



Central Bank of Lesotho  
Financial Statements  
for the year ended December 31, 2015

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## General Information

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<b>Nature of business and principal activities</b>	Statutory body duly continuing in existence in terms of the Central Bank of Lesotho Act No. 2 of 2000
<b>Registered office</b>	Cnr Airport & Moshoeshoe Roads Maseru 100 Lesotho
<b>Postal address</b>	P.O. Box 1184 Maseru 100 Lesotho
<b>Auditors</b>	Deloitte & Touche and LETACC
<b>Secretary</b>	Mr. N. Rantsane (Adv.)
<b>Lawyer</b>	Webber & Newdigate

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

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## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Corporate Governance Report

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

#### Report for the year

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

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

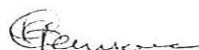
The Board is collectively responsible for the execution of the mandate of the Bank as enshrined in the Central Bank of Lesotho Act No.2 of 2000 (the Act). The Board sets the Bank's Strategy, oversees management, and provides leadership for the successful execution of the statutory mandate and for the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

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

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

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

In line with Section 13 (2) of the Act, which requires the Board to meet as frequently as possible and not less than once in two months, the Board of Directors convened nine (9) meetings during the 2015 financial period.



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Mr N Rantsane

Director of Corporate Affairs

Secretary to the Board

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Directors' Responsibilities and Approval

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The directors are required in terms of the Central Bank of Lesotho Act No.2 of 2000 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Bank at the end of the financial year and the results of its operations and cash flows for the year ended December 31, 2015, in conformity with the Central Bank of Lesotho Act No.2 of 2000 and according to the policies set in note 1 of the annual financial statements. The external auditors are engaged to express an independent opinion on the annual financial statements.

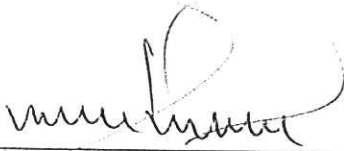
The annual financial statements are prepared in accordance with the Central Bank of Lesotho Act No.2 of 2000 and according to the policies set in note 1 of the annual financial statements and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements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

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

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

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

The annual financial statements were approved by the Board of Directors on March 29, 2016 and are signed on its behalf by:



Dr. R.A. Matlanyane  
Governor



Mr S. Malebanye  
Director

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF CENTRAL BANK OF LESOTHO

#### Report on the Annual Financial Statements

We have audited the financial statements of the Central Bank of Lesotho, set out on pages 8 to 52 which comprise the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

#### Directors' Responsibility for the Financial Statements

The Bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the accounting policies described in note 1 to the financial statements and the requirements of the Central Bank of Lesotho Act No. 2 of 2000, 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.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

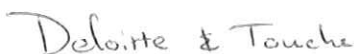
#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Central Bank of Lesotho as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in note 1 to the financial statements and the requirements of the Central Bank of Lesotho Act No. 2 of 2000.

#### Report on Other Legal and Regulatory Requirements

The annual financial statements have been prepared in accordance with the requirements of the Central Bank of Lesotho Act No. 2 of 2000 and in compliance with the Income Tax Order of 1993 and Value Added Tax number 9 of 2001, in all material respects.

As part of our audit of the financial statements for the year ended 31 December 2015, we have read the Directors' Report for the purpose of identifying whether there are material inconsistencies between this report and the financial statements. The Directors' Report is the responsibility of the directors. Based on reading this report we have not identified material inconsistencies between the report and the audited financial statements. However, we have not audited this report and accordingly do not express an opinion on it.



Deloitte & Touche  
Registered Auditors  
Per Stephen Munro  
Partner  
29 March 2016



LETACC  
Firm of Chartered Accountants and Auditors  
Per Letuka Sephelane  
Partner  
29 March 2016

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Directors' Report

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The Directors present their annual report, which forms part of the audited annual financial statements of the Central Bank of Lesotho, for the year ended December 31 2015. The annual financial statements are expressed in Maloti, the national currency of Lesotho and the functional currency of the Bank that is at par with South African Rand.

### 1. Review of activities

#### Nature of business

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

#### Financial results

The Bank has chosen to use International Financial Reporting Standards (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.

The financial results of the Bank are set out in the statement of profit or loss and other comprehensive income on page 9. The residual profits, after a transfer of the foreign exchange currency translation to the designated foreign currency translation reserves, and after appropriations have been allocated to the general and other reserves, are paid over to the Government of Lesotho Consolidated Fund as dividends in accordance with Section 21(5) of the Act. These appropriations have been fully disclosed in the statement of changes in equity on page 10. Amounts paid and due in terms of the Act were as follows:

	<b>M '000</b>
31 December 2015	184,232
31 December 2014	131,166

### 2. Amounts due to Government of Lesotho

Amounts payable 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 8.

### 3. Share capital

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

### 4. Directors

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

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

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Directors' Report

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#### 5. Secretary

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

Mr N. Rantsane (Adv.) who was previously acting as the Board Secretary since June 2014 was officially appointed in March 2015.

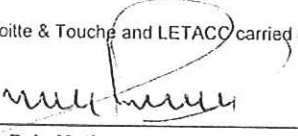
#### 6. Events subsequent to balance sheet date

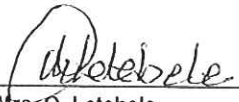
Effective January 1, 2016, the Lehakoe Recreation and Cultural Centre Operations (Clubhouse and Gymnasium) were transferred to a separate company, which is wholly owned by the Bank. The Bank has also appointed an external service provider to manage these operations. These operations were considered not significant to the overall operations of the Bank.

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

#### 7. Auditors

Deloitte & Touche and LETACO carried out the statutory audit of the Bank.

  
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Dr. R.A. Matlanyane  
Governor

  
\_\_\_\_\_  
Mrs. O. Letebele  
Director

29-March-2016



# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Statement of Financial Position

	Notes	2015 M '000	2014 M '000
<b>Assets</b>			
Cash and balances with Banks	2	7,709,255	6,821,883
Accrued interest due from Banks	3	8,189	8,588
Investment in unit trust	4	795,293	585,415
Investment in SWIFT	5	847	-
Treasury notes and bonds	6	4,353,916	4,027,479
IMF Subscription Account	7	751,788	585,573
IMF Holding of Special Drawing Rights (SDR)	8	984,665	779,925
IMF Funded PRGF Advances	9	1,073,290	849,081
Lesotho Government Securities	10	336	582
Deferred currency expenditure	11	29,275	26,187
Loans to Staff	12	69,457	60,831
Other assets	13	14,644	14,410
Property, plant and equipment	14	423,386	282,492
Intangible assets	15	14,505	1,692
Deferred taxation	25	4,887	-
<b>Total Assets</b>		<b>16,233,733</b>	<b>14,044,138</b>
<b>Equity and Liabilities</b>			
<b>Liabilities</b>			
Notes and coins issued	16	1,324,805	1,165,737
Deposits	17	555,803	906,030
Lesotho Government Deposits		6,408,528	6,007,398
IMF Maloti Currency Holding	18	669,138	521,617
IMF Special Drawing Rights Allocation	19	708,236	551,998
IMF-PRGF Facility	20	1,073,290	849,081
Taxation payable	21	27,569	15,335
Due to Government of Lesotho Consolidated Fund	22	184,232	131,166
Other liabilities	23	78,140	82,702
Long-term employee benefit obligation	24	94,263	83,252
Deferred taxation	25	-	1,346
<b>Total Liabilities</b>		<b>11,124,004</b>	<b>10,315,662</b>
<b>Equity</b>			
Share capital	26	100,000	100,000
General reserve		253,402	216,555
Rand compensatory reserve		505,660	459,326
SDR revaluation reserve		145,443	78,246
Foreign exchange revaluation reserve		4,070,690	2,762,585
Property revaluation reserve		129,082	119,543
Bond /Unit trust revaluation reserve		(94,548)	(7,779)
		<b>5,109,729</b>	<b>3,728,476</b>
<b>Total Equity and Liabilities</b>		<b>16,233,733</b>	<b>14,044,138</b>

