the asset purchases programme. The monetary policy decision was aimed at striking a balance between supporting economy and dealing with the uncertain Brexit outcome.

1.1.3 Selected Emerging Market Economies

China

China's economy weakened further in 2019 due to the pressure emanating from the US tariffs. The real GDP increased by 6.1 per cent, a slowdown compared to 6.6 per cent growth in 2018. On top of the US tariffs, China's economy also suffered from self-imposed weakness in the aggregate demand due to measures under taken to reduce financial risks. Unemployment rate fell to 3.62 per cent in 2019, from 3.8 per cent in 2018. The falling unemployment rate emanated from increased policy support in the form of reserve ratio and administrative costs cuts, which benefitted services industries.

China's economy weakened further in 2019 due to the pressure emanating from the US tariffs.

Inflation rate was severely affected by the blow of African swine fever, which led to a decline in pig stocks. The annual inflation was 4.5 per cent in 2019, accelerating from 1.9 per cent in 2018, mainly reflecting escalating food prices, particularly pork prices. Non-food prices also increased at a faster rate compared to the previous year. The Peoples Bank of China did not make any changes to its key policy rate in the 2019. However, the bank continued to cut the required reserves ratio, as a way to stimulate economic activity.

India

India's economic activity experienced a sharp slowdown in 2019, due to structural issues pertaining to uncertain corporate and environmental regulation and the weakened health of non-bank financial institutions. The real GDP in India is estimated to have decelerated to 4.8 per cent in 2019, from a 6.8 per cent growth in 2018. The slowdown in growth reflected weaknesses in aggregate demand and the uncertain external environment. In particular, the falling trade volumes had a negative effect on the manufacturing output and investment decisions by the private sector in the economy.

Inflation pressures, which were mainly driven by food prices, resulted in a sharp increase in inflation rate from 2.2 per cent in 2018, up to 7.4 per cent in 2019. The Reserve Bank of India cut the repo rate to 5.15 per cent in 2019, from 6.50 per cent in 2018. The move was taken to provide accommodative environment to support economic growth, amid rising downside risk to growth from both domestic and international factors.

South Africa (SA)

South Africa's real GDP growth weakened to 0.2 per cent in 2019, from 0.8 per cent in 2018. South Africa faced structural issues including industrial actions and unstable power supply, which impacted negatively on the economy, particularly mining and manufacturing sectors. In addition, agricultural output contracted due to drought spells in the country in 2019. The economy's ability to create jobs also remained under pressure due to numerous structural challenges- unemployment rate rose to 29.1 per cent in 2019, worsening from 27.1 per cent in 2018. The decline in employment were recorded in the trade, manufacturing and utilities industries as well as in the agricultural sector.

Inflation rate in South Africa continued on a downward path in 2019 as it slowed to 4.0 per cent from 4.5 per cent in 2018. The slowing inflation rate was due to falling prices of food and transport. As a result of easing inflation, the Reserve Bank of South Africa cut the repo rate to 6.50 per cent in 2019, from 6.75 per cent in 2018. A move aimed at maintaining inflation expectations towards a mid-point of the inflation target range, in order to achieve balanced and sustainable growth.

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THE ECONOMIC REPORT

Table 1 Selected Economic Indicators, 2015 - 2019*

Indicators	2015	2016	2017	2018	2019
World Output	**3.4**	**3.2**	**3.2**	**3.6**	**2.9**
Advanced Economies	1.9	2.1	1.7	2.2	1.7
Of which:					
United States	**2.4**	**2.6**	**1.5**	**2.9**	**2.3**
Euro Area	1.1	2.0	1.8	1.9	1.2
Japan	0.0	0.5	0.9	0.3	1.0
United Kingdom	3.1	2.2	1.9	1.3	1.4
Emerging and Developing Economies	4.6	4.0	4.4	4.5	3.7
Of which:					
Africa					
Sub Saharan Africa	**5.1**	**3.4**	**1.4**	**3.2**	**3.3**
South Africa	1.6	1.3	0.3	0.8	0.4
Emerging & Developing Asia	6.8	6.6	6.4	6.4	5.6
China	7.3	6.9	6.7	6.6	6.1
India	7.2	7.6	7.1	6.8	4.8
Consumer prices					
Advanced Economies					
Of which:					
United States	1.6	0.7	2.1	1.9	2.3
Euro Area	0.4	0.0	0.3	1.6	1.4
Japan	2.8	0.8	-0.2	1.0	0.8
United Kingdom	1.5	0.1	0.7	3.0	1.3
Emerging and Developing Economies					
Of which: Africa					
Sub Saharan Africa	6.3	7.0	11.3	8.5	8.4
South Africa	6.1	4.6	6.4	5.3	4.5
Emerging & Developing Asia	**3.5**	**2.7**	**2.8**	**2.6**	**2.7**
China	2.0	1.4	2.0	2.1	4.5
India	5.9	4.9	3.4	3.4	7.4
India	5.9	4.9	3.4	5.2	2.2
World Trade Volume	**3.8**	**2.6**	**2.5**	**3.6**	**1.1**
(Goods and Services)					
Exports					
Advanced Economies	3.8	3.6	2.6	3.1	0.9
Emerging and Developing Countries	3.5	1.3	2.3	3.9	1.9
Imports					
Advanced Economies	3.8	4.2	2.4	3.0	1.2
Emerging and Developing Countries	4.5	-0.6	2.3	5.1	0.7

Source: IMF World Economic Outlook, October 2019, IMF World Economic Outlook Update, January 2020 * IMF Projections

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The price of gold extended gains to hit 1392.32 US dollars on average in 2019, a 9.5 per cent increase relative to the previous year.

1.1.4 Commodities Price Developments

Gold

The price of gold extended gains to hit 1392.32 US dollars on average in 2019, a 9.5 per cent increase relative to the previous year. Gold prices were supported by a myriad of factors which include geopolitical tensions such as the attack on Saudi Arabia's oil plants, the slowdown in global economic growth and developments surrounding Brexit. Gold prices were further influenced by the US-China trade war and Federal Reserve rate cuts during the year, which further supported the demand and therefore the price rally for the safe haven asset.

Platinum

In 2019, the average price of platinum fell by 1.72 per cent to record to 864.94 US dollars after falling to 880.09 US dollars in 2018. Platinum prices retreated on account of the fall in platinum jewellery demand from China together with a continual decline in auto sales, especially in China and Europe. Platinum has been suffering from the after effects of the diesel emissions scandal in Europe, which negatively impacted demand for platinum, pushing prices lower. Nonetheless, the outlook for platinum demand released in the second half of 2019, which was favourable and partly offsetting the falling platinum prices, supported platinum prices.

Oil

Oil prices fell by 9.1 per cent on average from 70.29 US dollars in 2018 to 63.90 US dollars in 2019. The downward pressure on oil prices in 2019 was mainly a result of increases in US oil production which rose to its all-time highs in 2019. The surge in US oil output outweighed oil price increases associated with the Organization of Petroleum Exporting Countries' (OPEC) announcements of production cuts, attacks on Saudi Arabia as well as US sanctions on Iran and Venezuela. Demand for oil also eased during the review period driven by falling demand in China and fears of global slowdown amid trade tensions.

Maize

In 2019, prices for white and yellow maize rose by 20.0 per cent and 11.9 per cent respectively relative to the previous year to record 195.56 US dollars and 186.59 US dollars respectively in 2019. The unexpected surge in maize prices was due to supply shortages as US farmers fell behind their usual pace of planting following heavy floods experienced in 2019. Nonetheless, in countries such as Argentina and Ukraine, there was strong export demand for maize which resulted in sales pickups, which therefore boosted the price of maize.

Wheat

The price of wheat increased by 2.5 per cent on average from 304.00 US dollars in 2018 to 311.63 US dollars in 2019. The wheat market was bolstered by increased potential demand from China. The wheat prices rally began towards the end of 2019 as market watchers had anticipated that the US- China trade deal could boost agricultural exports from the US to China. Embedded in phase 1 of the US-China trade deal was a commitment by China to import more agricultural products from the US. These developments were also coupled with fears from Australia that production would drop due to drought conditions.

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1.1.5 Currency Movements

In 2019, the rand hence loti lost momentum against the dollar, pound and euro relative to the previous year. The rand depreciated by 9.1 per cent, 4.5 per cent and 3.6 per cent against the dollar, the pound and the euro respectively in 2019. The developments of the rand against its major trading currencies was influenced by both domestic and foreign factors. On the domestic front; political uncertainty and power cuts by the Eskom continued to weigh negatively on the rand. On the international front, the rand alongside other emerging market currencies suffered as risk sentiment on emerging markets weakened, mainly driven by the US-China trade war. The weaker rand was further exacerbated by developments surrounding the Brexit deal.

1.2 DOMESTIC ECONOMIC DEVELOPMENTS

1.2.1 Real Sector Developments

Trends in Output and Income

Output growth was estimated to have accelerated in 2019. Real GDP growth was estimated to have increased by 1.5 per cent in 2019 compared with a contraction of 0.5 per cent in the preceding year. The observed economic performance was supported by both the secondary and tertiary sectors, while the primary sector's performance remained subdued.

Real Gross National Income (GNI) was estimated to have grown by 1.9 per cent in 2019 compared with 0.01 per cent observed in 2018. This mainly reflected improvements in net factor income from abroad, especially an increase in migrant mineworkers and other worker's remittances, and investment earnings from abroad by the Central bank. GNI per capita was estimated to have increased by 1.4 per cent compared with a contraction of 0.5 per cent in 2018.

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

	2015	2016	2017	2018	2019*
GDP	2.7	5.0	-1.3	-0.5	1.5
GNI	3.2	5.7	-0.8	0.0	1.9
GDP Per Capita	2.2	0.9	-1.8	-0.9	1.0
GNI Per Capita	2.8	1.5	-1.2	-0.5	1.4

Source Bureau of Statistics, *CBL Projections

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Real Gross National Income (GNI) was estimated to have grown by 1.9 per cent in 2019 compared with 0.01 per cent observed in 2018.

Sectoral Developments

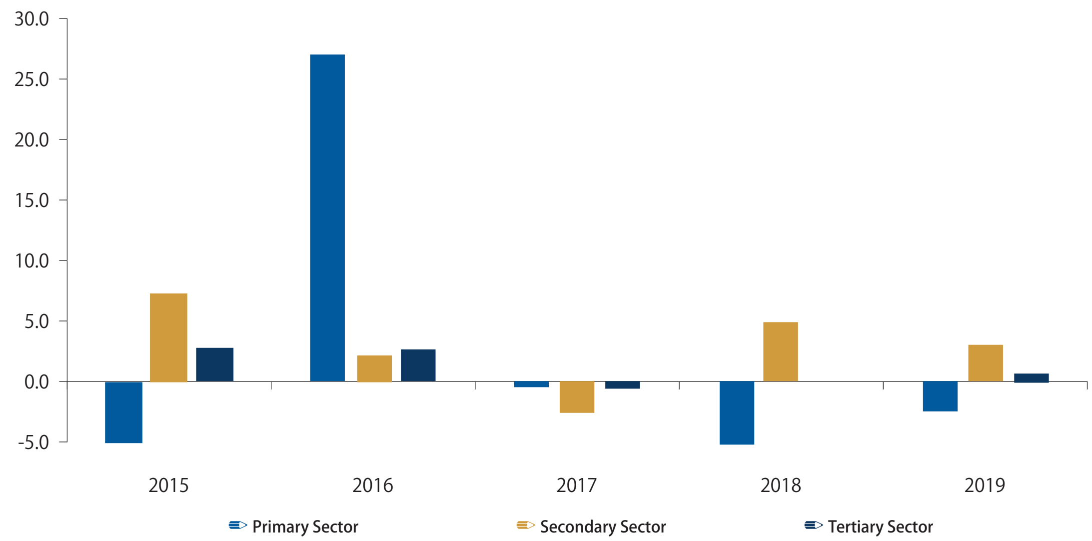
a) Developments in the Primary Sector

The primary sector was estimated to have contracted by 2.3 per cent in 2019 compared with a significant contraction of 10.1 in the previous year. The poor performance of the sector was attributed to reduced output by both the agriculture, forestry and fishing, and the mining and quarrying subsectors.

The agriculture, forestry and fishing subsector was estimated to have contracted slightly by 1.0 per cent in 2019 compared with a relatively step decline of 20.0 per cent in 2018. The decline resulted from the weak performance by the crops subsector and farming of animals, which registered declines of 3.1 per cent and 0.3 per cent, respectively. Crop production was mainly affected by late onset of rains coupled with high temperatures, which resulted in late planting. Other shocks that affected crops negatively include hailstorms and pests.

The mining and quarrying subsector growth was estimated to have declined by 3.8 per cent in the review year compared with an increase of 15.7 per cent registered in 2018. The subsector's main drawback were low diamond prices for unpolished diamonds during the course of 2019, which resulted in inventory levels remaining high. In addition, one of the mines experienced a temporary halt in production by October due to power outage and this led to a significant loss of output undermining the overall industry output.

Figure 1 Sectoral Real Growth Rate (Percentage)



Source: Bureau of Statistics, *CBL Projections

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b) Developments in the Secondary Sector

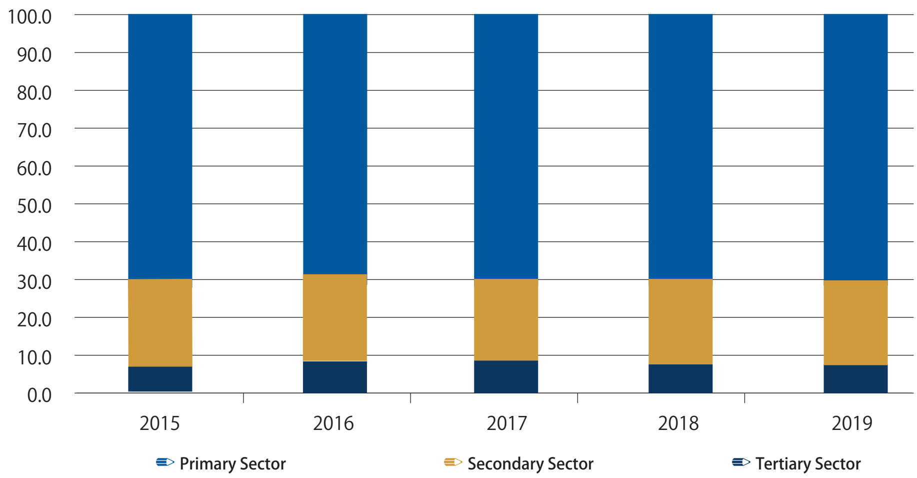
The secondary sector, which comprises of manufacturing, electricity and water, and construction, was estimated to have increased by a lower rate of 2.9 per cent in 2019 compared with an increase of 5.2 per cent in 2018. The slowdown was mainly a result of a contraction in the manufacturing subsector. The subsector contracted slightly by 0.4 per cent in 2019 relative to a significant upsurge of 9.6 per cent in 2018. The industry's performance was a reflection of low orders from both the US and SA markets, one unlawful strike and closure of three firms during the review year. However, food manufacturing's performance moderated the decline to the overall subsector with an increase of 2.2 per cent.

On the contrary, the construction subsector was estimated to be supportive of the sector. The subsector was estimated to have increased by 12.8 per cent in 2019 compared with a contraction of 4.2 per cent in 2018. The growth of the subsector was mainly attributed to the Phase II of the Lesotho Highlands Water Project and government construction works, which included amongst others the construction of Mpiti to Sehlabathebe and Marakabei to Monontsa roads. The Electricity and Water subsector was estimated to have increased by 1.3 per cent in the review year compared with an increase of 4.9 per cent registered in 2018. The growth was attributed to good performance by both the water and sewage, wastes collection, and electricity supply components.

c) Developments in the Tertiary Sector

The services sector was estimated to have improved slightly by 0.9 per cent in 2019 compared with a contraction of 0.2 per cent in 2018. The sector was mostly supported by professional, scientific and technical activities, public administration activities, financial and insurance services, transport and storage and accommodation and food services. The observed performance was an indication of a marginal improvement in domestic demand during 2019 relatively to the preceding year.

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



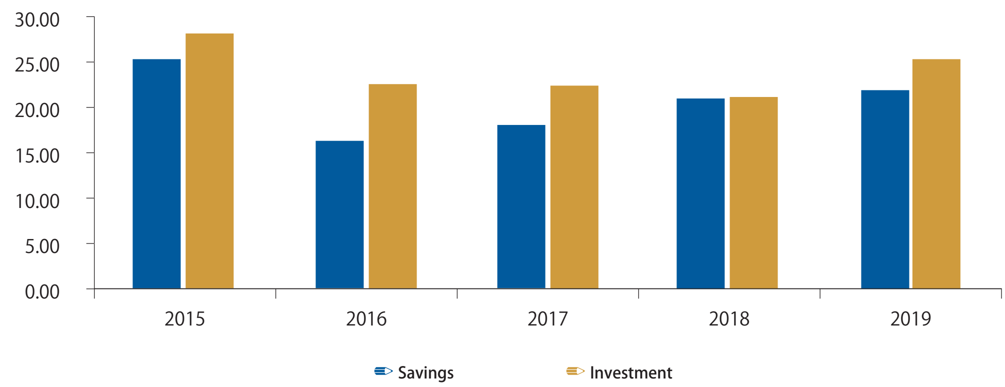
Source: Bureau of Statistics, *CBL Projections

Gross national savings was estimated at 21.0 per cent of GNI in 2019 compared with 20.8 per cent of GNI in 2018.

Savings and Investments

Gross national savings was estimated at 21.0 per cent of GNI in 2019 compared with 20.8 per cent of GNI in 2018, while total investment as a share of GNI was recorded at 25.0 per cent in 2019 compared with 20.1 per cent in the previous year. The saving-investment gap as a share of GNI widened to negative 3.1 per cent in the review year compared with negative 0.2 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 decline in private sector savings to 15.4 per cent as a share of GNI in 2019 from 17.8 per cent in 2018 given that government savings increased to 6.5 per cent in 2019.

Figure 3 **Savings and Investment** (As a percentage of GNI)



Source: Bureau of Statistics

Employment, Wages and Prices

a) Employment Trends

Labour market indicators in the economy showed a decline in 2019 relatively compared with 2018 in all three categories, namely, government, LNDC-assisted and migrant mineworkers. The employment by LNDC-assisted companies fell from 50 542 employees in 2018 to 50 450 employees in 2019, an equivalence of 0.2 per cent decline following an increase of 2.2 per cent in 2018. The government employment declined from 43 236 people in 2018 to 43 231 people in 2019, which is an insignificant decline. It is, however, an improvement from the 2018 decline of 0.3 per cent. The number of Basotho migrant mineworkers also declined, albeit at a relatively lower pace of 7.7 per cent in 2019 compared to a decline of 13.3 per cent in 2018. The employment fell from 22 354 people in 2018 to 20 635 people in 2019.

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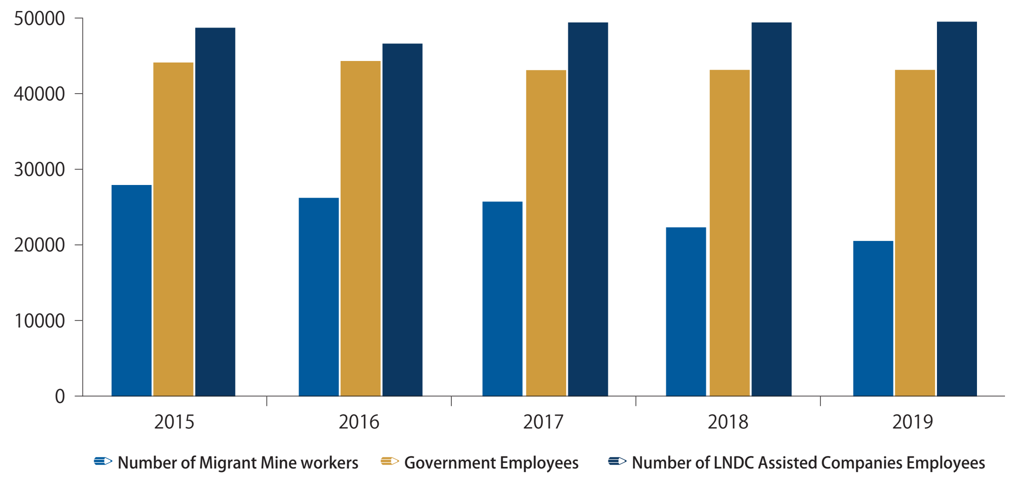
Figure 4 Employment Trends



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

b) Wages

The sectoral minimum wages setting is determined by the Wages Advisory Board under the Ministry of Labour and Employment of Lesotho through various stakeholders' consultation. The 2019/2020 general minimum wage increased by 8.0 per cent compared with 7.0 per cent in 2018. The textiles, clothing and leather manufacturing sector increased by 6.0 per cent in 2019 compared to 37.0 per cent increase in 2018. Nonetheless, there was no government sector wages increase in 2019/2020 compared with 4.0 per cent in 2018/2019. This was done in an effort to reduce the government wage bill.

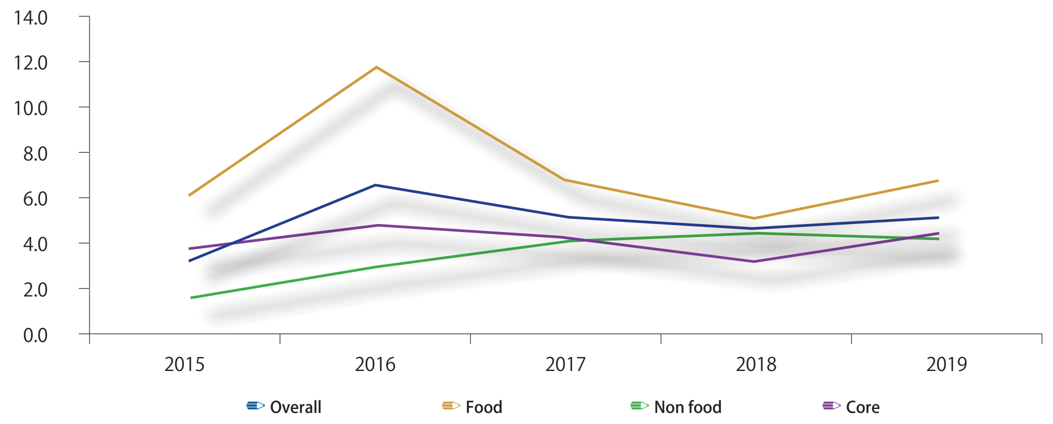
c) Price Developments

The rate of inflation, measured by the year-on-year percentage change in consumer price index (CPI), accelerated to an average of 5.2 per cent in 2019 compared with 4.7 per cent in 2018. In the first half of 2019, the overall inflation increased from 4.7 per cent from January and reach a peak of 5.9 per cent in May 2019, along with the food inflation which increased by 1.8 percentage points and reached the high of 7.1 per cent during the same month. Non-food component increased only by 0.5 percentage points during the review period.

Nonetheless, the headline inflation rate declined by 1.1 percentage points second half of 2019 to reach a low of 4.8 per cent in December 2019. Food inflation continued to rise in the second half of 2019 as food prices increased and remained high while the non-food inflation declined by 2.0 percentage points due to falling energy prices, especially the price of international crude oil. Core inflation increased to 4.5 per cent in 2019 compared with 3.2 per cent in 2018.

The headline inflation rate declined by 1.1 percentage points second half of 2019 to reach a low of 4.8 per cent in December 2019.

Figure 5 Lesotho Consumer Price Index (Annualized Percentage Changes)



Source: Bureau of Statistics

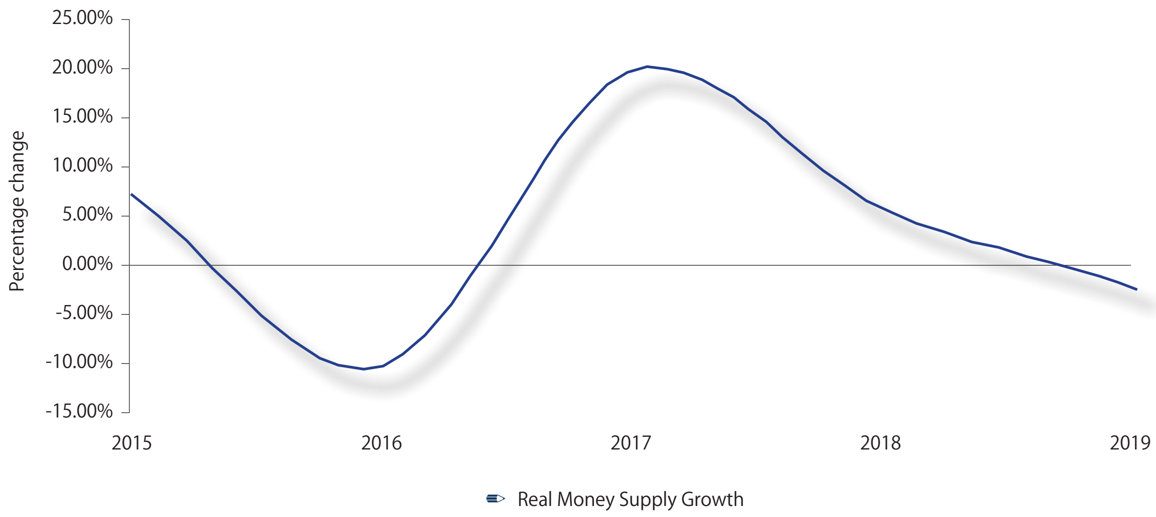
1.2.2 Monetary and Financial Developments

Money Supply

Broad measure of money supply (M2) increased by 3.0 per cent in December 2019 in nominal terms compared to a growth of 10.7 per cent in December 2018. This was at the back of an increase in overall banking system net foreign assets (NFA) as well as domestic claims, which rose by 2.5 per cent and 11.2 per cent respectively. In real terms, money supply registered a decline of 2.2 per cent in 2019 against an increase of 5.8 per cent realised during the previous year.

