

Central Bank Of Lesotho



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

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Central Bank of Lesotho

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Corporate Governance Report

This report sets out the key aspects of governance of the Central Bank of Lesotho. The Bank is committed to ensuring that its policies and practices comply with standards of good corporate governance and best practice. The Board of Directors of the Bank is committed to ensuring that the Bank adheres to the principles of accountability, transparency and integrity in all its dealings and interactions with all its stakeholders.

The Bank has a unitary Board which comprises of five (5) Non-Executive Directors and three (3) Executive Directors. The Non-Executive directors are independent of the Executive Management and free of any business or other relationship with the Bank that could materially affect their unfettered and independent judgment in the exercise of their fiduciary duties.

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

The Board is collectively responsible for the execution of the mandate of the Bank as 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 carry out its responsibilities, the Board has established the Audit Committee, the Risk and IT Governance Committee, and the Human Resource and Remuneration Committee. These Committees have prescribed charters in terms of which they undertake their respective roles as delegated by the Board. Matters that have been dealt with by these Committees are referred to the Board with clear recommendations for consideration and decision. Further, each Committee provides reports to the Board on the matters that it dealt with periodically.

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

The Board is responsible to facilitate an induction programme for new members 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 to enhance its efficiency and effectiveness. In addition, the Board also has access to the services and advice of the corporate 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 every two months, the Board of Directors convened ten (10) meetings during the 2018 Financial Year.



Adv. Napo Rantsane
Secretary to the Board

Central Bank of Lesotho

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Audit Committee Report

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

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

The Committee commenced its business in 2018 with one vacancy resulting from the expiration of a term of appointment of an External Non-Board Member, Mrs M.Hongwa. In June 2018, the term of appointment of Mrs O. Letebele, a Non-Executive Director and the Chairperson of the Committee, also came to an end. In the same month two new appointments were made to fill the above vacancies. Mr Setsoto Ranthocha was appointed as an External Non-Board Member, Mrs K. Thabane was appointed as a Non-Executive Member of the Board and a Member of the Committee. Mrs S. Mohapi, who was already serving as a Non-Executive Member of the Board, was appointed as the Chairperson of the Committee.

The above appointments led to full composition of the Committee. The Committee currently comprises of four independent Non-Executive Directors, one of whom serves as the Chairperson. The Head of Internal Audit Department sits in the Committee meetings. The Head of Internal Audit Department reports functionally to the Committee and administratively to the Governor. The first and second deputy Governors sit at the meeting of Audit Committee representing Management of the Bank.

During the financial year ended 31 December 2018, the Committee convened eight times and approved the Internal Audit Department Annual Plan for 2018, and the reports of the Internal Audit Department on identified areas of internal control, risk management and governance weaknesses and management of corrective actions in response thereto. The Committee also considered and approved the external auditor's audit scope, audit approach, and fees for the year under review in consultation with Management. The Committee also considered and approved the audited Annual Financial Statements for the Year Ended 31 December 2017

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

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

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

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

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

On behalf of the Audit Committee:



Mrs. Sophia Mohapi
Chairperson of the Audit Committee

Central Bank of Lesotho

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Directors' Responsibilities and Approval

The Directors are required in terms of the Central bank of Lesotho Act. No.2 of 2000 to ensure that proper financial and managerial controls are in place, adequate and effective. Directors are also responsible for the content and integrity of the annual financial statements and related disclosures in this report.

It is the Directors' responsibility to ensure that the annual financial statements fairly present the state of affairs of the Bank at the end of the financial year and the results of its operations and cash flows for the year ended 31st December, 2018, in conformity with the Central Bank of Lesotho Act No. 2 of 2000 and according to the policies set in note 1 of the financial statements. The external auditors are engaged to express an independent opinion on the annual financial statements.

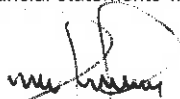
The financial statements are prepared in accordance with the Central Bank of Lesotho Act No. 2 of 2000 and according to the policies set in note 1 of the financial statements and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and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

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

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

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

The financial statements were approved by the Board of Directors on 29 March 2019 and are signed on its behalf by:



Dr. R. A. Matlanyane
Governor



Mrs. K. Thabane (Adv)
Director

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Directors' Report

The Directors present their annual report, which forms part of the audited annual financial statements of Central Bank of Lesotho for the year ended 31 December 2018. The annual financial statements are expressed in Maloti, the local currency of Lesotho and the functional currency of the Bank that is at par with South African Rand.

1. Review of financial results and activities

Nature of business

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

Financial results

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

The financial results of the Bank are set out in the statement of profit or loss and other comprehensive income on page 12. 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 13. Amounts paid and due in terms of the Act were as follows:

31 December 2018	M '000
31 December 2017	108 062
	<u>84 396</u>

2. Amounts due to Government of Lesotho

Amounts due to the Government of Lesotho Consolidated Fund in terms of Section 21 (5) of the Act are set out in the statement of financial position on page 11.

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	Position held
Dr. R. Matlanyane	January, 2017	Governor and Chairman
Dr. M.P. Makhetha	January, 2017	First Deputy Governor
Ms. M.G. Makenete	January, 2017	Second Deputy Governor
Mrs. N.Foulo	December, 2017	Non-Executive Director
Mrs S. Mohapi	December, 2017	Non-Executive Director
Dr. M.Letete	August, 2018	Non-Executive Director
Mrs. K.Thabane	June, 2018	Non-Executive Director

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Directors' Report

5. Secretary

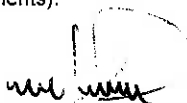
Name	Date of appointment	Position held
Mr. N. Rantsane (Adv.)	March 2015	Director of Corporate Affairs

6. Events subsequent to balance sheet date

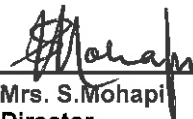
The Directors are not aware of any material events that could cause changes in the annual financial statements, which may have occurred between the financial year end and date of this report.

7. Auditors

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



Dr. R.A. Matlanyane
Governor



Mrs. S. Mohapi
Director



**INDEPENDENT AUDITOR'S REPORT
TO THE BOARD MEMBERS OF CENTRAL BANK OF LESOTHO**

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Central Bank of Lesotho, that comprise the statement of financial position as at 31st December 2018 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements as contained on pages 11 to 56 including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank for the year ended 31 December 2018, are prepared, in all material respects, in accordance with the accounting policies described in Note 1 to the financial statements and the requirements of the Central Bank Act No.2 of 2000.

Basis for Opinion

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

Emphasis of Matter- Basis of Accounting and Restriction on Distribution and Use

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

Other Information

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

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

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

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

Responsibilities of Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

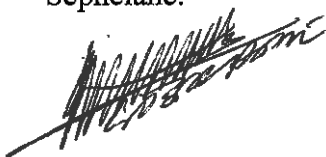
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.
- Conclude on the appropriateness of Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partner on the audit resulting in this independent auditor's report is Letuka Sephelane.



LETACC
Firm of Chartered Accountants and Auditors
Per Letuka Sephelane CA (L) Membership number 30034
Partner
29th March 2019

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Statement of Financial Position as at 31 December 2018

	Note(s)	2018 M '000	2017 M '000
Assets			
Cash and cash equivalents	2	5 407 813	4 778 747
Accrued interest due from Banks	3	24 714	9 817
Investment in unit trust	4	750 487	635 604
Investment in SWIFT	5	399	700
Treasury notes and bonds	6	3 260 895	3 121 639
Treasury bills at amortised cost	7	71 603	91 813
IMF Subscription Account	8	1 397 173	1 223 196
IMF Holding of Special Drawing Rights (SDR)	9	437 554	530 125
IMF Funded PRGF Advances	10	692 091	753 413
Lesotho Government Securities	11	524	58
Deferred currency expenditure	12	7 074	8 303
Loans to staff	13	95 910	86 196
Other assets	14	7 775	11 953
Property, plant and equipment	15	742 870	695 445
Intangible assets	16	32 464	41 761
Current tax receivable	22	-	26 882
Total Assets		12 929 346	12 015 652
Equity and Liabilities			
Liabilities			
Notes and coins issued	17	1 520 217	1 616 489
Deposits	18	342 136	401 824
Lesotho Government Deposits		3 371 412	3 208 374
IMF Maloti Currency Holding	19	1 144 226	1 002 220
IMF Special Drawing Rights Allocation	20	658 116	576 167
IMF-PRGF Facility	21	692 091	753 413
Taxation payable	22	4 929	-
Due to Government of Lesotho Consolidated Fund	23	142 177	84 396
Changes in Other Liabilities	24	24 168	26 944
Long-term employee benefit obligation	25	104 842	101 879
Deferred tax	26	11 652	19 344
		8 015 966	7 791 050
Equity			
Share capital	27	100 000	100 000
General reserve	6	296 744	299 795
Rand compensatory reserve		745 057	674 708
SDR revaluation reserve		63 903	(42 297)
Foreign exchange revaluation reserve		3 585 462	3 046 502
Property revaluation reserve		137 140	141 413
Bond/unit trust revaluation reserve		(14 926)	4 481
		4 913 380	4 224 602
Total Equity and Liabilities		12 929 346	12 015 652