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Statement of Profit or Loss and Other Comprehensive Income

	Notes	2015 M '000	2014 M '000
Interest income	27	552,065	467,935
Interest expense	28	(6,121)	(5,210)
<b>Net interest income</b>		<b>545,944</b>	<b>462,725</b>
Other income	29	38,455	25,176
Revaluation gain on foreign exchange activities		1,375,302	354,760
<b>Operating profit</b>		<b>1,959,701</b>	<b>842,661</b>
Operating expenses	30	(266,261)	(261,420)
<b>Profit before taxation</b>		<b>1,693,440</b>	<b>581,241</b>
Taxation	31	(84,748)	(53,793)
<b>Profit for the year</b>		<b>1,608,692</b>	<b>527,448</b>
<b>Other comprehensive income:</b>			
<b>Bond/ unit trusts fair values</b>			
Decrease in bond/unit trusts fair values		(115,692)	(4,040)
Tax effect		28,923	1,010
Net movement		(86,769)	(3,030)
<b>Property revaluation reserve</b>			
Increase in property revaluations		27,719	22,467
Tax effect		(6,930)	(5,617)
Tax effect adjustment	25	(11,250)	-
Net movement		9,539	16,850
<b>Rand compensatory reserve</b>			
Increase in reserve		46,334	42,575
Tax effect		-	-
Net movement		46,334	42,575
<b>Actuarial gains and losses on employee benefits</b>			
Actuarial (loss)/ gain for the year		(16,415)	(20,386)
Tax effect		4,104	5,097
Net movement		(12,311)	(15,289)
<b>Other comprehensive(loss)/ income for the year net of taxation</b>		<b>(43,207)</b>	<b>41,106</b>
<b>Total comprehensive income</b>		<b>1,565,485</b>	<b>568,554</b>

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### 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
<b>Balance at January 01, 2014</b>	100,000	190,322	416,751	67,722	2,418,349	102,693	(4,749)	-	3,291,088
Profit for the year	-	-	-	-	-	-	-	527,448	527,448
Transfer of foreign exchange	-	-	-	10,524	344,236	-	-	(354,760)	-
Decrease in bond/unit trust fair values	-	-	-	-	-	-	(3,030)	-	(3,030)
Asset revaluations for the year	-	-	-	-	-	16,850	-	-	16,850
Rand compensatory receipts	-	-	42,575	-	-	-	-	-	42,575
Actuarial fair value loss	-	-	-	-	-	-	-	(15,289)	(15,289)
Transfer to general reserve	-	26,233	-	-	-	-	-	(26,233)	-
Dividends	-	-	-	-	-	-	-	(131,166)	(131,166)
<b>Total changes</b>	-	26,233	42,575	10,524	344,236	16,850	(3,030)	-	437,388
<b>Balance at January 01, 2015</b>	100,000	216,555	459,326	78,246	2,762,585	119,543	(7,779)	-	3,728,476
Profit for the year	-	-	-	-	-	-	-	1,608,692	1,608,692
Transfer of foreign exchange translation to designated reserve	-	-	-	67,197	1,308,105	-	-	(1,375,302)	-
Decrease in bond/unit trust fair values	-	-	-	-	-	-	(86,769)	-	(86,769)
Asset revaluation for the year	-	-	-	-	-	9,539	-	-	9,539
Rand compensatory receipts	-	-	46,334	-	-	-	-	-	46,334
Actuarial fair value loss	-	-	-	-	-	-	-	(12,311)	(12,311)
Transfer to general reserve	-	36,847	-	-	-	-	-	(36,847)	-
Dividends	-	-	-	-	-	-	-	(184,232)	(184,232)
<b>Total Changes</b>	-	36,847	46,334	67,197	1,308,105	9,539	(86,769)	-	1,381,253
<b>Balance at December 31, 2015</b>	100,000	253,402	505,660	145,443	4,070,690	129,082	(94,548)	-	5,109,729

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Statement of Cash Flows

	Note(s)	2015 M '000	2014 M '000
<b>Cash flows from operating activities</b>			
Cash generated from operations	32	1,024,344	1,078,503
Interest income	27	552,065	467,935
Interest expense	28	(6,121)	(5,210)
Tax paid	21	(61,919)	(46,014)
Rand compensatory reserve		46,334	42,575
Payments to Government of Lesotho Consolidated Fund	22	(131,166)	(105,847)
<b>Net cash from operating activities</b>		<b>1,423,537</b>	<b>1,431,942</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	14	(146,068)	(36,023)
Sale of property, plant and equipment	14&29	1,713	759
(Increase) in deferred currency expenditure	11	(3,088)	(26,187)
Purchase of intangible assets	15	(2,014)	(737)
(Increase)/decrease in other assets	13	(233)	18,874
(Increase)/Decrease in loans to staff	12	(8,627)	(10,024)
(Increase)/Decrease in Lesotho Government Securities	10	246	(546)
(Increase)/Decrease in Treasury notes, bonds and unit trust		(536,315)	125,860
Increase in SWIFT		(847)	-
<b>Net cash from investing activities</b>		<b>(695,233)</b>	<b>71,976</b>
<b>Cash flows from financing activities</b>			
Movements in notes and coins	16	159,068	(33,885)
<b>Total cash movement for the year</b>		<b>887,372</b>	<b>1,470,033</b>
Cash at the beginning of the year		6,821,883	5,351,850
<b>Total cash at end of the year</b>	2	<b>7,709,255</b>	<b>6,821,883</b>

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Accounting Policies

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

### 1. Presentation of financial statements

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

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

#### 1.1 Property, plant and equipment

##### Owner-occupied properties

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

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

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

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

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

The most recent independent valuation for Buildings was performed for the year ended December 2015. All other items of property, plant and equipment were last valued at 31 December 2010 as they are not considered material

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

Item	Rates
Buildings	1,5%
Housing furniture	10%
Office furniture	10%
Motor vehicles	25%
IT equipment	20%
Office and sports equipment	20%
Housing equipment	20%
Security equipment	20%

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

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

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

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

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

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Accounting Policies

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### 1.2 Intangible assets

#### *Computer software*

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

### 1.3 Financial instruments

#### Classification

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. Subsequent to initial recognition these assets are measured at fair value.

#### (b) Loans and receivables

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

#### (c) Available-for-sale financial assets

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

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

#### (d) Held-to-maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after the financial year end date. These are classified as non-current assets.

#### Initial recognition and measurement

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

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

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on nonmonetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss as 'gains and losses from investment securities'.

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Accounting Policies

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### 1.3 Financial instruments (continued)

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

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

#### Offsetting financial instruments

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

#### Impairment of financial assets

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

#### Available-for-sale financial assets

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

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

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

#### Financial assets carried at amortised cost

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

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

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

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

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

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Accounting Policies

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### 1.3 Financial instruments (continued)

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

#### Financial liabilities measured at amortised cost

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

#### Cash and cash equivalents

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

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

### 1.4 Current and deferred income tax

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

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

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

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

#### Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

### 1.5 Leases

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



# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Accounting Policies

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### 1.5 Leases (continued)

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

### 1.6 Non-current assets held for sale

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

### 1.7 Share capital

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

(b) *Dividends on ordinary shares*

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

### 1.8 Employee benefits

#### (a) Post employment benefits

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

#### (b) Other long-term employee benefits

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

Long-term employee benefits include:

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

#### (c) Actuarial gains/losses

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

#### (d) Accrual for leave pay

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

### 1.9 Provisions

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

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 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.

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Accounting Policies

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### 1.9 Provisions (continued)

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

### 1.10 Revenue

Revenue is derived substantially from the business of banker to the Government of Lesotho and related activities and comprises net interest income and non-interest revenue.