In terms of the components of money supply, narrow money (M1) registered an increase of 2.6 per cent compared to a muted decline observed in December 2018. Quasi money recorded an increase of 3.3 per cent compared to 21.8 per cent in the review period. The rise in M1 was at the back of an increase in both currency in circulation and demand deposits. Furthermore, the increase in quasi money was attributed to growth in other deposits particularly from business enterprises.

Figure 6 Real Money Supply Growth



Source: Central Bank of Lesotho

Domestic Claims

Domestic claims, including net claims on government grew by 11.2 per cent during the period under review compared to a 17.3 per cent increase recorded during the previous year. This was at the back of a 9.3 per cent rise in private sector credit coupled with an increase of 16.9 per cent in net claims on government. The rise in net claims on government was attributable to an increase in the commercial banks' holding of government securities. Moreover, the developments in private sector credit were due to an increase in credit extended to households and business sector.

Domestic claims, including net claims on government grew by 11.2 per cent during the period under review compared to a 17.3 per cent increase recorded during the previous year.

Table 3 Domestic Credit (Million Maloti: End Of Period)	2015	2016	2017	2018	2019
Claims on Government (Net)	-4,790.12	-2,584.01	-770.46	-665.51	-552.96
Claims on Central Government	*1,899.23*	*1,953.90*	*1,844.30*	*2,125.98*	*2,640.41*
Liabilities to Central Government	*6,689.34*	*4,537.91*	*2,614.77*	*2,791.49*	*3,193.37*
Claims on Public NFCs (Official entities)	0.00	0.00	0.00	0.00	0.00
Claims on Private Sector	5,501.66	5,664.65	6,131.00	6,810.3	7,295.46
Claims on Other Resident Sector (Households)	*3,398.21*	*3,697.90*	*4,147.81*	*4,710.06*	*5,192.80*
Claims on Other NFCs (Enterprise)	*2,103.45*	*1,966.75*	*1,983.19*	*2,097.60*	*2,210.55*
Domestic Claims	**742.93**	**3,160.31**	**5,455.6**	**6,401.5**	**6,742.50**
Source	Central Bank of Lesotho				

Net Foreign Assets

Overall banking system NFA weakened during the review period as it registered a weaker growth of 1.2 per cent in December 2019 against a growth of 14.9 per cent during the previous year. In particular, central bank NFA increased by 7.9 per cent while commercial banks NFA fell by 11.5 per cent. The rise in central bank NFA was mainly at the back of a 30.8 per cent increase in transferable deposits included in official reserve assets, which reflects a slower execution of the government budget. However, the decline in commercial banks' NFA was mainly due to 41.5 per cent drop in commercial banks' balances with the banks in SA.

Table 4 Banking System's Net Foreign Assets (Millions of Maloti)	2015	2016	2017	2018	2019
Commercial banks	3,859.15	2,992.48	4,523.72	5,200.68	4,603.91
Assets	*4,244.11*	*3,330.04*	*5,010.79*	*5,700.44*	*5,026.74*
Liabilities	*-384.96*	*-337.55*	*-487.07*	*-499.76*	*-422.83*
Central Bank	11,957.92	10,381.89	8,569.04	9,841.94	10,618.21
Assets	*13,739.59*	*11, 920.42*	*9,901.86*	*11,192.19*	*11,733.04*
Liabilities	*-1,781.67*	*-1,538.53*	*-1,332.82*	*-1,350.25*	*-1,114.83*
Net Foreign Assets	**15,817.07**	**13,374.37**	**13,092.77**	**15,042.62**	**15,222.12**
Source	Central Bank of Lesotho				

Credit Extension

Trends of Credit Extended to Business Enterprises

Credit extended to business enterprises rose by 5.4 per cent during the review period, following an increase of 5.8 per cent recorded in the previous year. Transport and Storage, and Wholesale, retail, hotel and restaurant saw the biggest increases while the decline in Manufacturing moderated the overall growth.

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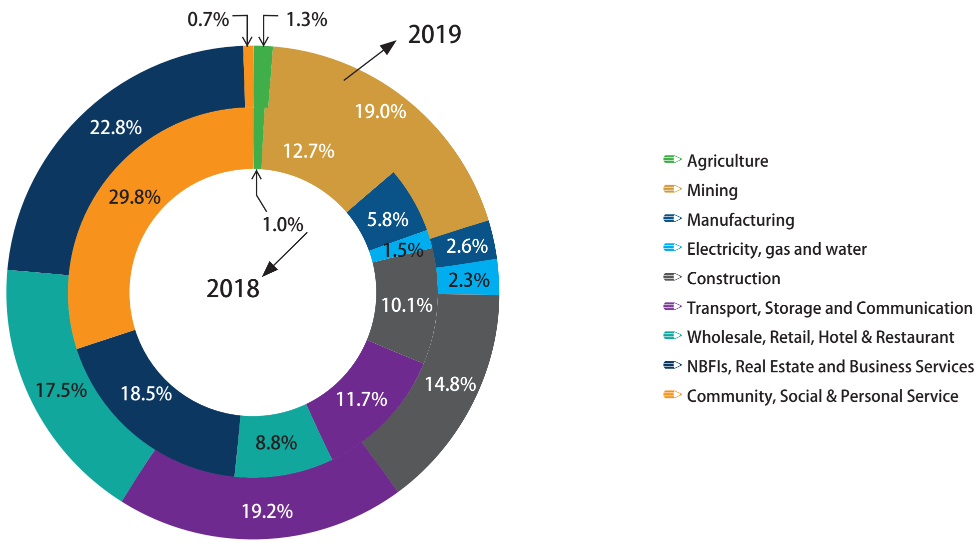
Table 5	Trends of Credit to Business Enterprises (Millions of Maloti)				
	2015	2016	2017	2018	2019
Agriculture	18.1	25.3	17.0	30.3	29.2
Mining	406.9	363.8	284.1	379.7	419.9
Manufacturing	481.7	319.4	252.1	174.1	58.0
Electricity, gas and water	32.9	38.5	41.2	46.2	44.7
Construction	228.2	313.5	284.0	301.8	328.1
Transport, Storage and Communication	235.3	185.7	370.9	349.6	423.7
Wholesale, Retail, Hotel & Restaurant	235.8	184.7	167.1	261.7	387.5
NBFIs, Real Estate and Business Services	444.6	509.5	522.9	553.2	504.6
Community, Social & Personal Service	19.8	26.4	43.9	0.9	15.0
Total	**2103.4**	**1966.7**	**1983.2**	**2097.6**	**2210.6**

Source: Central Bank of Lesotho

Distribution of Credit Extended to Business Enterprises

Considering the distribution of credit to business enterprises, the largest share went to NBFIs, Real Estate and Business Services followed by Transport Storage and Communication and Mining sectors. However, Electricity, gas and water constitutes the lowest share of credit.

Figure 7 Distribution of Credit (Percentage Shares)



Source: Bureau of Statistics, *CBL Projections

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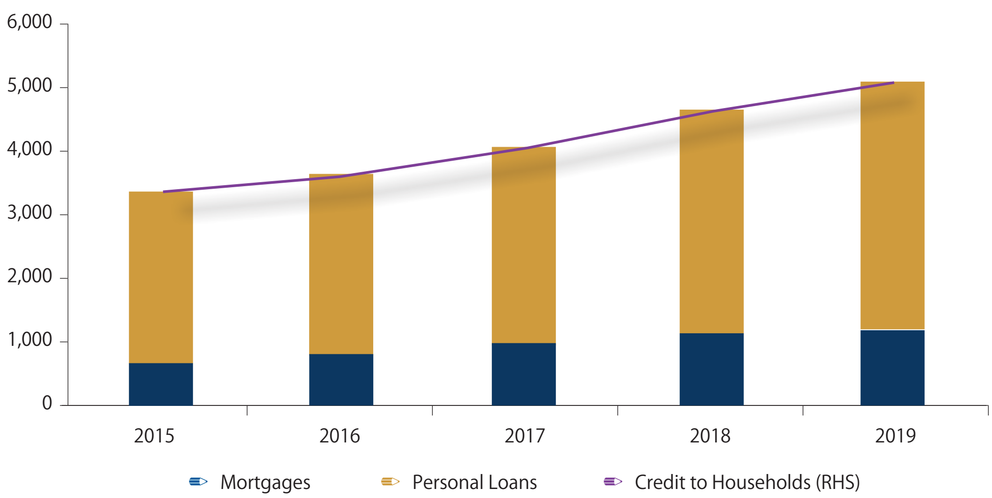
Credit extended to business enterprises rose by 5.4 per cent during the review period, following an increase of 5.8 per cent recorded in the previous year.

Credit Extension to Households

Following a 13.8 per cent rise in 2018, credit extended to households registered a relatively lower growth of 10.3 per cent in 2019. Behind this development was a 3.5 per cent rise in mortgages and a 12.7 per cent increase in personal loans. Credit extended to households was supported by ease of access to unsecured lending through different banking platforms. In terms of shares, personal loans accounted for 76.3 per cent of total credit to households compared to 74.7 per cent observed in 2018. The share of mortgages in household credit grew at a much slower rate, registered at 3.5 per cent in the period under review compared to an increase of 15.9 per cent in 2018.

Figure 8 **Credit Extension to Households** (Million Maloti: End Period)



Source: Central Bank of Lesotho

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Liquidity of Commercial Banks

Components of liquidity

During the review period, commercial banks liquidity stood at 70.83 per cent compared to 71.70 per cent in 2018. This was mainly caused by a 33.1 per cent decline in balances due from abroad, particularly meant to finance the demand for credit. The credit to deposit ratio increased from 54.6 per cent in 2018 to 57.6 per cent in the reporting year, 2019. This is largely explained by the higher rate of growth in private sector credit relative to total deposits.

Table 6 Components of Liquidity (Millions of Maloti)

	2015	2016	2017	2018	2019
Credit to Deposit Ratio	**59.8%**	**64.6%**	**55.2%**	**54.6%**	**57.6%**
Private Sector Credit	5432.2	5584.59	6045.47	6712.99	7257.25
Total Deposits	9084.4	8651.19	10956	12303.56	12598.98
Liquidity Ratio	**82.6%**	**72.4%**	**74.3%**	**71.7%**	**70.8%**
Notes and Coins	476.34	582.42	740.983	741.60	726.47
Balances Due from Banks in Lesotho	2343.9	2127.76	2157.63	1779.25	1100.93
Balances Due from Banks in SA	3760.6	2533.81	4198.18	4949.68	3311.62
Surplus funds	96.344	170.392	41.0195	-45.72	139.66
Government Securities	825.42	846.959	1002.12	1396.23	3645.55
Total	**7502.6**	**6261.34**	**8139.94**	**8821.04**	**8924.23**

Source Central Bank of Lesotho

Money and Capital Market Developments

Money Market

Interest Rates

During the period under review, CBL key policy rate fell by 25 basis points from 6.75 per cent in 2018 to 6.50 per cent in 2019. Similarly, the Lesotho prime lending rate declined from 11.25 per cent to 11.19 per cent during the same period. However, other money markets interest rates displayed mixed performance. The Lesotho interest rates remained largely aligned to other Common Monetary Area member states money market rates.

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During the review period, commercial banks liquidity stood at 70.83 per cent compared to 71.70 per cent in 2018.

Table 7 Interest Rates

	2015	2016	2017	2018	2019
Central Bank Rate	6.25	7.00	6.75	6.75	6.50
91-days TB Rate	6.49	6.58	6.27	6.69	6.26
Lombard Rate	10.49	10.58	10.27	10.69	10.26
Commercial Banks					
Call	1.03	1.19	1.06	1.12	1.09
Time					
31 days	0.48	0.44	0.36	0.35	0.70
88 days	1.04	1.12	1.31	1.33	2.08
6 months	2.26	2.53	2.45	2.25	2.90
1 year	3.26	3.52	3.73	4.19	4.24
Savings	0.51	0.56	0.76	0.70	0.70
Prime*	10.94	11.69	11.44	11.25	11.19
South Africa					
Repo	6.25	7.00	6.75	6.75	6.50
T Bill Rate – 91 Days	6.98	7.61	7.6	7.48	7.16
Prime	9.75	10.5	10.25	10.25	10.00

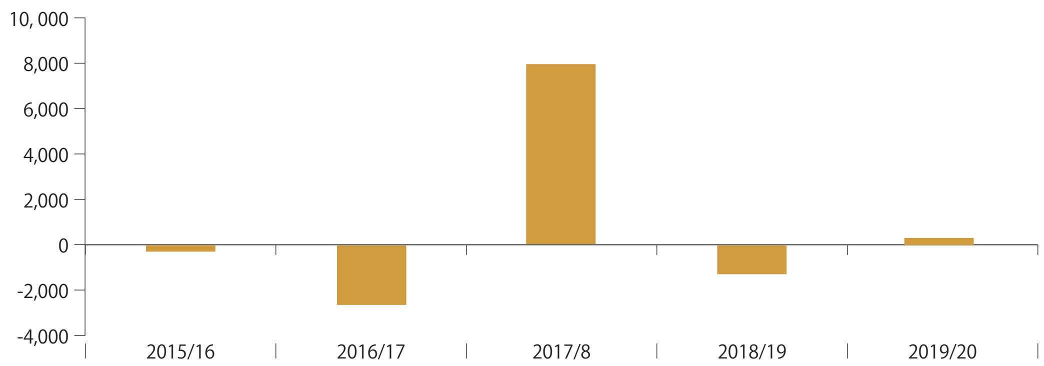
Source Central Bank of Lesotho and South African Reserve Bank (SARB)

1.2.3 Government Finance Operations

Fiscal Performance in 2019/20

The Government budgetary operations were projected to record a fiscal surplus of 0.7 per cent of GDP by the end of the fiscal year of 2019/20, relative to a fiscal deficit of 3.7 per cent of GDP in the previous year. This surplus will translate into accumulation of government deposits with the Banking system. Public sector debt stock was estimated to be 51.7 per cent of GDP in 2019/20, which was up from 46.5 per cent of GDP in 2018/19, mainly due to revaluation losses and increased auction amount of Treasury bonds.

Figure 9 **Fiscal Balance** (Million Maloti)



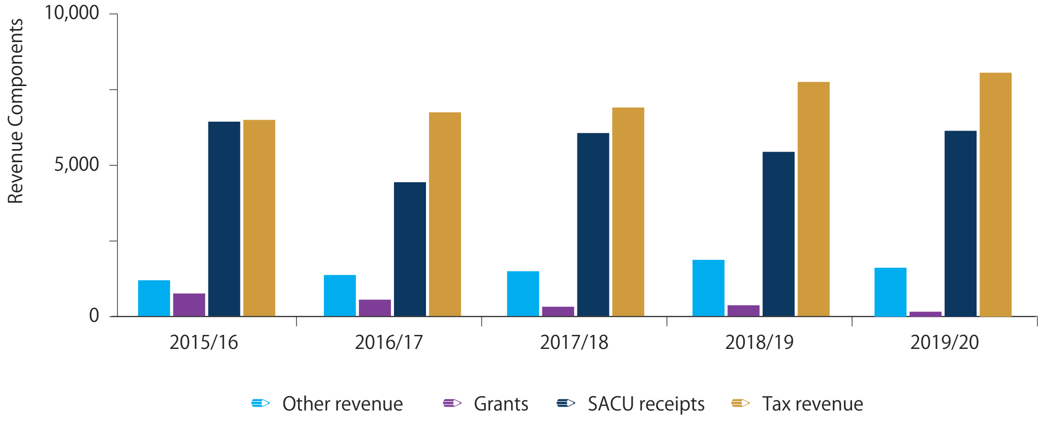
Source: Ministry of Finance (MoF) and CBL estimates

Total Revenue

The Government revenue was estimated to increase by 5.8 per cent during the fiscal year under review, following a 1.8 per cent growth in the previous year. The major contributing factors to improved performance included higher receipts of SACU revenue, higher collections of both Value Added Tax (VAT) and income tax, plus the rand monetary compensation. Nonetheless, the decline in other revenue and grants from international partners moderated the increase.

The Government spending was estimated to decline by 4.0 per cent during the year under review, in contrast to a significant upsurge in the prior year.

Figure 10 **Revenue** (Million Maloti)

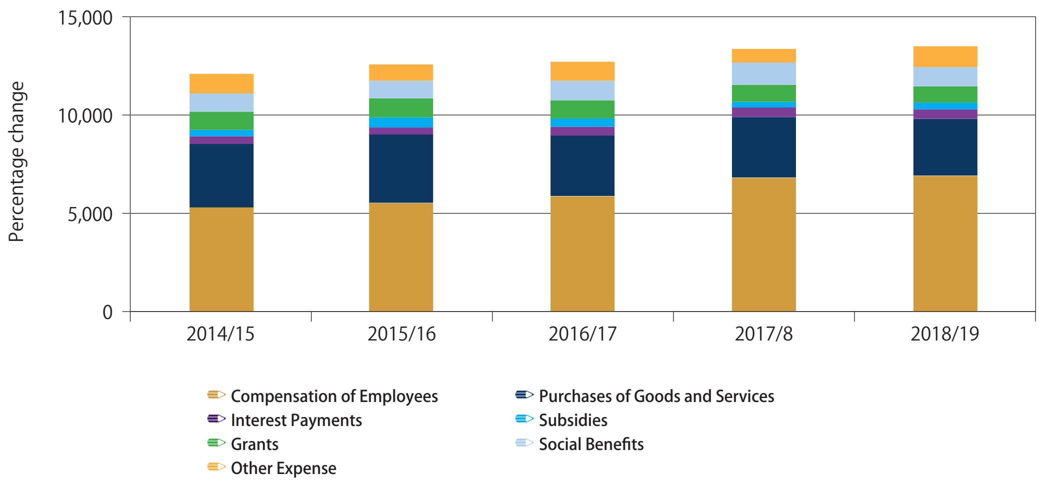


Source: Ministry of Finance (MoF) and CBL estimates

Total Expenditure

The Government spending was estimated to decline by 4.0 per cent during the year under review, in contrast to a significant upsurge in the prior year. This decrease was on both categories of spending, with more pronounced on non-financial assets. However, the recurrent spending, with compensation of employees, interest payments and students loan bursary, moderated the fall. The expenses accounted for 85.0 percentage share of the total expenditure

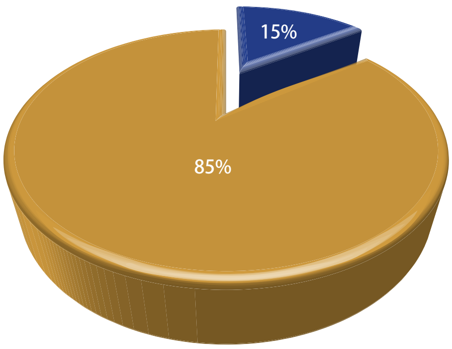
Figure 11 **Total Expense** (Million Maloti)



Source: Ministry of Finance (MoF) and CBL estimates

The projected annual fiscal surplus contributed to accumulation of Government deposits with the banking system

Figure 12 Composition of Total Expenditure

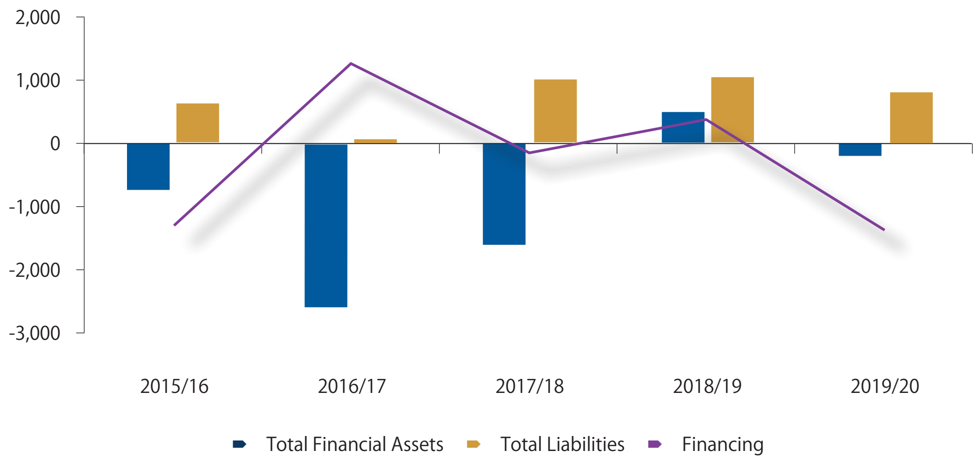


Source: MOF and CBL Projections

Financial Assets and Liabilities[1]

The projected annual fiscal surplus contributed to accumulation of Government deposits with the banking system. In addition, incurrence of new external debt, coupled with increased amount of government securities issued for fiscal operations, on the one hand increase both financial assets and liabilities.

Figure 13 **Total Financing** (Million Maloti)



Source: Ministry of Finance (MoF) and CBL

[1] All categories are on net terms.

Table 8	Statement of Government Operations (Millions of Maloti)				
	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue	**14,886.57**	**13,273.64**	**14,971.85**	**15,234.54**	**16,120.73**
Tax revenue	6,511.93	6,802.27	6,955.99	7,739.89	8,135.94
Social Contributions	0.00	0.00	0.00	0.00	0.00
Grants	705.29	521.57	264.91	126.19	110.28
Other revenue	1,270.73	1,430.83	1,596.75	1,826.23	1,648.24
SACU receipts	6,398.62	4,518.97	6,154.20	5,542.24	6,226.27
Expense	**12,114.93**	**12,915.28**	**12,719.95**	**13,433.05**	**13,488.56**
Compensation of Employees	5,538.41	5,637.02	6,017.37	6,884.99	6,925.91
Use of goods and services	3,085.89	3,469.10	2,998.82	3,076.73	2,948.49
Interest Payments	285.91	308.13	373.12	364.60	362.52
Subsidies	309.19	449.91	409.96	342.24	324.15
Grants	938.65	984.24	933.01	893.96	911.80
Social benefits	897.90	871.34	979.60	1,087.60	955.35
Other expense	1,058.97	834.45	1,008.07	782.93	1,060.35
Net Operating Balance	**2,771.64**	**358.35**	**2,251.90**	**1,801.49**	**2,632.16**
Nonfinancial Assets	**3,129.99**	**2,994.11**	**1,858.01**	**3,102.35**	**2,388.20**
Fixed Assets	**3,129.99**	**2,994.11**	**1,858.01**	**3,097.55**	**2,388.20**
Buildings and structures	779.80	2,446.95	1,237.37	1,525.43	1,119.66
Machinery and equipment	212.74	109.32	89.26	420.10	189.98
Other fixed assets	0.00	0.00	0.00	0.00	0.00
Unidentified	2,137.45	437.84	531.38	1,152.03	376.30
Non-Produced Assets	0.00	0.00	0.00	-4.80	0.00
Expenditure (2+31)	**15,244.91**	**15,909.40**	**14,577.96**	**16,535.40**	**15,876.76**
Net lending (+) / Net borrowing (-)	**-358.34**	**-2,635.76**	**393.89**	**-1,300.86**	**243.97**
Financing	**1,393.53**	**2,681.69**	**1,193.48**	**-1,572.22**	**-632.43**
Financial assets	**740.66**	**2,613.62**	**1,612.39**	**-501.72**	**198.60**
Domestic	740.66	2,613.62	1,612.39	-501.72	198.60
Foreign	0.00	0.00	0.00	0.00	0.00
Liabilities	**652.88**	**68.07**	**1,028.88**	**1,070.50**	**831.02**
Domestic	439.55	-144.64	961.54	795.55	828.32
Foreign	213.32	212.70	67.34	274.95	2.71
Statistical Discrepancy	**1,035.19**	**45.93**	**369.82**	**271.36**	**876.39**

Source: Ministry of Finance (MoF) and CBL estimates

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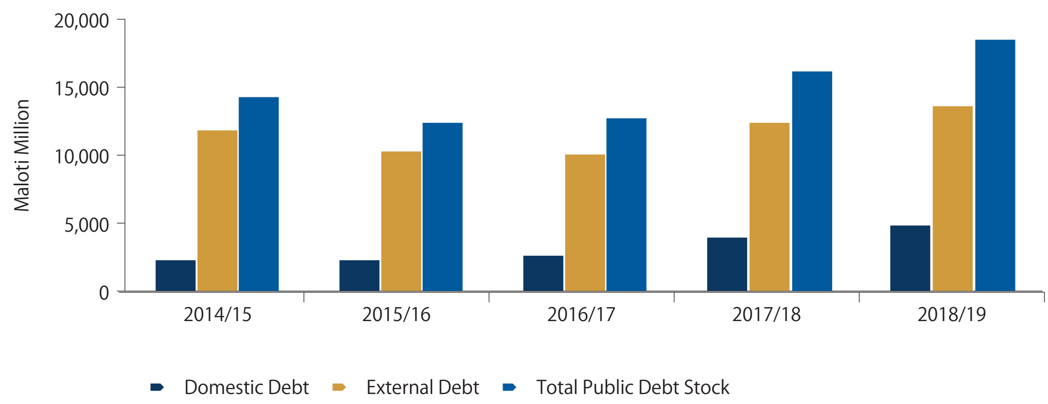
The external debt will continue to take a larger share of the total public debt stock at 74.3 per cent.

Public Debt

Total Public Sector Debt[2]

The stock of public sector debt was projected to increase by 13.7 per cent at the end of 2019/20, compared to an upsurge of 27.3 per cent observed in 2018/19. This growth was mainly attributed to issuance of government securities to finance fiscal operations, and a significant growth of external component realised in all categories. The external debt will continue to take a larger share of the total public debt stock at 74.3 per cent, and with it, the concessional debt will record a 78.0 per cent of the total external debt.

Figure 14 Outstanding Public Sector Debt (Million Maloti)



Source: Ministry of Finance (MoF) and CBL estimates

[2] All categories are on net terms.

