Central Bank of Lesotho

Financial statements
for the year ended 31 December 2020

General Information

Nature of business and principal activities	Statutory body duly continuing in existence in terms of the Central Bank of Lesotho Act No. 2 of 2000
Registered office	Cnr Airport & Moshoeshoe Roads Maseru 100 Lesotho
Auditors	Statutory Auditors are Moteane Quashie and Associates and SNG Grant Thornton
Secretary	Mr. N. Rantsane (Adv.)
Lawyer	Webber & Newdigate

Contents

Corporate Governance Report

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

Report for the year.

The Board has a unitary Board, which comprises of five (5) Non-Executive Directors and three (3) Executive Directors. The Non-Executive directors are independent of 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 its execution and provides leadership for the successful delivery 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 Resources 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 respective 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 frecuently as possible and not less than once in every two months, the Board of Directors convened eleven meetings during the 2020 Financial Year.

Adv. N. Rantsane
Secretary to the Board

Audit Committee Report

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

The general mandate of the Committee is to review the Bank's business reporting processes, the systems of internal controls and the management of business risks, the audit process, as well as the appointment of the external auditors. The Committee is also responsible for monitoring the Bank's process of compliance with the applicable laws and regulations and its own code of business conduct.

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

During the financial year under review, the Committee convened eight meetings which considered the following: Internal Audit Department Annual Plan for 2021, as well as the reports of the Internal Audit Department on identified areas of internal control. The Committee also considered and approved the External Auditors Plan for 2020. Further the Committee considered the revised Engagement Letter and recommended it for approval by the Board of Directors. The Committee also considered and recommended for approval the audited Financial Statements for the year ended 31st December 2020.

Based on reports from both the internal and external auditors, as well as the Executive Management, the Committee is satisfied that the internal 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 was made after considering the representations of independence from the external auditors and a formal partner rotation process.

The Committee is satisfied with the formal procedures that govern the provision of audit services by the 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 as they relate to financial reporting. This is based on the Committee's review of reports received from both internal and external auditors, as well as from Management.

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

As at 15th December 2020 the term of office of the then Chairperson of the Audit Committee Mrs. S. Mohapi expired and the new Chairperson of the Audit Committee is Mrs. R. Tlali who was appointed effective 25th February 2021.

On behalf of the Audit Committee

Mrs. R. Tlali
Chairperson Audit Committee

Directors' Responsibilities and Approval

In line with the CBL Act. No. 2 of 2000 the Directors are required to ensure that proper financial and managerial controls are in place, adequate and effective. Directors are also responsible for the content and integrity of the annual financial statements and related disclosures in this report.

It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Bank at the end of the financial year and the results of its operations and cash flows for the year ended 31 December 2020, in conformity with the Central Bank of Lesotho Act No. 2 of 2000 and according to the policies set out in note 1 of the financial statements. The external auditors are engaged to express an independent opinion on the annual financial statements

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

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

The Directors are of the opinion, based on the information and explanations given by Executive Management, that the systems of internal control provide 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 2021 and are signed on its behalf by:

Dr. A. R. Matlanyane	**Mrs. K. Thabane (Adv)**
Governor	**Director**

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 2020. 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 the South African Rand. These financial statements were prepared on a going concern basis taking into account that the Bank is a lender of last resort and continues to be the banker of the Government concerning foreign exchange transactions.

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 13. 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 14. Amounts paid and due in terms of the Act were as follows:

	M '000
31 December 2020	46 999
31 December 2019	117 840

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 12.

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. Directorate

The directors of the Bank during the year and to th edate of this report are as follows:

Name	Date of appointment	Position held	Changes
Dr. A. R. Matlanyane	January, 2017	Governor and Chairman	
Dr. M. P. Makhetha	January, 2017	First Deputy Governor	
Ms. M. G. Makenete	January, 2017	Second Deputy Governor	
Mrs. N. Foulo	December 2017	Non-Executive Director	Term ended on 15th December 2020
Mrs S. Mohapi	December, 2017	Non-Executive Director	Term ended on 15th December 2020
Dr. M. Letete	August , 2018	Non-Executive Director	Resigned on 31st August 2020
Mrs. K. Thabane (Adv)	June, 2018	Non-Executive Director	
Mr. M. Letsoela	July, 2019	Non-Executive Director	
Mr. R. Thamae	September, 2020	Non-Executive Director	

5. Secretary

Name	Date of appointment	Position held
Mr. N. Rantsane (Adv.)	March, 2020	Director of Corporate Affairs

6. Events after the reporting period

The COVID-19 pandemic has thrown the global economy into disarray, with over 99.86 million confirmed cases and over 2.15 million deaths as at January 28, 2021 (World Health Organization). As a result, most economies responded by restricting movements,thereby negatively affecting global economic growth. The global economy, however,is expected to rebound strongly in 2021 driven by a successful rollout of vaccines and continued fiscal and monetary policy support. Should economic activity resume, global Gross Domestic Poduct (GDP) is expected to reach its highest levels in more than a decade in 2021 as the race to meet global demand heightens.

The United States (US), a market the CBL continues to be heavily exposed to, remains the hardest hit by COVID-19, with over 25 million confirmed cases and 419, 000 deaths (WHO-January 28). The US Fed is expected to keep rates unchanged throughout the most part of the year with a change only expected on the basis of heavy inflationary pressures. The Bank's exposure in this market is primarily in Treasury Bonds, where credit risk is assessed as low due to the US's strong capacity to meet its obligations (also depicted by a low probability of default) as well as the strength and stability of the US dollar.

As South Africa continues to battle COVID-19 and the new strain, the economy is expected to contract by 8 percent in 2020. However, South African Reserve Bank (SARB) is optimistic that GDP will expand by 3.5 percent and 2.4 percent in 2021 and 2022 respectively. The SARB is expected to keep rates unchanged, however, there remains room for a slight cut of around 25 bps to help improve liquidity in the market in the first half of the year.

While the Rand has historically been very volatile, it has however been one of the best-performing emerging market currencies in recent months, and is expected to continue the rally as the world rushes to secure and rollout COVID-19 vaccines. 52.9% of the Bank's portfolio is expected to be in Rand in 2021 as per the currency allocation, and this is influenced heavily by the Country's obligations. Despite having taken a hit as a result of the double-dip downgrade at the onset of the pandemic, the Rand has since made an incredible comeback; ranking highest in emerging market currencies. In spite of the recovery of the Rand, risk is still perceived to be high in the South African market due to fiscal issues. However, due to the robustness of the South African financial markets and governance institutions, economic resilience is expected to remain for a while.