Interest income and expenses are recognised in the statement of profit and loss and other comprehensive income for all interest-bearing instruments on an accrual basis using the effective interest rate method. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount on the financial statements. Direct incremental transaction costs incurred and origination fees received as a result of bringing margin-yielding assets on statement of financial position, are capitalised to the carrying amount of financial instruments (excluding financial instruments at fair value through profit and loss) and amortised through interest income over the useful life of the asset.

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. Dividends received on lending activities are included in interest income.

#### *Non-interest revenue*

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

### 1.11 Borrowings

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

### 1.12 Translation of foreign currencies

#### (a) Functional and presentation

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

#### (b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit and loss and other comprehensive income within interest income. All other foreign exchange gains and losses are presented within other income/expenses.

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

Translation differences on non-monetary items, such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity through other comprehensive income.

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Accounting Policies

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### 1.13 Impairment of non-financial assets

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

### 1.14 Claims on staff

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

### 1.15 Deferred currency expenditure

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

### 1.16 Dividend distribution

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

### 1.17 Notes and coins

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

### 1.18 IMF Holding of Special Drawing Rights and IMF subscription account

Upon joining the International Monetary Fund (IMF), Lesotho was allocated special drawing rights, currently the IMF subscription account, which holds Lesotho's subscription in IMF amounts to 34 900 000 units. The Central Bank of Lesotho administers the Special Drawing Rights (SDR) on behalf of the Government of Lesotho for the allocation in the financial records of the Bank.

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

### 1.19 IMF Funded PRGF Advances

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

### 1.20 Comparative figures

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

### 1.21 General Reserve

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

### 1.22 Rand Compensatory Reserve

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

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Accounting Policies

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#### 1.23 Foreign Exchange Revaluation Reserve Account

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

#### 1.24 SDR Revaluation Reserve

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

#### 1.25 Property Revaluation Reserve

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

#### 1.26 Bond/Unit Trust Revaluation Reserve

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

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Accounting Policies

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### 1.27 Financial Risk Management

#### Financial risk factors

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

#### (a) Market Risk

##### (i) Foreign Exchange Risk

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

In order to manage the foreign exchange risk exposure, the Bank holds functional currencies in which its obligations are denominated in the ratio of their historic cash flows. As of 31st December 2015, if the currency had weakened/strengthened by 5% against the functional currencies, the Bank's foreign assets would have been 1.93% 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.

As at 31 December 2015, if interest rates had fallen by 1%, the Bank's revenue would decline by 6%, based on the simulation performed. However, if rates had increased by 1%, revenue would increase by 8%.

#### (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 36 to 51.

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

### 1.28 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the Non-Interest Bearing Note of SDR 14,756,536 (2014: SDR15,013,764) issued by the Government of Lesotho (GOL) 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.

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Accounting Policies

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### 1.29 Critical accounting estimates and judgements

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

#### *Critical accounting estimates and assumptions*

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

#### *(a) Income taxes*

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

#### *(b) Employee benefits*

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

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

The assets and liabilities relating to the employees of the company cannot be separately determined and is therefore treated as defined contribution plan. Refer to further disclosure in note 24 and 34.

#### *(c) Fair values*

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

#### *i) Balances due to and from banks*

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

#### *ii) Loans and advances*

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

#### *iii) Investment securities*

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

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

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

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

	2015 M '000	2014 M '000
<b>2. Cash and balances with Banks</b>		
<b>Cash and cash equivalents</b>		
Foreign cash on hand	1,969	1,612
Rand currency holding	44,884	94,131
Cash in transit	26,900	19,230
<b>Total cash and cash equivalents</b>	<u>73,753</u>	<u>114,973</u>
<b>Current and Call Accounts:</b>		
Foreign Banks	116,740	57,019
South African Banks	4,410,205	3,739,047
<b>Total Current and Call Accounts</b>	<u>4,526,945</u>	<u>3,796,066</u>
Foreign Banks	1,749,645	1,723,275
South African Banks	1,358,912	1,187,569
<b>Total Fixed deposits (with maturity shorter than 3 months)</b>	<u>3,108,557</u>	<u>2,910,844</u>
<b>Balances with banks (with maturity shorter than 3 months)</b>	<u>7,635,502</u>	<u>3,706,910</u>
<b>Total cash and balances with Banks</b>	<u>7,709,255</u>	<u>6,821,883</u>
The split of the cash and cash equivalents is shown in note 40.		
<b>Total cash and balances with Banks</b>	<u>7,709,255</u>	<u>6,821,883</u>
<b>3. Accrued interest due from Banks</b>		
Accrued interest receivable:		
ZAR call accounts	850	571
ZAR fixed deposit accounts	6,987	7,777
Foreign call and fixed deposit accounts	352	240
	<u>8,189</u>	<u>8,588</u>
<b>4. Investment in unit trust</b>		
<b>2015</b>		
	<b>Available for sale</b>	<b>Total</b>
Unit trusts at fair value	795,293	795,293
<b>2014</b>		
	<b>Available for sale</b>	<b>Total</b>
Units trusts at fair value	585,415	585,415

The unit trusts were purchased from the Bank for International Settlement (BIS) in 2012. These are treated as available-for-sale instruments and changes in market values are recorded directly in the Bond/unit trust revaluation reserve. The number of units remained constant at 376,076 converted at \$135.444889 (2014: 376,076 at \$134.572551) at an exchange rate of 15.6131 (2014:11.5665) to the US Dollar.

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

	2015 M '000	2014 M '000
<b>5. Investment in Swift</b>		
Investment in SWIFT	847	-

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

## 6. Treasury notes and bonds

2015

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

2014

	At fair value through profit and loss	Available-for- sale	Total
US Bonds at fair value	1,092,501	695,895	1,788,396
ZAR Bonds at fair value	-	2,191,722	2,191,722
US Bonds accrued interest	2,194	1,210	3,404
ZAR Bonds accrued interest	-	43,957	43,957
	-	-	-
	<b>1,094,695</b>	<b>2,932,784</b>	<b>4,027,479</b>

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

## 7. IMF Subscription Account

Balance at beginning of year	585,573	563,787
Exchange revaluation	166,215	21,786
<b>Balance at end of year</b>	<b>751,788</b>	<b>585,573</b>

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 34,900,000. The local currency equivalent of the subscription account in the statement of financial position is converted at the year end rate of 0.0464227 (2014: 34,900,000 at 0.0595997).

## 8. IMF Holding of Special Drawing Rights (SDR)

Balance at beginning of year	779,925	767,621
Net transactions - (decrease) / increase in rights	772	(17,384)
Exchange revaluation	203,968	29,688
<b>Balance at end of year</b>	<b>984,665</b>	<b>779,925</b>

The value of SDR 45,710,797. (2014: SDR 46,483,342) allocated by the International Monetary Fund less utilisation is converted at 0.0464227 (2014: 0.0595997).



## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

	2015 M '000	2014 M '000
<b>9. IMF Funded PRGF Advances</b>		
Balance at beginning of year	849,081	834,453
Paid during the year	(15,600)	(17,641)
Exchange revaluation	239,809	32,269
<b>Balance at end of year</b>	<b>1,073,290</b>	<b>849,081</b>
<p>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 20.</p>		
<b>10. Lesotho Government Securities</b>		
Maturing within 1 month	336	582
<p>Treasury bills are debt securities issued by the Lesotho Treasury Department for a term of three months, six months, nine months or a year. All bills are subject to fixed interest rate risk and are held to maturity.</p>		
<b>11. Deferred currency expenditure</b>		
Balance at beginning of year	26,187	-
Expenditure incurred	15,373	36,891
Amortised during the year	(12,285)	(10,704)
<b>Balance at end of year</b>	<b>29,275</b>	<b>26,187</b>
<p>Expenditure incurred in connection with printing, minting and issue of Maloti notes and coins is amortised over three years.</p>		
<b>12. Loans to staff</b>		
Housing loans	31,093	25,040
Car loans	19,218	20,027
Furniture loans	1,368	1,101
Other loans and advances	17,778	14,663
	<b>69,457</b>	<b>60,831</b>
<b>13. Other assets</b>		
Cheques for collection and uncleared items	-	2,300
Other prepayments	6,114	4,458
Other receivables	8,530	7,652
	<b>14,644</b>	<b>14,410</b>



## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

Figures in Loti thousand

#### 14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

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

Work in progress transfer includes an amount of M14,775 which has been transferred to intangible assets in note 15

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

Figures in Loti thousand

#### 14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
CBL land and buildings	69,935	108	-	-	8,175	(1,334)	76,884
Lehakoe land and buildings	102,042	-	-	-	15,131	(2,008)	115,165
Residential land and buildings	12,367	-	-	-	(839)	(239)	11,289
Housing furniture	55	-	(6)	-	-	(20)	29
Office furniture	1,995	156	(50)	1,078	-	(481)	2,698
Motor vehicle	4,508	-	-	-	-	(1,880)	2,628
Office equipment	7,630	902	(5)	(716)	-	(2,258)	5,553
IT equipment	3,378	2,862	(9)	2,805	-	(2,309)	6,727
LRCC furniture	502	83	-	-	-	(100)	485
Sports & music equipment	-	-	-	2,287	-	(590)	1,697
Housing equipment	9,370	29	-	-	-	(4)	25
Security equipment	25,593	1,529	-	-	-	(2,080)	8,819
Work in progress	-	30,354	-	(5,454)	-	-	50,493
	<b>237,375</b>	<b>36,023</b>	<b>(70)</b>	<b>-</b>	<b>22,467</b>	<b>(13,303)</b>	<b>282,492</b>

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

	2015 M'000		2014 M'000	
<b>15. Intangible assets</b>				
	2015		2014	
	Cost / Valuation	Accumulated amortisation	Cost / Valuation	Accumulated amortisation
Computer software	40,093	(25,588)	23,305	(21,613)
		Carrying value		Carrying value
		14,505		1,692

### Reconciliation of intangible assets - 2015

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

### Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	1,691	737	(736)	1,692

## 16. Notes and coins issued

	2015 M'000	2014 M'000
Notes	1,307,891	1,148,648
Coins	16,914	17,089
	<b>1,324,805</b>	<b>1,165,737</b>

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.

## 17. Deposits

### Deposits from Banks - Non-interest bearing Banks

545,794      565,095

### Other Deposits - Non-interest bearing

International Institutions  
Parastatals and others

3,874      3,874  
6,135      337,061

**555,803      906,030**

## 18. IMF Maloti Currency Holding

Securities account  
General resources account

317,873      251,910  
351,265      269,707

**669,138      521,617**

## 19. IMF Special Drawing Rights Allocation

Balance at beginning of year  
Exchange revaluation

551,998      531,126  
156,238      20,872

**Balance at end of year**

**708,236      551,998**

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

	2015 M '000	2014 M '000
<b>19. IMF Special Drawing Rights Allocation (continued)</b>		
Lesotho's allocation by IMF of SDR32,878,186 is converted at 0.0464227 (2014:0.0595997)		
<b>20. IMF-PRGF Facility</b>		
Balance at beginning of year	849,081	834,453
Paid during the year	(15,600)	(17,641)
Exchange revaluation	239,809	32,269
	<b>1,073,290</b>	<b>849,081</b>
<p>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 SDR49,825,000, converted at 0.0464227 as at 31 December 2015 (2014: SDR 50,605,000 at 0.595997). The loan has been on-lent as per note 9. Interest expense and exchange rate differences are borne by the Government of Lesotho.</p>		
<b>21. Taxation payable/(receivable)</b>		
Balance at beginning of year	15,335	9,589
Paid during the year	(61,919)	(46,014)
Current year charge	74,153	51,760
<b>Balance at end of year</b>	<b>27,569</b>	<b>15,335</b>
<b>22. Due to Government of Lesotho Consolidated Fund</b>		
Balance at beginning of year	131,166	105,847
Paid during the year	(131,166)	(105,847)
Profit appropriations for the current year	184,232	131,166
<b>Balance at end of year</b>	<b>184,232</b>	<b>131,166</b>
<p>The Foreign exchange differences which are not taxable, are eliminated from the Profit after tax, before 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.</p>		
<b>Profit after tax appropriates as follows:</b>		
Profit after tax (after actuarial (loss)/gain on employee benefits)	1,596,381	512,159
Gain on foreign exchange activities	(1,375,302)	(354,760)
Profit after tax net of gain on foreign exchange activities	221,079	157,399
Transfer to General Reserve	(36,847)	(26,233)
	<b>184,232</b>	<b>131,166</b>
<b>23. Other liabilities</b>		
Donations - Referral Hospital	48,214	48,214
Divisional cheques accounts	626	1,153
Other	7,476	2,397
Various accruals	21,824	30,938
	<b>78,140</b>	<b>82,702</b>

The donations account relates to the construction expenses meant for building a new hospital.

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

	2015 M '000	2014 M '000
<b>24. Long-term employee benefit obligation</b>		
<b>Provision for severance pay</b>		
Opening obligation	22,909	23,209
Interest cost	2,381	1,745
Current service cost	1,646	1,974
Actuarial loss/(gain) on employee benefits	1,957	861
Benefits paid	(3,752)	(4,880)
Closing obligation	25,141	22,909
<b>Provision for gratuity</b>		
Opening obligation	60,343	58,844
Interest cost	4,298	3,958
Current service cost	5,958	4,255
Actuarial loss/(gain)	13,923	16,728
Benefits paid	(15,400)	(23,442)
Closing obligation	69,122	60,343
<b>Total</b>	<b>94,263</b>	<b>83,252</b>
<b>Net expense recognised in profit and loss (inclusive of leave pay provision)</b>		
Current service cost	8,339	6,229
Interest cost	6,224	5,782
	<b>14,563</b>	<b>12,011</b>
<b>25. Deferred taxation</b>		
The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:		
Deferred tax asset/(liability)	4,887	(1,346)
<b>Reconciliation of deferred taxation</b>		
Balance at beginning of year	(1,346)	197
Movements in profit and loss	(6,491)	(3,064)
Movement in equity - current year	1,474	1,521
Movement in equity - tax adjustment*	11,250	-
<b>Balance at end of year</b>	<b>4,887</b>	<b>(1,346)</b>
<b>Reconciliation of deferred taxation</b>		
Accelerated capital allowance for tax purposes	4,402	(280)
Liabilities for Health care benefits accrued	24,585	21,723
Deferred expenses	(12,479)	(423)
Bond/unit trust revaluation reserve	31,517	2,593
Property revaluation reserve	(43,138)	(24,959)
<b>Balance at end of year</b>	<b>4,887</b>	<b>(1,346)</b>

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

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

	2015 M '000	2014 M '000
<b>26. Share capital</b>		
<b>Authorised</b>		
Authorised capital	100,000	100,000
<b>Issued</b>		
Issued and fully paid	100,000	100,000
The entire issued share capital is held by the Government of Lesotho.		
<b>27. Interest income</b>		
Foreign currency deposits	373,412	296,250
Interest on treasury bills	427	773
Interest on bonds	178,226	170,912
	<b>552,065</b>	<b>467,935</b>
<b>28. Interest expense</b>		
Parastatals and Government deposits	46	17
IMF SDR allocation account	297	513
Interest on bonds	5,778	4,680
	<b>6,121</b>	<b>5,210</b>
<b>29. Other income</b>		
Rental income	390	241
Profit on sale of bonds	4,147	4,273
Interest on staff loans	1,228	1,042
Lehakoe proceeds	15,792	11,439
Other income	10,824	1,263
Gain on instruments designated as fair value through profit and loss	6,918	6,229
Profit/ (Loss) on sale of fixed assets	(844)	689
	<b>38,455</b>	<b>25,176</b>
<b>30. Operating costs and expense per nature</b>		
Administration and other expenses	58,303	65,992
Auditor's remuneration	2,006	1,981
Deferred currency expense amortised	12,286	10,704
Intangible assets amortised	3,976	736
Depreciation and impairments	15,561	13,303
Property, plant and equipment maintenance expenses	15,284	14,722
Loss on revaluation of treasury notes and bonds	12,619	6,459
<b>Personnel costs:</b>		
Staff welfare expenses	13,034	17,846
Non-executive directors' fees	825	1,050
Executive directors' salaries	5,555	5,271
Key management (heads of departments)	7,520	8,075
Staff salaries and expenses	100,543	97,910
Pension fund contributions	4,595	5,360
Gratuity and severance pay (interest and service cost)	14,154	12,011
	<b>266,261</b>	<b>261,420</b>



# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

	2015 M '000	2014 M '000
<b>31. Taxation</b>		
<b>Major components of the taxation expense</b>		
<b>Current</b>		
Normal taxation for the year	78,257	56,857
<b>Deferred</b>		
Deferred taxation arising on other profit and loss items	6,491	(3,064)
	<b>84,748</b>	<b>53,793</b>
<b>Included in other comprehensive income</b>		
Tax on actuarial gain/ (loss)	(4,104)	(5,097)
<b>Reconciliation of the taxation expense</b>		
Chargeable profit ( before foreign exchange gain/loss and after actuarial gain/loss)	301,723	206,095
Statutory tax rate	25 %	25 %
<b>Permanent differences:</b>		
Donations	0.71 %	4.45 %
50 % Entertainment	0.07 %	9.58 %
Training expenses additional 25%	(0.52)%	(6.71)%
Other	1.47 %	(8.69)%
<b>Effective tax rate</b>	<b>26.73 %</b>	<b>23.63 %</b>
<b>32. Cash generated from operations</b>		
Profit before taxation	1,693,440	581,241
Less: Acturial loss	(16,415)	(20,386)
	1,677,025	560,855
<b>Adjustments for:</b>		
Depreciation	15,561	13,303
Deferred computer software amortised	3,976	736
Loss on sale of assets	844	(689)
Interest income	(552,065)	(467,935)
Interest expense	6,121	5,210
Deferred currency amortisation	12,286	10,704
Actuarial losses	16,415	20,386
Loss on revaluation of treasury bills and bonds	5,701	6,459
Unrealised exchange rate fluctuation	(152,074)	(41,589)
Movement in deposits	50,903	946,897
Movement in accrued interest	399	1,066
Changes in IMF Maloti currency holding	147,521	18,680
Changes in IMF subscription account	(166,215)	(21,786)
Other liabilities	6,449	17,638
Changes in IMF Special Drawing Rights Holding	(48,502)	8,568
	<b>1,024,344</b>	<b>1,078,503</b>

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

	2015 M '000	2014 M '000
<b>33. Commitments</b>		
Contracted	309,900	27,000
These capital commitments are in respect of professional fees for the Bank's extension which will be funded from internal resources in 2016.		
Uncontracted	18,000	228,556

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

### 34. Post retirement obligations

Total employer contributions	4,595	5,360
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The Bank contributes towards a post retirement pension scheme that covers all permanent employees. This fund is a multi-employer plan and the assets are held in the Corporate Bodies Pension Scheme managed by Lesotho National Insurance Company and the appropriations to the different contributors are not performed. The assets and liabilities relating to the employees of the Bank cannot be separately determined and is therefore treated as defined contribution plan.

### 35. Contingent liability

There are labour disputes against the Bank and the total amount being claimed is approximately M7.1 million. The Bank's lawyers and management hold a strong view that most of these cases leveled against the Bank are relatively weak and that the Bank will be successful in defending these cases.

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

		2015 M '000	2014 M '000
<b>36. Related parties transactions/ balances</b>			
The Bank is owned by the Government of Lesotho.			
A number of banking transactions are entered into with the Government as the Bank also acts as banker to the Government in the normal course of business.			
The deposits with the Bank held by the Government is disclosed separately in the statement of financial position.			
All payments relating to taxes, property rates and service utilisation are made to Government.			
Loans to staff are disclosed in note 12.			
<b>Gross advances made during the year to:</b>			
Heads of Departments and Division Heads	Car loans	343	5,760
	Furniture loans	142	99
	Housing loans	804	1,454
<b>Balances due at end of December:</b>			
Heads of Departments and Division Heads	Car loans	4,135	7,558
	Furniture loans	71	102
	Housing loans	5,706	7,314
General Staff	Car loans	14,740	12,469
	Furniture loans	1,155	999
	Housing loans	25,584	17,726
General Staff and Heads of Department	Other loans	17,778	14,663
<b>Interest charged for the year:</b>			
Heads of Departments and Division Heads	Car loans	120	98
	Furniture loans	-	13
	Housing loans	1	104
During the year Deputy Governor I had a personal loan advance of M300,000 while Deputy Governor II had an advance of M200,000. At year end, the balances were M150,000 and M183,333.33 for Deputy Governor I and Deputy Governor II respectively.			
No provisions have been recognised in respect of loans given to related parties.'			
The loans issued to directors and other key management personnel during the year are repayable monthly and have interest rates of 3% per annum.			
The Bank however requires and accordingly has the following as collateral:			
- terminal benefits			
- title deeds and registered mortgages in relation to housing loans			
Further, all short term and long term loans are covered by insurance policies to ensure recoveries in instances of death of employees.			
<b>Annual remuneration to key management which includes car allowances and housing allowances:</b>			
Executive Directors' salaries		5,555	5,271
Key management salaries		7,520	8,075

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

#### 37. Financial assets by category

The financial assets have been categorised as follows :

2015  
M '000

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

2014  
M '000

Financial assets	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Total
Cash and balances with Banks	6,821,883	-	-	6,821,883
Accrued interest due from Banks	8,588	-	-	8,588
Treasury bills	-	585,415	-	585,415
Treasury notes and bonds	-	2,932,784	1,094,695	4,027,479
IMF Subscription Account	585,573	-	-	585,573
IMF Holding of Special Drawing Rights	779,925	-	-	779,925
IMF Funded PRGF Advances	849,081	-	-	849,081
Lesotho Government Securities	582	-	-	582
Loans to staff	60,831	-	-	60,831
	<b>9,106,463</b>	<b>3,518,199</b>	<b>1,094,695</b>	<b>13,719,357</b>

#### 38. Financial liabilities by category

The financial liabilities have been categorised as follows:

2015  
M '000

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

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

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#### 38. Financial liabilities by category (continued)

2014  
M '000

	Financial liabilities at amortised cost	Total
Notes and coins issued	1,165,737	1,165,737
Deposits	906,030	906,030
Lesotho Government Deposits	6,007,398	6,007,398
IMF Maloti Currency Holding	521,617	521,617
IMF Special Drawing Rights Allocation	551,998	551,998
IMF PRGF Facility	849,081	849,081
	<b>10,001,861</b>	<b>10,001,861</b>

#### 39. Operating lease

Amount receivable within 12 months	360	241
Amount receivable within 13 to 24 months	396	482
	<b>756</b>	<b>723</b>

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

#### 40. Risk management

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

##### Management structures

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

##### Risk elements

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

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

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### 40. Risk management (continued)

#### Market price risk

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

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

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

Currency 2015	Value of Currency 000	Exchange Rate	Maloti Equivalent M'000
<b>Cash and balances with Banks</b>			
South Africa	7,961,056	1.0000	7,961,056
United States	302,929	15.6131	4,729,675
Botswana	543	1.3859	752
England	5,709	23.1535	132,192
European Union	653	17.0547	11,134
Switzerland	134	15.7626	2,114
IMF	45,711	21.6530	989,776
<b>Treasury notes, bonds and unit trusts</b>			
South Africa	2,117,416	1.0000	2,117,416
United States	156,963	15.6131	2,236,500
Unit trust - US Dollar based	50,938	15.6131	795,293