Table 9	Public Sector Debt Stock (Millions of Maloti)				
	2015/16	2016/17	2017/18	2018/19	2019/20
Total Public Debt Stock	**14,110.08**	**12,398.16**	**12,718.20**	**16,192.93**	**18,413.58**
External Debt	**11,769.06**	**10,203.79**	**10,016.36**	**12,272.53**	**13,687.88**
Bilateral Loans (concessional)	1,134.78	905.47	828.71	1,008.42	1,038.95
Multilateral Loans	9,714.31	8,576.27	8,536.65	10,276.14	11,210.11
Concessional	8,266.84	6,932.14	6,920.95	8,695.03	9,642.30
Non-concessional	1,447.46	1,644.13	1,615.69	1,581.11	1,567.80
Financial Institutions (non-concessional)	0.64	0.60	0.34	0.29	0.00
Suppliers' Credit (non-concessional)	919.33	721.44	650.67	987.68	1,438.82
Domestic Debt	**2,341.02**	**2,194.38**	**2,701.84**	**3,920.41**	**4,725.70**
Banks	1,933.10	1,681.93	1,822.39	2,696.18	3,044.45
Treasury Bonds	472.04	471.68	526.59	760.97	1,504.05
Treasury Bills	394.80	372.69	566.10	1,223.79	1,034.66
Central Bank (IMF-ECF)	1,066.26	837.56	729.70	711.42	505.74
Non-bank	407.93	512.45	879.46	1,224.23	1,681.24
Treasury Bonds	197.78	231.24	308.61	252.98	540.62
Treasury Bills	210.15	281.21	570.85	971.25	1,140.62
Total debt as % of GDP	43.2	38.0	37.8	46.5	51.7
External debt as % of GDP	36.0	31.3	29.8	35.3	38.4
Domestic debt as % of GDP	7.2	6.7	8.0	11.3	13.3
External debt as % of total	83.4	82.3	78.8	75.8	74.3
Domestic debt as % of total	16.6	17.7	21.2	24.2	25.7
Concessional as % of External debt	79.9	76.8	77.4	79.1	78.0
Source	Ministry of Finance (MoF) and CBL estimates, (*end of period exchange rate)				

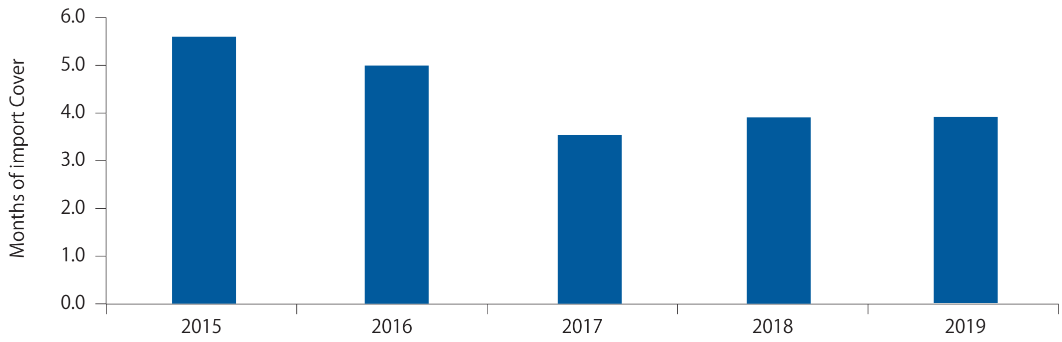
1.2.4 Foreign Trade and Payment

Overall Balance

The external sector position was in a surplus equivalent to 1.5 per cent of GDP in 2019 from a revised 3.7 per cent of GDP a year earlier. The subdued overall balance of payments stemmed from an expansion in the current account deficit and a drop in financial account outflows. These outweighed the robust performance of the capital account, which resulted as capital inflows increased more than two-fold in 2019 relative to 2018. Expressed in months of import cover, gross reserves slightly rose to 4.3 months in 2019 from 4.2 months in the preceding year.

The external sector position was in a surplus equivalent to 1.5 per cent of GDP in 2019 from a revised 3.7 per cent of GDP a year earlier.

Figure 15 Reserves in Months of Imports



Source: Central Bank of Lesotho

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

	2015	2016	2017	2018	2019*
Current Account	**-3.09**	**-8.51**	**-7.06**	**-0.25**	**-3.19**
Goods	-31.76	-31.49	-30.97	-26.80	-30.45
Services	-10.75	-10.56	-11.97	-17.12	-16.85
Primary Income	12.54	12.90	12.82	20.82	20.91
Secondary Income	26.88	20.63	23.06	22.81	23.18
Capital Account	**1.53**	**2.09**	**1.53**	**1.41**	**3.43**
Financial Account	**-11.22**	**-10.52**	**-2.53**	**8.23**	**2.80**

Source Central Bank of Lesotho

Current Account

The current account deficit widened further, from a deficit of M85.40 million, equivalent to 0.3 per cent of GDP in 2018 to a deficit of M1.16 billion, equivalent to 3.2 per cent of GDP in 2019. The deterioration of the current account balance was at the backdrop of the increased deficit on the goods and services account. However, an improved performance of the primary income account and secondary income account moderated the impact of the trade account deficit.

In 2019, the deficit on the goods account rose by 18.8 per cent, equivalent to 30.5 per cent of GDP, following a revised 12.3 per cent contraction, equivalent to 26.8 per cent of GDP in the previous year. The deterioration emanated from a contraction in merchandise exports and a rise in imports during the same period. Merchandise exports contracted by 8.8 per cent in 2019, following a 17.4 per cent gain in 2018.

THE ECONOMIC REPORT

Merchandise exports suffered as textiles and clothing exports to the US, which is Lesotho's major textiles and clothing market under African Growth and Opportunity Act (AGOA) dropped due to weak demand. Diamond exports as well as water sales to South Africa also fell during this period. The decline in the global economic growth amid the escalation in Sino-US trade conflict, coupled with geopolitical tensions in many parts of the world affected the demand for precious stones. Moreover, power outages due to maintenance of the 'Muela Hydropower station drastically affected production, as one the mines had to suspend its operations. Water exports fell due to the inspection and scheduled maintenance work on the Lesotho Highlands Water Project (LHWP) tunnel during 2019.

Merchandise imports rose by 1.4 per cent in 2019 relative to a 4.4 per cent increase in the previous year, supported mostly by imports of food and live animals, textiles and clothing as well as machinery and transport equipment. Imports of machinery and transport equipment reflected increased spending on advanced infrastructure activities related to the LHWP in preparation for the construction of the Polihali Dam, which is scheduled to commence in 2021. Expressed as a share of GDP, merchandise imports constituted 70.7 per cent in 2019 from a revised 72.9 per cent in 2020.

Lesotho continued to be a net importer of services during the year under review, as services outflows continued to outweigh receipts for services rendered abroad. The services account deficit widened by 3.0 per cent in 2019, compared to a 2.6 per cent increase in 2018. The observed movement mainly stemmed from increased payments for transport services, in particular business travel abroad.

The surplus on the primary income account expanded by 4.9 per cent during the year under review, following a 4.1 per cent gain in the previous year. The primary income account was boosted by an increase in returns on the Central Bank's investments held abroad and Lesotho Highlands Development Authority (LHDA) receipts for operational maintenance costs. Meanwhile, returns on commercial banks' investments held abroad declined and interest payments for governments foreign debts increased, thus exerting a downward pressure on the primary income account. As a percentage of GDP, the surplus on the primary income account constituted 20.9 per cent, slightly higher than a revised surplus constituting 20.8 per cent in 2018.

The secondary income account balance rose by 6.3 per cent in 2019 recovering from a 0.1 per cent fall in the preceding year. The increase emanated from the rise in SACU receipts and the Rand Monetary Compensation receipts, which expanded during the year under review. The secondary income account also benefited from a decline in government subscription to international organisations, which dropped by 56.6 per cent compared to an increase of 16.5 per cent a year earlier. As a percentage of GDP, the surplus on the secondary income account constituted 23.2 per cent relative to a revised 22.8 per cent in 2018.

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The secondary income account balance rose by 6.3 per cent in 2019 recovering from a 0.1 per cent fall in the preceding year.

Capital Account

The capital account flows into Lesotho surged to record M1.25 billion in 2019, increasing from M492.10 million a year earlier. The capital account was boosted by robust inflows for advanced infrastructure for the Phase II of the LHWP. However, capital transfers for government related projects fell and therefore moderated the impact of increased LHWP inflows. As a share of GDP, the capital account inflows accounted for 3.4 per cent in 2019 relative to 1.4 per cent in the previous year.

Financial Account

In 2019, the financial account outflows amounted to M818.20 million, lower than M2.87 billion in the previous year. The slower increase in financial account outflows reflected the sluggish increase in reserves assets during the review year, relative to 2018. In addition, the financial account outflows were moderated by a fall in foreign assets held by commercial banks. This resulted as commercial banks reduced their foreign investments abroad to meet the minimum liquidity requirements. Nonetheless, government disbursements of foreign loans rose and therefore partly offset the observed decline in commercial banks' foreign assets. Relative to GDP, the financial account outflows amounted to 2.2 per cent in 2019 following outflows accounting for 8.2 per cent in 2018 ❑

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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

Central banking activities comprise functions of the Bank that implement CBL Act No2 of 2000. Sections 5 and 6 of the Act outline the mandate and functions of the Bank respectively. Monetary policy, financial sector regulation and supervision, payment systems oversight, financial markets developments, issuing and redeeming currency, reserves management and many others are some of the prominent central banking activities.

2.1 MONETARY POLICY

Monetary policy formulation and implementation emanate from sections 5 and 6 (c) & (d) of the Act. Six (6) Monetary Policy Committee (MPC) meetings were convened in the review period. Key decisions of the MPC are determination of the Net International Reserves (NIR) target floor for maintenance of the peg between the Loti and the Rand and the setting of the CBL Rate aimed at anchoring pricing in the credit market as well as controlling orderly flow of cross border capital movements permitted by the CMA Agreement.

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.

Economic Reports

The Bank publishes the following periodic economic reports; the Monthly Economic Review, the Quarterly Economic Review and the bi-annual Macroeconomic Outlook. In 2019 eleven issues of the Monthly Economic Review, four issues of the Quarterly Economic Review and two issues of the Macroeconomic Outlook were published. All these are available for download on the Bank's website.

Advisory Notes and Briefs

In the review period, three economic policy briefs were prepared for the office of the Minister of Finance in the review period. Two advisory pieces of work – one was a full research paper accompanied by a policy brief and the other, a short explanatory note – were prepared for the Management of the Bank. Some briefs are prepared for Management of the Bank.

Research

The Bank had approved the introduction of the Occasional Analytical Note by the close of the previous reporting period. In the review period six short articles were published through this medium where each article is an issue of the publication. One issue of the CBL Research Bulletin containing four articles was also published in 2019. In addition to these five full research papers were considered worthy of onward submission to [internal or external] publications outlet by the Bank's Research and Publications Editorial Committee (RPEC).

2.3 FINANCIAL STABILITY

The purpose of financial stability surveillance is to identify risks and vulnerabilities in the financial system and assess resilience of the financial system to domestic and external shocks. This is tracked through the financial soundness indicators (FSIs). In the review period the banking system, which forms the biggest part of the financial system, scored well on all fronts as shown by the following FSIs.

Financial Soundness Indicators

Capital adequacy

The banking sector in Lesotho maintained CAR above the minimum requirement during 2019. The ratio of total regulatory capital to risk-weighted assets stood at 19.4 percent, higher than 17.9 percent observed in the same period in the previous year. Similarly, the ratio of tier-1 capital to risk-weighted assets increased slightly from 20.2 percent in 2018 to 21.7 percent in 2019. The banking industry continued to maintain core capital buffers higher than the prudential minimum requirements[1], which is an indication that banks are in a better position to absorb expected or unexpected shocks that may arise, hence resilient.

Earnings and profitability

The industry remained profitable during the year 2019, and this indicates that banks efficiently utilised their resources (assets and capital) to generate income. During the review period, ROA increased marginally by 0.3 percentage points (pps) to 3.1 percent. Likewise, ROE increased marginally by 0.6 pps to 24.8 percent in 2019. The ratio of net interest margin to gross income decreased marginally in 2019, recording 58.5 percent relative to 60.4 percent recorded in 2018. At this level, the ratio shows that over half of the banks' income came from their core business, which is intermediation. Similarly, the ratio of non-interest expense to gross income decreased from 60.7 percent in 2018 to 58.0 percent in 2019 as a result of a 2.7 pps decline in administration expenses relative to income during the review period. The ratio indicates that over half of the income generated during the year went into administrative expenses as opposed to expenses on income- earning assets.

[1] Minimum regulatory requirement for tier 1 and total regulatory capital to RWA are 4 and 8 per cent, respectively.

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The banking sector in Lesotho maintained CAR above the minimum requirement during 2019.

Asset quality

Credit risk moderated during the review period but the concentration in certain loan types and exposures to single or group of borrowers remains a concern. The ratio of NPLs to total loans decreased from 3.7 percent in December 2018 to 3.3 percent in December 2019. However, the increase in past-due loans remains an upside risk to the NPLs' outlook. Past-due loans increased by 12.7 percent to M955.8 million while total NPLs decreased by 2.4 percent to M244.5 million in 2019. Consequently, provisioning levels grew by 3.6 percent to M346.7 million in December 2019.

Liquidity

Banks liquidity positions deteriorated during the review period. The ratio of liquid assets to short- term liabilities decreased from 52.9 percent in 2018 to 34.0 percent in 2019. Liquid assets (cash and cash items and transferable deposits) declined significantly in the review period. The decline was primarily driven by withdrawals of deposits by large corporations. Similarly, the ratio of liquid assets to total assets decreased by 13.5 pps from 36.1 percent that was observed in 2018.

Sensitivity to market risk

During the review period, the banks' maintained a long position in foreign currency assets as a result of an increase in foreign currency denominated assets. Consequently, the ratio of a net open position in foreign exchange to capital increased from 23.6 percent in 2018 to 28.3 percent in 2019. This exposed banks a bit to revaluation risk in an instance where the loti appreciates against foreign currencies but would benefit the banks when the loti depreciates.

Table 11 Financial Soundness Indicators (FSIs)

		2015	2016	2017	2018	2019
		Dec	Dec	Dec	Dec	Dec
Capital Adequacy	Regulatory capital to risk-weighted assets	18.1	18.9	17.8	17.9	19.2
	Regulatory Tier 1 capital to risk-weighted assets	16.0	17.9	21.2	20.2	21.5
	Nonperforming loans net of provisions to capital	6.5	5.8	6.4	5.8	4.7
Assets Quality	Nonperforming loans to total gross loans	3.9	3.7	4.4	3.7	3.3
	Large exposures to capital	124.4	107.1	80.7	82.1	83.0
Earnings & Profitability	Return on assets	3.4	3.3	2.4	3.4	3.1
	Return on equity	33.6	28.4	18.0	28.6	24.8
	Interest margin to gross income	57.2	58.0	59.6	60.4	58.5
	Noninterest expenses to gross income	52.2	54.7	62.2	60.7	41.5
Liquidity	Liquid assets to total assets	40.4	31.9	36.3	36.1	22.6
	Liquid assets to short-term liabilities	62.9	47.3	52.8	52.9	34.0
	Customer deposits to total (non-interbank) loans	163.6	154.6	184.6	179.8	170.7
Sensitivity to Market Risk	Net open position in foreign exchange to capital	14.4	31.9	24.5	23.6	28.3

Source Central Bank of Lesotho

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2.4 REGULATION AND SUPERVISION

Banking Sector Performance in 2019

The banking industry continued to be dominated by three subsidiaries of foreign banks which account for 92.5 percent of the banking sector's total assets in 2019. In terms of national outreach, the three banks had a total of 36 branches out of 50 branches in the country. The only state-owned bank in the economy tends to have a stronger presence in remote areas. In 2019, subsidiaries of foreign banks operated 187 ATMs, 1,710 point of sale devices and had a total number of 1,383 employees, representing a significant 82.2 percent of the industry's workforce.

Total assets picked-up though at a slower and fragile pace and observed a growth of 1.0 percent, from M17.4 billion in 2018 to M17.6 billion in 2019. A pick-up was mainly driven by credit portfolio and government paper. The credit portfolio reflected growth of 8.6 percent, from M6.5 billion in 2018 to M7.1 billion in 2019. The government securities registered 50.6 percent from M1.4 billion in 2018 to M2.1 billion in 2019, setting yet another milestone by crossing M2.0 billion-mark. Thus, highlighting a need to monitor sovereign risk.

Non-performing loans (NPLs) declined of 2.4 percent, from M250.4 million in 2018 to M244.5 million in 2019. In addition, NPL ratio remained below industry credit risk appetite of 4.0 percent and declined by 0.4 percentage points, from 3.7 percent in 2018 to 3.3 percent in 2019. Despite a decline, credit risk remained somewhat prominent as reflected by increase in bad debts written-off and past-due loans. Bad debts write-offs built-up by 12.9 percent, from M38.5 million in 2018 to M43.5 million in 2019. In addition, past-due loans observed a growth momentum of 12.7 percent, from M848.0 million in 2018 to M955.8 million in 2019. In an attempt to contain credit risk, provisions increased slightly by 3.6 percent, from M334.5 million in 2018 to M346.7 million in 2019.

Total liabilities observed M15.1 billion but remained virtually identical compared to previous year. However, total deposits increased by 3.1 percent, from M12.4 billion in 2018 to M12.8 billion in 2019. Despite increase in deposits, the banks continued to be challenged by liquidity funding structure which was dominated by short-term wholesale deposits. In terms of profitability, the banks reflected good profits and strong capital positions. Net income reflected a double-digit growth of 12.3 percent, from M478.8 million in 2018 to M537.6 million in 2019. In addition, capital Adequacy ratio inched-up by 1.5 percentage points, from 17.9 percent in 2018 to 19.4 percent in 2019.

The banking industry remained sound and stable as reflected by good profits and strong capital positions. However, the industry continued to be challenged by credit risk, as seen by increased past-due loans and bad debts write-offs. In addition, there is a need to carefully monitor the sovereign risk and liquidity risk. Globally, digital technology continued to transform and disrupt the world of business, exposing companies to both opportunities and threats, which therefore, compelled banks to continue improving security measures on cybercrime.

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Non-performing loans (NPLs) declined of 2.4 percent, from M250.4 million in 2018 to M244.5 million in 2019.

Insurance Sector

2019 Sector Performance

Although the year 2019 has been a challenging for the insurance sector, the sector has remained resilient and managed to remain profitable and stable. The preliminary figures indicate that the sector collected slightly in excess of M2 billion in gross premiums with the profit of almost M1 billion. The long-term sub-sector contributed the largest portion of premiums collected at 77.5 per cent. The short-term sub-sector, on the other hand, remained under pressure due to high levels of management expenses as indicated by the expense ratio that averaged 123.95 against the benchmark ratio of 105. With fluctuations in premium collections by the sub-sector and high expenses, the sub sector registered some losses during the year although for the duration of the year, it registered positive underwriting performance. Despite the slight pull down by the short-term sub sector, the insurance sector remained well capitalized with high levels of liquidity. Most of the financial soundness indicators remain favourable.

Regulatory and Supervisory Developments

The Bank continued with the rollout of risk-based supervision that was adopted in prior years. This has led to the efficient use of limited resources in supervising the insurance sector. The processes began with large insurance companies and the results have been positive with improved supervisory oversight and regulatory compliance.

Implementation of the Insurance Act of 2014 have revealed multiple substantial gaps that have warranted the repeal the Act. The Bank in the review year has initiated the repeal process. The purpose of the repeal is further to align with best international practices and for convergence within Southern African Development Community (SADC). The Central bank of Lesotho further developed some draft regulations to improve the current regulatory environment. These included the licensing of insurance regulations, qualifications notice for intermediaries and micro insurance regulations. These pieces of legislation are expected to improve on the prevailing gaps of the Insurance Act 2014 while the process to repeal it is ongoing.

Other Financial Institutions Supervision & Regulation

Following the publication of the Financial Institutions (Deposit Taking and Credit Only MFIs) (Amendment) Regulations in May 2018, the Bank embarked on relicensing of old MFIs and migration of money lenders into the new dispensation. As at the end of 2019, there were 42 MFIs licensed under these amended regulations with the total size just below M1 Billion. The formal process of repealing the obsolete and outdated Money Lenders Act of 1989 was also initiated. Since the publication of the new amendments, compliance has increased drastically and new licensees are now formally registered companies with a lot of professionalism. As a result, the Bank has observed considerable improvement in market conduct and declines in bad practices that used to characterise the sector. However, incidences of indebtedness remain a challenge and reporting credit information to the Bureau and using such data in credit assessment has led to some improvement in levels of indebtedness. Another challenge relates to the low levels of credit extension to MSMEs and the Ministry of Finance together with the Central Bank are working on a policy that will ensure that MFIs extend credit to the unbanked and MSMEs.

On the part of the credit bureau, the Bank continued to focus on increasing coverage and improvement in data quality. As at December 2019, all commercial banks, insurance companies and tier II MFIs in the market continued to provide consumer credit information to the bureau. About 67 per cent of the SACCOs, 83 per cent of retailers and 27 per cent of tier III MFIs were live on the bureau in the review period. The number of borrowers and credit accounts continued to register double digit growth year on year. As such there were over 200,000 borrowers with 250,000 credit accounts recorded in the credit bureau at the end of the review period.

Another key milestone in the development of the financial infrastructure in Lesotho is the passage of the Security Interest in Movable Property Bill of 2019 by Parliament. This will ensure that the Collateral Registry is developed and launched in 2020 and this is seen as a key infrastructure that will facilitate credit extension to MSMEs.

Enactment of the Pensions Act

On the pension sector, the Pensions Bill was presented to the two Houses of Parliament namely; Senate and National Assembly, and was published in the last quarter of 2019. The implementing Regulations have been drawn and submitted for publication. The Bank has already set up a Unit in preparation for effective regulation and supervision of the pensions industry in Lesotho. The pensions industry is expected to make a huge contribution to the development and growth of the economy of Lesotho.

In a nutshell, the Pensions Bill provides for the regulation of the pensions industry in Lesotho. The need for this regulation is driven by two main purports namely, to protect the interests of people who make contributions with the aim of building a fund from which they will draw when they reach their retirement age, and for the purpose of developing the domestic capital market by requiring that a portion of the pensions fund contributions be invested in Lesotho.

2.5 FINANCIAL MARKETS

Maseru Securities Market

In an attempt to bring initial listings on Maseru Securities Market (MSM), the Bank continued to engage the potential issuers in an effort to enlighten them on the advantages of using public financial markets to raise finance. As a result of these engagements, the MSM had been in consultation with nine potential issuers who demonstrated interest in going

At the end of 2019, gross foreign reserves increased by 8 percent year on-year, and closed at M10.3 billion.

public through the sale of equity and debt instruments. Three corporate sector issuers were looking to issue fixed income (debt) securities while the other six are interested in the issuance of equity (shares) securities.

Out of these six potential equity prospects, three proposals were received by the Bank as the Registrar of Capital Markets for assessment and were approved for issuance while one was also conditionally approved for listing on the exchange. The Bank continues to guide all these prospects on issues of corporate governance, information disclosures and other requirements that need to be complied with. To this end, and in an effort to making the regulatory instruments efficient, the MSM streamlined, developed and adopted more detailed "debt listing requirements" which had initially been slightly incorporated in general equity listing requirements.

Domestic Capital Markets Operations

In the review period the Bank, on behalf of the Government of Lesotho, conducted a number of security issuances which serve a dual-purpose raising finance for the GOL and continuing the development of local capital markets. The Bank introduced a new five-year Treasury bond, which was successfully auctioned. Several other issuances were re-opening of existing bonds. To ensure success of bond issuances, the Bank continually promotes market participation through public financial literacy programs and engagements with various stakeholders. These promotions are done through road shows, media communication and bilateral meetings. In the review period, the promotional efforts of the Bank were rewarded with the attraction of new participants in the form of local insurance companies and a vast array of retail investors.

Reserves Management

During the period under review, the Bank continued to manage foreign reserves in line with the objectives of holding reserves as stipulated in the Reserves Management Policy. However, there were challenges that were encountered that hampered desired management of reserves. These included sluggish global economic growth, low global interest rates, ceaseless trade tensions between the United States of America and China, monetary policy easing across the globe and the uncertainty of the United Kingdom exit from the European Union. On the back of these, Financial Markets Department had to ensure that reserves management objectives are achieved through adherence to set risk limits and the strategic asset allocation as approved by the Investment Committee. To improve reserves management process and workflow, the Bank is in the process of obtaining a new reserves management system.

At the end of 2019, gross foreign reserves increased by 8 percent year on-year, and closed at M10.3 billion. The increase was attributed to depreciation of the rand relative to other currencies and commercial banks' outflows that remained contained throughout the year; hence, the level of reserves remained higher than expected enabling reinvestment revenue. Despite the tick-up in gross foreign reserves, 2019 reported a weaker import coverage ratio of around 4 months. Though the ratio remains above the international benchmark of 3 months, it has deteriorated from 5.6 in 2015.

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2.6 PAYMENTS AND SETTLEMENT SYSTEMS

Lesotho Wire

Lesotho Wire (LSW), is the only large value payment system that provides real time and intraday settlement of financial transactions on a continuous and gross basis. It has five participants consisting of Lesotho's four commercial banks and the Banking Division of the Central Bank of Lesotho. The system has remained the backbone of the payment and settlement system in Lesotho since its launch in 2006.

The transaction volumes and values processed and settled by LSW increased in 2019. The transaction volumes and values processed and settled increased by 28 per cent and 30 per cent, respectively, from 2018.Table 1 below depicts LSW transactions between 2014 and 2019. The growth in LSW transaction volumes and values was largely driven by huge number of government and interbank payments processed during year. In terms of system availability, LSW generally maintained an uptime of 99.48 per cent in 2019. Therefore, the system generally operated smoothly and remained available to settle all large value and time-critical payments during the year. This provided a conducive environment for efficient circulation of funds, conduct of monetary policy, supported monetary and financial stability as well as overall economic activity in the country.