Impact of COVID 19 on revenue
Regardless of the impact of COVID 19 globally there were good revenue returns from bonds as the Bank made allocation of more reserves to higher yielding SA bonds (financial assets at fair value through other comprehensive income) and also fair value gains from dollar bonds resulted in higher performance in the sub-portfolio. The performance of the Rand however decelerated monthly to the end of the year as low interest rates began to affect portfolio positions. On the other hand, revenue earned from US dollar holdings (debt instruments at fair value through profit or loss) was affected by low interest rates though this effect was mitigated by exchange rate gains from weak rand exchange rate against the dollar and other major currencies during the year under review. Overall higher levels of reserves, weak exchange rate of Rand currency relative to other currencies strategies like longer term floating rate deposits have resulted in superior performance of revenue

No financial assets have been impaired during the year. Financial assets held at fair value through Other Comprehensive Income (South African Government bonds) and financial assets held at armortised cost have moved to stage 2 and therefore lifetime expected credit loss (ECL) has been performed on them.

7. Auditors

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

8. Financial Reporting Framework

The Central Bank of Lesotho (CBL) Annual Financial Statements are prepared in accordance with the requirements of the Central Bank of Lesotho (CBL) Act, No. 2 of 2000 and the accounting policies usually set out in note 1 of the Annual Financial Statements. The Bank has chosen to use International Financial Reporting Standards (IFRS) as a framework used to guide it to prepare and disclose its financial statements, as well as deciding on the most appropriate accounting policies and estimates. The CBL Act, however, takes precedence over IFRS in areas where there are deviations between the Act and IFRS. As a result, certain criteria set out in IFRS have not been followed where applicable.

All monetary figures appearing in the financial statements, unless otherwise indicated, are stated in Maloti. The preparation of financial statements requires the use of certain critical accounting estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Although these estimates are based on Management’s best knowledge of current events and actions, actual results ultimately may differ from those estimates depending on new information that may come following the decision of a particular estimate.

1. Revaluation Reserve Account

The Bank has established the Revaluation Reserve Account in compliance with the requirement of the Act which states that:“The gains and losses arising from any changes in the valuation of the Bank’s assets or liabilities in, or denominated in, gold or foreign currencies, or Special Drawing Rights as a result of changes in the exchange rate for the Maloti or of any change in the values, parities or exchange rates of such assets with respect to the Maloti shall be carried to a special account called the Revaluation Reserve Account

Directors' Report

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

2. Rand Compensation reserve

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

3. Profits and General Reserves

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

(a) "in the case of any year at the end of which the general reserve of the Bank does not exceed the minimum paid- up capital of the Bank, one-third of the net profits of the Bank for the financial year";

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

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

(3) "With the approval of the Minister, further allocations may be made from time to time to the general reserve to increase it beyond four times the minimum paid-up capital of the Bank".

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

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

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

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

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

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

Dr. A.R. Matlanyane	**Mrs. R.Tlali**
Governor	**Director**
29 March 2021	**29 March 2021**

SNG Grant Thornton
An instinct for growth™

MOTEANE, QUASHIE & ASSOCIATES
CHARTERED ACCOUNTANTS
& MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF THE CENTRAL BANK OF LESOTHO

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Central Bank of Lesotho ("the Bank"), set out on pages 11 to 63, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank for the year ended 31 December 2020 are prepared, in all material respects, in accordance with the accounting policies described in Note 1 to the financial statements and the requirements of the Central Bank Act No.2 of 2000.

Basis for opinion

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

Emphasis of matter

Basis of preparation and restriction of distribution and use

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

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M.A. Moteane (Mrs.)(resident) [Managing Director]
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Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements.

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

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

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

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

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Moteane Quashie & Associates

Kobla Quashie
Moteane, Quashie & Associates
Chartered Registered Auditor
Director

31 March 2021

Plot 582 Hoohlo
Maseru
100

SizweNtsalubaGobodo Grant Thornton Inc.

Agnes Dire
SizweNtsalubaGobodo Grant Thornton Inc.
Chartered Registered Auditor
Director

31 March 2021

20 Morris Street East
Woodmead
2109

Statement of Financial Position as at 31 December 2020

	Note(s)	2020 M '000	2019 M '000
Assets			
Cash and cash equivalents	2	6 824 837	4 364 889
Deposit Floaters	3	613 650	2 020 209
Accrued interest due from Banks	4	15 614	39 173
Investment in Swift	6	506	399
Treasury notes and bonds	7	4 822 015	3 857 235
Treasury bills at amortised cost	8	73 425	69 194
IMF Subscription Account	9	1 467 398	1 357 310
IMF Holding of Special Drawing Rights (SDR)	10	45 785	226 909
IMF Funded PRGF Advances	11	317 730	475 535
IMF Rapid Credit Facility	12	245 127	-
Lesotho Government Securities	13	4 329	521
Deferred currency expenditure	14	10 782	19 498
Loans and advances	15	106 773	108 898
Other assets	16	6 089	10 744
Property, plant and equipment	17	853 076	805 643
Intangible assets	18	25 063	31 428
Current tax receivable	25	27 640	-
Deferred tax	30	21 972	-
Total Assets		**15 481 811**	**13 387 585**
Equity and Liabilities			
Liabilities			
Notes and coins issued	19	1 819 028	1 612 878
Deposits	20	686 524	538 680
Lesotho Government Deposits		4 057 873	3 715 382
IMF Maloti Currency Holding	21	1 689 268	1 111 063
IMF Special Drawing Rights Allocation	22	695 850	637 140
IMF-PRGF Facility	23	317 730	475 535
IMF Rapid Credit Facility	24	245 127	-
Taxation payable	25	-	21 624
Due to Government of Lesotho Consolidated Fund	26	46 999	117 840
Trade and other payables	27	306 421	14 026
Long-term employee benefit obligation	28	107 117	111 579
Post-employment retirement fund benefits	29	78 801	-
Deferred tax	30	-	13 019
Total Liabilities		**10 050 738**	**8 368 766**
Equity			
Share capital	31	100 000	100 000
General reserve		329 712	320 312
Rand compensatory reserve		901 494	822 450
SDR revaluation reserve		161 584	56 704
Foreign exchange revaluation reserve		3 618 842	3 539 513
Property revaluation reserve		188 758	149 788
Bond/unit trust revaluation reserve		130 683	30 052
		5 431 073	**5 018 819**
Total Equity and Liabilities		**15 481 811**	**13 387 585**

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2020 M '000	2019 M '000
Interest income	32	503 186	558 410
Interest expense	33	(17 141)	(9 587)
Net interest income		**486 045**	**548 823**
Other income	34	64 827	49 944
Total Income		**550 872**	**598 767**
Impairment losses		(24 460)	(49 789)
Operating costs and expenses	35	(453 566)	(341 128)
Profit before taxation		**72 846**	**207 850**
Taxation	36	(21 468)	(58 504)
Profit for the year		**51 378**	**149 346**
Other comprehensive income:			
Bond/ unit trusts fair values			
Increase in bond/unit trusts fair values		74 214	43 102
Tax effect		26 417	1 876
Net movement		**100 631**	**44 978**
Property revaluation reserve			
Increase/(Decrease) in property revaluations		30 274	17 708
Tax effect		8 696	(5 060)
Net movement		**38 970**	**12 648**
Rand compensation reserve			
Increase in reserve		79 044	77 393
Tax effect		-	-
Net movement		**79 044**	**77 393**
Actuarial gains and losses on employee benefits			
Actuarial (loss)/ gain for the year		6 695	(10 583)
Tax effect		(1 674)	2 645
Net movement		**5 021**	**(7 938)**
Other comprehensive income for the year net of taxation		**223 666**	**127 081**
Total comprehensive income for the year		**275 044**	**276 427**