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2018 M '000	2017 M '000
Interest income	28	450 352	445 145
Interest expense	29	(7 104)	(6 471)
Net interest income		443 248	438 674
Other income	30	30 688	28 834
Revaluation gain/(loss) on foreign exchange activities		645 160	(399 726)
Operating profit (loss)		1 119 096	67 782
Operating expenses	31	(317 367)	(332 918)
Profit/(Loss) before taxation		801 729	(265 136)
Taxation	32	(24 920)	(35 144)
Profit/(Loss) for the period		776 809	(300 280)
Other comprehensive income:			
Bond/ unit trusts fair values			
Increase in bond/unit trusts fair values		(24 459)	31 861
Tax effect		5 052	(7 965)
Net movement		(19 407)	23 896
Property revaluation reserve			
(Decrease)/Increase in property revaluations		(3 418)	-
Tax effect		(855)	-
Net movement		(4 273)	-
Rand compensation reserve			
Increase in reserve		70 349	111 508
Tax effect		-	-
Net movement		70 349	111 508
Actuarial gains and losses on employee benefits			
Actuarial (loss)/ gain for the year		(1 975)	2 439
Tax effect		493	(609)
Net movement		(1 482)	1 830
Other comprehensive income for the year net of taxation		45 187	137 234
Total comprehensive income/(loss)		821 996	(163 046)

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Financial Statements for the year ended 31 December 2018

Statement of Changes in Equity

	Share capital	General reserve	Rand compensatory reserve	SDR revaluation reserve	Foreign Exchange revaluation reserve	Property revaluation reserve	Bond /Unit trust revaluation reserve	Accumulated profit/(loss)	Total equity
	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000
Balance at 01 January 2017	100 000	282 916	563 200	43 433	3 360 498	141 413	(19 415)	-	4 472 045
Total comprehensive Loss for the year								(298 451)	(298 451)
Transfer of foreign exchange translation to designated reserve	-	-	-	(85 730)	(313 996)	-	-	399 726	-
Movement in bond/unit trust fair values	-	-	-	-	-	-	23 896	-	23 896
Rand compensatory receipts	-	-	111 508	-	-	-	-	-	111 508
Transfer to General Reserve	-	16 879	-	-	-	-	-	(16 879)	-
Dividends	-	-	-	-	-	-	-	(84 396)	(84 396)
Total changes	-	16 879	111 508	(85 730)	(313 996)	-	23 896	-	51 008
Balance at 01 January 2018	100 000	299 795	674 708	(42 297)	3 046 502	141 413	4 481	-	4 224 602
Loss for the period	-	-	-	-	-	-	-	776 809	776 809
Actuarial fair value gain	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	-	776 809	776 809
Transfer of foreign exchange translation to designated reserve	-	-	-	106 200	538 960	-	-	(645 160)	-
Movement in bond/unit trust fair values	-	-	-	-	-	(4 273)	(19 407)	-	(19 407)
Asset revaluation for the year	-	-	-	-	-	-	-	-	(4 273)
Rand compensatory receipts	-	-	70 349	-	-	-	-	-	70 349
IFRS 9 1 January 2018 transition adjustment	-	(31 486)	-	-	-	-	-	(1 975)	(31 486)
Actuarial fair value gain	-	-	-	-	-	-	-	(21 612)	(1 975)
Transfer to General Reserve	-	28 435	-	-	-	-	-	(108 062)	6 823
Dividends	-	-	-	-	-	-	-	-	(108 062)
Total changes	-	(3 051)	70 349	106 200	538 960	(4 273)	(19 407)	(776 809)	(88 031)
Balance at 31 December 2018	100 000	296 744	745 057	63 903	3 585 462	137 140	(14 926)	-	4 913 380

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Statement of Cash Flows

	Note(s)	2018 M'000	2017 M'000
Cash flows from operating activities			
Cash used in operations	33	638 832	(2 149 827)
Interest income	28	450 352	445 145
Interest expense	29	(7 104)	(6 471)
Tax paid	22	(6 707)	(68 802)
Rand compensatory reserve		70 349	63 295
Payments to Government of Lesotho Consolidated Fund	23	(84 396)	(147 566)
Net cash from operating activities		1 061 326	(1 864 226)
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(65 689)	(145 697)
Sale of property, plant and equipment	15&30	45	48
Purchase of other intangible assets	16	(2 188)	(918)
Purchase of Deferred currency expenditure	12	(8 316)	(429)
Movement in Other assets	14	4 178	1 224
Movement in loans to staff	13	(9 714)	(5 932)
Movement in Lesotho Government Securities	11	(466)	(51)
Movement in Treasury notes, bonds and unit trust	6	(254 139)	803 905
Movement in investment in SWIFT		301	(145)
Net cash from investing activities		(335 988)	652 005
Cash flows from financing activities			
Movements in notes and coins	17	(96 272)	280 654
Total cash movement for the year		629 066	(931 567)
Cash at the beginning of the year		4 778 747	5 710 314
Total cash at end of the year	2	5 407 813	4 778 747

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Accounting Policies

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

1.1 Property, plant and equipment

Owner-occupied properties

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

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

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

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

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

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

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

Item	Depreciation method	Rates
Buildings	Straight line	1.5%
Furniture and fixtures	Straight line	10%
Motor vehicles	Straight line	20%
Office equipment	Straight line	10%
SAGE and QCBS	Straight line	10%
Lehakoe Furniture	Straight line	20%
Housing equipment	Straight line	20%
Security equipment	Straight line	20%
Intangible assets	Straight line	33,3%

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

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

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.

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Accounting Policies

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 Current and deferred income tax

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

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

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

1.4 Leases

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

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

1.5 Share capital

(a) Share capital is classified as equity.

The entire issued share capital is held by the Government of Lesotho.

(b) Dividends on ordinary shares

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Accounting Policies

1.5 Share capital (continued)

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

1.6 Employee benefits

(a) Post employment benefits

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

(b) Other long-term employee benefits

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

Long-term employee benefits include:

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

(c) Actuarial gains/losses

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

(d) Accrual for leave pay

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

1.7 Provisions

Contingent assets and contingent liabilities are not recognised.

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

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

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

1.8 Revenue

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

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.

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1.9 Translation of foreign currencies

1.10 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.

1.11 Claims on staff

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

1.12 Deferred currency expenditure

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

1.13 Dividend distribution

Dividend distribution to the Government of Lesotho is recognised as a liability in the Bank's financial statements in the period in 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.

1.14 Notes and coins

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

1.15 IMF Holding of Special Drawing Rights and IMF subscription account

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

The units are translated daily using a basket of 5 major currencies. The SDR Allocation was initially recorded as a liability, and the corresponding entry as the Holdings account under external assets. When the SDRs are utilised by the Government, the Holdings account decreases. The SDR Allocation account accrues interest expense at an average rate of 0.015% and the Holdings account earns interest income of 0.015%. Annually, the rights and IMF liabilities are translated at the ruling SDR rate and the difference on revaluation is taken to the SDR Revaluation Reserve.

1.16 IMF Funded PRGF Advances

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

1.17 Comparative figures

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

1.18 General Reserve

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

In terms of the Central Bank of Lesotho Act No.2 of 2000, in the case of any year at the end of which the general reserve of the Bank does not exceed the minimum paid-up capital of the Bank, one third of the net profits 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. Additional text

Central Bank of Lesotho

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1.19 Rand Compensation Reserve

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

1.20 Foreign Exchange Revaluation Reserve Account

In terms of Section 54 of the Central Bank of Lesotho Act No. 2 of 2000, the gains and losses arising from any changes in the valuation of the Bank's assets or liabilities in, or denominated in, gold or foreign currencies, or Special Drawing Rights as a result of changes in the exchange rate for the Maloti or of any change in the values, parities or exchange rates of such assets with respect to the Maloti shall be carried to a special account called the Foreign Exchange Revaluation Reserve Account and SDR Revaluation Reserve 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.