Table 12 LSW transactions between 2014 and 2019

Year	Volumes	Change (%)	Values (in Maloti)	Change (%)
2014	19 916	-	30 754 988 595	-
2015	25 683	29	28 058 854 748	-8,8
2016	23 917	-7	34 257 297 169	22,1
2017	29 968	25	43 046 062 473	25,7
2018	25 880	-14	51 466 286 357	19,6
2019	33 047	28	66 901 041 540	30,0

Source: Central Bank of Lesotho

During the year, the Department of Payments and Settlements working together with Montran, the real time gross settlement system (RTGS) system vendor, initiated an upgrade of LSW. The objective of the system upgrade is to enhance existing business features with a view to improve the efficiency of the system and to automate net settlement positions emanating from the cheque and electronic funds transfer (EFT) clearing systems. The system upgrade is anticipated to be completed by the end of the first quarter of 2020.

Licensing of three Mobile Money Issuers

In 2019, the Central Bank of Lesotho licensed three mobile money issuers namely; Smartel Money (Pty) Ltd, Lesotho Post Bank and Chaperone Limited, under the Payment Systems (Issuers of Electronic Payments Instruments) Regulations

The transaction volumes and values processed and settled by LSW increased in 2019.

2017. Smartel Money (Pty) Ltd has been licensed to use an internet-based system and unstructured supplementary service data (USSD) to allow registered customers possessing either internet capable mobile phones (smartphones) or basic mobile phones (those without internet) to access and use Smartel Money services. The services that the company intends to provide through its agent network are person-to-person (P2P) money transfers, cash-in and cash-out (CICO) services, airtime purchases and bill payments (e.g. electricity and water). The company has opened the trust account with Standard Lesotho Bank (SLB) to ensure one-to-one backing of issued e-money with the real cash. However, the company has not yet launched the system and the associated services to date.

Lesotho PostBank (LPB) was licensed to launch its e-money platform, Khetsi, to offer mobile money services in addition to its product offerings provided under its banking licence. This e- money platform is interoperable with LPB's bank accounts and allows registered mobile money users (including those without bank accounts) to access and use mobile money services. These services are cash-in and cash-out (CICO) services, P2P transfers, bill payments, airtime purchases, nano loans and group savings facility. The interoperability between Khetsi and bank accounts enables transfers from e-money accounts to bank accounts and cash-out at LPB's automatic teller machines (ATMs). Khetsi and its associated mobile money services were launched on the 17th May 2019.

The third mobile money issuer, Chaperone Limited, was licensed to provide mobile money services through internet (its website), a mobile smart device application and later on through USSD. The mobile money services to be offered through Chaperone Limited's e-money platform include cash-in and cash-out services, P2P money transfers, merchant point of sales (POS), bulk payments and scheduled payments. The company has opened the trust account with SLB to ensure one-to-one backing of issued e-money with the real cash. The company has not yet launched the system and the associated services. The company is expected to launch its e-money platform and the associated services during the first half of 2020.

Digital Financial Identity

Following the completion of the study, which assessed the feasibility of using national identity (ID) for online electronic know your customer (e-KYC) verification in the financial sector, the pilot of the digital ID project was finally launched in July 2019. The launch of this project marked the big achievement for the financial sector in Lesotho because the digital financial ID will, among others, reduce the cost associated with customer due diligence (CDD) in the financial sector. Since the launch of the project, some banks and non-banks e-money issuers have moved ahead to test the solution and prepared memorandum of understanding (MoU) with the Ministry of Home Affairs through the National Identity and Civil Registry (NICR). In addition, the discussions have also been held with the financial sector regulator, the Central Bank of Lesotho, to permit the use of national ID for or online e-KYC verification. The financial regulator has given green light for the pilot to be undertaken for a period of six months.

CENTRAL BANKING ACTIVITIES

National Payment Switch Implementation

In 2019, the Payments Association of Lesotho (PAL) initiated the project to further modernise the current payment clearing and settlement ecosystem and infrastructure by embarking on the implementation of the national payment switch. The national payment switch is meant to, among others, facilitate interoperability between the commercial banks, the non-bank e-money issuers and the financial technology (FinTech) companies operating in Lesotho, to enable the creation of a cashlite society and to improve the operational capacity of the existing domestic payment and settlement systems. In addition, the switch has the potential to consolidate all activities under a common platform for easy monitoring, oversight and management and improve financial inclusion of the low-income people in Lesotho.

This project is divided into two phases. Phase one is the conceptual design and scoping of the national payments switch. It entails the review of the current national switch requirements considering the current ecosystem and underlying infrastructure landscape and identifying the most appropriate, efficient and effective switch solution for clearing of all payment streams within Lesotho. Phase two of the project is the actual implementation of the national payment switch itself. However, the project is currently at its early stage. PAL has just engaged a consultant to review the national switch requirements considering the current ecosystem and underlying infrastructure landscape and identify the most appropriate, efficient and effective national payment switch solution for the clearing of card, mobile and other transactions within Lesotho whilst ensuring interoperability between different payment streams ("fit-for-purpose". In addition, the consultant is engaged to develop the national switch blueprint that encompasses different implementation options taking the priorities identified in the requirements into consideration. The actual implementation of the switch is expected to start immediately after this initial scoping and it is anticipated to be completed tentatively by the end of 2021.

The Shoprite cross-border money transfer service

The Shoprite cross-border money transfer service, launched in 2015 through collaboration among FinMark Trust, Shoprite, the Ministry of Finance Lesotho, the Central Bank of Lesotho (CBL) and the South African Reserve Bank (SARB), experienced phenomenal growth in terms of processed transaction volumes and values. The product reached 1.56 million transactions worth M1.68 billion in 2019, after just three years following its implementation between South Africa and Lesotho. The service is regarded as one of the cheapest cross-border products in the world[2]. FinMark Trust estimates that approximately 70 per cent of recipients of the money sent through this cash-to-cash offering are women and that the service has saved Basotho people about M80 million in transfer fees over the three-years period of its launch. These significant savings can now be used for education, health, consumption, and small, medium and micro-sized enterprise activity in Lesotho.

[2] For example, the cost of transferring of M900 is 2 per cent.

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During the course of 2019 a Draft Bill (Financial Consumer Protection Bill) was developed with the assistance of the World Bank.

2.7 FINANCIAL CONSUMER PROTECTION AND MARKET CONDUCT

The advent of accelerated financial inclusion brings with it the need for financial consumer protection (FCP) by and market conduct of the financial services providers (FSPs). The Bank's Financial Consumer Protection and Market Conduct Unit was established with the main objective of protecting the financial consumers from unfair, deceptive or abusive practices by and acting against FSPs that break the financial sector provisions. Milestones of the review period are highlighted below.

Policy Development and Legal Framework

During the course of 2019 a Draft Bill (Financial Consumer Protection Bill) was developed with the assistance of the World Bank. The Draft Bill was presented to all stakeholders including the Ministry of Finance for comments before being forwarded to the Office of Parliamentary Counsel. The rationale for the Bill is to have an over-arching structure that adequately protects financial consumers with clear enforcement mechanisms. Presently there are fragmented provisions in different sectoral financial laws which do not adequately protect the rights of financial consumers, and further, there is no explicit authority mandated to regulate and supervise the conduct of financial market participants. This has made it very difficult to address financial consumers' issues.

Complaints Handling and Redress

The Bank currently monitors financial consumer complaints handled by the banks and insurance companies for identification of FCP risk factors, and investigates and facilitates the resolution of complaints lodged to it when internal mechanisms of banks and insurance companies had been exhausted. It is envisaged that in the medium term, the Division will also handle the financial complaints relating to other financial institutions (OFIs) such as, pension funds, microfinance institutions (MFIs), SACCOs and others.

Transparency and Disclosure

On-site examination and off-site monitoring of financial consumer protection and market conduct issues in the banking industry were undertaken in 2019. For on-site examination, two banks were examined and the following issues emerged from such examinations:

- Inadequate disclosure of banking fees, charges and interest rates;
- Incidents in which consumers were overcharged fees, interest rates and insurance premium;

- Non-adherence to loan agreements demonstrated by incidents where loan instalments paid by consumers exceeded the ones stated in the loan agreements;
- Loan repayments which continued despite the loans having been fully repaid due to banking systems' issues;
- Incidents in which CCTV camera surveillance exhibited some weaknesses; and
- Complaints handling mechanisms of banks exhibited some weaknesses.

Financial consumer protection risks posed by these issues were deemed moderate due to the fact that they occurred on a fairly frequent basis and banks largely have effective complaints handling mechanisms and redress policies. Where there had been undue deductions or payments, consumers were reimbursed their funds or loan instalments normalised.

During the on-site examinations, compliance of banks with the Directive on Banking Fees and Charges, which became effective in 2018, was evaluated. It was noted that banks were not fully compliant on disclosure of fees, charges and interest rates. With regard to Low Income Saving Account (LISA) required by the Directive, four banks have introduced the account, although the uptake has been slow and not satisfactory due to availability of better alternative accounts.

2.8 FINANCIAL INCLUSION AND FINANCIAL EDUCATION

Financial Inclusion Day

The Bank, in collaboration with the Ministry of Finance and the World Bank hosted the second edition of the annual Financial Inclusion Day in October 2019. Other organizations that supported the event include UNDP Lesotho, Alliance for Financial Inclusion and FinMark Trust. The theme for the 2019 financial inclusion day was Engineering Financial Inclusion for Basotho in recognition that not all solutions that work for countries will necessarily work for Lesotho.

The key themes in 2019 edition centred around intermediation towards SME financing, role of technology in financial inclusion and the risks posed by rising household indebtedness. The event brought together experts and practitioners from other countries to share with their experiences. It also serves as the epitome of all financial inclusion related events that were taken throughout the year in the country.

Financial Education

The annual Money Month Campaign coordinated by the Bank has become a national flagship occasion for advancing financial literacy. In 2019, the Money Month Campaign, under the theme Learn, Save, Earn, was successfully implemented in the districts of Maseru and Quthing from 23rd March to 30th April, 2019 with customary emphasis on educating the public on effective personal financial management.

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Each year, and 2019 was no exception, the Bank participates in meetings and conferences of various international organisation to which it is a member.

In another historic milestone, the Bank, in partnership with the National Curriculum Development Centre of the Ministry of Education and Training, successfully integrated financial education into high school curriculum. Curriculum developers in the subjects of mathematics, fashion & textile, travel & tourism, food & nutrition and agriculture integrated core areas of financial literacy (how to manage money; becoming the critical consumer; managing risks & emotions; the importance of money) into the Grade 10 syllabus.

2.9 INTERNATIONAL COOPERATION

Each year, and 2019 was no exception, the Bank participates in meetings and conferences of various international organisation 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 and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) ❑

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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.

CORPORATE ACTIVITIES REPORT

The Bank is a statutory corporate body. It is, as a result, subject to contemporary corporate services, control and governance functions that are characteristic of modern and well-run organisations.

3.1 GOVERNANCE MATTERS

The Board 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 mandate and for the long-term sustainability and success of the Bank.

The Board has established the Audit Committee, the Risk and IT Governance Committee, and the Human Resource and Remuneration Committee to assist it to carry out its fiduciary responsibilities. 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 Departments. 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 twelve (12) meetings in 2019.

3.2 ASSURANCE MATTERS

Internal Audit

The Internal Auditing Department (IAD) helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluating and/or improving the effectiveness of governance, risk management and internal control, processes. The IAD performs many valuable functions including Operational, Technology, Compliance and Financial audits, Process efficiency reviews and Consultancies. IAD reports the results of these activities to appropriate stakeholders including Bank Management and the Board. Internal Auditing's activities are governed by standards promulgated by the Institute of Internal Auditors (IIA), known as the International Professional Practices Framework (IPPF).

Assurances and Consulting services

The Internal Auditing Department continues to be a significant element of the Banks's overall internal control structure. Management is responsible for establishing internal controls to identify, manage and monitor risks. During the year, IAD performed all planned audit engagements, advisory services designed to evaluate management's risk mitigations techniques. As a whole and from a financial perspective, we did not identify any conditions that we believe to be "material deficiencies" in internal controls. Rather, the overall assessment of the Bank activities, functions and operations indicates that the system of internal control is adequate and effective with room for improvement. Additionally, we are satisfied with the current level of remediation of outstanding audit issues and there are no instances in which we believe management accepted unreasonable levels of risks.

Combined Assurance

The Internal Audit Department had continued to pilot the implementation of the Combined Assurance Model to all selected business units in 2019. All planned activities were successfully achieved. The main objective of Combined Assurance Model is to ensure that Internal Audit resources focus on high to very high-risk areas of the Bank. Secondly, the model is expected to promote collaboration and coordination among all assurance providers in the Bank to avoid duplication of efforts.

Quality Assurance and Improvement Program

It is mandatory mandate that audit departments provide stakeholders (i.e. audit committee, executive management) with a mechanism to measure the effectiveness and efficiency of the internal auditing activity. This is accomplished through the development and implementation of a Quality Assurance & Improvement Program (QAIP). Internal Audit Department (IAD) has established Quality Assurance Improvement Program (QAIP) that includes both Internal Quality Assessment (IQA) and External Quality Assessment (EQA). The aim is to ensure that IAD conform with the Standards, the Code of Ethics, the Internal Audit Charter and to assess the efficiency and effectiveness of the Internal Audit processes in meeting the needs of its various stakeholders. IQA is ongoing and is conducted once a year by QAIP Team selected by Head of Department. EQA is conducted in every five years by Independent External Quality Assessor. In 2019, IAD conducted both internal and External assessments and the results of the assessments were "Generally Conform" with the key requirements of the International Professional Practices Framework of the Institute of Internal Auditing Standards..

Enterprise Risk Management

Risk Management

The Bank continued to manage its risk exposure in accordance with the set risk appetite and tolerance levels in order to fulfil its mandate and strategic objectives. Significant achievements during the year included the increased maturity in integration of enterprise risk management's functions in decision making, the setting of key risk indicators to flag areas warranting close monitoring and the development the Bank's 2020 risk profile. The overall risk management maturity increased during the review period.

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The Bank trains its staff extensively and the HR Department is the custodian of the Bank's training program.

Business Continuity Management

More focus and effort were applied on improving emergency response and crisis management of the Bank. The charter for the Emergency Response and Corporate Crisis Management team was developed and business area recovery plans were successfully tested during the year. The gaps that had been observed in the previous year regarding ability to continue business in the case of a disaster were addressed. Occupational health and safety measures were also enhanced during the review period.

Project Management

The health of the Bank's project portfolio was continuously monitored to inform decision making during the review period. The portfolio comprised of 21 projects as at the end of the year. The overall portfolio performance stood at 77 per cent while the cumulative expenditure stood at 33 per cent of the total budget. In this way, the portfolio recorded a favorable earned value. Bank extension project remained behind schedule due to some contractual packages which were not yet completed. The Bank facilitated for the 4th project management annual conference held in May, 2019. The theme for the conference was "Review, Reflect and Renew Project Management skills". The network of project managers participating in the conference had increased by 44 per cent relative to the previous year.

3.3 HR MATTERS

As a service organisation, and in particular as a sector regulator, the most important resources for the Bank to fulfil its mandate and functions are competent and motivated people.

Staff Movements

The HR Department performs all the functions related to employee lifecycle from recruitment to exit. With respect to recruitment and exit, the Bank in 2019 made 23 new appointments while 11 people separated with the Bank through resignations (7), retirement (3) and death (1). This resulted in a head count increase of 12 employees at the end of the reporting period.

Performance Management and Training

The Bank trains its staff extensively and the HR Department is the custodian of the Bank's training program. The 2019 ccompilation of annual short – term training plan which was aligned to the performance gaps identified in staff performance appraisals as well as emerging or updated areas central banking. To continue to improve management of performance in the Bank, HRD improved on the performance appraisal tool and the revised toll was approved by the Executive Committee, and its first implementation was for the period of January to June 2019.

Staff Handbook and Code of Conduct

Ethical conduct is high in the management agenda of the Bank. Following a series of in-house training on ethics in the previous reporting period, the year 2019 saw the review of the Bank's staff code of conduct manual. The revised manual was launched in the CBL Ethics Seminar held in September. The seminar keynote speaker was Archbishop Tlali Lerotholi O.M.I. Each member of staff was issued a pocket-sized version of the Bank's code of conduct booklet at the end of the seminar.

In the reporting period the Staff Handbook was diligently updated to ensure staff-related policies were up-to-date, easy to read and transparent. Each policy review is followed by workshops to line managers and members of staff to ensure common understanding on the interpretations of HR policies.

Health and Welfare

In endeavour to ensure that healthy work and social environment is created and maintained, HRD implemented wellness initiatives that encouraged commitment of employees to participate in health programmes to enhance active engagement in the attainment of Bank's objectives. Morning Aerobics sessions and Biggest Looser challenge were introduced and successfully implemented. In addition, HRD continued, to coordinate on-site nurse services for members of staff health screenings such as cholesterol, high blood pressure, diabetes and obesity. Health day was also successfully held in October 2019.

3.4 ICT AS A STRATEGIC AND OPERATIONAL ENABLER

The Bank is a technology driven organisation where ICT is much more that a support service but the platform that underpins its most critical core systems. To that end, the ICT Department of the Bank is a key strategic and operational enabler of various functional areas, through provision and maintenance of information and technology-based solutions, comprising technical infrastructures, systems software and business application systems. In the era of digital transformation and IT-business value delivery, the Department plays significant role in Enterprise Architectural (EA) advisory and Governance of Enterprise IT (GEIT). Underpinning all these, ICT Department is taking a lead role in Cyber resilience initiatives and managing IT- related risk.

The Bank is a technology driven organisation where ICT is much more that a support service but the platform that underpins its most critical core systems.

In this reporting period, ICT Department has enabled and supported the achievement of the Bank's strategic objectives through the integration and alignment of ICT strategic plans with those of the Bank, implemented through a number of routine activities and projects. The Department made notable strides on implementing Enterprise Architecture advisory notes across the Bank and this proved pivotal to achievement of business value from projects and saving costs. The Department faced a challenge of stabilising the recently implemented core banking system, a task which required innovative solutions and this was achieved through internal developments which assisted systems integrations and eased reconciliation of accounts. All systemic systems of the Bank, including Lesotho Wire and MIACH, were available at above 99% level and they were recoverable within set time and data recovery limits, as evidenced by recovery of MIACH. The Bank's compliance to SWIFT customer security programme continues to be achieved in line with requirements of the programmed.

In terms of Risk Management, the Department has managed that IT-related risks in the Bank are identified, managed and kept within the Bank's risk appetite and tolerance. Areas that need further attention include strengthening business continuity posture by beefing up IT infrastructure resilience, strengthening critical systems management as well as continual improvements of measures to address cyber security threats. In rollout of the Cyber Security Framework, the Bank continues to monitor cybercrime incidents and trends locally and internationally in order to stay abreast with the latest developments geared towards combatting cyber threats. Over and above robust technology-driven solutions and approaches, the Bank has run bank-wide cyber security awareness workshops, which have raised level of awareness and preventative preparedness to curb the undesirable cyberattack success.

3.5 STAKEHOLDER ENGAGEMENTS

Engaging with and building relationships with all our stakeholders has been one of the important activities of the Bank. In 2019, this was acknowledged as one of the strategic thrusts of the Bank when it was included in the revised strategic plan. It is key towards promoting knowledge and understanding about the activities and functions of the Bank as well as fostering cooperation and compliance with the laws and operational directives of the Bank. As a result, the Bank continuously consults and effectively communicates with its wide range of stakeholders that include the GOL, the financial institutions, other regulatory authorities, civil society organisations, suppliers, media and general public.

Regular engagements are in the form of media briefings, quarterly industry meetings, broadcast media programmes and industry workshops. In July 2019, the Bank hosted a media induction on the proceedings of the Monetary Policy Committee. The induction explained what monetary policy is and its various frameworks; the monetary policy framework for Lesotho and why monetary policy is critical for a country.

The Bank, in collaboration with the Bureau of Statistics, also organized a sensitization workshop for entities that provide data and use economic reports for their various planning and decision-making processes in August 2019. This was done as an attempt to create a close collaboration and a rapport with the same institutions in order to improve data compilation and dissemination for macroeconomic management ❑

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

Financial Statements

for the year ended 31 December 2019

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

Due to current regulation in Lesotho, a locally registered audit firm is required to provide the statutory opinion of the financial statements. This is performed by Moteane Qhuashie and Associates. A portion of the audit is sub-contracted to SNG Grant Thornton (South Africa) in order to involve an internationally recognised audit firm in the ultimate delivery of the external audit process. SNG Grant Thornton (South Africa) was contracted to provide an audit (including methodology support) of certain specific account balances and disclosures included in the Annual Financial Statements.

Secretary

Mr. Napo Rantsane (Adv.)

Lawyer

Webber & Newdigate

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Corporate Governance Report

This report sets out the key aspects of governance of the Central Bank of Lesotho. The Bank is committed to ensuring that its policies and practices comply with standards of good corporate governance and best practice. The Board of Directors of the Bank is 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 of five (5) Non-Executive Directors and three (3) Executive Directors. The Non-Executive directors are independent of the Executive 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 Governor is the Chairperson of the Board and sets its tone. She is responsible for effective organization 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 set out 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 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 twelve (12) meetings during the 2019 Financial Year.

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 mandates as delegated by the Board. Matters that have been dealt with by these Committees are referred to the Board with clear recommendations for consideration and decision. 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 the Governor, who is also the Chairperson, the Deputy Governors, and Heads of Departments. 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.

The Board is responsible to facilitate an induction programme for new members through the Board Secretary. The Board Secretary facilitates regular training to capacitate the Board as a whole on issues of central banking and corporate governance trends to enhance its efficiency and effectiveness. In addition, the Board also has access to the services and advice of the Board Secretary.

Mr. Napo Rantsane
Secretary to the Board

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2019

Audit Committee Report

The Audit Committee of the Central Bank of Lesotho is a Committee of the Board of Directors of the Bank, established and governed in terms of section 20 of the Central Bank of Lesotho Bye-Laws of 2005. The Committee is also governed by its Charter.

The Committee oversees the Bank's financial reporting process on behalf of the Board of Directors. It undertakes oversight role in the following areas: review of the business reporting processes of the Bank, review of the adequacy of systems of internal controls and the management of business risks.

The Committee comprises four independent Non-Executive Directors, one of whom serves as the Chairperson. The Head of the Internal Audit Department sits in the Committee and reports functionally to the Committee and administratively to the Governor.

During the financial year ended 31st December 2019, the Committee convened nine meetings which considered the following; Internal Audit Department Annual Plan for 2019, and the reports of the Internal Audit Department on identified areas of internal control, and the appointment of the External Auditors of the Bank. The Committee also considered and approved the External Auditor's Plan for 2019. Further, the Committee considered audit fees for the financial year 2019 and recommended their approval by the Board of Directors. The Committee also considered and recommended for approval the audited Annual Financial Statements for the Year Ended 31st December 2019.

Based on reports from both the internal and external auditors, as well as the Executive Management of the Bank, the Committee is satisfied that the internal financial controls of the Bank are adequately designed and effectively operated to form a sound basis for the preparation of the financial reports.

The Committee is satisfied with the independence of the External Auditors of the Bank. This assessment is made after considering the representations of independence from External Auditors, continuous monitoring and approval of the non-audit services undertaken by the External Auditors for the Bank.

The Committee is satisfied with the formal procedures that govern the provision of non-audit services by External Auditors. This is monitored through the reporting and approval of such activities at the Audit Committee meetings.

The Committee is also satisfied that the Bank implemented appropriate processes and controls to ensure compliance with all applicable laws and regulations relating to financial reporting. The view is based on the Committee's review of internal processes, as well as management reports.

The Committee is further satisfied that the Bank managed its information and technology capability and controls in an appropriate manner to support the integrity of financial reporting. This is based on the regular reports from ICT Department and the Internal Audit Department.

On behalf of the Audit Committee:

Mrs. Sophia Mohapi
Chairperson of the Audit Committee

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Directors' Responsibilities and Approval

In line with the CBL Act. No. 2 of 2000 the Directors are required to ensure that proper financial and managerial controls are in place, adequate and effective. Directors are also responsible for the content and integrity of the annual financial statements and related disclosures 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 31st December, 2019, in conformity with the Central Bank of Lesotho Act No. 2 of 2000 and according to the policies set out in note 1 of the financial statements. The external auditors are engaged to express an independent opinion on the annual financial statements.

The 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 financial statements and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal 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 controls 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 that the Bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Bank is on identifying, assessing, managing and monitoring all known forms of risk across the Bank. While operating risk cannot be fully eliminated, the Bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The financial statements have been prepared on the 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 financial statements were approved by the Board of Directors on 24 March 2020 and are signed on its behalf by:

Dr. Retšelisitsoe Matlanyane
Governor

Mrs. K. Thabane (Adv)
Director

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Central Bank of Lesotho

Financial Statements for the year ended 31 December 2019

Directors' Report

The Directors present their annual report, which forms part of the audited annual financial statements of Central Bank of Lesotho for the year ended 31 December 2019. 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 financial results and 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 (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 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 disclose 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 15. 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 16. Amounts paid and due in terms of the Act were as follows:

	M '000
31 December 2019	117 840
31 December 2018	108 062

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 56.

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.

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4. Directors

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

Name	Date of appointment	Position held
Dr. A. R. Matlanyane	January, 2017	Governor and Chairman
Dr. M. P. Makhetha	January, 2017	First Deputy Governor
Ms. M. G. Makenete	January, 2017	Second Deputy Governor
Mrs. N. Foulo	December, 2017	Non-Executive Director
Mrs. S. Mohapi	December, 2017	Non-Executive Director
Dr. E. M.Letete	August, 2018	Non-Executive Director
Mrs. K.Thabane	June, 2018	Non-Executive Director
Mr. M. Letsoela	July, 2019	Non-Executive Director

5. Secretary

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

6. Events after the reporting period

On 27 March 2020 the South African government credit rating was downgraded to below investment grade. The impact of this will be noted in the ECL as the exposures would then be classified as Level 2 and a lifetime ECL will then be raised.