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2020

Statement of Changes in Equity

	Share capital	General reserve	Rand compensation reserve	SDR revaluation reserve	Foreign exchange revaluation reserve	Property revaluation reserve	Bond 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 2019	**100 000**	**296 744**	**745 057**	**63 903**	**3 585 462**	**137 140**	**(14 926)**	**-**	**4 913 380**
Profit for the year	-	-	-	-	-	-	-	149 346	149 346
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**149 346**	**149 346**
Foreign exchange translation to designated reserve	-	-	-	(7 199)	(45 949)	-	-	-	(53 148)
Movement in bond/unit trust fair values	-	-	-	-	-	-	44 978	-	44 978
Asset revaluation for the year	-	-	-	-	-	12 648	-	-	12 648
Rand compensatory receipts	-	-	77 393	-	-	-	-	-	77 393
Transfer to General Reserve	-	23 568	-	-	-	-	-	(23 568)	-
Actuarial fair value gain	-	-	-	-	-	-	-	(7 938)	(7 938)
Dividends	-	-	-	-	-	-	-	(117 840)	(117 840)
Total changes	**-**	**23 568**	**77 393**	**(7 199)**	**(45 949)**	**12 648**	**44 978**	**(149 346)**	**(43 907)**
Balance at 01 January 2020	**100 000**	**320 312**	**822 450**	**56 704**	**3 539 513**	**149 788**	**30 052**	**-**	**5 018 819**
Profit for the year	-	-	-	-	-	-	-	51 378	51 378
Other comprehensive income	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**51 378**	**51 378**
Foreign exchange translation to designated reserve	-	-	-	104 880	79 329	-	-	-	184 209
Movement in bond/unit trust fair values	-	-	-	-	-	-	100 631	-	100 631
Asset revaluation for the year	-	-	-	-	-	38 970	-	-	38 970
Rand compensatory receipts	-	-	79 044	-	-	-	-	-	79 044
Transfer to General Reserve	-	9 400	-	-	-	-	-	(9 400)	-
Actuarial fair value gain	-	-	-	-	-	-	-	5 021	5 021
Dividends	-	-	-	-	-	-	-	(46 999)	(46 999)
Total changes	**-**	**9 400**	**79 044**	**104 880**	**79 329**	**38 970**	**100 631**	**(51 378)**	**360 876**
Balance at 31 December 2020	**100 000**	**329 712**	**901 494**	**161 584**	**3 618 842**	**188 758**	**130 683**	**-**	**5 431 073**

Statement of Changes in Equity

Explanatory notes

* **General reserve** has been allocated in terms of Section 21(2)(b) of the Central Bank of Lesotho Act No. 2 of 2000.The Act stipulates that one third of the net profits will be allocated to general reserve and in case where general reserve exceeds paid-up capital but less than four times, one sixth of the net profits will be allocated to general reserve.

*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 25% of this amount be treated as a reserve.

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

* **Foreign exchange revaluation reserve** in terms of Section 54 of the Central Bank of Lesotho Act No. 2 of 2000, the gains and losses arising from any changes in the valuation of the Bank’s assets or liabilities in, or denominated in, gold or foreign currencies, or Special Drawing Rights as a result of changes in the exchange rate for the Maloti or of any change in the values, parities or exchange rates of such assets with respect to the Maloti shall be carried to a special account called the Foreign Exchange Revaluation Reserve Account and SDR Revaluation Reserve Account without affecting the Bank’s profit or loss account. In the case of a carried over loss or net debit balance in the Revaluation Reserve Account, amounts shall be transferred from the available balance in the General Reserve to cancel such carried over losses.
Effects of changes in foreign exchange rates, exchange differences dealt with under the terms of section 54 of the Central Bank of Lesotho Act No. 2 of 2000, are recognised in the statement of changes in equity by being transferred to the special account.

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

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

* **Accumulated Profit** In terms of Section 21.
(1) The net profits of the Bank for each financial year shall be determined by the Board after making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds and for all other matters for which provision is to be made by or under this Act.
(2) The Bank shall establish a general reserve to which shall be allocated at the end of each financial year of the Bank (a) in the case of any year at the end of which the general reserve of the Bank does not exceed the minimum paidup capital of the Bank, one-third of the net profits of theBank for the financial year;
(b) in the case of any year at the end of which the general reserve of the Bank exceeds the minimum paid-up capital of the Bank but does not exceed four times the paid-up capital of the Bank, one-sixth of the net profits of the Bank for the financial year.
(3) After appropriate allocations have been made to the general reserve under subsection (2), one-quarter of the remainder of the net profits for the financia year shall be applied to the redemption of any securities of the Government held by the Bank which have been issued under section 20(6).
(4) With the approval of the Minister, further allocations may be made from time to time to the general reserve to increase it beyond four times the minimum paid-up capital of the Bank.
(5) The residue of the net annual profits for the financial year remaining after all deductions authorized by subsections (2), (3), (4) and section 55 have been made shall be paid into the Consolidated Fund as soon as practicable after the end of each financial year.

Statement of Cash Flows

	Note(s)	2020 M '000	2019 M '000
Cash flows from operating activities			
Cash used in operations	37	2 614 881	14 198
Interest received	32	448 399	478 911
Interest expense	33	(3 767)	(9 587)
Tax paid	25	(105 756)	(39 595)
Rand compensatory reserve		79 044	77 393
Payments to Government of Lesotho Consolidated Fund	26	(117 840)	(24 337)
Increase/(decrease) in Other assets		4 654	(2 969)
Decrease /(increase) in Lesotho Government Securities		(3 808)	3
Purchase)of Treasury notes, bonds and unit trust		(800 406)	(551 947)
Movements in notes and coins	19	206 150	92 661
Net cash from operating activities		**2 321 551**	**34 731**
Cash flows from investing activities			
Purchase of property, plant and equipment	17	(59 045)	(63 093)
Purchase of other intangible assets	18	-	(6 119)
Sale/(purchase) of investment in unit trust		-	750 487
Sale of investment in SWIFT	6	-	603
Decrease/(increase) in staff loans	15	174	(12 988)
Net cash from investing activities		**(58 871)**	**668 890**
Cash flows from financing activities			
Movement in IMF Funded PRGF	23	(123 618)	-
Movement in Rapid Credit Facility	24	274 340	-
Net cash from financing activities		**150 722**	**-**
Total cash movement for the year		**2 413 402**	**703 621**
Cash at the beginning of the year		4 364 889	3 746 860
Effect of exchange rate movement on cash balances		46 546	(85 592)
Total cash at end of the year	2	**6 824 837**	**4 364 889**

Accounting Policies

1. Presentation of financial statements

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

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 property plant and equipment, financial instruments classified as financial assets at fair value through other comprehensive income, financial assets and liabilities held at fair value through profit and loss and derivative instruments. All monetary figures appearing in the financial statements, unless otherwise indicated, are stated in Maloti.