Currency 2014	Value of Currency 000	Exchange Rate	Maloti Equivalent M'000
<b>Cash and balances with Banks</b>			
South Africa	5,260,475	1.0000	5,260,475
United States	106,596	11.5665	1,232,944
Botswana	543	1.2166	660
England	18,521	18.0200	333,470
European Union	144	14.0620	2,019
Switzerland	60	11.6961	700
IMF	46,483	16.7530	778,735
<b>Treasury notes, bonds and unit trusts</b>			
South Africa	2,235,679	1.0000	2,235,679
United States	154,907	11.5665	1,791,730
Unit trust - US Dollar based	50,613	11.5665	585,415

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

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

#### Credit risk

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

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

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

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#### 40. Risk management (continued)

##### Operational risk

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

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

##### Human resource risk

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

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

##### Legal risk

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

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

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

##### Reputational risk

The Bank's objective of achieving and maintaining price stability in Lesotho exposes it to external scrutiny and possible criticism in the event of any failures. The Bank also strives for full 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.

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

#### 40. Risk management (continued)

##### Credit risk analysis

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

2015

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

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



# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

### 40. Risk management (continued)

Fixed deposits	Carrying amount M'000	Maximum exposure M'000	Held in Deno- mination	Type of collateral held	Credit rating
ABSA Bank	339,509	339,509	ZAR	none	P-2/Baa2
CitiBank	101,528	101,528	ZAR	none	P-2/Baa2
Crown Agents	276,897	276,897	ZAR	none	F2/BBB
Crown Agents	46,363	46,363	GBP	none	F2/BBB
Crown Agents	203,120	203,120	USD	none	F2/BBB
FEDRES	18,736	18,736	USD	none	Aaa
Firststrand	109,606	109,606	USD	none	P-2/Baa2
Firststrand	140,138	140,138	ZAR	none	P-2/Baa2
ICBC ASIA	156,131	156,131	USD	none	P-3/Baa3
Investec	308,496	308,496	ZAR	none	P-2/Baa2
NedBank	359,634	359,634	USD	none	P-2/Baa2
Standard Bank PLC	503,840	503,840	USD	none	P-3/Baa3
Standard Bank PLC	217,123	217,123	ZAR	none	P-3/Baa3
Standard Chartered London	281,106	281,106	USD	none	P-1/A+
Standard Chartered London	46,330	46,330	GBP	none	P-1/A+
	<b>3,108,557</b>	<b>3,108,557</b>			
<b>Accrued interest due from Banks</b>	<b>Carrying amount M'000</b>	<b>Maximum exposure M'000</b>	<b>Held in Deno- mination</b>	<b>Type of collateral held</b>	<b>Credit rating</b>
ABSA	2,280	2,280	ZAR	none	P-2/Baa2
Citibank SA	480	480	ZAR	none	P-2/Baa2
Crown Agents	8	8	GBP	GBP	F2/BBB
Crown Agents	854	854	ZAR	none	F2/BBB
Crown Agents	26	26	USD	USD	none
Firststrand	45	45	USD	none	P-2/Baa2
Firststrand	710	710	ZAR	none	P-2/Baa2
ICBC ASIA	38	38	USD	none	P-3/Baa3
Investec	1,394	1,394	ZAR	none	P-2/Baa2
Nedbank	103	103	USD	none	P-2/Baa2
South African Reserve Bank	816	816	ZAR	none	P-2/Baa2
Standard Bank PLC	1,155	1,155	ZAR	ZAR	P-3Baa3
Standard Bank PLC	130	130	USD	USD	P-3/Baa3
Standard Chartered London	141	141	USD	USD	P-1/A+
Standard Chartered London	9	9	USD	USD	P-1/A+
	<b>8,189</b>	<b>8,189</b>			
<b>Treasury notes, bonds and unit trusts</b>	<b>Carrying amount M'000</b>	<b>Maximum exposure M'000</b>	<b>Held in Deno- mination</b>	<b>Type of collateral held</b>	<b>Credit rating</b>
South Africa	2,117,416	2,117,416	ZAR	none	P-2/Baa2
United States-BIS	795,273	795,273	USD	none	Aaa
United States-RAMP	1,573,279	1,573,279	USD	none	Aaa
United States	663,241	663,241	USD	none	Aaa
	<b>5,149,209</b>	<b>5,149,209</b>			
<b>Loans to staff</b>	<b>Carrying amount M'000</b>	<b>Maximum exposure M'000</b>	<b>Held in Deno- mination</b>	<b>Type of collateral held</b>	<b>Credit rating</b>
Housing Loans	31,094	31,094	LSL	Title deeds	n/a
Car loans	19,218	19,218	LSL	Terminal Benefits	n/a
Furniture loans	1,368	1,368	LSL	Terminal Benefits	n/a
Other loans and advances	17,778	17,778	LSL	Terminal Benefits	n/a
	<b>69,458</b>	<b>69,458</b>			

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

### 40. Risk management (continued)

2014

Cash	Carrying amount M'000	Maximum exposure M'000	Held in Deno- mination	Type of collateral held	Credit rating
ZAR	113,361	113,361	ZAR	none	n/a
USD	1,238	1,238	USD	none	n/a
GBP	251	251	GBP	none	n/a
EUR	123	123	EUR	none	n/a
	<b>114,973</b>	<b>114,973</b>			

Current and call accounts	Carrying amount M'000	Maximum exposure M'000	Held in Deno- mination	Type of collateral held	Credit rating
ABSA Bank	20,897	20,897	ZAR	none	P2/Baa2
B.I.S	41	41	EUR	none	Supranational
B.I.S	930	930	GBP	none	Supranational
B.I.S	960	960	USD	none	Supranational
Bank of England	21,257	21,257	GBP	none	P-1/Aa1
Bank of N.Y	914	914	USD	none	P-1/Aa1
Bank of N.Y	30	30	ZAR	none	P-1/Aa1
Bank of N.Y RAMP	233	233	USD	none	P-1/Aa1
BankTrust	478	478	USD	none	P-1/A2
Citi Bank N.Y	21,556	21,556	USD	none	P-1/A3
Citi Bank SA	4,433	4,433	ZAR	none	P-2/Baa2
Commerz	1,184	1,184	EUR	none	P-1/A2
Crown Agents	140	140	GBP	none	F2/BBB
Crown Agents	605	605	USD	none	F2/BBB
Deutsche Bundesbank	671	671	EUR	none	N/R
Federal Reserve Bank of N.Y	2,063	2,063	USD	none	Aaa
First Rand	7,442	7,442	ZAR	none	P-2/Baa2
Investec Bank	63,146	63,146	ZAR	none	P2/Baa2
Nedbank	3,348	3,348	ZAR	none	P2/Baa2
South African Reserve Bank	3,639,411	3,639,411	ZAR	none	P-2/Baa2
Standard Bank	341	341	ZAR	none	P-2/Baa2
Standard Chartered Botswana	660	660	BWP	none	N/R
Standard Chartered London	4,626	4,626	GBP	none	P-1/A+
Swiss Bank	700	700	CHF	none	P1/Aa3
	<b>3,796,066</b>	<b>3,796,066</b>			