Coronavirus Disease (COVID-19) erupted in China around late 2019. Cases around the globe have been increasing exponen-tially, with confirmed cases approaching half a million (462 684) and related deaths recorded at over 20 thousand as per World Health Organisation (WHO) figures dated 26 March 2020. In the final weeks of February and beginning of March, Europe was the epicentre of the pandemic, with Italy being the most hit as it registered over 50% of global cases. However, almost one month later, (March 27) the United States had surpassed both China and Italy with over 86000 confirmed cases. The African region has the lowest confirmed cases due to limited testing kits, but South Africa's cases are increasing significantly, as they intensify the testing.

COVID-19 has both social and economic implications. Most the economies around the world are under complete lockdown in order to slow the spread of the infectious COVID-19. Some have restrictions on maximum number of people allowed for gathering and the extreme case is that of Germany which prohibits meeting between more than 2 people if they are not family or leaving together. It will most likely lead to global recession and massive job losses.

This piece attempts to assess the impact of the COVID-19 on our portfolio. The portfolio is comprised of long-term investments (bonds) and short-term investments (term deposits) and are categorized by tranches.

Impact on investment tranche

The effects on bond portfolio are mixed, depending on the jurisdiction of the investments as exposure is in both South Africa (SA) and United States of America's (US) markets. Since yields are inversely related to bond prices, U.S. bond portfolio real-ised positive returns during the coronavirus period as yields dropped to record lows in anticipation of Fed rate cuts on the short end of the curve. The SA bond portfolio, on the other hand, realized negative returns due to increasing yields, an indication of the level of perceived risk by investors. The performance of the investment tranche is dependent on the interventions of government and mone-tary authorities through monetary and fiscal stimulus.

COVID-19 has resulted in increased volatility to levels higher than those seen during the 2008 global financial crises. Increased vola-tility leads to sharp price movements of instruments, which therefore affects liquidity (trading volumes) as bid/ask spreads widen. During these periods, Central Banks' interventions such as cheap loans to commercial banks, purchases of bonds, etc. are expected to assist to restore liquidity in the markets. It is therefore not surprising that, the week March 27 has been the best for most assets classes including bonds for the whole of March following stimulus put in place by both major monetary authorities and governments around the world.

Worth noting is the fact that the biggest losses on the portfolio will be unrealized losses due to uncertainty in the markets, which in turn will affect bond prices, but consistent support from the government and central banks will minimise or reverse the losses over time. Realize losses will, on the other hand, be recorded only if portfolio managers attempt to sell off their portfolio during this time when bond prices are at their lowest.

Impact on money- markets (Short-investments)

Money markets instrument are perceived to be relatively low risk in nature and highly liquid. They include bank deposits and short debt instruments. This does not mean they are risk free, so the major concern is counterparty and reinvestment risk.

Reinvestment Risk

Reinvestment risk is the risk of investing maturing funds at lower interest rate and getting lower yield than on the maturing investment. Consequently, money markets are most profitable in an environment where interest rates are increasing. COVID-19 spread led to lower interest rates across the globe as central banks cut rates to stimulate economy in an effort to reduce economic impact. Reinvestment risk was elevated during the coronavirus era since all maturing investments have to be reinvested at relatively lower interest rates; hence lower revenue.

Counterparty Risk (Credit risk)

Counterparty credit risk is the risk of the borrower not honouring contractual obligations when they fall due, either capital or interest. Understanding and managing counterparty risk is vital to avoid capital losses. The counterparts are domiciled in different countries across the globe with South African banks holding larger chunk of our deposits. Despite the low rating of South African banks, they appear to be fundamentally strong as the big four banks (ABSA, Nedbank, Standard Bank and First National bank (FNB)) have strong balance sheets. They also meet the prudential liquidity requirements of the Reserve Bank. Standard bank, FNB and Nedbank an-nounced relief (loan payments holiday) to small businesses and students affected by the coronavirus, which illustrates that they are liquid enough to survive without some loans being paid for 3 months.

Other counterparts are highly rated institutions with strong balance sheets. The Impact of coronavirus on different economies include massive job losses and collapse of other companies (e.g. airlines). Governments in major economies are ready to intervene in any way to reduce the impact on local companies, while central banks have put aside funds to increase liquidity through cheap lend-ing in the short- term. There is minimal chances of losing capital but revenue generation remains the biggest risk.

Conclusion

The impact of coronavirus can be devastating if the virus is not contained for extended periods of time, with major economies due to be affected due to extended lockdowns and falling global demand. The fact that China was able to contain the virus, we are hopeful that other nations will deploy all necessary measures to minimize the damage on global financial markets. Considering the nature of the Central Bank of Lesotho's portfolio (sovereign bonds and money markets), it is less likely to lose capital due to the nature of the asset classes. However, emphasis remains on the Bank's ability to make available necessary liquidity to finance obligations and to a lesser extent, generating returns. It is this last objective where the greatest risk lies, where due to low interest rates and high volatility, revenue is likely to drop below the projected levels.

7. Auditors

Statutory Auditors are Moteane Qhuashie and Associates and SNG Grant Thornton.

8. Financial Reporting Framework

The Central Bank of Lesotho (CBL) Annual Financial Statements are prepared in accordance with the requirements of the Central Bank of Lesotho (CBL) Act, No. 2 of 2000. The Bank has chosen to use International Financial Reporting Standards (IFRS) as a framework used to guide it to prepare and disclose its financial statements, as well as deciding on the most appropriate accounting policies and estimates. The CBL Act, however, 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.

All monetary figures appearing in the financial statements, unless otherwise indicated, are stated in Maloti. The preparation of financial statements requires the use of certain critical accounting estimates, judgements and assumptions that affect the reported amounts of 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 depending on new information that may come following the decision of a particular estimate.

The financial statements have been prepared in accordance with the CBL Act, No. 2 of (2000) and the accounting policies usually set out in note 1 of the Annual Financial Statements.

1. Revaluation Reserve Account

The Bank has established the Revaluation Reserve Account in compliance with the requirement of the Act which states that: "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 Revaluation Reserve Account

The Act further continues to prescribe that "The profits or losses arising from such change shall not be included in the computation of the annual profits and losses of the Bank". The Bank has been showing this figure on the phase of the Profit and loss statement, for disclosure purpose for users of financial statements. The amount is then reversed under the note for Dividend Payable where the gain/(loss) on foreign exchange activities is either deducted or added back to Profit after tax. This is done so that the distribution of profits between the revaluation reserve and Government Consolidated account is done based on profit which has not been affected by the Gain/Loss on foreign exchange activities.

The Act further continues to prescribe that "The profits or losses arising from such change shall not be included in the computation of the annual profits and losses of the Bank". The Bank has been showing this figure on the phase of the Profit and loss statement, for disclosure purpose for users of financial statements. The amount is then reversed under the note for Dividend Payable where the gain/(loss) on foreign exchange activities is either deducted or added back to Profit after tax. This is done so that the distribution of profits between the revaluation reserve and Government Consolidated account is done based on profit which has not been affected by the Gain/Loss on foreign exchange activities.

2. Rand Compensation reserve

The Rand compensation reserve has been created and is used to book any amounts received by the Bank on behalf of the Government of Lesotho for the rand compensation payments it is entitled to in terms of the multilateral monetary agreement. The amounts received are treated as split between equity and government consolidated account. This is done to comply with the requirements of the Government directive that instructs that 25% of the monies received from the Government of the Republic of South Africa be transferred to equity while 75% of the monies must be credited to the Government consolidated account.

3. Profits and General Reserves

(1).The Bank has established a General Reserve Account in compliance with the requirements of section 21 of the CBL Act, to which net profits are allocated at the end of each financial year of the Bank as follows:

(a) 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 of the Bank for the financial year;

(b) in the case of any year at the end of which the general reserve of the Bank exceeds the minimum paid-up capital of the Bank but does not exceed four times the paid-up capital of the Bank, one-sixth of the net profits of the Bank for the financial year.

(2) After appropriate allocations have been made to the general reserve under subsection (2), one-quarter of the remainder of the net profits for the financial year shall be applied to the redemption of any securities of the Government held by the Bank which have been issued under section 20(6)

(3) 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 of the Bank.

(4) The residue of the net annual profits for the financial year remaining after all deductions authorized by subsections (2), (3), (4) and section 55 have been made shall be paid into the Consolidated Fund as soon as practicable after the end of each financial year

(5) No deduction authorized under subsections (2), (3) and (4) shall be required to be made nor shall any payment be made under subsection (5) if, in the judgement of the Board, the assets of the Bank are, or after the deduction or payment, will be, less than the sum of its liabilities and minimum paid-up capital.

(6) If the Bank incurs any net loss during any financial year, such loss shall be charged to the general reserve and if the general reserve is inadequate to cover the entire amount of the loss, the balance of loss shall be carried forward in an account for accumulated losses.

(7) The balance of accumulated losses shall be replenished by the Government by transferring to the Bank funds, negotiable securities bearing market related terms and conditions or foreign exchange on the lines indicated in section 20 (6).

(8) If in any financial year there are accumulated losses carried forward from previous years and which losses have not yet been replenished by the Government in the manner indicated in subsection (8), the final profit of that year shall be allocated in priority to the cancellation of such accumulated losses.

(9) The allocations stipulated in subsections (2), (3), (4) and (5) shall refer only to the balance of profits which remains after the cancellation of accumulated losses carried forward from previous years.

Dr. Retšelisitsoe Matlanyane
Governor

Mrs. Sophia Mohapi
Director

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF THE 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 ("the Bank"), set out on pages 14 to 70, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank for the year ended 31 December 2019 are prepared, in all material respects, in accordance with the accounting policies described in Note 1 to the financial statements and the requirements of the Central Bank Act No.2 of 2000.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the 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" (IESBA Code) and other independence requirements applicable to performing audits of financial statements in Lesotho. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in Lesotho. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Basis of preparation and restriction of distribution and use

We draw attention to note 1 of the financial statements which describes the basis of accounting .The financial statements are prepared to assist the Bank in complying with the requirements of the Central Bank Act No.2 of 2000. As a result, the financial statements may not be suitable for another purpose.

Reclassification of prior year figures

We draw attention to Note 43 to the financial statements which indicates that the previously issued financial statements for the year ended 31 December 2018, on which the predecessor auditors an auditor's report dated 29 March 2019, have been restated. As explained in Note 43, this is to reflect the correct classification of cash and cash equivalents and deposit floaters. Our opinion is not modified in respect of this matter.

Moteane, Quashie & Associates Chartered Accountants & Management Consultants
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Tel: (+266) 22 316 490, VAT NO: 1519433 TIN NO:1028676-4. Please see www.mqa.ls for further details.

M.A. Moteane (Mrs.)(resident) [Managing Director]
Moteane, Quashie & Associates Chartered Accountants & Management Consultants Registration Number: 27612

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Victor Sekese [Chief Executive]
A comprehensive list of all Directors is available at the company offices or registered office
SizweNtsalubaGobodo Grant Thornton Incorporated Registration Number: 2005/034639/21

Other matter

We draw attention to the matter below. Our opinions are not modified in respect of this matter.

Previous year audited by a predecessor auditor

The financial statements of the previous year were audited by a predecessor auditor on 29 March 2019.

Other Information

The Bank's directors are responsible for the other information. The other information comprises the Corporate Governance Report, the Directors' Responsibilities and Approval, the Audit Committee Report as well as the Directors' 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 inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 directors for the financial statements

The Bank's 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 control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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 issue 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. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also::

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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.

Moteane Quashie & Associates

Kobla Quashie
Moteane, Quashie & Associates
Chartered Registered Auditor
Director

31 March 2020

Plot 582 Hoohlo
Maseru
100

SizweNtsalubaGobodo Grant Thornton Inc.

Agnes Dire
SizweNtsalubaGobodo Grant Thornton Inc.
Chartered Registered Auditor
Director

31 March 2020

20 Morris Street East
Woodmead
2109

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2019

Statement of Financial Position as at 31 December 2018

	Note(s)	2019 M '000	2018 Restated * M '000	2017 Restated * M '000
Assets				
Cash and cash equivalents	2	4 364 889	3 746 860	4 128 747
Deposit Floaters	3	2 020 209	1 660 953	650 000
Accrued interest due from Banks	4	39 173	24 714	9 817
Investment in unit trust	5	-	750 487	635 604
Investment in SWIFT	6	399	399	700
Treasury notes and bonds	7	3 857 235	3 260 895	3 121 639
Treasury bills at amortised cost	8	69 194	71 603	91 813
IMF Subscription Account	9	1 357 310	1 397 173	1 223 196
IMF Holding of Special Drawing Rights (SDR)	10	226 909	437 554	530 125
IMF Funded PRGF Advances	11	475 535	692 091	753 413
Lesotho Government Securities	12	521	524	58
Deferred currency expenditure	13	19 498	7 074	8 303
Loans and Advances	14	108 898	95 910	86 196
Other assets	15	10 744	7 775	11 953
Property, plant and equipment	16	805 688	742 870	695 445
Intangible assets	17	31 428	32 464	41 761
Total Assets		**13 387 630**	**12 929 346**	**12 015 652**
Equity and Liabilities				
Liabilities				
Notes and coins issued	18	1 612 878	1 520 217	1 616 489
Deposits	19	538 418	342 136	401 824
Lesotho Government Deposits		3 715 382	3 371 412	3 208 374
IMF Maloti Currency Holding	20	1 111 063	1 144 226	1 002 220
IMF Special Drawing Rights Allocation	21	637 140	658 116	576 167
IMF-PRGF Facility	22	475 535	692 091	753 413
Taxation payable	23	21 624	4 929	-
Due to Government of Lesotho Consolidated Fund	24	117 840	142 177	84 396
Trade and other payables	25	14 071	24 168	26 944
Long-term employee benefit obligation	26	111 841	104 842	101 879
Deferred tax	27	13 019	11 652	19 344
		8 368 811	**8 015 966**	**7 791 050**
Equity				
Share capital	28	100 000	100 000	100 000
General reserve		320 312	296 744	299 795
Rand compensatory reserve		822 450	745 057	674 708
SDR revaluation reserve		56 704	63 903	(42 297)
Foreign exchange revaluation reserve		3 539 513	3 585 462	3 046 502
Property revaluation reserve		149 788	137 140	141 413
Bond/unit trust revaluation reserve		30 052	(14 926)	4 481
		5 018 819	**4 913 380**	**4 224 602**
Total Equity and Liabilities		**13 387 630**	**12 929 346**	**12 015 652**

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Central Bank of Lesotho

Financial Statements for the year ended 31 December 2019

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2019 M '000	2018 M '000
Interest income *	29	558 410	450 352
Interest expense	30	(9 587)	(7 104)
Net interest income		**548 823**	**443 248**
Other income	31	49 944	30 688
Revaluation gain/(loss) on foreign exchange activities **		-	645 160
Operating profit (loss)		**598 767**	**1 119 096**
Operating expenses	32	(390 917)	(317 367)
Profit/(Loss) before taxation		**207 850**	**801 729**
Taxation	33	(58 504)	(24 920)
Profit/(Loss) for the period		**149 346**	**776 809**
Other comprehensive income:			
Bond/ unit trusts fair values			
Increase in bond/unit trusts fair values		43 102	(24 459)
Tax effect		1 876	5 052
Net movement		**44 978**	**(19 407)**
Property revaluation reserve			
(Decrease)/Increase in property revaluations		17 708	(3 418)
Tax effect		(5 060)	(855)
Net movement		**12 648**	**(4 273)**
Rand compensatory reserve			
Increase in reserve		77 393	70 349
Tax effect		-	-
Net movement		**77 393**	**70 349**
Actuarial gains and losses on employee benefits			
Actuarial (loss)/ gain for the year		(10 583)	(1 975)
Tax effect		2 645	493
Net movement		**(7 938)**	**(1 482)**
Other comprehensive income for the year net of taxation ***		**127 081**	**45 187**
Total comprehensive income/(loss)		**276 427**	**821 996**

* Interest income in M'000 comprises of interest from amortised cost instruments of 393,426 (2018: 309,354) and from fair value instruments of 162,984 (2018: 141,000).

** ''To comply with the requirements of paragraph 54(2) of the Central Bank Act No. 2 of 2000, the revaluation gain or loss on foreign exchange activities has been taken directly to the revaluation reserve account in the statement of changes in equity and has not been included in the statement of profit or loss''.

*** Total other comprehensive income relates to sum of bond/ unit trust revaluation reserve, property revaluation reserve, rand compensation reserve and actual gains or losses on employee benefits,

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Financial Statements for the year ended 31 December 2019

Statement of Changes in Equity

	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 2018	**100 000**	**299 795**	**674 708**	**(42 297)**	**3 046 502**	**141 413**	**4 481**	**-**	**4 224 602**
Total comprehensive Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**776 809**	**776 809**
Transfer of foreign exchange translation to designated reserve	-	-	-	106 200	538 960	-	-	(645 160)	-
Movement in bond/unit trust fair values	-	-	-	-	-	-	(19 407)	-	(19 407)
Asset revaluation for the year	-	-	-	-	-	(4 273)	-	-	(4 273)
Rand compensatory receipts	-	-	70 349	-	-	-	-	-	70 349
Actuarial fair value loss	-	-	-	-	-	-	-	(1 975)	(1 975)
Transfer to General Reserve	-	(3 051)	-	-	-	-	-	(21 612)	(24 663)
Dividends	-	-	-	-	-	-	-	(108 062)	(108 062)
Total changes	**-**	**(3 051)**	**70 349**	**106 200**	**538 960**	**(4 273)**	**(19 407)**		**(88 031)**
Balance at 01 January 2019	**100 000**	**296 744**	**745 057**	**63 903**	**3 585 462**	**137 140**	**(14 926)**	**-**	**4 913 380**
Loss for the period	-	-	-	-	-	-	-	149 346	149 346
Actuarial fair value gain	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**149 346**	**149 346**
Transfer of foreign exchange translation to designated reserve	-	-	-	(7 199)	(45 949)	-	-	-	(53 148)
Movement in bond/unit trust fair values	-	-	-	-	-	-	44 978	-	44 978
Asset revaluation for the year	-	-	-	-	-	12 648	-	-	12 648
Rand compensatory receipts	-	-	77 393	-	-	-	-	-	77 393
Transfer to General Reserve	-	23 568	-	-	-	-	-	(23 568)	-
Actuarial fair value gain	-	-	-	-	-	-	-	(7 938)	(7 938)
Dividends	-	-	-	-	-	-	-	(117 840)	(117 840)
Total changes	**-**	**23 568**	**77 393**	**(7 199)**	**(45 949)**	**12 648**	**44 978**	**(149 346)**	**(43 907)**
Balance at 31 December 2019	**100 000**	**320 312**	**822 450**	**56 704**	**3 539 513**	**149 788**	**30 052**	**-**	**5 018 819**

Explanatory notes

* **General reserve** has been allocated in terms of Section 21(2)(b) of the Central Bank of Lesotho Act No. 2 of 2000.The Act stipulates that one third of the net profits will be allocated to general reserve and in case where general reserve exceeds paid-up capital but less than four times, one sixth of the net profits will be allocated to general reserve. Rand compensation reserve represents amounts received by the Bank being Bank's share of the Rand compensation payments received by the Government in terms of Multilateral Monetary Agreement with the CMA countries.

***The Rand compensation** reserve represents amounts received by the Bank from the Government of Lesotho, being the Bank's share of the Rand compensation 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.

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

* Foreign exchange revaluation reserve 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 without affecting the Bank's profit or loss account. In the case of a carried over loss or net debit balance in the Revaluation Reserve Account, amounts shall be transferred from the available balance in the General Reserve to cancel such carried over losses.

Effects of changes in foreign exchange rates, exchange differences dealt with under the terms of section 54 of the Central Bank of Lesotho Act No. 2 of 2000, are recognised in the statement of changes in equity by being transferred to the special account.

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

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

* **Accumulate Profit** In terms of Section 21.

1. The net profits of the Bank for each financial year shall be determined by the Board after making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds and for all other matters for which provision is to be made by or under this Act.
2. The Bank shall establish a general reserve to which shall be allocated at the end of each financial year of the Bank
   (a) in the case of any year at the end of which the general reserve of the Bank does not exceed the minimum paidup capital of the Bank, one-third of the net profits of the Bank for the financial year;
   (b) in the case of any year at the end of which the general reserve of the Bank exceeds the minimum paid-up capital of the Bank but does not exceed four times the paid-up capital of the Bank, one-sixth of the net profits of the Bank for the financial year.
3. After appropriate allocations have been made to the general reserve under subsection (2), one-quarter of the remainder of the net profits for the financial year shall be applied to the redemption of any securities of the Government held by the Bank which have been issued under section 20(6).
4. 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 of the Bank.
5. The residue of the net annual profits for the financial year remaining after all deductions authorized by subsections (2), (3), (4) and section 55 have been made shall be paid into the Consolidated Fund as soon as practicable after the end of each financial year.

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Statement of Cash Flows

	Notes	2019 M '000	2019 Restated * M '000	2018 Restated * M '000
Cash flows from operating activities				
Cash used in operations	34	(92 041)	(357 224)	(2 149 827)
Interest income		543 951	435 455	445 145
Interest expense	30	(9 587)	(7 104)	(6 471)
Tax paid		(39 595)	(6 707)	(68 802)
Rand compensatory reserve		77 393	70 349	63 295
Payments to Government of Lesotho Consolidated Fund	24	(24 337)	(84 396)	(147 566)
Net cash from operating activities		**455 784**	**50 373**	**(1 864 226)**
Cash flows from investing activities				
Purchase of property, plant and equipment	16	(63 093)	(65 689)	(145 697)
Sale of property, plant and equipment	16 & 31	-	45	48
Purchase of other intangible assets	17	(6 119)	(2 188)	(918)
Movement in investment in unit trust		750 487	-	-
Purchase of Deferred currency expenditure	13	-	(8 316)	(429)
Movement in Other assets	15	(2 969)	4 178	1 224
Movement in Lesotho Government Securities	12	3	(466)	(51)
Movement in Treasury notes, bonds and unit trust	7	(596 340)	(254 139)	803 905
Movement in investment in SWIFT		603	301	(145)
Net cash from investing activities		**82 572**	**(326 274)**	**657 937**
Cash flows from financing activities				
Movement in staff loans		(12 988)	(9 714)	(5 932)
Movements in notes and coins	16	92 661	(96 272)	280 654
Net cash from financing activities		**79 673**	**(105 986)**	**211 552**
Total cash movement for the year		**618 029**	**(381 887)**	**(994 737)**
Cash at the beginning of the year		3 746 860	4 128 747	5 123 484
Total cash at end of the year	2	**4 364 889**	**3 746 860**	**4 128 747**

The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies should be read together with the financial reporting framework on page 7.

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 financial assets at fair value through other comprehensive income, 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 requires the use of certain critical accounting estimates, judgements 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.

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 revaluation based on fair value as determined by an independent professional valuer, less accumulated depreciation every five years.

Other property, plant and equipment are subsequently carried at cost less accumulated impairment losses. Work in progress consists of items under construction and is measured at cost. Work in progress is transferred to the related category of assets and depreciated accordingly when the asset is completed and available for use. Subsequent costs are included in the carrying amount of the asset 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. Items under construction are not used and thus not depreciated.

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

Unrealised surpluses or deficits arising on revaluation of land and buildings are transferred to a Revaluation Reserve Account.

The most recent independent valuation for buildings was performed for the year ended December 2017.

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	Depreciation method	Rates
CBL and Lehakoe Buildings	Straight line	1.5%
Office furniture	Straight line	10%
Housing Furniture	Straight line	10%
Motor vehicles	Straight line	20%
Office equipment	Straight line	10%
Office computer	Straight line	20%
Sports/ Music equipment	Straight line	20%
Lehakoe Furniture	Straight line	20%
Housing equipment	Straight line	20%
Security equipment	Straight line	20%

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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 impairment is indicated, at each financial year end.

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

Property, plant and equipment is derecognised when economic benefits arising from them are no longer expected.

1.2 Intangible assets

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific soft-ware. These costs are amortised over their estimated useful lives of three years with the exception of newly acquired system of SAGE and Quantum Central Banking System (QCBS) which have useful lives of 10 years. Costs associated with maintaining com-puter software programmes are recognised as an expense as incurred. Computer software costs recognised as assets are amor-tised over their estimated useful lives for a minimum of three years.

Intangible assets are derecognised when economic benefits arising from them are no longer expected.

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

Item	Useful life
Computer software (general)	33.33%
SAGE & QCBS	10%

1.3 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 that 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.

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1.3 Financial instruments: IFRS 9 (continued)

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 financial assets at fair value through other comprehensive income, 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.

1.4 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 in-come on a straight-line basis over the period of the lease. Leases of property where the Bank has substantially all the risks and re-wards of ownership are classified as operating leases.

1.5 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.

1.6 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.

1.6 Employee benefits (continued)

Long-term employee benefits include:

- Severance pay - this is calculated as two weeks salary for each continuous completed year of service from 1993.
- Gratuity - this is calculated at 12.5% of the average of the annual gross salary of the last three years multiplied by number of years of service for permanent employees who have completed 10 years (Advance gratuity) of continu-ous service with the bank and 25% of total earnings for the contract period of contract employees.

(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

1.7 Provisions

Contingent assets and contingent liabilities are not recognised.

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 pro-vision due to passage of time is recognised as interest expense.

1.8 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.

1.9 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 trans-actions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transac-tions 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.

1.9 Translation of foreign currencies (continued)

Changes in the fair value of monetary securities denominated in foreign currency classified as financial instruments at fair value through other comprehensive income are analyzed 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 subequently transferred to equity.

1.10 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indi-cation of impairment, in which case their recoverable amount is estimated.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.
Assets that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment. Assets that are sub-ject 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 recover-able 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 as-sessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1.11 Claims on staff

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

1.12 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. When these Bank notes are received from the printers are kept in the new stock of bank notes and only transferred to re-issuable over a three-year period and the Bank has policy of armortising them on a straight line basis over the same three years. The Bank notes printing and minting costs cannot all be expensesd when incurred because the benefit of distribution to the banking indus-try is not realised over a period of one year.