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

1.1 Property, plant and equipment

Owner-occupied properties

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

All repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.

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

After recognition as an asset an item of property, plant and equipment whose fair values can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Other property, plant and equipment (office furniture, equipment,computers and motor vehicles) are subsequently carried at cost less accumulated impairment losses. Work in progress consists of items under construction and is measured at cost. Work in progress is transferred to the related category of assets and depreciated accordingly when the asset is completed and available for use. Items under construction are not used and thus not depreciated.

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

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

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

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

Item	Depreciation method	Rates
CBL Buildings	Straight line	1.5%
CBL and Lehakoe Land		Nil
Lehakoe buildings	Straight line	1.5%
Residential land and buildings	Straight line	1.5%
Housing Furniture	Straight line	10%
Office furniture	Straight line	10%
Motor vehicles	Straight line	20%
Office equipment	Straight line	20%
Office Computers	Straight line	20%
Lehakoe Furniture	Straight line	10%
Sports/ Music equipment	Straight line	20%
Housing equipment	Straight line	20%
Security equipment	Straight line	20%

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

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

1.1 Property, plant and equipment (continued)

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

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

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

1.2 Intangible assets

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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 with the exception of SAGE and Quantum Central Banking System (QCBS) which have useful lives of 10 years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software costs recognised as assets are amortised over their estimated useful lives for a minimum of three years.

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

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

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

1.3 Current and deferred income tax

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

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

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the financial year end date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

1.3 Current and deferred income tax (continued)

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

(a) Share capital is classified as equity

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

(b) Dividends on ordinary shares

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

1.5 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. 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 for permanent employees who have completed 10 years (Advance gratuity) of continuous service with the Bank and 25% of total earnings for the contract period of contract employees.

(c) Actuarial gains/losses

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

(d) Accrual for leave pay

Employee benefits in the form of 25% 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.

1.5 Employee benefits (continued)

(e) Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The expected costs of post-employment defined benefits are charged to profit or loss over the expected service life of the employees entitled to these benefits according to the projected unit credit method. Costs are actuarially assessed, and expense adjustments and past-service costs resulting from plan amendments are amortised over the expected average remaining service life of the employees. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past-service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in OCI in the period in which they arise. Remeasurements are not classified to profit or loss in subsequent periods. Past service costs are recognised in profit or loss at the earlier of the following dates: (i) when the plan amendment or curtailment occurs or, (ii) when the entity recognises related restructuring costs or termination benefits.

1.6 Provisions

Contingent assets and contingent liabilities are not recognised.

Provisions for 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.

1.7 Revenue

Interest income is recognised using the effective interest method. When a financial asset is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired financial assets are recognised using the original effective interest rate.

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

1.8 Translation of foreign currencies

(a) Functional and presentation

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

(b) Transactions and balances

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

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

1.9 Impairment of non-financial assets

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

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Assets that 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 that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1.10 Claims on staff

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

1.11 Deferred currency expenditure

Expenditure incurred in connection with printing, minting and issue of Maloti Notes and Coins is amortised over a period of three years. When these Bank notes are received from the printers they are kept in the new stock of bank notes and only transferred to re-issuable over a three-year period and the Bank has policy of amortising them on a straight line basis over the same three years. The Bank notes printing and minting costs cannot all be expensed when incurred because the benefit of distribution to the banking industry is not realised over a period of one year.

1.12 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.

1.13 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.

1.14 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.

1.15 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.

1.16 Comparative figures

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

1.17 General Reserve

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

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

1.18 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.

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

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

1.20 SDR Revaluation Reserve

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

1.21 Property Revaluation Reserve

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

1.22 Bond/Unit Trust Revaluation Reserve

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

1.23 Financial Risk Management

(a) Market Risk

(i) Foreign Exchange Risk

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

In order to manage the foreign exchange risk exposure, the Bank holds functional currencies in which its obligations are denominated in the ratio of their historic cash flows. As of 31st December 2019, if the currency had weakened/strengthened by 5% against the functional currencies, the Bank's foreign assets would have been 2.31% (2018: 2.12%) higher/lower as a result of foreign exchange losses/gains on valuation of foreign currency denominated assets.

(ii) Interest Rate Risk

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

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

(iii) Price risk

The Bank is exposed to fixed rate securities price risk because of investments held by the Bank which are classified on the statement of financial position either as financial assets at fair value through other comprehensive income or as financial assets at fair value through profit or loss.

In managing price risk, the Bank's portfolio managers take a view on how future interest rates will unfold, ensuring that as investments mature, they are reinvested at the highest possible rates, cognisant of limits and targets set out in the investment strategy and strategic asset allocation (SAA). For fixed security instruments, interest rate risk is managed by aligning the portfolios to market indexes.

(b) Credit risk

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

(c) Liquidity risk

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

Refer to the Risk Management Statements on pages 47 to 61.

1.24 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the No.1 and No.2 accounts which total SOR 57 214 433 (2019: SOR 57 214 433) 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 SOR Department is posted in the No.1 account and is used tor 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 SOR 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 SOR rates in IMF website.

1.25 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 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 Bank participating in the post retirement Corporate Bodies Pension Scheme (CBPS) cannot be separated due to the fact that it is a multi-employer plan. The liability recognised in the statement of financial position in respect of defined benefit pension plans (Corporate Bodies Pension Scheme (CBPS)) is the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past-service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Refer to further disclosure in note 29.

The key assumptions used in the valuation are discount rate 9.90%, price inflation rate of 5.6%, salary increase of 6.6% and the 80% resignations based on the previously applied rates.

(b) Fair values

The following bases are used in determining fair value:

i) Balances due to and from banks

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

(c) Impairment of fair value through other comprehensive income and amortised costs financial assets

Estimates have been used for the implementation of the ECL model, Refer to Accounting policy 1.29.

1.26 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 40 which provides further details of the memorandum accounts.

1.27 Financial Instruments

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

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

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

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

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

1.27.1 Financial assets

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

Specifically:

- Instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVOCI);
- All other instruments (e.g. instruments managed on a fair value basis or held for sale) and equity investments are subsequently measured at FVTPL.