1.21 SDR Revaluation Reserve

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

1.22 Property Revaluation Reserve

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

1.23 Bond/Unit Trust Revaluation Reserve

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

1.24 Financial Risk Management

Financial risk factors

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

(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 2018, if the currency had weakened/strengthened by 5% against the functional currencies, the Bank's foreign assets would have been 2.31% (2017: 2.12%) higher/lower as a result of foreign exchange losses/gains on valuation of foreign currency denominated assets.

(ii) Interest Rate Risk

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

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

As at 31 December 2018, if interest rates had fallen by 1%, the Bank's revenue would decline by 22%, based on the simulation performed. However, if rates had increased by 1%, revenue would increase by 22%.

(b) Credit risk

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

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(c) Liquidity risk

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

Refer to the Risk Management Statements on pages 39 to 53.

1.25 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the No.1 and No.2 accounts which total SDR 57,214,433 (2017: SDR 31,063,193) in favour of the IMF. GOL chose to substitute non-interest bearing notes for a portion of the balance held in its Fund's No. 1 account and the securities substituted for currency are recorded in the Securities Account. GOL's holding in IMF SDR Department is posted in the No.1 account and is used for the Fund's operational transactions e.g. purchases and repurchases, whereas the No. 2 account is used for the payment of operational expenses incurred by the Fund in Maloti. The Bank revalues the IMF accounts in its Statement of Financial Position in accordance with the practices of the IMF Treasury Department. The revaluation of the SDR rates by the IMF is effected annually on 30 April, and whenever there are IMF transactions using the Maloti. The IMF accounts have been revalued using the latest prevailing SDR rates in IMF website.

1.26 Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

(a) Employee benefits

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

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

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

(b) Fair values

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

i) Balances due to and from banks

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

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

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

1.27 Memorandum Accounts

The Bank holds various amounts of monies on behalf of the Government of Lesotho on a restricted basis in a fiduciary capacity only. These monies are controlled by Government and any gains or losses related to these amounts accrue to the Government. All memorandum account balances are kept off the Balance Sheet as they do not belong to the Bank and do not meet the definition of an asset of the Bank. Refer to note 42 which provides further details of the memorandum accounts.

1.28 New Standards

(IFRS 9)- Financial Instruments

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Accounting Policies

1.28 New Standards (continued)

The IASB has issued a final version of IFRS 9 which brings together the classification and measurement, impairment and hedge accounting. This standard replaces IAS 32. IFRS 9 adopts a principle based approach to the classification of financial assets driven by cash-flow characteristics and business model in which the asset is held. The standard also focuses on expected credit loss impairment model for all financial assets not measured at fair value through profit and loss. IFRS 9 has been assessed by the Bank as having a possible effect on the financial statements of the Bank for annual periods beginning 1st January 2018. The Bank has assessed and determined the impact of IFRS 9 on its financial statements for the year ended 31 December 2018. Given the low level of historic impairments, the impact is likely to be insignificant.

The date of initial application (i.e. the date on which the Bank has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Bank has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparatives in relation to instruments that have not been derecognised as at 1 January 2018 have not been restated. Instead, cumulative adjustments to retained earnings have been recognised in the general reserve as at 1 January 2018.

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

The measurement requirements are summarised below:

Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.

Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income.

All other debt investments and equity investments are subsequently measured at fair value through profit or loss, unless specifically designated otherwise.

The Bank may irrevocably designate a debt investment that meets the amortised cost or fair value through other comprehensive income criteria as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

When a debt investment measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at fair value through other comprehensive income, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to new impairment provisions using an expected credit loss (ECL) model.

The Management reviewed and assessed the Bank's existing financial assets as at 01 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Bank's financial assets as regards to their classification and measurement: Refer to accounting policy 1.30.

Impairment of financial assets

Specifically, IFRS 9 requires the Bank to recognise a loss allowance for expected credit losses on debt investments subsequently measured at amortised cost or at fair value through other comprehensive income. In particular, IFRS 9 requires the Bank to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Bank is required to measure the loss allowance for that financial instrument at an amount equal to 12 months expected credit losses.

Under IFRS 9, expected credit losses would be recognized from the point at which financial instruments are originated or purchased. With limited exceptions, a 12-month expected credit losses must be recognized initially for all assets subject to impairment. 12-month expected credit losses are defined as the expected credit losses that result from those default events on the financial instrument that are possible within the 12 months after the reporting date. With limited exceptions, IFRS 9 requires that at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

Significant increase in credit risk

Credit risk exists where there is a possibility that a counterparty may default on its obligations when they fall due. Uncertainties over whether the expected returns will be earned or the ability of the counterparty to make good on its obligations when they fall due contribute directly to the creation of credit risk.

Classification and measurement of financial liabilities

One major change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

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Accounting Policies

1.28 New Standards (continued)

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss..

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the company's financial liabilities.

1.29 Impact of new standards not yet effective

IFRS 16 is effective for periods beginning periods 01 January 2019. It is not expected to have an impact on the Bank due to the fact that there are no leases held by Bank.

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
2. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash and cash equivalents		
Cash on hand	3 227	2 055
Bank balances	150 618	173 157
Short-term deposits	7 719	20 700
Total cash and cash equivalents	161 564	195 912
Current and Call Accounts		
Foreign Banks	70 420	84 775
South African Banks	1 080 605	1 836 781
Total Current and Call Accounts	1 151 025	1 921 556
Fixed Deposits		
Foreign Banks	2 319 370	1 341 469
South African Banks	1 775 854	1 319 810
Total Fixed deposits (with maturity shorter than 3 months)	4 095 224	2 661 279
Balances with banks (with maturity shorter than 3 months)	5 246 249	4 582 835
Total cash and balances with Banks	5 407 813	4 778 747

Refer to note 40 Financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.

3. Accrued interest due from Banks

Accrued interest receivable:		
ZAR call accounts	100	92
ZAR fixed deposits	20 822	8 687
Foreign call and fixed deposit accounts	3 792	1 038
	24 714	9 817

4. Investment in unit trusts

2018	Fair Value through OCI	Total
Unit trusts at fair value	750 487	750 487
	750 487	750 487
2017	Fair value through OCI	Total
Unit trusts at fair value	635 604	635 604
	635 604	635 604

The unit trusts were purchased from the Bank for International Settlement (BIS) in 2012. These are equity instruments and measured at Fair value through other comprehensive income and changes in market values are recorded directly in the Bond/unit trust revaluation reserve. The number of units remained constant at 376,076 converted at \$136.848153 (2018: 376,076 at \$138.918052) at an exchange rate of 14.36510 (2017: 12.35015) to the US Dollar.

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Notes to the Financial Statements

	2018 M '000	2017 M '000
5. Investment in Swift		
Investment in SWIFT	399	700

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

6. Treasury notes and bonds

2018	Amortised cost	Fair value through Profit and loss	Fair value through OCI	Total
US Bonds at fair value	-	1 479 657	326 525	1 806 182
ZAR Bonds at fair value	-	-	1 429 840	1 429 840
US Bonds accrued interest	-	7 570	1 267	8 837
ZAR Bonds accrued interest	-	-	37 819	37 819
Provision for Impairment	-	-	(21 783)	(21 783)
	-	1 487 227	1 773 668	3 260 895

Impairment

IFRS 9 01 Jan 2018 Transition Adjustment	(31 485)	-
IFRS 9 Provision for Impairment closing balance	21 783	-
Movement in Provision for 2018	(9 703)	-

IFRS 9 transition adjustments for impairment requires adjustment of prior period retained earnings which in this case is the General Reserve.

2017	At fair value through profit and loss	Available for sale	Total
US Bonds at fair value	1 236 453	471 320	1 707 773
ZAR Bonds at fair value	-	1 375 858	1 375 858
US Bonds accrued interest	5 314	1 558	6 872
ZAR Bonds accrued interest	-	31 136	31 136
	1 241 767	1 879 872	3 121 639

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

In accordance with IFRS 9, an ECL has been calculated for the Treasury notes and bonds measured at fair value through other comprehensive income, a 01 January 2018 transition adjustment was calculated for this ECL.

7. Treasury bills at amortised cost

US Treasury Bills

Treasury Bills at amortised cost	71 603	91 813
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The Treasury bills are debt securities issued by the US Treasury Departments for a term of one year and are treated as securities held-to-maturity. All treasury bills are subject to fixed interest rate risk rate of 1.24%.