1.13 Dividend distribution

Dividend distribution to the Government of Lesotho is recognised as a liability in the Bank's financial statements in the period in ac-cordance 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 Con-solidated Fund.

1.14 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.

1.15 IMF Holding of Special Drawing Rights and IMF subscrip-tion 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 5 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.

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1.16 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.

1.17 Comparative figures

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

1.18 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.

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 of the Bank for the financial year in the case of any year of which the general reserve exceeds minimum paid-up capital of the Bank but does not exceed four times the paid up capital of the Bank, one sixth of the net profits of the Bank 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 re-serve 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.

1.19 Rand Compensation Reserve

The Rand compensation reserve represents amounts received by the Bank from the Government of Lesotho, being the Bank's share of the Rand compensation 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.

1.20 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 Ac-count without affecting the Bank's profit or loss account. In the case of a carried over loss or net debit balance in the Revalua-tion Reserve Account, amounts shall be transferred from the available balance in the General Reserve to cancel such carried over losses.

Effects of changes in foreign exchange rates, exchange differences dealt with under the terms of section 54 of the Central Bank of Le-sotho Act No. 2 of 2000, are recognised in the statement of changes in equity by being transferred to the special account.

1.21 SDR Revaluation Reserve

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

1.22 Property Revaluation Reserve

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

1.23 Bond/Unit Trust Revaluation Reserve

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

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1.24 Financial Risk Management

(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 2019, if the currency had weakened/strengthened by 5% against the functional currencies, the Bank's foreign assets would have been 2.31% (2018: 2.12%) higher/lower as a result of foreign exchange losses/gains on valuation of foreign currency denominated assets.

(ii) 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.

(iii) Prcice risk

The Bank is exposed to bond securities price risk because of investments held by the Bank which are classified on the statement of financial position either as financial assets at fair value through other comprehensive income or as financial assets at fair value through profit or loss. The Bank's exposure to bond securities price is limited to the bond share prices in the portfolio.

(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 39 to 53.

1.25 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 (2018: 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.

1.26 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) Em-ployee benefits

The 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 valua-tion 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 Bank participating in the post retirement Corporate Bodies Pension Scheme (CBPS) cannot be separated due to the fact that it is a multi-employer plan and there is not sufficient information available to use the accounting principles for defined benefit plans. Refer to further disclosure in note 26 and 35.

(b) 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.

(c) Impairment of fair value through other comprehensive income and armortised costs finan-cial assets

Estimates have been used for the implementation of the ECL model, Refer to Accounting policy 1.30.

1.27 Memorandum Accounts

The Bank holds 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 41 which provides further details of the memorandum accounts.

1.28 Financial Instruments

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

1.28 Financial Instruments (continued)

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);

In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability)

1.27.1 **Financial assets**

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- Instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;

- All other instruments (e.g. instruments managed on a fair value basis or held for sale) and equity investments are subsequently measured at FVTPL.

However, the Bank may make the following irrevocable election / designation at initial recognition of a financial asset on an asset-by-asset basis:

- The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is not held for trading in OCI;
- and.

- The Bank may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

The Bank considers all relevant information available when making the business model assessment. The Bank takes into account all relevant evidence available such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- How managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank has not identified a change in its business models. When an instrument measured at

1.28 Financial Instruments (continued)

VTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

On initial recognition, the Bank made an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. These are equity investment in the Bank for International Settlement (BIS).

Financial assets at FVTPL

Financial assets at FVTPL are

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost exchange differences are recognised in profit or loss in the 'other income' line item;
- For debt instruments measured at FVTOCI exchange differences on the amortised cost of the debt instrument are recognised in profit or loss in the 'other income' line item. Other exchange differences are recognised in OCI in the investments revaluation
- reserve;
- For financial assets measured at FVTPL exchange differences are recognised in profit or loss either in 'net trading income', if the asset is held for trading, or in 'net income from other financial instruments at FVTPL' if otherwise held at FVTPL; and
- For equity instruments measured at FVTOCI, exchange differences are recognised in OCI in the investments revaluation reserve.
- Impairment

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Loans and advances;
- Debt investment securities;
- Deposits at other institutions
- Loan commitments issued;
- No impairment loss is recognised on equity investments.

ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

1.28 Financial Instruments (continued)

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

More information on measurement of ECLs is provided in note 39, including details on how instruments are grouped when they are assessed on a collective basis.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit im-paired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of credit impairment includes default, unlikeliness to pay indicators and a back-stop if amounts are overdue for 90 days or more.

Defi-nition of de-fault

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the proba-bility of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk:

- The Bank considers the following as constituting an event of default
- The borrower is unlikely to pay its credit obligations to the Bank in full.rower is past due more than 90 days on any material credit obligation to the Bank; or
- The borrower is unlikely to pay its credit obligations to the Bank in full.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counter-party are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

1.28 Financial Instruments (continued)

Significant increase in credit risk

The Bank monitors all financial assets to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly.

As a back-stop when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

More information about significant increase in credit risk is provided in note (39)

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegoti-ated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing cove-nants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a sub-stantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Bank deems the ar-rangement is substantially different leading to derecognition.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated-credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its re-vised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due sta-tus under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank deter-mines if the financial asset's credit risk has increased significantly since initial recognition by comparing: the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with; the remaining lifetime PD at the reporting date based on the modified terms.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

1.28 Financial Instruments (continued)

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write-off

Loans and debt securities are written off when the Bank has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written off. Recoveries resulting from the Bank's enforcement activities will result in impairment gains.

1.27.2 Financial liabili-ties and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial lia-bilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Eq-uity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or ar-motised cost'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

1.28 Financial Instruments (continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or

it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method (EIR).

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

1.29 Standards and Interpretations in issue, not yet effective

Standard	New and Amended Standard:	Effective for Annual Period beginning on or after
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Disclosure Initiative: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards	1st January 2020
IAS 1 Presentation of Financial Statements	Disclosure Initiative: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards	1st January 2020

1.30 Impact of new standards now effective

IFRS 16 is effective for periods beginning periods 01 January 2019. This is a new standard that introduces a single lessee account-ing model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underly-ing asset is of low value. We made an analysis in regards to contracts where the Bank is a lessee and lessor and have assessed that the standard does not have any impact on the Bank due to the fact that there are no leases held by Bank.

	2019 M '000	2018 M '000
2. Cash and balances with Banks		
Cash and cash equivalents consist of:		
Cash and cash equivalents		
Cash on hand	992	3 227
Bank balances	181 771	150 618
Short-term deposits	35 953	7 719
Total cash and cash equivalents	218 716	161 564
Current and Call Accounts:		
Foreign Banks	25 492	70 420
South African Banks	1 697 715	1 080 605
Total Current and Call Accounts	1 723 207	1 151 025
Fixed Deposits:		
Foreign Banks	1 564 945	1 888 417
South African Banks	893 279	545 854
Expected credit loss for cash and cash equivalents	(35 258)	-
Total Fixed deposits (with maturity shorter than 3 months)	858 021	545 854
Balances with banks (with maturity shorter than 3 months)	858 021	545 854
Total cash and balances with Banks	**4 364 889**	**3 746 860**

Refer to note 39 Financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.

	2019 M '000	2018 M '000
3. Deposit Floaters		
SA Banks Deposits	1 810 000	1 230 000
Foreign Banks Deposits	210 209	430 953
	2 020 209	**1 660 953**

	2019 M '000	2018 M '000
4. Accrued interest due from Banks		
Accrued interest receivable:		
ZAR call accounts	102	100
ZAR fixed deposits	35 998	20 822
Foreign call and fixed deposit accounts	3 073	3 792
	39 173	**24 714**

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	2019	2018
	M '000	M '000

5. Investment in unit trusts

2019	Fair Value through OCI	Total
Opening Balance	750 487	750 487
Sale of unit trust	(750 487)	(750 487)
	-	-

The unit trusts were purchased from the Bank for International Settlement (BIS) in 2012. These are equity instruments and measured at Fair value through other comprehensive income 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 $136.848153 (2018: 376,076 at $138.918052) at an exchange rate of 14.36510 (2017: 12.35015) to the US Dollar.

2018	Fair Value through OCI	Total
Unit trusts at fair value	750 487	750 487

The unit trusts were purchased from the Bank for International Settlement (BIS) in 2012. These are equity instruments and measured at Fair value through other comprehensive income and changes in market values are recorded directly in the Bond/unit trust revaluation reserve. The units were however sold during the year therefore the balance was zero as at year end.

6. Investment in Swift

	Fair Value through OCI	Total
Investment in SWIFT	399	399

The investment in Society of Worldwide Interbank Financial Telecommunication (SWIFT) relates to share allocation based on the financial contribution to SWIFT for network-based services. The share allocation is done in accordance with clause 9.2 of the By-laws General Membership Rules. The share allocation applies to all shareholders (Members) in live operation.

	2019 M '000	2018 M '000

7. Treasury notes and bonds

2019

	Fair value through Profit and loss	Fair value through OCI	Total
US Bonds at fair value	1 466 033	439 042	1 905 075
ZAR Bonds at fair value	-	1 892 773	1 892 773
US Bonds accrued interest	8 878	1 895	10 773
ZAR Bonds accrued interest	-	63 145	63 145
Expected Credit Loss	-	(14 530)	(14 530)
	1 474 911	**2 382 325**	**3 857 236**

2018

	Fair value through Profit and loss	Fair value through OCI	Total
US Bonds at fair value	1 479 657	326 525	1 806 182
ZAR Bonds at fair value	-	1 429 840	1 429 840
US Bonds accrued interest	7 570	1 267	8 837
ZAR Bonds accrued interest	-	37 819	37 819
Expected Credit Loss	-	(21 783)	(21 783)
	1 487 227	**1 773 668**	**3 260 895**

The Treasury notes and bonds managed by the Bank are measured at fair value through other comprehensive income. However, Treasury notes and bonds managed by the World Bank, starting in 2008, through the Reserves Advisory Management Program (RAMP) are measured at fair value through profit and loss.

8. Treasury bills at amortised cost

US Treasury Bills

	2019 M '000	2018 M '000
Treasury Bills at amortised cost	69 194	71 603

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 of 1.24%.

9. IMF Subscription Account

	2019 M '000	2018 M '000
Balance at beginning of year	1 397 173	1 223 196
Exchange revaluation	(39 863)	173 977
Balance at end of year	**1 357 310**	**1 397 173**

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 69,800,000 in 2019. The local currency equivalent of the subscription account in the statement of financial position is converted at the year end rate of 0.0559372 (2018: SDR 69,800,000 at 0.0570636).

		2019 M '000	2018 M '000
10.	**IMF Holding of Special Drawing Rights (SDR)**		
	Balance at beginning of year	437 554	530 125
	Net transactions - (decrease) / increase in rights	(204 324)	(149 475)
	Exchange revaluation	(6 321)	56 904
	Balance at end of year	**226 909**	**437 554**

The value of SDR 21,852,390 (2017: SDR 30, 213, 620) allocated by the International Monetary Fund less utilisation is converted at 0.0559372 (2018:0.0550793).

11. IMF Funded PRGF Advances

Balance at beginning of year	692 091	753 413
Paid during the year	(204 324)	(150 472)
Exchange revaluation	(12 232)	89 150
Balance at end of year	**475 535**	**692 091**

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 22.

12. Lesotho Government Securities

Maturing within 1 month	521	524

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 Treasury bills are subject to fixed interest rate risk and are held to maturity.

13. Deferred currency expenditure

Balance at beginning of year	7 074	8 303
Expenditure incurred	5 496	8 316
Amortised during the year	6 928	(9 545)
Balance at end of year	**19 498**	**7 074**

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

	2019	2018
	M '000	M '000
14. Loans to staff		
Housing loans	47 499	42 038
Car loans	30 805	26 179
Furniture loans	1 512	1 408
Other loans and advances	29 082	26 285
	108 898	**95 910**

The loans issued to staff members during the year are paid in monthly instalments and attract interest rate of 3% per annum. Refer to related parties note 36 and risk management note 39 for further details.

15. Other assets

	2019	2018
Other prepayments	5 968	3 628
Other receivables	1 297	640
Commemorative coins	3 479	3 507
	10 744	**7 775**

Other prepayments relate to prepaid licenses that have been paid in advance. Other receivables refer to gym membership fees which were invoiced as at year end but were not paid as at year end.

16. Property, plant and equipment

	2019 M '000			2018 M '000		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
CBL buildings	96 042	(20 785)	75 257	96 042	(19 277)	76 765
Land	10 225	-	10 225	10 225	-	10 225
Lehakoe buildings	149 020	(26 707)	122 313	149 020	(24 543)	124 477
Residential land and buildings	20 177	(2 948)	17 229	20 177	(2 646)	17 531
Housing furniture	427	(358)	69	359	(356)	3
Office furniture	10 092	(7 440)	2 652	8 946	(7 010)	1 936
Motor vehicles	17 978	(10 142)	7 836	11 932	(10 180)	1 752
Office equipment	45 745	(34 629)	11 116	40 269	(31 171)	9 098
Office computer	20 604	(11 346)	9 258	16 077	(8 171)	7 906
Lehakoe furniture	4 006	(2 985)	1 021	3 512	(3 007)	505
Sports/music equipment	9 711	(7 774)	1 937	7 894	(7 639)	255
Housing equipment	234	(195)	39	195	(193)	2
Security equipment	23 196	(16 906)	6 290	19 004	(15 956)	3 048
Work in progress	540 446	-	540 446	489 367	-	489 367
Total	**947 903**	**(142 215)**	**805 688**	**873 019**	**(130 149)**	**742 870**

16. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Depreciation on disposal	Revaluations / Useful life reassessment	Depreciation	Total
CBL buildings	76 765	-	-	-	(80)	(1 428)	75 257
Land	10 225	-	-	-	-	-	10 225
Lehakoe buildings	124 477	-	-	-	(143)	(2 022)	122 313
Residential land and buildings	17 531	-	-	-	(24)	(279)	17 229
Housing furniture	3	-	-	-	68	(2)	69
Office furniture	1 936	165	-	-	980	(429)	2 652
Motor vehicles	1 752	5 186	(813)	813	1 673	(775)	7 836
Office equipment	9 098	720	(1)	1	4 757	(3 458)	11 116
Office computer	7 906	4 270	-	-	212	(3 184)	9 258
Lehakoe furniture	505	71	(103)	103	525	(82)	1 021
Sports/music equipment	255	362	(9)	9	1 464	(135)	1 937
Housing equipment	2	-	-	-	39	(2)	39
Security equipment	3 048	1 241	-	-	2 951	(950)	6 290
Work in progress	489 367	51 078	-	-	-	-	540 446
Total	**742 870**	**63 093**	**(926)**	**926**	**12 422**	**(12 746)**	**805 688**

16. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation of disposal	Transfers	Revaluations / Useful life reassessment	Depreciation	Revaluation Excess	Total
CBL buildings	79 248	-	-	-	-	-	(1 428)	(1 055)	76 765
Land	10 225	-	-	-	-	-	-	-	10 225
Lehakoe buildings	128 462	-	-	-	-	-	(2 022)	(1 963)	124 477
Residential land and buildings	17 995	-	-	-	-	-	(279)	(185)	17 531
Housing furniture	4	-	(24)	24	-	-	(1)	-	3
Office furniture	2 362	61	(524)	514	-	-	(477)	-	1 936
Motor vehicles	1 638	590	(614)	614	-	-	(482)	6	1 752
Office equipment	6 105	5 075	(617)	615	1 410	-	(3 490)	-	9 098
Office computer	10 328	1 286	(15 976)	15 962	-	42	(3 685)	(51)	7 906
Lehakoe furniture	458	128	-	-	-	-	(81)	-	505
Sports/music equipment	368	55	(163)	163	-	-	(168)	-	255
Housing equipment	6	10	(10)	-	-	-	(6)	2	2
Security equipment	5 953	-	(1 228)	1 221	-	-	(2 685)	(213)	3 048
Work in progress	432 293	58 484	-	-	(1 410)	-	-	-	489 367
Total	**695 445**	**65 689**	**(19 156)**	**19 113**	**-**	**42**	**(14 804)**	**(3 459)**	**742 870**

Analysis of carrying amount as at 31 December 2019 had the Bank remained on cost:

	Cost Analysis	Revalued Amount
CBL Building	M21,725,818.31	M75,256,701.00
LRCC Building	M67,494,980.00	M122,312,461.12
Residential Building	M1,340,215.60	M17,228,897.67

Depreciation on disposal represents the write-off from accumuated depreciation of disposed asset, the depreciation on the other hand represents the charge for the year. Revaluation excess is the depreciation from the revaluation of buildings.

	2019 M'000	2018 M'000

17. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	102 052	(70 624)	31 428	95 983	(63 519)	32 464

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Useful life reassessment	Amortisation	Total
Computer software, other	32 464	1 497	4 571	(7 104)	31 428

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	41 761	2 188	(11 485)	32 464

SAGE and QCBS softwares are written off over a period of 10 years while all other computer softwares are written off over a 3 year period on a straight line basis.

18. Notes and coins issued

	2019	2018
Notes	1 591 621	1 501 489
Coins	21 257	18 728
	1 612 878	**1 520 217**

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 represent the value of the currency (Maloti) in circulation.

19. Deposits

	2019	2018
Deposits from Banks - Non-interest bearing		
Banks	535 820	339 570
Other Deposits - Non-interest bearing		
International Institutions	463	393
Parastatals and others	2 135	2 173
	538 418	**342 136**

20. IMF Maloti Currency Holding

	2019	2018
Securities account	240 937	274 823
General resources account	870 126	869 403
	1 111 063	**1 144 226**

21. IMF Special Drawing Rights Allocation

	2019	2018
Balance at beginning of year	658 116	576 167
Exchange revaluation	(20 976)	81 949
Balance at end of year	**637 140**	**658 116**

Lesotho's allocation by IMF of SDR32,878,186 is converted at 0.0570636 (2018: 0.0497992).

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	2019 M'000	2018 M'000

22. IMF-PRGF Facility

	2019 M'000	2018 M'000
Balance at beginning of year	692 091	753 413
Paid during the year	(204 324)	(150 472)
Exchange revaluation	(12 232)	89 150
	475 535	**692 091**

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 SDR 42,992,500.00, converted at 0.0570636 as at 31 December 2019 (2018:SDR 47,697,000 at 0.0497992). The loan has been on-lent as per note 10. Interest expense and exchange rate differences are borne by the Government of Lesotho.

23. Taxation payable/(receivable)

	2019 M'000	2018 M'000
Balance at beginning of year	4 929	(26 882)
Paid during the year	(39 595)	(6 707)
Current year charge	56 290	38 518
	21 624	**4 929**

24. Dividend payable

	2019 M'000	2018 M'000
Balance at beginning of year	142 177	84 396
Paid during the year	(142 177)	(84 396)
Profit appropriations for the current year	117 840	108 062
Prior year correction of foreign exchange activities that mistated due to GOL	-	34 115
Balance at end of year	**117 840**	**142 177**

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.

Profit after tax appropriates as follows:

	2019 M'000	2018 M'000
(Loss)/profit after tax (after actuarial (loss)/gain on employee benefits)	80 322	776 809
Gain on foreign exchange activities	61 086	(645 160)
Profit after tax net of gain on foreign exchange activities	141 408	131 649
Transfer to General Reserve	(23 568)	10 528
	117 840	**142 177**

25. Changes in Other Liabilities

	2019 M'000	2018 M'000
Divisional cheques accounts	(11 179)	1 487
Other	15 066	13 222
Various accruals	9 086	5 608
Accrued leave pay	**1 098**	**3 851**
	14 071	**24 168**

Other Accruals relates to Financial Institutions unclaimed balances, VAT collected on behalf of the tax authorities and Withholding tax at source which was yet to be remitted to the tax authorities.

Various accruals relate to accrued expenses and leave pay provision as at year end

	2019 M'000	2018 M'000
26. Long-term employee benefit obligation		
Provision for severance pay		
Opening obligation	25 855	24 661
Interest cost	2 655	2 437
Current service cost	3 070	2 919
Actuarial (gain)/ loss on employee benefits	(3 551)	(201)
Benefits paid	(2 632)	(3 961)
Closing obligation	**25 397**	**25 855**
Provision for gratuity		
Opening obligation	78 725	77 218
Interest cost	8 166	7 360
Current service cost	13 377	13 183
Actuarial (gain)/ loss on employee benefits	(4 077)	2 902
Benefits paid	(10 029)	(21 938)
Closing obligation	**86 162**	**78 725**
Total	**111 841**	**104 842**

The Bank's liability is valued using the Projected Unit Credit Method by the independent Actuarial Valuer. The Valuer has used assumptions based on statistics South African market data. The valuer has determined the discount rate to be equal 10,49% p.a., general inflation rate to be 7,98% p.a. The valuer has used the discount rate assumption of high quality corporate bond. The valuer has set the discount rate by using the best fit discount rate at 10 November 2019 based on yields from the zero coupon South African government bond curve. The computation has been determined taking into consideration the cash-flow weighted duration of the liabilities which is approximately 10 years. The recommended discount rate is 10,49%.

	2019	2018
Net expense recognised in profit and loss (inclusive of leave pay provision)		
Current service cost	16 448	16 102
Interest cost	11 225	10 232
	27 673	**26 334**
Key assumptions used		
Discount rates used	10,49 %	10,19 %

Sensitivity Analysis 2019	Current Assumption	1% decrease	1% increase
	10.49%	9.49%	11.49%
Bank	111 841	122 055	104 571
Cost/(Saving)	-	9 378	(8 106)
	111 841	**131 433**	**96 465**

Sensitivity Analysis 2018	Current Assumption	1% decrease	1% increase
	10.19%	9.19%	11.19%
Bank	104 842	124 029	104 582
Cost/(Saving)	-	10 456	(8 991)
	104 842	**134 485**	**95 591**

		2019 M'000	2018 M'000
27.	**Deferred tax**		
	Deferred tax liability		
	Property plant and equipment	(13 019)	(11 652)

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:

	2019 M'000	2018 M'000
Deferred tax liability	(13 019)	(11 652)
Reconciliation of deferred tax asset / (liability)		
At beginning of year	(11 652)	(19 344)
Movements in profit and loss	(2 214)	(201)
Movement in equity - current year	847	7 893
	(13 019)	**(11 652)**
Reconciliation of deferred tax asset / (liability)		
Accelerated capital allowance for tax purposes	5 508	5 302
Liabilities for Health care benefits accrued	28 169	27 107
Deferred expenses	(3 710)	(3 333)
Bond/unit trust revaluation reserve	8 339	4 985
Property revaluation reserve	(51 325)	(45 713)
	(13 019)	**(11 652)**

		2019 M'000	2018 M'000
28.	**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.

		2019 M'000	2018 M'000
29.	**Interest income**		
	Interest income		
	Foreign currency deposits (Armotised cost)	385 297	301 331
	Interest treasury bills and SDR holdings (Armortised cost)	8 129	8 021
	Debt instrument at fair value through other comprehensive income	131 287	125 524
	Debt instruments at fair value through profit or loss	33 697	15 476
	Total interest income	**558 410**	**450 352**

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		2019 M'000	2018 M'000
30.	**Interest expense**		
	Interest on non financial Public Enterprises	51	83
	Accrued premium amortisation	2 739	1 652
	IMF SDR allocation account	6 797	5 369
		9 587	**7 104**
31.	**Other income**		
	Profit on sale of bonds	7 135	833
	Interest on staff loans (Armotised cost)	1 805	1 660
	Lehakoe income	13 599	7 031
	Other income	3 516	4 195
	Gain on instruments designated as fair value through profit and loss	23 884	16 969
	Loss/profit on sale of fixed assets	5	-
		49 944	**30 688**
32.	**Operating costs and expense per nature**		
	Administration and other expenses	68 242	59 875
	Auditors remuneration	2 348	2 963
	Deferred currency expenses amortised	5 407	7 915
	Deferred computer software amortization	7 155	11 413
	Depreciation and impairment	12 905	14 804
	Property, plant and equipment maintenance expenses	20 617	13 005
	Loss on sale of other instruments	1 240	8 159
	Loss on fair valuation of treasury notes and bonds	12 011	10 419
	Impairment	49 789	(9 703)
	Personnel costs:		
	Staff welfare expenses	24 609	17 685
	Non-executive directors' fees	1 064	849
	Executive directors' salaries	9 258	8 339
	Key management (heads of departments)	12 520	11 832
	Staff salaries and expenses	141 069	127 998
	Pension fund contributions	5 978	5 915
	Gratuity and severance pay (interest and service cost)	16 705	25 899
		390 917	**317 367**
33.	**Taxation**		
	Major components of the taxation expense		
	Current		
	Local income tax - current period	58 504	24 920
	Tax on actuarial gain(loss)	**2 645**	**494**

	2019 M'000	2018 M'000
33. Taxation		
Major components of the taxation expense		
Current		
Local income tax - current period	58 504	24 920
Tax on actuarial gain(loss)	2 645	494
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate.		
Chargeable profit (before foreign exchange gain/loss and after actuarial gain/loss)	149 386)	(146 866)
Statutory tax rate	25,00 %	25,00 %
Permanent differences:		
Donations	0,50 %	0,62 %
50 % Entertainment	0,09 %	0,27 %
Training expenses additional 25%	(0,84) %	(0,93) %
Other	1,55 %	2,38 %
Effective tax rate	**26,30 %**	**27,34 %**
Profit/ (loss) before tax	207 850	146 866
Add: Permanent differences disallowed for tax purposes	3 142	3 453
Add: Temporary differences disallowed for tax purposes	14 168	3 753
Taxable profit	225 160	154 073
Taxation @25%	56 290	38 518
Add: Tax expense	2 214	(13 598)
Total Tax due	58 504	24 920
34. Cash (used in) generated from operations		
Profit(Loss) before taxation	207 850	801 729
Adjustments for:		
Depreciation	12 906	14 804
Deferred computer software amortised	7 155	11 413
Profits/Losses on RAMP Bonds	-	7 326
Interest income	(558 410)	(450 352)
Interest expense	9 587	7 104
Deferred currency amortisation	(12 424)	7 915
FV Gains on RAMP Bonds	-	(6 551)
Movement in reserves	(135 381)	(5 955)
Movement in Deposits	540 252	103 350
Treasury bills at amortised cost	2 409	20 210

	2019 M'000	2018 M'000
34. Cash (used in) generated from operations (continued)		
Movement in IMF Maloti Currency Holding	(33 163)	142 006
Movement in Designated as at FV through profit (loss) (FV through income)	39 863	(173 977)
Trade and other payables	(10 097)	(2 776)
Movement in Held for trading (fair value through income)	210 645	92 571
Movement in IMF Special Drawing Rights Allocation Assets	(20 976)	81 949
Movements in Long-term employee benefit obligation	6 999	2 963
Deposit Floaters	(359 256)	(1 010 953)
	(92 041)	**(357 224)**

Other Comprehensive income movements relates to the movement between bond/unit trust fair values, rand compensatory reserve and actuarial gains/ losses.