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

- The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is not held for trading in OCI; and.
- The Bank may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Instruments at amortised cost or at FVTOCI

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

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

1.27 Financial Instruments (continued)

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

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

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

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

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

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

Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

Reclassifications

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

Foreign exchange gains and losses

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

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

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

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

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

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

1.27 Financial Instruments (continued)

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

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

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

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

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:
- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or

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

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

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk:
- The Bank considers the following as constituting an event of default
- The borrower is unlikely to pay its credit obligations to the Bank in full. Rower is past due more than 90 days on any material credit obligation to the Bank; or
- The borrower is unlikely to pay its credit obligations to the Bank in full.

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

Significant increase in credit risk

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

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:
- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

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

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

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

1.27 Financial Instruments (continued)

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

Modification and derecognition of financial assets

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

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

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

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

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

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

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

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

Write-off

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

1.27 Financial Instruments (continued)

1.27.2 Financial liabilities and equity

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

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

Equity instruments

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

Financial liabilities are classified as either financial liabilities 'at FVTPL' or amotised cost'.

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

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

Accounting Policies

1.28 Standards and interpretations effective and adopted in the current year

In the current year, the Bank has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations. The adoption of these standards did not have a material impact on the annual financial statements.:

Standard	New and Amended Standard:	Effective for Annual Period beginning on or after
IAS 1, Presentation of Financial Statements & IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors	*Definition of Material: The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.* *The amendments aim to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments must be a prospectively.*	*1 January 2020*
The Conceptual Framework for Financial Reporting	*It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.*	*1 January 2020*
IFRS 7, Financial Instruments:	The amendments to IFRS 9, IAS 39 and IFRS 7 amend requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. Application of the reliefs is mandatory. The first three reliefs provide for: The assessment of whether a forecast transaction (or component thereof) is highly probable. Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss. The assessment of the economic relationship between the hedged item and the hedging instrument. For each of these reliefs, it is assumed that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or, for relief three, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform. The fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship.In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.	1 January 2020

Accounting Policies

1.29 Standards and interpretations not yet effective

The Bank has chosen not to early adopt the following standards and interpretations, which are relevant to its operations, which have been published and are mandatory for the Bank's accounting periods beginning on or after
1 January 2020, or later periods. It is expected that the Bank will adopt the new pronouncements on their effective dates in accordance with the requirements of the pronouncements. The Bank is in the process of assessing the impact of these standards and interpretation on the annual financial statements.

Standard	**New and Amended Standard:**	**Effective for Annual Period beginning on or after**
IAS 39, FinancialInstruments:Recognition and Measurement	*Interest Rate Benchmark Reform Phase 2: The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 amend requirements relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities, hedge accounting and disclosures. The amendments to IFRS 9 enable a company to apply a practical expedient to account for a change in the contractual cash flows that are required by IBOR reform by updating the effective interest rate to reflect any change arising from the reform (for example, the change in an interest rate benchmark from IBOR to an alternative benchmark rate). The amendments enable (and require) companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. Companies are required to amend their hedging relationships to reflect: designating an alternative benchmark rate as the hedged risk; changing the description of the hedged item, including the designated portion, or of the hedging instrument; or changing the description of how the entity would assess hedge effectiveness (IAS 39 only). The Board amended IFRS 7 to require a company to make additional disclosures in its financial statements so that investors can better understand the reform's effects on that company. The ad disclosure requirements are designed to balance the benefits to investors with a company's costs to provide the additional information. These objective-based disclosure requirements limit the costs of applying the amendments by allowing companies to choose their own methods for disclosing the required information.*	*Annual periods beginning on or after 1 January 2021*
IAS 37, Provisions, Contingent Liabilities and Contingent Assets	*The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.*	*Annual periods beginning on or after 1 January 2022.*
IAS 1, Presentation of Financial Statements	*Classification of Liabilities as Current or Non-current: Narrow-scope amendments to IAS 1to clarify how to classify debt and otherliabilities as current or non-current.The amendments clarify:What is meant by a right to defer settlementThat a right to defer must exist at the end of the reporting periodThat classification is unaffected by the likelihood that an entity will exercise its deferral rightThat only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification The amendments must be applied retrospectively.*	
IFRS 17, Insurance Contracts	*The IASB issued IFRS 17 in May 2017 as a replacement for the IFRS 4: Insurance Contracts.The new IFRS 17 standard is effective for reporting periods beginning on or after 1 January 2022. The new rules will affect thefinancial statements and key performance indicators of all entities in the group that issue insurance contracts or investment contracts with discretionary participation features.*	*Annual periods beginning on or after 1 January 2023.*

Notes to the Financial Statements

	2020 M '000	2019 M '000

2. Cash and cash equivalents

Cash and cash equivalents consist of:

	2020 M '000	2019 M '000
Cash and cash equivalents		
Cash on hand	1 052	992
Bank balances	111 365	181 771
Short-term deposits	4 661	35 953
Total cash and cash equivalents	117 078	218 716
Current and Call Accounts		
Foreign Banks	56 878	25 492
South African Banks	3 119 843	1 697 715
Total Current and Call Accounts	3 176 721	1 723 207
Fixed Deposits		
Foreign Banks	1 702 294	1 564 945
South African Banks	1 830 000	893 279
Expected credit loss for cash and cash equivalents	(1 256)	(35 258)
Total Fixed deposits (with maturity shorter than 3 months)	1 828 744	858 021
Balances with banks (with maturity shorter than 3 months)	1 828 744	858 021
Total cash and balances with Banks	**6 824 837**	**4 364 889**

Refer to note 41 Financial instruments and financial risk management for details of currency risk management for cash and cash equivalents.

3. Deposit Floaters

	2020 M '000	2019 M '000
SA Banks Deposits	400 000	1 810 000
Foreign Banks Deposits	213 650	210 209
	613 650	**2 020 209**

4. Accrued interest due from Banks

	2020 M '000	2019 M '000
Accrued interest receivable		
ZAR call accounts	-	102
ZAR fixed deposits	15 142	35 998
Foreign call and fixed deposit accounts	472	3 073
	15 614	**39 173**

5. Investments at fair value

2019	Fair value through OCI	Total
Opening balance	750 487	750 487
Sale of unit trust	(750 487)	(750 487)
	-	**-**

The unit trusts were purchased from the Bank for International Settlement (BIS) in 2012. These units were measured at Fair value through other comprehensive income and changes in market values were recorded directly in the Bond/unit trust revaluation reserve. The Bank made an investment decision in 2019 and sold the unit at for M700 746 284 resulting in a loss of M49 740 716 .The cumulative gains and losses were M24,282,794.