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
8. IMF Subscription Account		
Balance at beginning of year	1 223 196	1 284 076
Exchange revaluation	173 977	(60 880)
Balance at end of year	1 397 173	1 223 196

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 69,800,000 in 2018. The local currency equivalent of the subscription account in the statement of financial position is converted at the year end rate of 0.0559372 (2017: SDR 69,800,000 at 0.0570636).

9. IMF Holding of Special Drawing Rights (SDR)

Balance at beginning of year	530 125	641 390
Net transactions - (decrease) / increase in rights	(149 475)	(165 275)
Exchange revaluation	56 904	54 010
Balance at end of year	437 554	530 125

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

10. IMF Funded PRGF Advances

Balance at beginning of year	753 413	877 458
Paid during the year	(150 472)	(85 413)
Exchange revaluation	89 150	(38 632)
Balance at end of year	692 091	753 413

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

11. Lesotho Government Securities

Maturing within 1 month	524	58
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Treasury bills are debt securities issued by the Lesotho Treasury Department for a term of three months, six months, nine months or a year. All Treasury bills are subject to fixed interest rate risk and are held to maturity.

12. Deferred currency expenditure

Balance at beginning of year	8 303	15 775
Expenditure incurred	8 316	429
Amortised during the year	(9 545)	(7 901)
Balance at end of year	7 074	8 303

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

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Notes to the Financial Statements

	2018 M '000	2017 M '000
13. Loans to staff		
Housing loans	42 038	41 629
Car loans	26 179	22 124
Furniture loans	1 408	1 701
Other loans and advances	26 285	20 742
	95 910	86 196

The loans issued to staff members during the year are repayable monthly and attract interest rate of 3% per annum. Refer to related parties note 36 and risk management note 40 for further details.

14. Other assets

Other prepayments	3 628	6 490
Other receivables	640	1 956
Commemorative coins	3 507	3 507
	7 775	11 953

15. Property, plant and equipment

	2018			2017		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
CBL land and building	106 267	(19 277)	86 990	106 267	(16 794)	89 473
Lehakoe land and buildings	149 020	(24 543)	124 477	149 020	(20 558)	128 462
Residential land and buildings	20 177	(2 646)	17 531	20 177	(2 182)	17 995
Housing furniture	359	(356)	3	383	(379)	4
Office furniture	8 946	(7 010)	1 936	9 409	(7 047)	2 362
Motor vehicles	11 932	(10 180)	1 752	11 955	(10 317)	1 638
Office equipment	40 269	(31 171)	9 098	34 400	(28 295)	6 105
Office computer	16 077	(8 171)	7 906	30 724	(20 396)	10 328
Lehakoe furniture	3 512	(3 007)	505	3 384	(2 926)	458
Sports/music equipment	7 894	(7 639)	255	8 002	(7 634)	368
Housing equipment	195	(193)	2	205	(199)	6
Security equipment	19 004	(15 956)	3 048	20 232	(14 279)	5 953
Work in progress	489 367		489 367	432 293		432 293
Total	873 019	(130 149)	742 870	826 451	(131 006)	695 445

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

15. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation on disposal	Transfers	Revaluations	Depreciation	Revaluation excess	Total
CBL land and buildings	89 473	-	-	-	-	-	(1 428)	(1 055)	86 990
Lehakoe land and buildings	128 462	-	-	-	-	-	(2 022)	(1 963)	124 477
Residential land and buildings	17 995	-	-	-	-	-	(279)	(185)	17 531
Housing furniture	4	-	(24)	24	-	-	(1)	-	3
Office furniture	2 362	61	(524)	514	-	-	(477)	-	1 936
Motor vehicles	1 638	590	(614)	614	-	-	(482)	6	1 752
Office equipment	6 105	5 075	(617)	615	1 410	-	(3 490)	-	9 098
Office computer	10 328	1 286	(15 976)	15 962	-	42	(3 685)	(51)	7 906
Lehakoe furniture	458	128	-	-	-	-	(81)	-	505
Sports/music equipment	368	55	(163)	163	-	-	(168)	-	255
Housing equipment	6	10	(10)	-	-	-	(6)	2	2
Security equipment	5 953	-	(1 228)	1 219	-	-	(2 685)	213	3 048
Work in progress	432 293	58 484	-	-	(1 410)	-	-	-	489 367
	695 445	65 689	(19 156)	19 111	-	42	(14 804)	(3 033)	742 870

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

15. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Transfer to Intangibles	Depreciation	Total
CBL land and buildings	90 878	-	-	-	(1 405)	89 473
Lehakoe land and buildings	129 554	-	984	-	(2 076)	128 462
Residential land and buildings	18 297	-	-	-	(302)	17 995
Housing furniture	6	-	-	-	(2)	4
Office furniture	2 834	20	-	-	(491)	2 362
Motor vehicles	1 545	670	-	-	(577)	1 638
Office equipment	8 429	378	187	-	(2 889)	6 105
Office computer	8 529	5 085	-	-	(3 286)	10 328
Lehakoe furniture	375	144	-	-	(61)	458
Sports/music equipment	440	156	-	-	(228)	368
Housing equipment	13	-	-	-	(7)	6
Security equipment	5 014	1 414	2 035	-	(2 511)	5 953
Work in progress	351 839	137 941	(3 206)	(54 281)	-	432 293
	617 753	145 808	-	(54 281)	(13 835)	695 445

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
16. Intangible assets		
	2018	2017
	Cost / Valuation	Accumulated amortisation
	Carrying value	Carrying value
	Cost / Valuation	Accumulated amortisation
Computer software	95 983	(63 519)
	32 464	95 291
	(53 530)	41 761
	41 761	32 464
Reconciliation of intangible assets - 2018		
	Opening balance	Additions
	Amortisation	Total
Computer software, other	41 761	2 188
	(11 485)	32 464
Reconciliation of intangible assets - 2017		
	Opening balance	Additions
	Amortisation	Total
Computer software, other	9 370	55 199
	(22 808)	41 761
SAGE and QCBS softwares are written off over a period of 10 years while all other computer softwares are written off over a 3 year period on a straight line basis.		
17. Notes and coins issued		
Notes	1 501 489	1 599 707
Coins	18 728	16 782
	1 520 217	1 616 489
The Bilateral Monetary agreement between the Government of the Republic of South Africa and the Government of the Kingdom of Lesotho states that both Rand currency issued by the South African Reserve Bank and Maloti currency issued by the Central Bank of Lesotho are legal tender within Lesotho and are convertible at par.		
18. Deposits		
Deposits from Banks - Non-interest bearing		
Banks	339 570	398 488
Other Deposits - Non-interest bearing		
International Institutions	393	324
Parastatals and others	2 173	3 012
	342 136	401 824
19. IMF Maloti Currency Holding		
Securities account	274 823	236 912
General resources account	869 403	765 308
	1 144 226	1 002 220
20. IMF Special Drawing Rights Allocation		
Balance at beginning of year	576 167	604 844
Exchange revaluation	81 949	(28 677)
Balance at end of year	658 116	576 167

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
20. IMF Special Drawing Rights Allocation (continued)		
Lesotho's allocation by IMF of SDR32,878,186 is converted at 0.0570636 (2017: 0.0497992)		
21. IMF-PRGF Facility		
Balance at beginning of year	753 413	877 458
Paid during the year	(150 472)	(85 413)
Exchange revaluation	89 150	(38 632)
	692 091	753 413
This IMF loan was secured under the Poverty Reduction and Growth Facility. The Ministry of Finance tranche is accounted for through the Bank's records to present the amount due to the IMF. The balance due to the IMF amounted to SDR 42,992,500.00, converted at 0.0570636 as at 31 December 2018 (2017: SDR 47,697,000 at 0.0497992). The loan has been on-lent as per note 10. Interest expense and exchange rate differences are borne by the Government of Lesotho.		
22. Taxation(receivable)/ payable		
Balance at beginning of year	(26 882)	4 599
Paid during the year	(6 707)	(68 802)
Current year charge	38 518	37 321
	4 929	(26 882)
23. Dividend payable		
Balance at beginning of year	84 396	147 566
Paid during the year	(84 396)	(147 566)
Profit appropriations for the current year	108 062	84 396
Prior year correction of foreign exchange activities that mistated due to GOL	34 115	
Balance at end of year	142 177	84 396
The Foreign exchange differences which are not taxable, are eliminated from the Profit after tax ,after which a portion is transferred to the Government of Lesotho Consolidated Fund and the General Reserve account in terms of Section 21 of the Central Bank of Lesotho Act No.2 of 2000.		
Profit after tax appropriates as follows:		
(Loss)/profit after tax (after actuarial (loss)/gain on employee benefits)	776 809	(298 450)
Gain on foreign exchange activities	(645 160)	399 725
Profit after tax net of gain on foreign exchange activities	131 649	101 275
Transfer to General Reserve	10 528	(16 879)
	142 177	84 396
24. Changes in Other Liabilities		
Divisional cheques accounts	1 487	3 337
Other	13 222	12 917
Various accruals	9 459	10 690
	24 168	26 944