35. Post retirement obligations

	2019	2018
Total employer contributions	5 978	5 915

The Bank contributes towards a post retirement Corporate Bodies Pension Scheme (CBPS) which is administered by Lesotho National Insurance Group in terms of the Corporate Bodies (Pension Scheme) Regulations 1983 legal notice No. 108 of 1983. CBPS is a defined benefit pension fund that covers all permanent employees. CBPS is funded by way of contribution from both the employer and employee. The minimum fund requirements is determined by Actuaries. Contributions rate by employees is fixed at 5% of their basic salary and the Bank's contributions is not fixed and can fluctuate from time to time depending on the results of the Actuarial valuation.

The Bank is not liable for obligations of other entities. The allocation or deficit or surplus on winding up of the scheme or on withdrawal of the Bank from the scheme will be determined by Actuaries as they are the ones responsible for such allocations. Any deficit on the scheme following Actuarial valuation will attract an increase in contributions by the Bank or can be settled by a lump sum payment. Any surplus however will be carried forward to the following year and no additional contributions will be required.

The liability Bank in the scheme relating to active members is determined using the Attained Age Method. Under this method the accrued liability for the active members is derived as the present value of their expected benefit entitlement based on service up to the valuation date and projected salary to the benefit entitlement date, using specific actuarial assumptions.

The Bank has historically contributed almost half of the membership of the scheme. The scheme deficit would need to be funded in the same proportion of the member contribution as well as based on historical underfunding determined based on contribution rates into the scheme. If the scheme is 50% underfunded at the current rates of 8% employer contributions the Bank would need to fund the scheme deficit for historical underfunding to the extent of the 50% funding and also increase their contribution to double the current rate, thus 16% per employee.

At the date of these financial statements an actuarial valuation had not been prepared to determine whether the current contribution rate of 8% will be increased in the next reporting period and as to what will be the overall impact on the Bank.

36. Related parties

The Bank is wholly owned by the Government of Lesotho.
These are related parties with the Government as the Bank also acts as banker to the Government.
The following were Government balances with the Bank.

		2019	2018
	Car loans	959	1 147
Gross advances made during the year to:	Furniture loans	50	150
Heads of Departments and Division Heads	Housing loans	-	1 000

		2019 M'000	2018 M'000
36. Related parties (continued)			
Balances due at end of December:			
Heads of Departments and Division Heads	Car loans	2 936	3 313
	Furniture loans	124	299
	Housing loans	831	6 204
Interest charged for the year:	Car loans	129	53
Heads of Departments and Division Heads	Furniture loans	11	9
	Housing loans	110	80

		2019 M'000	2018 M'000
Government Deposits	Other loans	3 715 382	3 371 412

There were no loan advances made to the Governors in the current year, and previous loans were paid up as at 31 December 2019. No provisions have been recognised in respect of loans given to related parties.

The loans issued to Executive Directors (Governors) and other key management (Heads of Departments) 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 long term loans are covered by insurance policies to ensure recoveries in instances of death of employees.

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

	2019	2018
Executive Directors' salaries	9 257	9 499
Key management salaries	12 250	13 660

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37. Financial assets by category

The financial assets have been categorised as follows:

2019 - M '000

	Armortised Cost	Fair value through OCI	Assets at fair value through profit and loss (designated)	Total
Cash and balances with Banks	4 364 889	-	-	4 364 889
Deposit Floaters	2 020 209	-	-	2 020 209
Accrued interest due from Banks	39 173	-	-	39 173
Investment in SWIFT	-	399	-	399
Treasury notes and bonds	-	2 382 325	1 474 911	3 857 236
Treasury bills	69 194	-	-	69 194
IMF Subscription Account	1 357 310	-	-	1 357 310
IMF Holding of Special Drawing Rights	226 909	-	-	226 909
IMF Funded PRGF Advances	475 535	-	-	475 535
Lesotho Government Securities	521	-	-	521
Loans to staff	108 898	-	-	108 898
	8 662 638	**2 382 724**	**1 474 911**	**12 520 273**

The Bank holds shares in Bank for International Settlements (equity investments) as part of the Bank's function and its business model of collecting contractual cash flows and selling them.

Equity instruments have been designated at fair value through other comprehensive income because of the fact that these instruments do to have an active market, these instruments are measured at fair value with their fair value movements recognised in OCI.

2018 - M '000

	Armortised Cost	Fair value through Profit and Loss (designated)	Assets at fair value through OCI	Total
Cash and balances with Banks	3 746 860	-	-	3 746 860
Deposit Floaters	1 660 953	-	-	1 660 953
Accrued interest due from Banks	24 714	-	-	24 714
Treasury notes and bonds	-	1 773 668	1 487 227	3 260 895
Treasury bills	71 603	-	-	71 603
IMF Subscription Account	1 397 173	-	-	1 397 173
IMF Holding of Special Drawing Rights	437 554	-	-	437 554
IMF Funded PRGF Advances	692 091	-	-	692 091
Lesotho Government Securities	524	-	-	524
Loans to staff	95 910	-	-	95 910
	8 127 382	**1 774 067**	**1 487 227**	**11 388 676**

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38. Financial liabilities by category

The financial liabilities have been categorised as follows:

2019 - M '000

	Financial liabilities at amortised cost	Total
Notes and coins issued	1 612 878	1 612 878
Deposits	538 418	538 418
Lesotho Government Deposits	3 715 382	3 715 382
IMF Maloti Currency Holding	1 111 063	1 111 063
IMF Special Drawing Rights Allocation	637 140	637 140
IMF PRGF Facility	475 535	475 535
	8 090 416	**8 090 416**

2018 - M '000

	Financial liabilities at amortised cost	Total
Notes and coins issued	1 520 217	1 520 217
Deposits	342 136	342 136
Lesotho Government Deposits	3 371 412	3 371 412
IMF Maloti Currency Holding	1 144 226	1 144 226
IMF Special Drawing Rights Allocation	658 116	658 116
IMF PRGF Facility	692 091	692 091
	7 728 198	7 728 198

Gains and losses per financial instrument category 2019	**Armortised cost M'000**	**FV through P/L M'000**	**FV through OCI**	**Total**
Interest income	393 426	33 697	131 287	558 410
FV Gains	-	23 884	38 220	62 104
Interest expense	9 487	-	-	9 487
	402 913	**57 581**	**169 507**	**630 001**

Gains and losses per financial instrument category 2019	**Armortised cost M'000**	**FV through P/L M'000**	**FV through OCI**	**Total**
Interest income	309 352	15 476	125 524	450 352
FV Gains	-	16 969	8 758	25 727
Interest expense	7 104	-	-	7 104
	316 456	**32 445**	**134 282**	**483 183**

39. Risk management

General risk management

The Banks's overall risk management programme focuses on the unpredictability of a spectrum of risks identified, assessed and included in the Bank's Risk Profile and seeks to minimize potential adverse effects on the Bank's performance. Risk Management is carried out by the Bank's dedicated Enterprise Risk Management Department. The Bank uses the Risk Management Framework and Policy approved by the Board of Directors to manage its risk exposure.

39. Risk management (continued)

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 operational, human resource, legal and reputational risks, interest rate, market price, credit, market liquidity. These are discussed below:

Operational risk

Operational risk is the risk of failure in processes and systems as a result of inadequate controls, policies and/or human error. The Bank's Enterprise Risk Management Department is responsible for collating and reporting operational risk throughout the entire Bank. However, management of operational risk is the responsibility of departments and individual units. Within the Financial Markets Department, internal controls in place include policies, guidelines, procedures, segregation of duties, as well as daily reconciliations of accounts Additional text.

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

The main 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.

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 market price risk is reported on daily, monthly and quarterly basis to the Bank's Management and different Committees.

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

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39. Risk management (continued)

Currency 2019	Value of Currency M'000	Exchange Rate	Maloti Equivalent M'000
Cash and balances with Banks			
South Africa	6 922 236.60	1.0000	6 922 237
United States	255 262.87	14.0139	3 577 228
Botswana	422.15	1.3243	559
England	1 547.03	18.4268	28 507
European Union	94.98	15.7172	1 493
Switzerland	0.02	14.4741	-
IMF	11 709.15	19.3788	226 909
Treasury notes and bonds			
South Africa	1 892 773.00	1.0000	1 892 773
United States	136 160,88	14.0139	1 908 145
Treasury Bills			
United States	5 000,00	14.0139	70 070

Currency 2018	Value of Currency M'000	Exchange Rate	Maloti Equivalent M'000
Cash and balances with Banks			
South Africa	4 840 033.00	1.0000	4 840 033
United States	322 907.00	14.3651	4 638 591
Botswana	137.00	1.3417	184
England	2 264.00	18.3888	41 632
European Union	137.00	16.4567	2 255
Switzerland	266.00	14.5972	3 883
IMF	**21 900.00**	**19.9788**	**437 536**
Treasury notes, bonds and unit trusts			
South Africa	1 406 994.00	1.0000	1 406 994
United States	138 835.00	12.3502	1 714 640
Unit trust - US Dollar based	51 510.00	12.3502	636 159
Treasury Bills			
United States	7 433.00	12.3502	91 799

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.

Foreign exchange risk

Foreign exchange or currency risk arises from changes in transactional positions in monetary assets and liabilities taken on by the Bank and are denominated in other currencies other than Lesotho Loti (LSL). The Bank has to, for reporting purposes; translate all transactions executed in foreign currencies into the local currency (the Loti). The adverse movement of foreign currencies causes a rise in foreign exchange risk. To mitigate the effects of foreign exchange risk, the Bank stipulates, in its annual SAA eligible currencies and their allocations for asset and liability management.

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39. Risk management (continued)

Liquidity risk

One of the Bank's motives for holding reserves is that of ensuring that assets are sufficiently liquid to pay Government's and the Bank's liabilities upon instruction. Liquidity risk is said to exist where there are insufficient funds to cover obligations when they fall due. The Bank's reserves are therefore segregated into tranches to mitigate this risk. Specifically, the Working Capital and Liquidity tranches are meant to help manage liquidity risk by ensuring that sufficient funds are available on demand at all times or on short notice.

Credit risk

Credit risk exists where there is a possibility that a counterparty may default on its obligations when they fall due. The Bank's third objective is of earning reasonable returns. To achieve this objective, the Bank invests in various investment assets and with various institutions. Uncertainties over whether the expected returns will be earned or the ability of the counterparty to make good on its obligations when they fall due contribute directly to the creation of credit risk..

The Bank's management of credit risk begins with investing only with counterparties and issues that are investment grade (according to global rating agencies) and have been approved by the Investment Committee upon recommendation by the Investment Technical Committee (ITC), a technical arm of the Investment Committee. Credit ratings of all counterparts to which the Bank is exposed to are monitored through use of global rating agencies, wherein Analysts track the rating agencies' credit opinions, issuer-in-depth research and analyses. Reliance is also placed on market-related credit indicators including bond yields and spreads, along with credit default swaps (CDS) as early market warning signals. All exposures are monitored daily and reported to the ITC, with major focus on significant credit events that would result in the counterparty/issuer's ratings changing. Any credit event that would result in a change in credit ratings for a counterparty/issuer to speculative or default from investment grade would require a special dispensation by the Investment Committee to allow the Bank to continue holding instruments of such counterparties/issues in the portfolio.

Quantitative information

The Bank uses credit ratings in order to determine the significant increase in credit risk (SICR). Management considers credit risk on a financial instrument to have significantly increased if the credit rating moves to the next lower rating of the credit rating scale. Other considerations by Management are ratings downgrade by one of or all international rating agencies resulting in the instrument or issuer falling out of the investment grade.

The Bank does not however assess the qualitative analysis of credit risk

The reserves are managed conservatively in highly liquidity investment grade instruments with exception only in ZAR due to the inherent nature of high allocation of reserves to ZAR as per the Strategic Asset Allocation of the Bank. The maturity profile of all the benchmarks are less than five years with ZAR index having the longest duration of about 3.6 years. The Bank does not allow for any capital losses in both the working capital and the liquidity tranche and only permits 1% loss of capital in the investment tranche.

Implementation of ECL model- Central Bank of Lesotho

For simplicity, the Bank has used the simplified matrix as the Bank has reckoned that we have low risk securities and majority of the Bank's securities are Investment grade except for South African investments. Also, this is based on the Bank's historical default rates over the expected life and adjusted for forward-looking estimates. As a result, we have only computed 12-month ECL unless there has been a significant increase in credit risk since initial recognition, in which case a lifetime ECL is recognised

The standard borrows the model from credit risk modeling and Basel. Credit /Default risk on its own right is defined as possibility that contractual cash flows will not be paid as promised or change in value due to perceived change in credit quality.

39. Risk management (continued)

Default will be understood as the first occurrence of a payment default on any financial obligation, rated or unrated, other than a financial obligation subject to a valid commercial dispute; an exception occurs when an interest payment missed on the due date is made within a grace period as in S&P rating Agency. The expected Credit Loss Model uses a number of parameters and a set of assumptions to quantify the parameters as outlined below.

Assumptions of the CBL MODEL

- Loss given default follows the recovery rates of the international swaps and derivatives association (ISDA) CDS standard model, as a function of the seniority and the region.
- The rating given to each security is the lowest between the ratings of S&P, Fitch and Moody's.
- The transition matrix is the S&P's global corporate s from 1981 to 2018.
- A default probability of 1 bps is assumed for AAA rated securities and 1.5 bps for AA+ rated securities.

Probability of Default (PD)

There is a wide range of sources of the probability of default; the Central Bank of Lesotho will rely on rating agency transition matrices with the latest update Considered. Given that default rates on AAA rated instruments is highly scarce, a bps and probabilities per Transition Matrix will be assigned based on 12 month ECL to AAA and AA+ respectively following External Commercial Borrowing (ECB) (2007).

The Bank's management of credit risk begins with investing only with counterparties and issues that are investment grade (according to global rating agencies) and have been approved by the Investment Committee upon recommendation by the Investment Technical Committee (ITC), a technical arm of the Investment Committee. Credit ratings of all counterparts to which the Bank is exposed to are monitored through use of global rating agencies, wherein Analysts track the rating agencies' credit opinions, issuer-in-depth research and analyses. Reliance is also placed on market-related credit indicators including bond yields and spreads, along with credit default swaps (CDS) as early market warning signals. All exposures are monitored daily and reported to the ITC, with major focus on significant credit events that would result in the counterparty/issuer's ratings changing. Any credit event that would result in a change in credit ratings for a counterparty/issuer to speculative or default from investment grade would require a special dispensation by the Investment Committee to allow the Bank to continue holding instruments of such counterparties/issues in the portfolio.

Credit risk analysis

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

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39. **Risk management** (continued)

2019

Cash	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ZAR	178 290	178 290	ZAR	none	n/a
USD	910	9 100	USD	none	n/a
GBP	30	30	GBP	none	n/a
EUR	50	50	EUR	none	n/a
	179 280	**187 470**			

Current and call account	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	51	51	ZAR	none	Baa3/P-3
ABSA Maloti Repatriation	11 467	11 467	ZAR	none	Baa3/P-3
ABSA Credit Card	2 001	2 001	ZAR	none	Baa3/P-3
B.I.S	5	5	GBP	none	Supranational
B.I.S	92	92	USD	none	Supranational
B.I.S	15	15	EUR	none	Supranational
Bank of England	7 618	7 618	GBP	none	Aa2/P-1
Bank of N.Y	648	648	USD	none	Aa2/P-1
Bank of N.Y	11	11	ZAR	none	Aa2/P-1
Bank of N.Y (RAMP)	572	572	USD	none	Aa/P-1
Crown Agents	169	169	GBP	none	B/BB
Crown Agents	77	77	USD	none	B/BB
Deutsche Bankers trust	9 929	9 929	USD	none	Baa1/P-1
Deutsche Bundersbank	1 427	1 427	EUR	none	Aaa
Federal Reserve Bank of N.Y	2 209	2 209	USD	none	Aaa
First Rand	84	84	ZAR	none	Baa3/P-3
International Monetary Fund - Holdings	226 909	226 909	ZAR	none	Supranational
Investec Bank	84	84	ZAR	none	Baa3/P-3
NedBank	30	30	ZAR	none	Baa3/P-3
SIRESS	1 679 775	1 679 775	ZAR	none	Baa3/P-3
Special Rand Deposit	5 000	5 000	ZAR	none	Baa3/P-3
Standard Bank	95	95	ZAR	none	Baa3/P-3
Standard Chartered Botswana	559	559	BWP	none	A2
Standard Chartered London	2 165	2 165	GBP	none	A1/P-1
	1 950 992	**1 950 992**			

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39. Risk management (continued)

Fixed deposits	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	600 000	600 000	ZAR	none	Baaa3/P-3
African Import-Export Bank	140 139	140 139	USD	none	P-2/Baa1
BIS	70 070	70 070	GBP	none	Supranational
Crown Agents	70 070	70 070	USD	none	A1/P-1
Federal Reserve Bank of NY	231 229	231 229	USD	none	Aaa
Firstrand	430 000	430 000	ZAR	none	Baa3/P-3
ICBC ASIA	400 239	400 239	USD	none	P1/A1
Investec	600 000	600 000	ZAR	none	Baa3/P-3
NedBank	473 279	473 279	ZAR	none	Baa3/P-3
Standard Bank	600 000	600 000	ZAR	none	Baa3/P-3
Standard Chartered London	18 514	18 514	GBP	none	A1/P-1
Standard Chartered London	143 651	143 651	USD	none	A1/P-1
Standard Bank PLC	471 069	471 069	USD	none	Baa3/P-3
Standard Bank PLC	350 000	350 000	ZAR	none	Baa3/P-3
World Bank RAMP	23 824	23 824	USD		P1/Aa1
	4 622 084	**4 622 084**			

Accrued interest due from Banks	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	8 288	8 288	ZAR	none	Baa3/P-3
African Import-Export Bank	258	258	ZAR	none	P-2/Baa1
BIS	149	149	USD	none	Supranational
Firstrand	2 406	2 406	ZAR	none	Baa3/P-3
ICBC ASIA	818	818	USD	none	P1/A1
Investec	6 474	6 474	ZAR	none	Baa3/P-3
NedBank	5 440	5 440	ZAR	none	Baa3/P-3
Special Rand Deposit	102	102	ZAR	none	Baa3/P-3
Standard Bank	7 604	7 604	ZAR	none	Baa3/P-3
Standard Chartered London	4	4	GBP	none	A1/P-1
Standard Bank PLC	5 787	5 787	ZAR	none	Baa3/P-3
Standard Bank	1 761	1 761	USD	none	Baa3/P-3
Sumitomo Mitsui	139	139	USD	none	A1/P-1
	39 230	**39 230**			

39. Risk management (continued)

Treasury bills	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Federal Reserve Bank of New York	70 070	70 070	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	1 955 918	1 955 918	ZAR	none	P-3/Baa3
United States-RAMP	1 498 361	1 498 361	USD	none	Aaa
United States	440 944	440 944	USD	none	Aaa
	3 895 223	**3 895 223**			

Loans to staff	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Housing Loans	47 499	47 499	LSL	Title deeds	n/a
Car loans	30 805	30 805	LSL	Terminal benefits	n/a
Furniture loans	1 511	1 511	LSL	Terminal benefits	n/a
Other loans and advances	29 060	29 060	LSL	Terminal benefits	n/a
	108 875	**108 875**			

2018

	Carrying amount M '000	**Maximum e xposure M '000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ZAR	147 917	147 917	ZAR	none	n/a
USD	3 123	3 123	USD	none	n/a
GBP	17	17	GBP	none	n/a
EUR	86	86	EUR	none	n/a
	151 143	**151 143**			

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39. 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	120	120	ZAR	none	P-3/Baa3
ABSA Maloti Repatriation	10 671	10 671	ZAR	none	P-3/BAA3
ABSA Credit Card	499	499	ZAR	none	P-3/BAA3
B.I.S	960	960	GBP	none	Supranational
B.I.S	1 233	1 233	USD	none	Supranational
B.I.S	48	48	EUR	none	Supranational
Bank of England	37 787	37 787	GBP	none	P-1/Aa2
Bank of N.Y	242	242	USD	none	P-1/Aa1
Bank of N.Y	15	15	ZAR	none	P-1/Aa1
Bank of N.Y(RAMP)	3 683	3 683	USD	none	P-1/AA1
Crown Agents	1 640	1 640	GBP	none	B/BB
Crown Agents	2 447	2 447	USD	none	B/BB
Deutsche Bankers trust	15 847	15 847	USD	none	P-1/A2
Deutsche Bundersbank	2 127	2 127	EUR	none	Aaa
Federal Reserve Bank of N.Y	1 976	1 976	USD	none	Aaa
First Rand	80	80	ZAR	none	P-3/Baa3
Investec Bank	104	104	ZAR	none	P-3/Baa3
NedBank	28	28	ZAR	none	P-3/Baa3
SIRESS	1 242	1 242	ZAR	none	P-3/Baa3
South African Reserve Bank	1 062 568	1 062 568	ZAR	none	P-3/Baa3
Special Rand Deposit	5 000	5 000	ZAR	none	P-3/Baa3
Standard Bank	152	152	ZAR	none	P-3/Baa3
Standard Chartered Botswana	184	184	BWP	none	A2
Standard Chartered London	1 238	1 238	GBP	none	P1/A1
Union Bank of Switzerland	3 888	3 888	CHF	none	P-1/Aa2
International Monetary Fund	437 554	437 554	ZAR	none	Supranational
	1 591 333	**1 591 333**			

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39. Risk management (continued)

Fixed deposits	**Carrying amount M '000**	**Maximum exposure M '000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	300 000	300 000	ZAR	none	P-3/Baa3
African Import-Export Bank	475 144	475 144	GBP	none	P-2/Baa1
FEDRES	136 468	136 468	USD	none	Aaa
Firstrand	300 000	300 000	ZAR	none	P-3/Baa3
ICBC ASIA	404 370	404 370	USD	none	P1/A1
Investec	379 638	379 638	ZAR	none	P-3/Baa3
NedBank	343 410	343 410	ZAR	none	P-3/BAA8
Standard Bank	450 000	450 000	ZAR	none	P-3/BAA9
Standard Chartered London	143 651	143 651	GBP	none	P1/A1
Standard Bank PLC	809 518	809 518	USD	none	P-3/Baa3
Standard Bank PLC	350 000	350 000	ZAR	none	P-3/Baa3
	4 092 199	**4 092 199**			

Accrued interest due from Banks	**Carrying amount M '000**	**Maximum exposure M '000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	2 277	2 277	ZAR	none	P-3/Baa3
African Import-Export Bank	592	592	USD	none	P-2/Baa1
Firstrand	2 822	2 822	ZAR	none	P-3/BAA9
ICBC ASIA	538	538	ZAR	none	P-2/Baa3
Investec	5 190	5 190	ZAR	none	P-3/Baa3
NedBank	3 895	3 895	ZAR	none	P-3/Baa3
Special Rand Deposit	100	100	ZAR	none	P-3/Baa3
Standard Bank	5 229	5 229	ZAR	none	P-3/BAA19
Standard Chartered London	183	183	USD	none	P-1/A1
Standard Bank PLC	2 471	2 471	USD	none	P-2/Baa3
Standard Bank PLC	1 417	1 417	ZAR	none	P-2/Baa2
	24 714	**24 714**			

Treasury bills	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Federal Reserve Bank of New York	71 603	71 603	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	1 467 659	1 467 659	ZAR	none	P-3/Baa3
United States-BIS	750 487	750 487	USD	none	Aaa
United States-RAMP	1 487 239	1 487 239	USD	none	Aaa
United States	327 779	327 779	USD	none	Aaa
	4 033 164	**4 033 164**			

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39. Risk management (continued)

Loans to staff	Carrying amount M '000	Maximum e xposure M '000	Held in Denomination	Type of collateral held	Credit rating
Housing Loans	42 038	42 038	LSL	Title deeds	n/a
Car loans	26 179	26 179	LSL	Terminal benefits	n/a
Furniture loans	1 408	1 408	LSL	Terminal benefits	n/a
Other loans and advances	26 285	26 285	LSL	Terminal benefits	n/a
	95 910	**95 910**			

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.

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.

P-3 - Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.