6. Investment in Swift

	2020 M '000	2019 M '000
Investment in SWIFT	506	399

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

Notes to the Financial Statements

	2020 M '000	2019 M '000

7. Treasury notes and bonds

2020	Fair value through Profit and loss	Fair value through OCI	Total
US Bonds at fair value	1 600 678	638 983	2 239 661
ZAR Bonds at fair value	-	2 593 128	2 593 128
US Bonds accrued interest	7 578	2 926	10 504
ZAR Bonds accrued interest	-	51 715	51 715
Expected Credit Loss	-	(72 993)	(72 993)
	1 608 256	**3 213 759**	**4 822 015**

2019	Fair value through Profit and loss	Fair value through OCI	Total
US Bonds at fair value	1 466 033	439 042	1 905 075
ZAR Bonds at fair value	-	1 892 773	1 892 773
US Bonds accrued interest	8 878	1 895	10 773
ZAR Bonds accrued interest	-	63 145	63 145
Expected Credit Loss	-	(14 531)	(14 531)
	1 474 911	**2 382 324**	**3 857 235**

8. Treasury bills at amortised cost

US Treasury Bills

	2020	2019
Treasury bills at amortised cost	73 425	69 194

The Treasury bills are debt securities issued by the US Treasury Departments for a term of one year and are treated as securities held-tomaturity. All treasury bills are subject to fixed interest rate risk rate of 1.24%.

9. IMF Subscription Account

	2020	2019
Balance at beginning of year	1 357 310	1 397 173
Exchange revaluation	110 088	(39 863)
Balance at end of year	**1 467 398**	**1 357 310**

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 69,800,000 in 2020. The local currency equivalent of the subscription account in the statement of financial position is converted at the year-end rate of 0.0405208 (2019: SDR 69,800,000 at 0.0559372).

10. IMF Holding of Special Drawing Rights (SDR)

	2020	2019
Balance at beginning of year	226 909	437 554
Net transactions - (decrease) / increase in rights	(123 618)	(204 324)
Exchange revaluation	(57 506)	(6 321)
Balance at end of year	**45 785**	**226 909**

The value of SDR 2,163,393 (2019: SDR 21,852,390) allocated by the International Monetary Fund less utilisation is converted at 0.0405208 (2019:0.05509372).

11. IMF Funded PRGF Advances

	2020	2019
Balance at beginning of year	475 535	692 091
Paid during the year	(123 618)	(204 324)
Exchange revaluation	(34 187)	(12 232)
Balance at end of year	**317 730**	**475 535**

Notes to the Financial Statements

	2020 M '000	2019 M '000

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 23.

12. Rapid Credit Facility

	2020 M '000	2019 M '000
Advance during the year	274 340	-
Exchange revaluation	(29 213)	-
Balance at end of year	**245 127**	**-**

The Rapid Credit Facility (RCF) provides rapid concessional financial assistance with limited conditionality to low-income countries (LICs) facing an urgent balance of payments need. The RCF was created under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the Fund’s financial support more flexible and better tailored to the diverse needs of LICs, including in times of crisis. The RCF places emphasis on the country’s poverty reduction and growth objectives.

The value of RCF balance was unchanged at SDR 11,660,000 converted at 0.0405208.

13. Lesotho Government Securities

	2020 M '000	2019 M '000
Maturing within 1 month	4 329	521

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.

14. Deferred currency expenditure

	2020 M '000	2019 M '000
Balance at beginning of year	19 498	7 074
Expenditure incurred	-	5 496
Amortised during the year	(8 716)	6 928
Balance at end of year	**10 782**	**19 498**

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

15. Loans and advances

	2020 M '000	2019 M '000
Housing loans	48 244	47 499
Car loans	27 092	30 805
Furniture loans	1 307	1 512
Other loans and advances	30 130	29 082
	106 773	**108 898**

The loans issued to staff members during the year are paid in monthly instalments and attract interest rate of 3% per annum. Refer to related parties note 38 and risk management note 41 for further details.

16. Other assets

	2020 M '000	2019 M '000
Other prepayments	2 421	5 968
Other receivables	189	1 297
Commemorative coins	3 479	3 479
	6 089	**10 744**

Other prepayments relate to prepaid licenses that have been paid in advance.

17. Property, plant and equipment

	2020			2019		
	Cost or revaluation M '000	Accumulated depreciation M '000	Carrying value M '000	Cost or revaluation M '000	Accumulated depreciation M '000	Carrying value M '000
CBL buildings	620 860	(24 260)	596 600	100 530	(20 785)	79 745
CBL and Lehakoe Land	10 225	-	10 225	10 225	-	10 225
Lehakoe buildings	144 600	(28 872)	115 728	144 532	(26 707)	117 825
Residential land and buildings	20 177	(3 251)	16 926	20 177	(2 948)	17 229
Housing furniture	498	(427)	71	427	(358)	69
Office furniture	20 599	(9 057)	11 542	10 092	(7 440)	2 652
Motor vehicles	20 864	(13 482)	7 382	17 978	(10 142)	7 836
Office equipment	53 968	(41 885)	12 083	45 745	(34 629)	11 116
Office computers	25 350	(15 199)	10 151	20 559	(11 355)	9 204
Lehakoe furniture	4 598	(3 598)	1 000	4 006	(2 985)	1 021
Sports/music equipment	11 502	(9 357)	2 145	9 711	(7 765)	1 946
Housing equipment	273	(234)	39	234	(195)	39
Security equipment	26 879	(20 836)	6 043	23 196	(16 906)	6 290
Work in progress	63 141	-	63 141	540 446	-	540 446
Total	**1 023 534**	**(170 458)**	**853 076**	**947 858**	**(142 215)**	**805 643**

Reconciliation of property, plant and equipment - 2020

	Opening balance M '000	Additions M '000	Transfers M '000	Revaluations M '000	Depreciation M '000	Total M '000
CBL buildings	79 745	520 330	-	-	(3 475)	596 600
Land	10 225	-	-	-	-	10 225
Lehakoe buildings	117 825	68	-	-	(2 165)	115 728
Residential land and buildings	17 229	-	-	-	(303)	16 926
Housing furniture	69	-	-	72	(70)	71
Office furniture	2 652	9 358	-	1 149	(1 617)	11 542
Motor vehicles	7 836	1 204	-	1 681	(3 339)	7 382
Office equipment	11 116	1 010	-	7 213	(7 256)	12 083
Office computers	9 204	3 646	-	1 146	(3 845)	10 151
Lehakoe furniture	1 021	32	-	559	(612)	1 000
Sports/music equipment	1 946	5	-	1 829	(1 635)	2 145
Housing equipment	39	-	-	39	(39)	39
Security equipment	6 290	696	-	2 944	(3 887)	6 043
Work in progress	540 446	52 972	(530 277)	-	-	63 141
	805 643	**589 321**	**(530 277)**	**16 632**	**(28 243)**	**853 076**

Reconciliation of property, plant and equipment - 2019

	Opening balance M '000	Additions M '000	Revaluations M '000	Depreciation M '000	Total M '000
CBL buildings	76 765	-	(80)	(1 428)	79 745
Land	10 225	-	-	-	10 225
Lehakoe buildings	124 477	-	(143)	(2 022)	117 825
Residential land and buildings	17 531	-	(24)	(279)	17 229
Housing furniture	3	-	68	(2)	69
Office furniture	1 936	165	980	(429)	2 652
Motor vehicles	1 752	5 186	1 673	(775)	7 836
Office equipment	9 098	720	4 757	(3 458)	11 116
Office computers	7 906	4 270	212	(3 184)	9 204
Lehakoe furniture	505	71	525	(82)	1 021
Sports/music equipment	255	362	1 464	(135)	1 946
Housing equipment	2	-	39	(2)	39
Security equipment	3 048	1 241	2 951	(950)	6 290
Work in progress	489 367	51 078	-	-	540 446
	742 870	**63 093**	**12 422**	**(12 746)**	**805 643**

17. Property, plant and equipment (continued)

Analysis at carrying amount as at 31 December 2020 had the Bank remained on cost.