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
25. Long-term employee benefit obligation		
Provision for severance pay		
Opening obligation	24 661	25 671
Interest cost	2 437	2 346
Current service cost	2 919	2 723
Actuarial (gain)/ loss on employee benefits	(201)	(1 754)
Benefits paid	(3 961)	(4 325)
Closing obligation	25 855	24 661
Provision for gratuity		
Opening obligation	77 218	79 789
Interest cost	7 360	7 109
Current service cost	13 183	10 070
Actuarial (gain)/ loss on employee benefits	2 902	(713)
Benefits paid	(21 938)	(19 037)
Closing obligation	78 725	77 218
Total	104 842	101 879

The Bank's liability is valued using the Projected Unit Credit Method by the independent Actuarial Valuer. The Valuer has used assumptions based on statistics South African market data. The valuer has determined the discount rate to be equal 10,05% p.a., general inflation rate to be 7,98% p.a. The valuer has used the discount rate assumption of high quality corporate bond. The valuer has set the discount rate by using the best fit discount rate at 10 November 2017 based on yields from the zero coupon South African government bond curve. The computation has been determined taking into consideration the cash-flow weighted duration of the liabilities which is approximately 10 years. The recommended discount rate is 10,09%.

Net expense recognised in profit and loss (inclusive of leave pay provision)

Current service cost	16 102	9 859
Interest cost	10 232	12 793
	26 334	22 652

Key assumptions used

Discount rates used	10,19 %	10,09 %
General inflation	6,00 %	6,78 %
Real Rate (Gap)	2,09 %	1,90 %
Salary inflation	7,94 %	8,03 %

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
26. Deferred tax		
Deferred tax liability		
Property plant and equipment	(11 652)	(19 344)
The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:		
Deferred tax liability	(11 652)	(19 344)
Reconciliation of deferred tax asset / (liability)		
At beginning of year	(19 344)	(12 946)
Movements in profit and loss	(201)	1 567
Movement in equity - current year	7 893	(7 965)
	(11 652)	(19 344)
Reconciliation of deferred tax asset / (liability)		
Accelerated capital allowance for tax purposes	5 302	5 532
Liabilities for Health care benefits accrued	27 107	26 590
Deferred expenses	(3 333)	(2 835)
Bond/unit trust revaluation reserve	4 985	(1 494)
Property revaluation reserve	(45 713)	(47 137)
	(11 652)	(19 344)
27. Share capital		
Authorised		
Authorised capital	100 000	100 000
Issued		
Issued and fully paid	100 000	100 000
The entire issued share capital is held by the Government of Lesotho.		
28. Interest income		
Interest income		
Foreign currency deposits	301 331	286 781
Interest treasury bills and SDR holdings	8 021	5 036
Interest on bonds	141 000	153 328
Total interest income	450 352	445 145
29. Interest expense		
Interest on non financial Public Enterprises	83	27
Amortisation of held to maturity liabilities	1 652	3 678
IMF SDR allocation account	5 369	2 766
	7 104	6 471

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
30. Other income		
Rental income	-	81
Profit on sale of bonds	833	751
Interest on staff loans	1 660	1 487
Lehakoe income	7 031	13 737
Other income	4 195	2 847
Gain on instruments designated as fair value through profit and loss	16 969	9 883
Loss/profit on sale of fixed assets	-	48
	30 688	28 834
31. Operating costs and expense per nature		
Administration and other expenses	59 875	63 414
Auditors remuneration	2 963	2 993
Deferred currency expenses amortised	7 915	7 472
Intangible assets amortised	11 413	22 857
Depreciation and impairment	14 804	13 838
Property, plant and equipment maintenance expenses	13 005	15 736
Loss on sale of other instruments	8 159	908
Loss on revaluation of treasury notes and bonds	10 419	12 896
Impairment	(9 703)	-
Personnel costs:		
Staff welfare expenses	17 685	19 234
Non-executive directors' fees	849	964
Executive directors' salaries	8 339	7 600
Key management (heads of departments)	11 832	8 710
Staff salaries and expenses	127 998	124 313
Pension fund contributions	5 915	5 653
Gratuity and severance pay (interest and service cost)	25 899	26 330
	317 367	332 918

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
32. Taxation		
Major components of the tax expense		
Current		
Local income tax - current period	24 920	36 711
Deferred		
Deferred taxation arising on other profit and loss items	-	(1 567)
	24 920	35 144
Tax on actuarial gain(loss)	494	609
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate.		
Chargeable profit (before foreign exchange gain/loss and after actuarial gain/loss)	(146 866)	(137 029)
Statutory tax rate	25,00 %	25,00 %
Permanent differences:		
Donations	0,62 %	0,10 %
50 % Entertainment	0,27 %	0,31 %
Training expenses additional 25%	(0,93)%	(2,02)%
Other	2,38 %	2,77 %
Effective tax rate	27,34 %	26,16 %
33. Cash (used in) generated from operations		
Profit(Loss) before taxation	801 729	(265 136)
Adjustments for:		
Depreciation	14 804	14 004
Deferred computer software amortised	11 413	22 808
Profits/Losses on RAMP Bonds	7 326	-
Loss on sale of assets	-	(48)
Interest income	(450 352)	(445 145)
Interest expense	7 104	6 471
Deferred currency amortisation	7 915	7 901
Impairment of financial assets through OCI	(9 703)	-
FV Gains on RAMP Bonds	(6 551)	-
OCI Movements	4 030	31 861
Other Movements	(282)	(282)
Movement in Deposits	103 350	(1 773 825)
Movement in accrued interest	(14 897)	2 232
Treasury bills at amortised cost	20 210	154 202
Movement in IMF Maloti Currency Holding	142 006	(50 325)
Changes in IMF Subscription	(173 977)	60 880
Changes in Other Liabilities	(2 776)	3 129
Changes in IMF SDR Holdings	92 571	111 265
Changes in IMF SDR Allocations	81 949	(28 677)
Movements in Long-term employee benefit obligation	2 963	2 439
Movements in employee benefits	-	(3 581)
	638 832	(2 149 827)

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
34. Commitments		
Contracted		55 000

These capital commitments are in respect of professional fees for the Bank's extension which was funded from internal resources in 2018.

35. Post retirement obligations

Total employer contributions	5 915	6 045
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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.

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
36. Related parties		
The Bank is owned by the Government of Lesotho.		
A number of banking transactions are entered into with the Government as the Bank also acts as banker to the Government in the normal course of business.		
The deposits with the Bank held by the Government is disclosed separately in the statement of financial position.		
All payments relating to taxes, property rates and service utilisation are made to Government.		
Loans to staff are disclosed in note 13.		
Gross advances made during the year to:		
Heads of Departments and Division Heads	Car loans 3 110 Furniture loans 48 Housing loans -	1 147 150 1 000
Balances due at end of December:		
Heads of Departments and Division Heads	Car loans 6 656 Furniture loans 143 Housing loans 7 345	3 313 299 6 204
General Staff	Car loans 19 523 Furniture loans 1 140 Housing loans 34 693	17 664 1 252 34 425
General Staff and Heads of Department	Other loans 27 712	20 742
Interest charged for the year:		
Heads of Departments and Division Heads	Car loans 129 Furniture loans 11 Housing loans 110	53 9 80
There were no loan advances made to the Governors in the current year, and previous loans were paid up as at 31 December 2018.		
No provisions have been recognised in respect of loans given to related parties.		
The loans issued to Executive Directors (Governors) and other key management (Heads of Departments) personnel during the year are repayable monthly and have interest rates of 3% per annum,		
The Bank however requires and accordingly has the following as collateral:		
- terminal benefits;		
- title deeds and registered mortgages in relation to housing loans		
Further, all short term and long term loans are covered by insurance policies to ensure recoveries in instances of death of employees.		
Annual remuneration to key management which includes car allowances and housing allowances:		
Executive Directors' salaries	9 499	7 599
Key management salaries	13 660	8 710

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
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37. Changes in accounting policy

Application of IFRS 9 Financial Instruments

In the current year, the Bank has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs. IFRS 9 replaces IAS 39 Financial Instruments and introduces new requirements for

2. Impairment of financial assets

3. Hedge Accounting

Details of these new requirements as well as their impact on the Bank's financial statements are described below:

The Bank has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

Classification and measurement of financial assets

Investments in equity instruments

The Bank's investments in equity instruments that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at fair value through other comprehensive income. The change in fair value on these equity instruments continues to be accumulated in other comprehensive income.