Credit quality per class of financial assets 2019	Stage 1 M'000	Stage 2 M'000	Total
Treasury notes and bonds	1 466 033	-	1 466 033
FVOCI Instruments	1 466 033	-	1 466 033
	-	-	-

	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total
Cash and cash equivalents	4 400 147	-	-	4 400 147
Deposit Floaters	2 020 209	-	-	2 020 209
Accrued interest due from Banks	39 173	-	-	39 173
Treasury bills at amortised cost	69 194	-	-	69 194
IMF Subscription Account	1 357 310	-	-	1 357 310
IMF Holding of Special Drawing Rights	226 909	-	-	226 909
IMF Funded PRGF Advances	475 535	-	-	475 535
Lesotho Government Securities	521	-	-	521
Loans and advances	108 898	-	-	108 898
Instruments at amortised cost	8 697 896	-	-	8 697 896
Balance as at 31 December 2019	**10 163 929**	**-**	**-**	**10 163 929**

39. Risk management (continued)

Credit quality per class of financial assets 2018	**Stage 1 M'000**	**Stage 2 M'000**	**Stage 3 M'000**	**Total**
Treasury notes and bonds	1 795 438	-	-	1 795 438
FVOCI Instruments	1 795 438	-	-	1 795 438
	-	**-**	**-**	**-**

	Stage 1 M'000	**Stage 2 M'000**	**Stage 3 M'000**	**Total**
Cash and cash equivalents	3 746 860	-	-	3 746 860
Deposit Floaters	1 660 953	-	-	1 660 953
Accrued interest due from Banks	24 714	-	-	24 714
Treasury bills at amortised cost	71 603	-	-	71 603
IMF Subscription Account	1 397 173	-	-	1 397 173
IMF Holding of Special Drawing Rights	437 554	-	-	437 554
IMF Funded PRGF Advances	692 091	-	-	692 091
Lesotho Government Securities	524	-	-	524
Loans and advances	95 910	-	-	95 910
Instruments at amortised cost	8 127 382	-	-	8 127 382
Balance as at 31 December 2018	**9 922 820**	**-**	**-**	**9 922 820**

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

Expected credit loss per class of financial assets 2019	**Stage 1 M'000**	**Stage 1 12-month ECL M'000**	**Stage 2 M'000**	**Stage 3 M'000**	**Stage 3 Lifetime ECL M'000**	**Total ECL M'000**
FVOCI Instruments	1 466 033	14 530	-	-	-	14 530
Instruments at amortised cost	8 697 896	35 259	-	-	-	35 259
Balance as at 31 December 2019	10 163 929	49 789	-	-	-	49 789
	10 163 929	**49 789**	**-**	**-**	**-**	**49 789**

Expected credit loss per class of financial assets 2019	**Stage 1 M'000**	**Stage 1 12-month ECL M'000**	**Stage 2 M'000**	**Stage 3 M'000**	**Stage 3 Lifetime ECL M'000**	**Total ECL M'000**
FVOCI Instruments	1 795 438	21 783	-	-	-	21 783
Instruments at amortised cost	8 127 382	-	-	-	-	-
Balance as at 31 December 2019	9 922 820	21 783	-	-	-	21 783
	9 922 820	**21 783**	**-**	**-**	**-**	**21 783**

39. Risk management (continued)

Reconciliation of the expected credit loss allowance 2019	Stage 1 12- month ECL	Stage 2 Lifetime ECL M'000	Stage 3 Lifetime ECL M'000	Total
Balance as at 1 Jan 2019	21 783	-	-	21 783
Net charge for the yeart	28 006	-	-	28 006
Instruments at amortised cost	35 259	-	-	35 259
FVOCI Instruments	(7 253)	-	-	(7 253)
Balance as at 31 December 2019	**49 789**	**-**	**-**	**49 789**

Reconciliation of the expected credit loss allowance 2018	Stage 1 12- month ECL	Stage 2 Lifetime ECL M'000	Stage 3 Lifetime ECL M'000	Total
IFRS9 Transition adjustment	31 485	-	-	31 485
Net charge for the year	(9 702)	-	-	(9 702)
FVOCI Instruments	(9 702)	-	-	(9 702)
Balance as at 31 December 2018	**21 783**	**-**	**-**	**21 783**

Changes in the ECL are due to the movements in the probability of defaults. There were no movements between levels. There were no instruments written off as the bank does not have a history of writing off instruments. There were no modifications in cashflows that took place. There are no changes in estimation techniques. All the instruments are currently at stage 1.

Sensitivity Analysis for the year ended 31 December 2019

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.

Table 1 provides a comparative view of holdings in original currency, along with the closing foreign exchange rates for 2018 and 2019 financial years.

Table 2 translates the original currency holdings in Table 1 into the reporting currency (LSL).

Table 3 and 4 assume the impact of a 5 percent increase and decrease in the value of the exchange rate on the portfolio level for both years.

Data for currency and foreign investment risk (figures in original currencies)	31 December 2018		31 December 2018	
Currency ('000)	**Portfolio level**	**Exchange rate**	**Portfolio level**	**Exchange rate**
ZAR	6 922 284	1.00	4 840 033	1.00
USD	255 563	14.01	322 907	14.87
EUR	95	15.72	137	16.46
GBP	1 547	18.43	2 265	18.39
BWP	422	1.32	137	1.34
CHF	-	14.47	266	14.60
SDR	11 709	19.38	21 901	19.98

39. Risk management (continued)

Data for currency and foreign investment risk (figures in original currencies)	**31 December 2019**		**31 December 2018**	
Currency ('000)	**Portfolio level**	**Exchange rate**	**Portfolio level**	**Exchange rate**
ZAR	6 922 284	1.00	4 840 033	1.00
USD	255 563	14.01	322 907	14.87
EUR	95	15.72	137	16.46
GBP	1 547	18.43	2 265	18.39
BWP	422	1.32	137	1.34
CHF	-	14.47	266	14.60
SDR	11 709	19.38	21 901	19.98

Base case

Data for currency and foreign investment risk (figures in M '000)	**31 December 2019**		
Currency composition	**Portfolio level**	**Portfolio level in %**	**Exchange rate**
ZAR	6 922 284	64.35 %	1.00
USD	3 577 216	33.25 %	14.01
EUR	1 493	0.01 %	15.72
GBP	28 507	0.27 %	18.43
BWP	559	0.01 %	1.32
CHF	-	- %	14.47
SDR	226 909	2.11 %	19.37
	10 756 968	100 %	

Data for currency and foreign investment risk (figures in M '000)	**31 December 2018**		
Currency composition	**Portfolio level**	**Portfolio level in %**	**Exchange rate**
ZAR	4 840 033	48.57 %	1.00
USD	4 638 594	46.55 %	14.37
EUR	2 262	0.02 %	16.46
GBP	41 642	0.42 %	18.39
BWP	184	- %	1.34
CHF	3 888	0.04 %	14.60
SDR	437 554	4.39 %	19.98
	9 964 157	100 %	

5% decrease in exchange rate

Data for currency and foreign investment risk (figures in M'000)	**31 December 2019**			
Currency Composition	**Portfolio level**	**Portfolio level in %**	**Level Change**	**Exchange rate**
ZAR	6 922 284	63.22 %	-	1.0000
USD	3 756 076	34.31 %	(178 861)	14.7145
EUR	1 568	0.01 %	(75)	16.5031
GBP	29 932	0.27 %	(1 425)	19.3481
BWP	587	0.01 %	(28)	1.3905
SDR	238 255	2.18 %	(11 346)	20.3477
	10 948 702	**100 %**		

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39. Risk management (continued)

5% decrease in exchange rate **31 December 2019**
Data for currency and foreign investment risk
(figures in M '000)

Currency Composition	Portfolio level	Portfolio level in %	Level change	Exchange rate
ZAR	6 922 284	65.52 %	-	1.00
USD	3 398 355	32.17 %	178 861	13.31
EUR	1 418	0.01 %	75	14.93
GBP	27 081	0.26 %	1 425	17.51
BWP	531	0.01 %	28	1.26
SDR	215 564	2.04 %	11 345	18.41
	10 565 233	**100 %**		

% Change -1.78%

5% decrease in exchange rate **31 December 2018**
Data for currency and foreign investment risk
(figures in M '000)

Currency Composition	Portfolio level	Portfolio level in %	Level change	Exchange rate
ZAR	4 840 033	47.36 %	-	1.00
USD	4 870 524	47.66 %	(231 930)	15.08
EUR	2 375	0.02 %	(113)	17.28
GBP	43 724	0.43 %	(2 082)	19.31
BWP	193	- %	(9)	1.32
CHF	4 082	0.04 %	(194)	15.33
SDR	459 432	4.50 %	(21 878)	20.98
	10 220 363	**100 %**		

% Change 2.21%

5% decrease in exchange rate **31 December 2018**
Data for currency and foreign investment risk
(figures in M '000)

Currency	Portfolio level	Portfolio level in %	Level change	Exchange rate
ZAR	4 840 033	49.86 %	-	1.00
USD	4 406 664	45.39 %	231 930	13.65
EUR	2 149	0.02 %	113	15.63
GBP	39 560	0.41 %	2 082	17.47
BWP	175	- %	9	1.27
CHF	3 694	0.04 %	194	13.87
SDR	415 676	4.28 %	21 878	18.98
	9 707 951	**100 %**		

% Change -2.57%.

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.

39. Risk management (continued)

2019

Interest rates risk	Cash	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	2019	2019	2019	2019	2019	2019
	M '000	M '000	M '000	M '000	M '000	M '000
ZAR	178 387	4 999 744	-	1 397 763	351 389	6 927 283
USD	911	1 976 524	244 904	1 331 430	14 669	3 568 438
EUR	50	19 960	-	-	-	20 010
GBP	30	9 957	-	-	-	9 987
Other	-	227 468	-	-	-	227 468
	179 378	**7 233 653**	**244 904**	**2 729 193**	**366 058**	**10 753 186**

Base case yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	6.93 %	6.90 %	7.58 %	8.00 %
USD	2.04 %	2.04 %	2.87 %	- %
EUR	0.44 %	- %	- %	- %
GBP	0.76 %	- %	- %	- %

100 Basis points increase in yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	7.93 %	7.90 %	8.58 %	9.00 %
USD	3.04 %	3.04 %	3.87 %	1.00 %
EUR	0.56 %	- %	- %	- %
GBP	1.76 %	- %	- %	- %

100 Basis points decrease in yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	5.93 %	5.90 %	6.58 %	7.00 %
USD	1.04 %	1.04 %	1.87 %	- %

Nominal return in base case yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Nominal Income	% Change
	M '000	M '000	M '000	M '000	M '000	
ZAR	346 417	-	105 924	28 111		
USD	40 373	4 983	47 950	38 492		
EUR	(9)	-	-	-		
GBP	8	-	-	-	564	-

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39. Risk management (continued)

Nominal return in increasing yields	**0 to 6 Months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Nominal Income**	**% Change**
	M '000	**M '000**	**M '000**	**M '000**	**M '000**	
ZAR	396 415	-	119 902	31 625		
USD	60 138	7 433	51 894	51 894	147	
EUR	112	-	-	-		
GBP	175	-	-	-		
	-	-	-	-	668	18

Nominal return in decreasing yields	**0 to 6 Months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Nominal Income**	**% Change**
	M '000	**M '000**	**M '000**	**M '000**	**M '000**	
ZAR	296 420	-	91 945	24 597		
USD	20 608	2 535	25 090	-		
	-	-	-	-	461	(18)

Sensitivity: For a 1 percentage increase in yields, income increase by 18%
For a 1 percentage decrease in yields, income decreases by -18%

2018

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	147 917	3 224 450	-	1 373 840	93 820	4 840 027
USD	3 123	2 267 370	261 720	2 106 380	-	4 638 593
EUR	86	2 175	-	-	-	2 261
GBP	17	41 625	-	-	-	41 642
Other	-	441 630	-	-	-	441 630
	151 143	**5 977 250**	**261 720**	**3 480 220**	**93 820**	**9 964 153**

Base case yields	**0 to 6 Months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**
ZAR	6.91 %	7.32 %	7.40 %	8.00 %
USD	2.14 %	1.63 %	2.27 %	- %
EUR	(0.42) %	- %	- %	- %
GBP	0.73 %	- %	- %	- %

100 Basis points increase in yields	0 to 6 Months	6 months to 1 year	**1 year to 5 years**	**More than 5 years**
ZAR	7.91 %	8.32 %	8.40 %	9.00 %
USD	3.14 %	2.59 %	3.27 %	1.00 %
EUR	0.58 %	- %	- %	- %
GBP	1.73 %	- %	- %	- %

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39. Risk management (continued)

100 Basis points increase in yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	5.91 %	6.32 %	6.40 %	7.00 %
USD	1.14 %	0.59 %	1.27 %	- %

Nominal return in base case yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Nominal Income	% Change
	M'000	M'000	M'000	M'000		
ZAR	222 770	-	101 660	7 514		
USD	48 420	4 230	47 950	-		
EUR	(9)	-	-	-		
GBP	305	-	-	-		
Other	0	-	-	-		
					433	-

Nominal return in increasing yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Nominal Income	% Change
	M'000	M'000	M'000	M'000		
ZAR	255 020	-	115 400	8 400		
USD	71 090	6 820	69 030		-	
GBP	10	-	-	-	-	
	720	-	-		527	22

Nominal return in decreasing yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Nominal Income	% Change
	M'000	M'000	M'000	M'000		
ZAR	190 530	-	87 930	6 570		
USD	25 740,00	1 630	26 860	-		
	-	-	-	-	309	(22)

Sensitivity: For a 1 percentage increase in yields, income increases by 22%

For a 1 percentage decrease in yields, income decreases by -22%

39. Risk management (continued)

Liquidity risk

The table below summarizes the remaining contractual maturities of the Bank's financial assets based on un-discounted cash flows (excluding loans to staff and expected interest cashflows from bonds):

2019

	Redeemable on demand	Maturing within 1 month	Maturing after 1 but within 6 months	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	M'000
Cash and balances with banks	2 361 601	1 914 468	1 622 527	710 209	-	-	6 608 805
Accrued interest due from Banks	101	39 544	57 132	16 369	-	-	113 146
Expected interest cashflows from Bonds	-	17 294	58 317	67 441	325 291	94 000	562 343
Treasury Notes, Bonds and Unit Trust	1 466 033	207 017	91 163	56 176	1 528 171	336 025	3 684 585
IMF accounts	2 526 818	-	-	-	-	-	2 526 818
Lesotho Government Securities	521	-	-	-	-	-	521
Loans to staff	-	-	-	-	53 872	42 038	95 910
Investment in SWIFT	399	-	-	-	-	-	399
Total Financial Assets	**6 355 473**	**2 178 323**	**1 829 139**	**850 195**	**1 907 334**	**472 063**	**13 592 527**
Financial liabilities							
Notes & coins issued	1 518 979	-	-	-	-	-	1 518 979
Deposits	342 136	-	-	-	-	-	342 136
Lesotho Government Deposits	2 751 480	-	-	-	-	-	2 751 480
IMF Accounts	2 494 433	-	-	-	-	-	2 494 433
Total Financial liabilities	**7 107 028**	**-**	**-**	**-**	**-**	**-**	**7 107 028**
Net liquidity gap	**(751 555)**	**2 178 323**	**1 829 139**	**850 195**	**1 907 334**	**472 063**	**6 485 499**

39. Risk management (continued)

2018

	Redeemable on demand	Maturing within 1 month	Maturing after 1 but within 6 months	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**	**M'000**
Cash and balances with banks	1 315 614	2 924 778	643 651	523 770	-	-	5 407 813
Accrued interest due from Banks	675	22 091	1 948	-	-	-	24 714
Expected interest cashflows from Bonds	-	458	1 774	3 154	194 264	45 778	245 428
Treasury Notes, Bonds and Unit Trust	775 360	65 945	216 480	246 148	2 687 665	91 387	4 082 985
IMF accounts	2 526 818	-	-	-	-	-	2 526 818
Lesotho Government Securities	524	-	-	-	-	-	524
Loans to staff	-	-	-	-	53 872	42 038	95 910
Investment in SWIFT	399	-	-	-	-	-	399
Total Financial Assets	**4 619 390**	**3 013 272**	**863 853**	**773 072**	**2 935 801**	**179 203**	**12 384 591**
Financial liabilities							
Notes & coins issued	1 518 979	-	-	-	-	-	1 518 979
Deposits	342 136	-	-	-	-	-	342 136
Lesotho Government Deposits	2 751 480	-	-	-	-	-	2 751 480
IMF Accounts	2 494 433	-	-	-	-	-	2 494 433
Total Financial liabilities	**7 107 028**	**-**	**-**	**-**	**-**	**-**	**7 107 028**
Net liquidity gap	**(2 487 638)**	**3 013 272**	**863 853**	**773 072**	**2 935 801**	**179 203**	**5 277 563**

39. Risk management (continued)

Price risk

The Bank is exposed to bond securities price risk because of investment held by the Bank which are classified on the statement of financial position either as financial assets at fair vaule through other comprehensive income or as financial assets at fair value through profit and loss. The Bank's exposure to bond securities price risk is limited to the bond share prices in the portfolio.

The table below summarises the impact of increase/ (decrease) of the bond share prices. The analysis is based on the assumption that the bond share prices had increased/(decreased) by 10% with all other variables held constant.

	2019	2018
	M'000	M'000
10% increase	385 724	326 090
10% decrease	(385 724)	(326 090)

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	Notes	2019 M'000	2018 M'000
40. Fair value information			
Levels of fair value measurements			
Level 1			
Fair value through profit or loss			
Treasury notes and bonds		1 474 911	1 487 227
Financial assets at fair value through OCI:			
Treasury notes and bonds		2 382 325	1 773 668
		3 857 236	**3 260 895**

All other financial instruments where fair value disclosure is required are considered to be level 2. All other non financial assets which are measured at fair value are considered to be level 3. The land and buildings have in previous years been revalued based on the open market value of the property which is defined under the International Assets Valuation Standards Committee as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing. The market value is estimated through the application of valuation methods and procedures that reflect the nature of the property. The most common methodologies which the valuer has used include the Sales Comparison Method the Capitalized Earnings of Discounted Cash flow and the cost method.

Levels of fair value measurements

Level 2

Assets	Note(s)		
Items measured at armortised cost			
Cash		4 364 888	3 746 860
Deposit Floaters		2 020 209	1 660 953
Unit trusts		-	750 487
Treasury bills		69 194	71 603
Total financial assets designated at fair value through profit (loss)		**6 454 291**	**6 229 903**
		-	-

Non recurring fair value measurements

Financial liabilities at armortised cost			
Notes and coins in circulation		1 612 878	1 520 217
Deposits		538 418	342 136
Lesotho Government deposits		3 715 382	3 371 412
IMF accounts		1 748 203	1 802 342
Total other		**7 614 881**	**7 036 107**
Total		-	-

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		2019	2018
		M'000	M'000

40. Fair value information (continued)

The fair value of financial instruments that are not traded in an active market as they do not have a regular market pricing although a fair value can be determined for them. Level 2 asset values can be closely approximated using observable prices as inputs such as interest rates and yield curves.

Level 3

Recurring fair value measurements

Assets	Note(s)	2019	2018
Financial assets			
Investment in SWIFT		399	399
Non-financial assets	16		
Property, plant and equipment		397 232	243 278
Total		**397 631**	**243 278**

Information about valuation techniques and inputs used to derive level 3 fair values

The fair value of land and buildings is determined by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of property being values. The valuation company provides the fair value of the Bank's property.

Inputs into the valuation:

Commercial buildings

The Bank uses the price per square meter to determine the value of the buildings:
M14,259

Residential buildings

The Bank uses the estimated rental for vacant land:
M387,750

Should the price decrease this would decrease the Property revaluation reserve and should the price increase there would be a corresponding increase to the Property revaluation reserve.

41. 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:

	Notes	2019 M'000	2018 M'000
41. Memorandum Accounts (continued)			
Amounts in USD			
Deutsche Bank Trust Company America		17 000 000	14 846 277
Amounts in Euro			
Deutsche Bundesbank		2 817 241	653 118

As per the Bank's accounting policy in 1.27 these amounts have not been recorded on the Balance Sheet.

42. Events after the reporting period

On 27 March 2020 the South African government credit rating was downgraded to below investment grade. The impact of this will be noted in the ECL as the exposures would then be classified as Level 2 and a lifetime ECL will then be raised.

Coronavirus Disease (COVID-19) erupted in China around late 2019. Cases around the globe have been increasing exponentially, with confirmed cases approaching half a million (462 684) and related deaths recorded at over 20 thousand as per World Health Organisation (WHO) figures dated 26 March 2020. In the final weeks of February and beginning of March, Europe was the epicentre of the pandemic, with Italy being the most hit as it registered over 50% of global cases. However, almost one month later, (March 27) the United States had surpassed both China and Italy with over 86000 confirmed cases. The African region has the lowest confirmed cases due to limited testing kits, but South Africa's cases are increasing significantly, as they intensify the testing.

COVID-19 has both social and economic implications. Most the economies around the world are under complete lockdown in order to slow the spread of the infectious COVID-19. Some have restrictions on maximum number of people allowed for gathering and the extreme case is that of Germany which prohibits meeting between more than 2 people if they are not family or leaving together. It will most likely lead to global recession and massive job losses.

This piece attempts to assess the impact of the COVID-19 on our portfolio. The portfolio is comprised of long-term investments (bonds) and short-term investments (term deposits) and are categorized by tranches.

IMPACT ON INVESTMENT TRANCHE

The effects on bond portfolio are mixed, depending on the jurisdiction of the investments as exposure is in both South Africa (SA) and United States of America's (US) markets. Since yields are inversely related to bond prices, U.S. bond portfolio realised positive returns during the coronavirus period as yields dropped to record lows in anticipation of Fed rate cuts on the short end of the curve. The SA bond portfolio, on the other hand, realized negative returns due to increasing yields, an indication of the level of perceived risk by investors. The performance of the investment tranche is dependent on the interventions of government and monetary authorities through monetary and fiscal stimulus.

COVID-19 has resulted in increased volatility to levels higher than those seen during the 2008 global financial crises. Increased volatility leads to sharp price movements of instruments, which therefore affects liquidity (trading volumes) as bid/ask spreads widen. During these periods, Central Banks' interventions such as cheap loans to commercial banks, purchases of bonds, etc. are expected to assist to restore liquidity in the markets. It is therefore not surprising that, the week March 27 has been the best for most assets classes including bonds for the whole of March following stimulus put in place by both major monetary authorities and governments around the world.

Worth noting is the fact that the biggest losses on the portfolio will be unrealized losses due to uncertainty in the markets, which in turn will affect bond prices, but consistent support from the government and central banks will minimise or reverse the losses over time. Realize losses will, on the other hand, be recorded only if portfolio managers attempt to sell off their portfolio during this time when bond prices are at their lowest.

IMPACT ON MONEY-MARKETS (SHORT-INVESTMENTS)

Money markets instrument are perceived to be relatively low risk in nature and highly liquid. They include bank deposits and short debt instruments. This does not mean they are risk free, so the major concern is counterparty and reinvestment risk.

	2019	2018
	M'000	M'000

42. Events after the reporting period

Reinvestment Risk

Reinvestment risk is the risk of investing maturing funds at lower interest rate and getting lower yield than on the maturing investment. Consequently, money markets are most profitable in an environment where interest rates are increasing. COVID-19 spread led to lower interest rates across the globe as central banks cut rates to stimulate economy in an effort to reduce economic impact. Reinvestment risk was elevated during the coronavirus era since all maturing investments have to be reinvested at relatively lower interest rates; hence lower revenue.

Counterparty Risk (Credit risk)

Counterparty credit risk is the risk of the borrower not honouring contractual obligations when they fall due, either capital or interest. Understanding and managing counterparty risk is vital to avoid capital losses. The counterparts are domiciled in different countries across the globe with South African banks holding larger chunk of our deposits. Despite the low rating of South African banks, they appear to be fundamentally strong as the big four banks (ABSA, Nedbank, Standard Bank and First National bank (FNB)) have strong balance sheets. They also meet the prudential liquidity requirements of the Reserve Bank. Standard bank, FNB and Nedbank announced relief (loan payments holiday) to small businesses and students affected by the coronavirus, which illustrates that they are liquid enough to survive without some loans being paid for 3 months.

Other counterparts are highly rated institutions with strong balance sheets. The Impact of coronavirus on different economies include massive job losses and collapse of other companies (e.g. airlines). Governments in major economies are ready to intervene in any way to reduce the impact on local companies, while central banks have put aside funds to increase liquidity through cheap lending in the short- term. There is minimal chances of losing capital but revenue generation remains the biggest risk.

CONCLUSION

The impact of coronavirus can be devastating if the virus is not contained for extended periods of time, with major economies due to be affected due to extended lockdowns and falling global demand. The fact that China was able to contain the virus, we are hopeful that other nations will deploy all necessary measures to minimize the damage on global financial markets. Considering the nature of the Central Bank of Lesotho's portfolio (sovereign bonds and money markets), it is less likely to lose capital due to the nature of the asset classes. However, emphasis remains on the Bank's ability to make available necessary liquidity to finance obligations and to a lesser extent, generating returns. It is this last objective where the greatest risk lies, where due to low interest rates and high volatility, revenue is likely to drop below the projected levels.

43. Reclassifications

The classification of the Bank's cash and cash equivalents has been reconsidered, resulting in the reclassification of deposit floaters with original maturities of three months or more as defined in IAS 7, Statement of Cash Flows out of cash and cash equivalents. These instruments had previously been treated as cash and cash equivalents due to the fact that interest was resetting every three months though it was considered insignificant. The instruments were acquired during 2017. The reclassification of financial information has resulted in the comparative being restated for years ended 31 December 2017 and 31 December 2018.

Summarised Statement of financial position 2018	**Notes**	**As at 31 December 2018**	**Reclasification**	**As at 31 December 2018 (restate d)**
Cash and cash equivalents	2	5 407 813	(1 660 953)	3 746 860
Deposit Floaters	3	-	1 660 953	-
Subtotal	-	5 407 813	-	3 746 860
	-	**5 407 813**	**-**	**3 746 860**

	2019	2018
	M'000	M'000

43. Reclassifications

The classification of the Bank's cash and cash equivalents has been reconsidered, resulting in the reclassification of deposit floaters with original maturities of three months or more as defined in IAS 7, Statement of Cash Flows out of cash and cash equivalents. These instruments had previously been treated as cash and cash equivalents due to the fact that interest was resetting every three months though it was considered insignificant. The instruments were acquired during 2017. The reclassification of financial information has resulted in the comparative being restated for years ended 31 December 2017 and 31 December 2018.

Summarised Statement of financial position 2017	**Notes**	**As at 31 December 2017**	**Reclasification**	**As at 31 December 2017 (restate d)**
Cash and cash equivalents	2	4 778 747	(650 000)	4 128 747
Deposit Floaters	3	-	650 000	-
Subtotal	-	4 778 747	-	4 128 747
	-	**4 778 747**	**-**	**4 128 747**

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