Analysis at carrying amount as at 31 December 2020 had the Bank remained on cost.	**Cost Analysis M' 000**	**Revalued Amount M' 000**
CBL Building	21 313	83 888
LRCC Building	633 734	120 208
Residential Building	1 312	16 926

Revaluations

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 every five years, less accumulated depreciation every five years.

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

Unrealised surpluses or deficits arising on revaluation of land and buildings are transferred to a Revaluation Reserve Account. The most recent independent valuation for buildings was performed for the year ended December 2017.

Notes to the Financial Statements

	2020 M '000	2019 M '000

18. Intangible assets

	2020			2019		
	Cost M '000	Accumulated amortisation M '000	Carrying value M '000	Cost M '000	Accumulated amortisation M '000	Carrying value M '000
Computer software	102 265	(77 202)	25 063	102 052	(70 624)	31 428

Reconciliation of intangible assets - 2020

	Opening balance M '000	Amortisation M '000	Total M '000
Computer software	31 428	(6 365)	25 063

Reconciliation of intangible assets - 2019

	Opening balance M '000	Additions M '000	Amortisation M '000	Total M '000
Computer software	32 464	1 497	(2 533)	31 428

In 2019 the Accounting systems of the Bank SAGE and QCBS software's useful live was reassessed as they were initially written down over a 3 year period but reassessed to 10 year armortisation on a straight line basis. The basis of the change was from the premise that usually the main accounting system of the Bank lasts longer than 3-year period. The software has changed from 33.3% to 10% over 10 years, had the reassessmentnot been made, the software would have been fully armortised as they were acquired in 2016. An amortisation amount of approximately M4,638 million will be charged in the profit and loss until the software is fully armotised. The new armortization figure is based on the new reassessed useful life.

19. Notes and coins issued

	2020	2019
Notes	1 788 503	1 591 621
Coins	30 525	21 257
	1 819 028	**1 612 878**

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

20. Deposits

	2020	2019
Deposits from Banks - Non-interest bearing		
Banks	676 947	535 820
Other Deposits - Non-interest bearing		
International Institutions	4 375	463
Parastatals and others	5 202	2 397
	686 524	**538 680**

21. IMF Maloti Currency Holding

	2020	2019
Securities account	697 660	240 937
General resources account	991 608	870 126
	1 689 268	**1 111 063**

22. IMF Special Drawing Rights Allocation

	2020	2019
Balance at beginning of year	637 140	658 116
Exchange revaluation	58 710	(20 976)
Balance at end of year	**695 850**	**637 140**

Notes to the Financial Statements

	2020 M '000	2019 M '000

22. IMF Special Drawing Rights Allocation (continued)

Lesotho's allocation by IMF of SDR32,878,186 is converted at 0.00405208 (2019: 0.005507932)

23. IMF-PRGF Facility

	2020 M '000	2019 M '000
Balance at beginning of year	475 535	692 091
Paid during the year	(123 618)	(204 324)
Exchange revaluation	(34 187)	(12 232)
Balance at end of year	**317 730**	**475 535**

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 15,113,500, converted at 0.0405208 as at 31 December 2020 (2019: SDR 42 992 500.00 at 0.0570636). The loan has been on-lent as per note 10. Interest expense and exchange rate differences are borne by the Government of Lesotho.

24. IMF Rapid Credit Facility

	2020 M '000	2019 M '000
Advance during the year	274 340	-
Exchange revaluation	(29 213)	-
Balance at end of year	**245 127**	**-**

The Rapid Credit Facility (RCF) provides rapid concessional financial assistance with limited conditionality to low-income countries(LICs) facing an urgent balance of payments need. The RCF was created under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the Fund’s financial support more flexible and better tailored to the diverse needs of LICs, including in times of crisis. The RCF places emphasis on the country’s poverty reduction and growth objectives.

25. Taxation(receivable)/ payable

	2020 M '000	2019 M '000
Balance at beginning of year	21 624	4 929
Paid during the year	(72 285)	(39 595)
Current year charge	23 021	56 290
Balance at end of year	**(27 640)**	**21 624**

26. Dividend payable

	2020 M '000	2019 M '000
Balance at beginning of year	117 840	142 177
Paid during the year	(117 840)	(142 177)
Profit appropriations for the current year	46 999	117 840
Balance at end of year	**46 999**	**117 840**

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.

	2020 M '000	2019 M '000
Profit after tax appropriates as follows:		
Profit/(Loss)/ after tax (after actuarial (loss)/gain on employee benefits)	56 399	80 322
Loss /(Gain) on foreign exchange activities	-	61 086
Profit after tax net of gain on foreign exchange activities	56 399	141 408
Transfer to General Reserve	(9 400)	(23 568)
Balance at end of year	**46 999**	**117 840**

Notes to the Financial Statements

	2020 M '000	2019 M '000

27. Trade and other payables

Various accruals	11 215	9 086
Divisional cheques accounts	272 350	(11 224)
Other	20 753	15 066
Accrued leave pay	2 103	1 098
	306 421	**14 026**

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

Divisional cheques account includes IMF Rapid Credit Facility loan to Government of Lesotho.

Various accruals relate to accrued expenses as at year end.

28. Retirement benefits

Provision for severance pay		
Opening obligation	25 397	25 855
Interest cost	2 560	2 655
Current service cost	3 454	3 070
Actuarial (gain)/ loss on employee benefits	(1 526)	(3 551)
Benefits paid	(5 494)	(2 632)
	24 391	**25 397**
Provision for gratuity		
Opening obligation	86 182	78 725
Interest cost	8 737	8 166
Current service cost	14 568	13 377
Actuarial (gain)/ loss on employee benefits	(6 276)	(4 057)
Benefits paid	(20 485)	(10 029)
	82 726	**86 182**
	107 117	**111 579**

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 12,42% p.a., general inflation rate to be 7,24% 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 at30 November 2020 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 12.42%.