Fixed deposits	Carrying amount M'000	Maximum exposure M'000	Held in Deno- mination	Type of collateral held	Credit rating
ABSA Bank	101,518	101,518	ZAR	none	P2/Baa2
CitiBank	425,391	425,391	ZAR	none	F1/AFitch
Crown Agents	162,269	162,269	GBP	none	F1/AFitch
FedralReseve N.Y	124,918	124,918	USD	none	Aaa
Firstrand	370,350	370,350	USD	none	P2/Baa2
Investec	405,836	405,836	ZAR	none	P2/Baa2
NedBank	208,304	208,304	USD	none	P-3/Baa3
Standard Chartered London	144,197	144,197	GBP	none	P1/A1
Standard Bank PLC	430,172	430,172	USD	none	P-3/Baa3
Standard Bank PLC	365,483	365,483	ZAR	none	P-3/Baa3
Standard Bank SA	101,561	101,561	USD	none	P-2/Baa2
World Bank	70,845	70,845		none	Supranational
	<b>2,910,844</b>	<b>2,910,844</b>			

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

#### 40. Risk management (continued)

Accrued interest due from Banks	Carrying amount M'000	Maximum exposure M'000	Held in Deno- mination	Type of collateral held	Credit rating
ABSA	480	480	ZAR	none	P2/Baa2
Citibank	1	1		none	none
Crown Agents	2,333	2,333	GBP	none	none
Crown Agents	31	31	ZAR	none	none
Firststrand	127	127	ZAR	none	none
Firststrand	1	1	USD	none	P2/Baa2
Investec	2,380	2,380	ZAR	none	P2/Baa2
Nedbank	10	10	ZAR	none	P2/Baa2
South African Reserve Bank	559	559	ZAR	none	P2/Baa2
Standard Bank SA	392	392	USD	none	P2/Baa2
Standard Bank PLC	170	170	USD	none	P-3/Baa3
Standard Chartered London	39	39	USD	none	P-1/Aa2
Standard Bank PLC	2,065	2,065	ZAR	none	P-3/Baa3
	<b>8,588</b>	<b>8,588</b>			

Treasury notes, bonds and unit trusts	Carrying amount M'000	Maximum exposure M'000	Held in Deno- mination	Type of collateral held	Credit rating
South Africa	2,235,679	2,235,679	ZAR	none	Baa1
Unites States-BIS	585,415	585,415	USD	none	Aaa
United States-RAMP	1,094,695	1,094,695	USD	none	Aaa
United States	697,105	697,105	USD	none	Aaa
	<b>4,612,894</b>	<b>4,612,894</b>			

Loans to staff	Carrying amount M'000	Maximum exposure M'000	Held in Deno- mination	Type of collateral held	Credit rating
Housing Loans	25,040	25,040	LSL	Title deeds	n/a
Car loans	20,027	20,027	LSL	Terminal Benefits	n/a
Furniture loans	1,101	1,101	LSL	Terminal Benefits	n/a
Other loans and advances	14,663	14,663	LSL	Terminal Benefits	n/a
	<b>60,831</b>	<b>60,831</b>			

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.

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

#### Sensitivity Analysis for the year ended December 31, 2015

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.

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

### 40. Risk management (continued)

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

Currency	December 31, 2015		December 31, 2014	
	Portfolio level	Exchange rate	Portfolio level	Exchange rate
ZAR	7,961,056	1.00	7,496,154	1.00
USD	302,929	15.61	312,116	11.57
EUR	652	17.05	143	14.06
GBP	5,709	23.15	18,521	18.02
BWP	543	1.39	543	1.22
CHF	134	15.76	60	11.70
SDR	45,711	21.65	46,483	16.75

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

Currency	December 31, 2015		
	Portfolio level	Portfolio level in %	Exchange rate
ZAR	7,961,056	57.58 %	1.00
USD	4,729,675	34.21 %	15.61
EUR	11,134	0.08 %	17.05
GBP	132,192	0.96 %	23.15
BWP	752	0.01 %	1.39
CHF	2,114	0.02 %	15.76
SDR	989,775	7.16 %	21.65
	<b>13,826,698</b>	<b>100 %</b>	

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

Currency	December 31, 2014		
	Portfolio level	Portfolio level in %	Exchange rate
ZAR	7,496,154	61.33 %	1.00
USD	3,610,090	29.54 %	11.57
EUR	2,019	0.02 %	14.06
GBP	333,740	2.73 %	18.02
BWP	660	0.01 %	1.22
CHF	700	0.01 %	11.70
SDR	778,735	6.37 %	16.75
	<b>12,222,098</b>	<b>100 %</b>	

5% increase in exchange rate  
Data for currency and foreign investment risk  
( figures in M '000)

Currency	December 31, 2015			Exchange rate
	Portfolio level	Portfolio level in %	Level change	
ZAR	7,961,056	56.38 %	-	1.00
USD	4,966,158	35.17 %	(247,193)	16.39
EUR	11,690	0.08 %	(556)	17.91
GBP	138,802	0.98 %	(6,610)	24.31
BWP	790	0.01 %	(38)	1.46
CHF	2,219	0.02 %	(106)	16.55
SDR	1,039,265	7.36 %	(49,489)	22.74
	<b>14,119,980</b>	<b>100 %</b>		

% Change 2.12%

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

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#### 40. Risk management (continued)

##### 5% increase in exchange rate

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

Currency	December 31, 2014			Exchange rate
	Portfolio level	Portfolio level in %	Level change	
ZAR	7,496,154	60.17 %	-	1.00
USD	3,790,595	30.43 %	(180,505)	12.14
EUR	2,120	0.02 %	(101)	14.77
GBP	350,427	2.81 %	(16,687)	18.92
BWP	693	0.01 %	(33)	1.28
CHF	735	0.01 %	(35)	12.28
SDR	817,672	6.56 %	(38,937)	17.59
	<b>12,458,396</b>	<b>100 %</b>		

% Change 1.93%

##### 5% decrease in exchange rate

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

Currency	December 31, 2015			Exchange rate
	Portfolio level	Portfolio level in %	Level change	
ZAR	7,961,056	58.45 %	-	1.00
USD	4,493,191	33.79 %	247,193	14.83
EUR	10,577	0.08 %	556	16.20
GBP	125,583	0.90 %	6,610	22.00
BWP	715	0.01 %	38	1.32
CHF	2,008	0.01 %	105	14.97
SDR	940,287	6.76 %	49,489	20.57
	<b>13,533,417</b>	<b>100 %</b>		

% Change -2.12%

##### 5% decrease in exchange rate

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

Currency	December 31, 2014			Exchange rate
	Portfolio level	Portfolio level in %	Level change	
ZAR	7,496,153	62.84 %	-	1.00
USD	3,429,586	28.61 %	180,505	10.99
EUR	1,918	0.02 %	101	13.36
GBP	317,053	2.65 %	16,687	17.12
BWP	627	0.01 %	33	1.16
CHF	665	0.01 %	35	11.11
SDR	739,799	6.17 %	38,937	15.92
	<b>11,985,801</b>	<b>100 %</b>		

% Change - (1.93%)

**Central Bank of Lesotho**  
Financial Statements for the year ended December 31, 2015

**Notes to the Financial Statements**

**40. Risk management (continued)**

**Interest rate risk**

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

2015

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

## Central Bank of Lesotho

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### Notes to the Financial Statements

#### 40. Risk management (continued)

	0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years
<b>Base case yields</b>				
ZAR	6.98 %	7.75 %	7.63 %	7.25 %
USD	0.48 %	0.89 %	0.92 %	- %
EUR	0.02 %	- %	- %	- %
GBP	0.84 %	- %	- %	- %
Other	- %	- %	- %	- %
<b>100 Basis points increase in yields</b>				
ZAR	7.98 %	8.75 %	8.63 %	8.25 %
USD	1.48 %	1.89 %	1.92 %	1.00 %
EUR	1.02 %	- %	- %	- %
GBP	1.84 %	- %	- %	- %
Other	1.00 %	- %	- %	- %
<b>100 Basis points decrease in yields</b>				
ZAR	5.98 %	6.75 %	6.63 %	6.25 %
USD	- %	- %	- %	- %
EUR	- %	- %	- %	- %
GBP	- %	- %	- %	- %
Other	- %	- %	- %	- %

## Central Bank of Lesotho

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### Notes to the Financial Statements