Debt instruments

Debt instruments classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Bank to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Reconciliation of the reclassifications and remeasurements of financial assets as a result of adopting IFRS9

The following table presents a summary of the financial assets as at 01 January 2018. The table reconciles the movement of financial assets from the into their new IFRS 9 measurement categories. "FTVPL" denotes "fair value through profit or loss" and "FVOCI" denotes "fair value through other corr

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

37. Changes in accounting policy (continued)

	New measurement category: IFRS 9 On 1 January 2018					Change attributable to:
	Previous measurement IAS 39 As at 31 December 2017	FVTPL - mandatory	FVTPL - designated	Amortised cost FVOCI - equity	FVOCI - debt	
Previously Fair value through profit or loss (Held for trading):						
Treasury notes and bonds (RAMIP)	1 241 767	1 241 767	1 241 767	-	-	1 241 767 No change
Previously Loans and receivables:						
Cash and balances with banks	4 778 747	-	-	4 778 747	-	- No change
Accrued interest due from banks	9 817	-	-	9 817	-	- No change
IMF Subscription account	1 223 196	-	-	1 223 196	-	- No change
IMF Holding of Special Drawing Rights	530 125	-	-	530 125	-	- No change
IMF Funded PRGF Advances	753 413	-	-	753 413	-	- No change
Lesotho Government Securities	58	-	-	58	-	- No change
Loans to staff	86 196	-	-	86 196	-	- No change
	7 381 552	-	-	7 381 552	-	-
Previously Held to maturity:						
US Treasury Bills	91 813	-	-	91 813	-	- No change
Previously Available for sale:						
Investment in unit trusts	635 604	-	-	635 604	-	- No change

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

37. Changes in accounting policy (continued)

Investment in Society for Worldwide Interbank Financial Telecommunications(SWIFT)

Treasury notes and bonds

	700	700	700			Change in measurement category
	1 879 872				1 879 872	No change
	2 516 176	700	-	635 604	1 879 872	-
	11 231 308	1 242 467	7 473 365	635 604	1 879 872	1 241 767

Reconciliation of the reclassifications and remeasurements of financial liabilities as a result of adopting IFRS9

The following table presents a summary of the financial liabilities as at 01 January 2018. The table reconciles the movement of financial liabilities from their IAS 39 measurement categories and into their new IFRS 9 measurement categories. "FVPL" denotes "fair value through profit or loss".

	Previous measurement	New measurement category: IFRS 9				Change attributable to:
		FVPL - mandatory	FVPL - designated	Amortised cost	Re-measurement changes - Retained earnings	
	1 616 489			1 616 489	-	No change
	431 824			401 824		No change
	3 208 374			3 208 374		No change
	1 002 220			1 002 220		No change
	576 167			576 167		No change
	7 53 413			7 53 413		No change
	7 558 487	-	-	7 558 487	-	-

Previously Amortised cost:

Notes and coins issues
Deposits
Lesotho Government Deposits
IMF Maloti Currency Holding
IMF Special Drawing Rights Allocation
IMF PRGF Facility

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Notes to the Financial Statements

38. Financial assets by category

The financial assets have been categorised as follows :

2018 - M '000

	Amortised cost	FVTPL	FVTOCI	Total
Cash and balances with Banks	5 407 813	-	-	5 407 813
Accrued interest due from Banks	24 714	-	-	24 714
Investment in SWIFT	-	399	-	399
Treasury notes and bonds	-	1 487 227	1 795 438	3 282 665
Treasury bills	71 603	-	-	71 603
IMF Subscription Account	1 397 173	-	-	1 397 173
IMF Holding of Special Drawing Rights	437 554	-	-	437 554
IMF Funded PRGF Advances	692 091	-	-	692 091
Lesotho Government Securities	524	-	-	524
Loans to staff	95 910	-	-	95 910
	8 127 382	1 487 626	1 795 438	11 410 446

2017 - M '000

	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Total
Cash and balances with Banks	4 778 747	-	-	4 778 747
Accrued interest due from Banks	9 817	-	-	9 817
Treasury notes and bonds	-	1 879 872	1 241 767	3 121 639
Treasury bills	91 813	-	-	91 813
IMF Subscription Account	1 223 196	-	-	1 223 196
Investment in SWIFT	-	700	-	700
IMF Holding of Special Drawing Rights	530 125	-	-	530 125
IMF Funded PRGF Advances	753 413	-	-	753 413
Lesotho Government Securities	58	-	-	58
Loans to staff	86 196	-	-	86 196
Unit Trusts	-	635 604	-	635 604
	7 473 365	2 516 176	1 241 767	11 231 308

39. Financial liabilities by category

The financial liabilities have been categorised as follows:

2018 - M '000

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

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Notes to the Financial Statements

39. Financial liabilities by category (continued)

2017 - M '000

	Financial liabilities at amortised cost	Total
Notes and coins issued	1 616 489	1 616 489
Deposits	401 824	401 824
Lesotho Government Deposits	3 208 374	3 208 374
IMF Maloti Currency Holding	1 002 220	1 002 220
IMF Special Drawing Rights Allocation	576 167	576 167
IMF PRGF Facility	753 413	753 413
	7 558 487	7 558 487

40. Risk management

General risk management

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

Management structures

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

Risk elements

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

Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people, systems and external factors.

Human resource risk

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

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

Legal risk

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

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

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

Reputational risk

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

Central Bank of Lesotho

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Notes to the Financial Statements

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 2018	Value of Currency M '000	Exchange Rate	Maloti Equivalent M '000
Cash and balances with Banks			
South Africa	4 840 033,00	1,0000	4 840 033
United States	322 907,00	14,3651	4 638 591
Botswana	137,00	1,3417	184
England	2 264,00	18,3888	41 632
European Union	137,00	16,4567	2 255
Switzerland	266,00	14,5972	3 883
IMF	21 900,00	19,9788	437 536
Treasury notes, bonds and unit trusts			
South Africa	1 429 840,00	1,0000	1 429 840
United States	125 734,00	14,3651	1 806 181
Unit trust - US Dollar based	52 243,00	14,3651	750 476
Treasury Bills			
United States	4 984,00	14,3651	71 596
Currency 2017	Value of Currency M'000	Exchange Rate	Maloti Equivalent M '000
Cash and balances with Banks			
South Africa	3 447 415,00	1,0000	3 447 415
United States	90 807,00	12,3502	1 121 485
Botswana	608,00	1,2548	763
England	12 078,00	16,6937	201 627
European Union	545,00	14,8140	8 074
Switzerland	725,00	12,6603	9 179
IMF	9 932,00	17,5459	174 266
Treasury notes, bonds and unit trusts			
South Africa	1 406 994,00	1,0000	1 406 994
United States	138 835,00	12,3502	1 714 640
Unit trust - US Dollar based	51 510,00	12,3502	636 159
Treasury Bills			
United States	7 433,00	12,3502	91 799

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

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

Central Bank of Lesotho

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Notes to the Financial Statements

40. Risk management (continued)

Foreign exchange risk

The company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the company's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The company reviews its foreign currency exposure, including commitments on an ongoing basis. The company expects its foreign exchange contracts to hedge foreign exchange exposure.

Liquidity risk

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterpart to meet its contractual obligations. Credit risks arises from advances to and deposits the Bank makes with other institutions, and the settlement of financial instruments. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

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

Implementation of ECL model- Central Bank of Lesotho

For simplicity, we have used the practical expedient model, as we have reckoned that we have low risk securities and majority of the Bank's securities are Investment grade except for South African investments. As a result we have only computed 12-month ECL unless there has been a significant increase in credit risk since initial recognition, in which case a lifetime ECL is recognised

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

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

Assumptions of the CBL MODEL

- Loss given default follows the recovery rates of the international swaps and derivatives association (ISDA) CDS standard model, as a function of the seniority and the region.
- The rating given to each security is the lowest between the ratings of S&P, Fitch and Moody's.
- The transition matrix is the S&P's global corporate s from 1981 to 2016.

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

40. Risk management (continued)

• A default probability of 1 bps is assumed for AAA rated securities and 1.5 bps for AA+ rated securities

Probability of Default (PD)

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

Credit risk analysis

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

2018

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

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

Central Bank of Lesotho

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Notes to the Financial Statements

40. Risk management (continued)

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

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

Treasury bills	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
Federal Reserve Bank of New York	71 603	71 603	USD	none	Aaa

Treasury notes, bonds and unit trusts	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
South Africa	1 467 659	1 467 659	ZAR	none	P-3/Baa3
United States-BIS	750 487	750 487	USD	none	Aaa
United States-RAMP	1 487 239	1 487 239	USD	none	Aaa
United States	327 779	327 779	USD	none	Aaa
	4 033 164	4 033 164			

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

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Notes to the Financial Statements

40. Risk management (continued)

2017

Cash	Carrying amount M '000	Maximum exposure M '000	Held in Denomi- nation	Type of collateral held	Credit rating
ZAR	193 857	193 857	ZAR	none	n/a
USD	1 938	1 938	USD	none	n/a
GBP	12	12	GBP	none	n/a
EUR	105	105	EUR	none	n/a
	195 912	195 912			

Current and call accounts	Carrying amount M '000	Maximum exposure M '000	Held in Denomi- nation	Type of collateral held	Credit rating
ABSA	5 866	5 866	ZAR	none	P-3/Baa3
ABSA Maloti Repatriation	17 807	17 807	ZAR	none	P-3/BAA3
ABSA Credit Card	799	799	ZAR	none	P-3/BAA3
B.I.S	867	867	GBP	none	Supranational
B.I.S	1 041	1 041	USD	none	Supranational
B.I.S	44	44	EUR	none	Supranational
Bank of England	25 302	25 302	GBP	none	P-1/Aa2
Bank of N.Y	322	322	USD	none	P-1/Aa1
Bank of N.Y	4 035	4 035	ZAR	none	P-1/Aa1
Bank of N.Y	1 108	1 108	USD	none	P-1/AA1
Citi Bank SA	5 343	5 343	ZAR	none	P-2/A3
Crown Agents	1 489	1 489	GBP	none	B/BB
Crown Agents	2 097	2 097	USD	none	B/BB
Deutsche Bankers trust	25 915	25 915	USD	none	P-1/A2
Deutsche Bundersbank	7 927	7 927	EUR	none	Aaa
Federal Reserve Bank of N.Y	1 749	1 749	USD	none	Aaa
First Rand	8 743	8 743	ZAR	none	P-2/Baa3
Investec Bank	7 665	7 665	ZAR	none	P-2/Baa3
NedBank	3 861	3 861	ZAR	none	P-2/Baa3
SIRESS	4 253	4 253	ZAR	none	P-2/Baa3
South African Reserve Bank	1 773 212	1 773 212	ZAR	none	P-2/Baa3
Special Rand Deposit	5 000	5 000	ZAR	none	P-2/Baa3
Standard Bank	222	222	ZAR	none	P-2/Baa2
Standard Chartered Botswana	764	764	BWP	none	A2
Standard Chartered London	6 949	6 949	GBP	none	P-1/Aa1
Union Bank of Switzerland	9 176	9 176	CHF	none	P-1/Aa3
	1 921 556	1 921 556			

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

40. Risk management (continued)

Fixed deposits	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
ABSA	291 000	291 000	ZAR	none	P-3/Baa3
B.I.S	123 502	123 502	GBP	none	Supranational
FEDRES	148 202	148 202	USD	none	Aaa
Firststrand	300 000	300 000	ZAR	none	P-2/Baa3
ICBC ASIA	210 440	210 440	USD	none	P-2/Baa3
Investec	345 082	345 082	ZAR	none	P-3/Baa3
NedBank	193 268	193 268	ZAR	none	P-2/Baa2
Standard Bank	190 471	190 471	ZAR	none	P-2/Baa2
Standard Chartered London	166 998	166 998	GBP	none	P1/A1
Standard Chartered London	174 701	174 701	USD	none	P1/A1
Standard Bank PLC	410 748	410 748	USD	none	P-2/Baa3
Standard Bank PLC	88 095	88 095	ZAR	none	P-2/Baa3
World Bank RAMP	18 772	18 772	USD	none	PA1/Aa1
	2 661 279	2 661 279			

Accrued interest due from Banks	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
ABSA	1 598	1 598	ZAR	none	P-3/Baa3
BIS	101	101	USD	none	Supranational
Federal Reserve	18	18	USD	none	Aaa
Firststrand	1 951	1 951	ZAR	none	P- 2/Baa3
ICBC ASIA	285	285	ZAR	none	P-2/Baa3
Investec	2 642	2 642	ZAR	none	P-3/Baa3
NedBank	694	694	ZAR	none	P-2/Baa2
Special Rand Deposit	97	97	ZAR	none	P-3/Baa3
Standard Bank	671	671	ZAR	none	P-2/Baa2
Standard Chartered London	230	230	USD	none	P-1/A1
Standard Chartered London	29	29	GBP	none	P-1/A1
Standard Bank PLC	345	345	USD	none	P-2/Baa3
Standard Bank PLC	1 156	1 156	ZAR	none	P-2/Baa2
	9 817	9 817			

Treasury bills	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
Federal Reserve Bank of New York	91 813	91 813	USD	none	Aaa

Treasury notes, bonds and unit trusts	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
South Africa	1 375 858	1 375 858	ZAR	none	P-3/Baa3
United States-BIS	635 604	635 604	USD	none	Aaa
United States-RAMP	1 236 453	1 236 453	USD	none	Aaa
United States	471 320	471 320	USD	none	Aaa
	3 719 235	3 719 235			

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Notes to the Financial Statements

40. Risk management (continued)

Loans to staff	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
Housing Loans	41 629	41 629	LSL	Title deeds	n/a
Car loans	22 124	22 124	LSL	Terminal benefits	n/a
Furniture loans	1 701	1 701	LSL	Terminal benefits	n/a
Other loans and advances	20 742	20 742	LSL	Terminal benefits	n/a
	86 196	86 196			

All financial assets were fully performing at year end.

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

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

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

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

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

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

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

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

Sensitivity Analysis for the year ended 31 December 2018

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

Data for currency and foreign investment risk (figures in original currencies) Currency ('000)	31 December 2018		31 December 2017	
	Portfolio level	Exchange rate	Portfolio level	Exchange rate
ZAR	4 840 033	1,00	4 830 022	1,00
USD	322 907	14,37	288 544	12,35
EUR	137	16,46	545	14,81
GBP	2 265	18,39	12 079	16,69
BWP	137	1,34	609	1,25
CHF	266	14,60	725	12,66
SDR	21 901	19,98	9 933	17,55

Central Bank of Lesotho

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Notes to the Financial Statements

40. Risk management (continued)

Base case

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

Currency	31 December 2018		Exchange rate
	Portfolio level	Portfolio level in %	
ZAR	4 840 033	48,57 %	1,00
USD	4 638 594	46,55 %	14,37
EUR	2 262	0,02 %	16,46
GBP	41 642	0,42 %	18,39
BWP	184	- %	1,34
CHF	3 888	0,04 %	14,60
SDR	437 554	4,39 %	19,98
	9 964 157	100 %	

Base case

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

Currency	31 December 2017		Exchange rate
	Portfolio level	Portfolio level in %	
ZAR	4 830 023	54,97 %	1,00
USD	3 563 556	40,56 %	12,35
EUR	8 075	0,09 %	14,81
GBP	201 648	2,29 %	16,69
BWP	764	0,01 %	1,25
CHF	9 176	0,10 %	12,66
SDR	174 281	1,98 %	17,55
	8 787 523	100 %	

5% increase in exchange rate

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

Currency	31 December 2018			Exchange rate
	Portfolio level	Portfolio level in %	Level change	
ZAR	4 840 033	47,36 %	-	1,0000
USD	4 870 524	47,66 %	(231 930)	15,0834
EUR	2 375	0,02 %	(113)	17,2795
GBP	43 724	0,43 %	(2 082)	19,3082
BWP	193	- %	(9)	1,4088
CHF	4 082	0,04 %	(194)	15,3271
SDR	459 432	4,50 %	(21 878)	20,9777
	10 220 363	100 %		

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

40. Risk management (continued)

5% decrease in exchange rate

Data for currency and foreign investment risk

(figures in M '000)

Currency	31 December 2018			Exchange rate
	Portfolio level	Portfolio level in %	Level change	
ZAR	4 840 033	49,86 %	-	1,00
USD	4 406 664	45,39 %	231 930	13,65
EUR	2 149	0,02 %	113	15,63
GBP	39 560	0,41 %	2 082	17,47
BWP	175	- %	9	1,27
CHF	3 694	0,04 %	194	13,87
SDR	415 676	4,28 %	21 878	18,98
	9 707 951	100 %		