#### 40. Risk management (continued)

Nominal return in base case yields	0-6 mnth M'000	6mnth-1yr M'000	1-5yr M'000	5yr+ M'000	Nominal Income	% Change
ZAR	405	-	63	94	1,752	-
USD	10	153	1,026	-	-	-
EUR	-	-	-	-	-	-
GBP	1	-	-	-	-	-
Other	-	-	-	-	-	-
	-	-	-	-	1,752	-
<b>Nominal return in increasing yields</b>						
ZAR	463	-	71	106	1,890	8
USD	31	156	1,048	0.42	-	-
EUR	-	-	-	-	-	-
GBP	2	-	-	-	-	-
Other	10	-	-	-	-	-
	-	-	-	-	1,890	8
<b>Nominal return in decreasing yields</b>						
ZAR	347	-	54	81	1,635	(7)
USD	-	149.00	1,004	-	-	-
EUR	-	-	-	-	-	-
GBP	-	-	-	-	-	-
Other	-	-	-	-	-	-
	-	-	-	-	1,635	(7)

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

For a 1 percentage decrease in yields, income decreases by 7 %



## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

#### 40. Risk management (continued)

2014

Currency	Cash 2014 M '000	0 to 6 Months 2014 M '000	6 months to 1 year 2014 M '000	1 year to 5 years 2014 M '000	More than 5 years 2014 M '000	Total 2014 M '000
ZAR	113,361	5,147,113	-	852,443	1,383,237	7,496,154
USD	1,238	1,485,096	328,282	1,795,474	-	3,610,090
EUR	123	1,896	-	-	-	2,019
GBP	251	333,489	-	-	-	333,740
Other	-	780,095	-	-	-	780,095
<b>Total</b>	<b>114,973</b>	<b>7,747,689</b>	<b>328,282</b>	<b>2,647,917</b>	<b>1,383,237</b>	<b>12,222,098</b>
<b>Base case yields</b>			<b>0-6 month</b>	<b>6 month - 1yr</b>	<b>1-5 yr</b>	<b>5yr+</b>
ZAR			6.21 %	6.65 %	7.63 %	7.25 %
USD			0.48 %	0.59 %	0.71 %	- %
EUR			0.10 %	- %	- %	- %
GBP			0.70 %	- %	- %	- %
Other			- %	- %	- %	- %
<b>100 Basis points increase in yields</b>			<b>0-6 month</b>	<b>6 month - 1yr</b>	<b>1-5 yr</b>	<b>5yr+</b>
ZAR			7.21 %	7.65 %	8.63 %	8.25 %
USD			1.48 %	1.59 %	1.71 %	1.00 %
GBP			1.10 %	- %	- %	- %
EUR			1.70 %	- %	- %	- %
Other			1.00 %	- %	- %	- %
<b>100 Basis points decrease in yields</b>			<b>0-6 month</b>	<b>6 month - 1yr</b>	<b>1-5 yr</b>	<b>5yr+</b>
ZAR			5.21 %	5.65 %	6.63 %	6.25 %
USD			- %	- %	- %	- %
GBP			- %	- %	- %	- %
EUR			- %	- %	- %	- %

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

#### 40. Risk management (continued)

Nominal return in base case yields	0-6 mnth M'000	6mnth-1yr M'000	1-5yr M'000	5yr+ M'000	
ZAR	319	-	65	100	
USD	7	2	13	-	
EUR	-	-	-	-	
GBP	2	-	-	-	509
	-	-	-	-	-
Nominal return in increasing yields	0-6 mnth M'000	6mnth-1yr M'000	1-5yr M'000	5yr+ M'000	
ZAR	371	-	74	114	
USD	22	5	31	-	
GBP	-	-	-	-	
EUR	6	-	-	-	
Other	8	-	-	-	
	-	-	-	-	
					Nominal Income 630
					% Change 24
Nominal return in decreasing yields	0-6 mnth M'000	6mnth-1yr M'000	1-5yr M'000	5yr+ M'000	
ZAR	268	-	56	86	
EUR	-	-	-	-	
GBP	-	-	-	-	
Other	-	-	-	-	
	-	-	-	-	
					Nominal Income 411
					% Change (19)

Sensitivity: For a 1 percentage increase in yields, income increases by 24%

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

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

#### 40. Risk management (continued)

##### Liquidity risk

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

2015

	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	Maturin g after 5 years	Total
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
<b>Financial assets</b>							
Cash and balances with banks	4,795,177	2,913,078	-	-	-	-	7,709,255
Accrued interest due from Banks	851	7,339	-	-	-	-	8,189
Treasury Notes, Bonds and Unit trusts IMF accounts	-	33,894	407,077	323,385	3,298,623	1,086,230	5,149,209
Lesotho Government Securities	2,809,743	-	-	-	-	-	2,809,743
Loans to staff	-	-	336	-	-	-	336
Investment in SWIFT	847	-	-	-	37,879	31,579	69,458
<b>Total Financial Assets</b>	<b>7,607,618</b>	<b>2,954,311</b>	<b>407,413</b>	<b>323,385</b>	<b>3,336,502</b>	<b>1,117,809</b>	<b>15,747,037</b>
<b>Financial liabilities</b>							
Notes & coins issued	1,324,805	-	-	-	-	-	1,324,805
Deposits	555,803	-	-	-	-	-	555,803
Lesotho Government Deposits	6,408,528	-	-	-	-	-	6,408,528
IMF Accounts	2,450,664	-	-	-	-	-	2,450,664
<b>Total Financial liabilities</b>	<b>10,739,800</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,739,800</b>
<b>Net liquidity gap</b>	<b>(3,132,182)</b>	<b>2,954,311</b>	<b>407,413</b>	<b>323,385</b>	<b>3,336,502</b>	<b>1,117,809</b>	<b>5,007,237</b>

## Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

### Notes to the Financial Statements

#### 40. Risk management (continued)

2014

	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
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
<b>Financial assets</b>							
Cash and balances with banks	3,911,038	2,077,658	833,187	-	-	-	6,821,883
Accrued interest due from Banks	571	5,612	2,405	-	-	-	8,588
Treasury Notes & Bonds and Unit trusts	585,415	81,007	171,370	328,324	1,960,789	1,485,989	4,612,894
IMF accounts	2,214,579	-	-	-	-	-	2,214,579
Lesotho Government Securities	-	-	582	-	-	-	582
Loans to staff	-	-	-	14,663	21,128	25,040	60,831
<b>Total Financial Assets</b>	<b>6,711,603</b>	<b>2,164,277</b>	<b>1,007,544</b>	<b>342,987</b>	<b>1,981,917</b>	<b>1,511,029</b>	<b>13,719,357</b>
<b>Financial liabilities</b>							
Notes & Coins issued	1,165,737	-	-	-	-	-	1,165,737
Deposits	906,030	-	-	-	-	-	906,030
Lesotho Government Deposits	6,007,398	-	-	-	-	-	6,007,398
IMF Accounts	1,922,696	-	-	-	-	-	1,922,696
<b>Total Financial liabilities</b>	<b>10,001,861</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,001,861</b>
<b>Net liquidity gap</b>	<b>(3,290,258)</b>	<b>2,164,277</b>	<b>1,007,544</b>	<b>342,987</b>	<b>1,981,917</b>	<b>1,511,029</b>	<b>3,717,496</b>

# Central Bank of Lesotho

Financial Statements for the year ended December 31, 2015

## Notes to the Financial Statements

	2015 M '000	2014 M '000
<b>41. Fair value information</b>		
Levels of fair value measurements	-	-
Level 1	-	-
Available for sale financial assets	-	-
Bonds	2,780,638	2,932,784
Unit trusts	795,293	585,415
Financial assets designated at fair value through profit or loss	-	-
Bonds	1,573,278	1,094,695
Investment in SWIFT	847	-
	<b>5,150,056</b>	<b>4,612,894</b>