% Change -2.57%

5% increase in exchange rate

Data for currency and foreign investment risk

(figures in M '000)

Currency	31 December 2017			Exchange rate
	Portfolio level	Portfolio level in %	Level change	
ZAR	4 830 023	53,75 %	-	1,00
USD	3 741 734	41,64 %	-	12,97
EUR	8 479	0,09 %	-	15,55
GBP	211 730	2,36 %	-	17,53
BWP	802	0,01 %	-	1,32
CHF	9 635	0,11 %	-	13,29
SDR	182 996	2,04 %	-	18,42
	8 985 399	100 %		

% Change 2.21%

5% decrease in exchange rate

Data for currency and foreign investment risk

(figures in M '000)

Currency	31 December 2017			Exchange rate
	Portfolio level	Portfolio level in %	Level change	
ZAR	4 830 023	56,23 %	-	1,00
USD	3 385 378	39,41 %	178 178	11,73
EUR	7 671	0,09 %	403	14,07
GBP	191 565	2,23 %	10 082	15,86
BWP	726	0,01 %	38	1,19
CHF	8 717	0,10 %	459	12,03
SDR	165 567	1,93 %	8 714	16,67
	8 589 647	100 %		

% Change -2.21%

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

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.

2018

Currency	Cash	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	2018 M '000	2018 M '000	2018 M '000	2018 M '000	2018 M '000	2018 M '000
ZAR	147 917	3 224 450	-	1 373 840	93 820	4 840 027
USD	3 123	2 267 370	261 720	2 106 380	-	4 638 593
EUR	86	2 175	-	-	-	2 261
GBP	17	41 625	-	-	-	41 642
Other	-	441 630	-	-	-	441 630
	151 143	5 977 250	261 720	3 480 220	93 820	9 964 153

Base case yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	6,91 %	7,32 %	7,40 %	8,00 %
USD	2,14 %	1,63 %	2,27 %	- %
EUR	(0,42)%	- %	- %	- %
GBP	0,73 %	- %	- %	- %

100 Basis points increase in yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	7,91 %	8,32 %	8,40 %	9,00 %
USD	3,14 %	2,59 %	3,27 %	1,00 %
EUR	0,58 %	- %	- %	- %
GBP	1,73 %	- %	- %	- %

100 Basis points decrease in yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	5,91 %	6,32 %	6,40 %	7,00 %
USD	1,14 %	0,59 %	1,27 %	- %

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

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

Central Bank of Lesotho

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Notes to the Financial Statements

40. Risk management (continued)

Nominal return in decreasing yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Nominal Income	% Change
	M '000	M '000	M '000	M '000	M '000	
ZAR	190 530	-	87 930	6 570		
USD	25 740	1 630	26 860	-	339	(22)

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

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

2017

Currency	Cash	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	2016 M '000	2016 M '000	2016 M '000	2016 M '000	2016 M '000	2016 M '000
ZAR	170 000	3 253 000	101 000	803 000	503 000	4 830 000
USD	2 000	1 365 000	372 000	1 825 000	-	3 564 000
EUR	-	8 000	-	-	-	8 000
GBP	-	202 000	-	-	-	202 000
Other	-	184 000	-	-	-	184 000
	172 000	5 012 000	473 000	2 628 000	503 000	6 788 000

Base case yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	6,87 %	7,10 %	7,00 %	7,88 %
USD	1,21 %	1,13 %	1,23 %	- %
EUR	(0,40)%	- %	- %	- %
GBP	0,48 %	- %	- %	- %

100 Basis points increase in yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	7,87 %	8,10 %	8,00 %	8,88 %
USD	2,21 %	2,13 %	2,23 %	1,00 %
EUR	0,60 %	- %	- %	- %
GBP	1,48 %	- %	- %	- %

100 Basis points decrease in yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	5,87 %	6,10 %	6,00 %	6,88 %
USD	0,21 %	0,13 %	0,02 %	- %

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

40. Risk management (continued)

Nominal return in base case yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Nominal Income	% Change
	M '000	M '000	M '000	M '000		
ZAR	224 000	7 000	56 000	40 000		
USD	16 000	4 000	22 000	-		
EUR	0	-	-	-		
GBP	1 000	-	-	-		
Other	0	-	-	-		
					513 000	

Nominal return in increasing yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Nominal income	%Change
	M '000	M '000	M '000	M '000		
ZAR	256 000	8 000	64 000	45 000		
USD	30 000	8 000	41 000	-		
GBP	4 000	-	-	-		
					455 000	23

Nominal return in decreasing yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Nominal Income	% Change
	M '000	M '000	M '000	M '000		
ZAR	191 000	6 000	48 000	35 000		
USD	3 000,00	-	4 000	-		
					287 000	(22)

Sensitivity: For a 1 percentage increase in yields, income increases by 23%

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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

40. Risk management (continued)

Liquidity risk

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

2018	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6months	Maturing after 6 months but within 12 months	Maturing after 1year but within 5 years	Maturing after 5 years	Total
	M '000	M '000	M '000	M '000	M '000	M '000	M '000
Financial assets							
Cash and balances with banks	1 315 614	2 924 778	643 651	523 770	-	-	5 407 813
Accrued interest due from Banks	675	22 091	1 948	-	-	-	24 714
Expected interest cashflows from Bonds	-	458	1 774	3 154	194 264	45 778	245 428
Treasury Notes, Bonds and Unit Trust	775 360	65 945	216 480	246 148	2 687 665	91 387	4 082 985
IMF accounts	2 526 818	-	-	-	-	-	2 526 818
Lesotho Government Securities	524	-	-	-	-	-	524
Loans to staff	-	-	-	-	53 872	42 038	95 910
Investment in SWIFT	399	-	-	-	-	-	399
Total Financial Assets	4 619 390	3 013 272	863 853	773 072	2 935 801	179 203	12 384 591
Financial liabilities							
Notes & coins issued	1 518 979	-	-	-	-	-	1 518 979
Deposits	342 136	-	-	-	-	-	342 136
Lesotho Government Deposits	2 751 480	-	-	-	-	-	2 751 480
IMF Accounts	2 494 433	-	-	-	-	-	2 494 433
Total Financial liabilities	7 107 028	-	-	-	-	-	7 107 028
Net liquidity gap	(2 487 638)	3 013 272	863 853	773 072	2 935 801	179 203	5 277 563

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

40. Risk management (continued)

2017	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
Financial assets							
Cash and balances with banks	2 267 422	1 250 170	811 155	450 000	-	-	4 778 747
Accrued interest due from Banks and bonds	97	9 682	38	-	-	-	9 817
Expected interest cashflows from Bonds	-	-	58 661	58 661	270 044	233 152	620 518
Treasury Notes, Bonds and Unit trusts	-	-	-	899 215	2 222 424	-	3 121 639
IMF accounts	1 753 321	-	-	-	-	-	1 753 321
Lesotho Government Securities	-	-	-	-	58	-	58
Loans to staff	-	-	6 044	12 756	24 640	42 756	86 196
Investment in SWIFT	700	-	-	-	-	-	700
Total Financial Assets	4 021 540	1 259 852	875 898	1 420 632	2 517 166	275 908	10 370 996
Financial liabilities							
Notes & coins issued	1 616 489	-	-	-	-	-	1 616 489
Deposits	401 824	-	-	-	-	-	401 824
Lesotho Government Deposits	3 208 374	-	-	-	-	-	3 208 374
IMF Accounts	1 578 387	-	-	-	-	-	1 578 387
Total Financial liabilities	6 805 074	-	-	-	-	-	6 805 074
Net liquidity gap	(2 783 534)	1 259 852	875 898	1 420 632	2 517 166	275 908	3 565 922

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Notes to the Financial Statements

	2018 M '000	2017 M '000
41. Fair value information		
Levels of fair value measurements		
Level 1		
Available for sale financial assets :		
Treasury notes and bonds	1 487 227	1 879 872
Unit trusts	750 487	635 604
Financial assets at fair value through OCI:		
Treasury notes and bonds	1 787 744	1 241 767
Investment in SWIFT	399	700
	4 025 857	3 757 943

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

42. Memorandum Accounts

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

Amounts in USD

Deutsche Bank Trust Company America	14 846 277	2 098 315
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Amounts in Euro

Deutsche Bundesbank	653 118	535 390
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As per the Bank's accounting policy in 1.27 these amounts have not been recorded on the Balance Sheet.

43. Subsequent Events

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