Net expense recognised in profit or loss

Current service cost	18 022	16 447
Interest cost	11 297	10 821
	29 319	**27 268**

Notes to the Financial Statements

	2020 M '000	2019 M '000

28. Retirement benefits (continued)

Key assumptions used

	2020	2019
Discount rates used	12,42 %	10,49 %

Sensitivity Analysis 2020	**Current Assumption 12,42%**	**1% decrease 11,42%**	**1% increase 13,42%**
Bank	107 117	119 350	121 492

Sensitivity Analysis 2019	**Current Assumption 10,49%**	**1% decrease 9,49%**	**1% increase 11,49%**
Bank	111 579	122 168	124 399

29. Post-employment retirement fund benefits

Statutory actuarial valuations of the Corporate Bodies Pension Scheme has been performed on the 22nd February 2021 as at 31 December 2019 and found that the fund is not in a sound financial position. The fund was found to be underfunded with a funding level of 53% resulting in an overall deficit of over M 120 Million. The Bank accounts for M 78 Million of the deficit and has raised a liability to fund that deficit within the next few years as to be agreed with the fund administrator in due course. Where a surplus in the fund is calculated, it is for the benefit of the members, and accordingly no asset is recognised in the financial statements of the Bank.

As the Bank is the sponsor of the fund, the full defined benefit liability resides within the Bank. An IAS 19 Employee Benefits (IAS 19) valuation of this defined benefit at 31 December 2019 was performed by an independent actuary, the result of which can be summarised as follows:

	2020	2019
Financial position of the scheme		
Value of assets	**137 508**	**-**
Value of liabilities	**(257 857)**	**-**
Active member liabilities	(149 481)	-
Pensioner liabilities	(105 299)	-
Deferred liabilities	(3 077)	-
Surplus/(deficit)	**(120 349)**	**-**
Funding level	**53,33 %**	**- %**
Surplus/(deficit) attributable to the Bank	**(78 801)**	**-**

The plan assets were invested in the following different asset classes as at 31 December 2019 per the Actuarial valuation:

	2020	2019
Investment		
Property	60 341	-
Lesotho Bank 24 Hour Call Account	4 291	-
RMB Asset Management	30	-
Stanlib Income Fund	18 683	-
Standard Bank Short Term Deposits	23 000	-
Nedbank Short Term Deposits	10 000	-
FNB Short Term Deposits	10 657	-
Government Bonds	15 000	-
Accrued Interest	1 837	-
Creditors	(6 783)	-
Bank Account	452	-
Total	**137 508**	**-**

Assumptions

Below is a summary of the principal assumptions used at the valuation date:

	2020 M '000	2019 M '000

29. Post-employment retirement fund benefits (continued)

Assumption		
Discount rate	9,90 %	- %
Price inflation	5,60 %	- %
Salary increases	6,60 %	- %
Pension increases	- %	- %
Pre-retirement real rate	3,10 %	- %
Post-retirement real rate	9,90 %	- %
Pre-retirement mortality	125%*SA56/62	
Post-retirement mortality	a(55)	
Resignations	80% of the previously applied rates was assumed	
Commutation	25,00 %	- %

Sensitivity Analysis 2020	**Current Assumption**	**1% decrease**	**1% increase**
	9,90%	**8,90%**	**10,90%**
Discount rate	78 801	85 814	87 390

Discount rate is considered to be the only significant assumption.

The liability as at 31 December 2019 has not been recognised in the prior year, it has been recognised in 2020 and the impact of the prior periods is considered to be immaterial.

30. Deferred tax

Deferred tax liability

	2020	2019
Property plant and equipment	21 972	(13 019)

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:

	2020	2019
Deferred tax liability	21 972	(13 019)

Reconciliation of deferred tax asset / (liability)

	2020	2019
At beginning of year	(13 019)	(11 652)
Movements in profit and loss	(1 513)	(2 214)
Movement in equity - current year	36 504	847
	21 972	**(13 019)**

Reconciliation of deferred tax asset / (liability)

	2020	2019
Accelerated capital allowance for tax purposes	5 341	5 508
Liabilities for Health care benefits accrued	28 055	28 169
Deferred expenses	3 066	(3 710)
Bond/unit trust revaluation reserve	45 531	8 339
Property revaluation reserve	(60 021)	(51 325)
	21 972	**(13 019)**

Notes to the Financial Statements

	2020 M '000	2019 M '000
31. 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.

32. Investment income

	2020 M '000	2019 M '000
Interest income		
Foreign currency deposits (Armotised cost)	285 866	385 297
Interest treasury bills and SDR holdings (Armortised cost)	2 882	8 129
Debt instrument at fair value through other comprehensve income	214 438	131 287
Debt instruments at fair value through profit or loss	-	33 697
Total interest income	**503 186**	**558 410**

33. Interest expense

	2020 M '000	2019 M '000
Interest on non-financial Public Enterprises	57	51
Accrued premium amortisation	13 374	2 739
IMF SDR allocation account	3 710	6 797
Total interest expense	**17 141**	**9 587**

34. Other income

	2020 M '000	2019 M '000
Profit on sale of bonds	34 003	7 135
Interest on staff loans (Armotised cost)	1 951	1 805
Lehakoe income	1 924	13 599
Other income	4 123	3 516
Gain on instruments designated as fair value through profit and loss	22 826	23 884
Loss/profit on sale of fixed assets	-	5
	64 827	**49 944**

Other income consists of staff membership fees and revenue for sale of foodand refreshments at the Bank's Recreational and Cultural Centre. Other income also consists of license fees and penalties charged to financial institutions and commission fee charged for banking services. The Bank charges license fees to any financial and non-financial institution that wants to operate and banking or non-banking operation and is charged annually.

35. Operating costs and expense per nature

	2020 M '000	2019 M '000
Administration and other expenses	74 926	68 242
Auditors remuneration	2 944	2 348
Deferred currency expenses amortised	8 716	5 407
Deferred computer software amortisation	11 081	7 155
Depreciation and impairment	28 243	12 905
Property, plant and equipment maintenance expenses	12 905	20 617
Loss on sale of other instruments	(12 963)	1 240
Loss on fair valuation of treasury notes and bonds	23 904	12 011
Impairment	24 460	49 789
Personnel costs:		
Staff welfare expenses	23 833	24 609
Non-executive directors' fees	1 088	1 064
Executive directors' salaries	9 554	9 258
Key management (heads of departments)	12 128	12 520
Staff salaries and expenses	138 370	141 069
Pension fund contributions	85 406	5 978

Notes to the Financial Statements

	2020 M '000	2019 M '000
43. Memorandum Accounts (continued)		
Gratuity and severance pay (interest and service cost)	33 431	16 705
	478 026	**390 917**

36. Taxation

Major components of the tax expense

	2020 M '000	2019 M '000
Current		
Local income tax - current period	21 468	58 504
Tax on actuarial gain(loss)	1 674	2 645

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

	2020 M '000	2019 M '000
Chargeable profit (before foreign exchange gain/loss and after actuarial gain/loss)	72 846	149 366
Statutory tax rate	25,00 %	25,00 %
Permanent differences:		
Donations	0,01 %	0,50 %
50 % Entertainment	- %	0,09 %
Training expenses additional 25%	- %	(0,84)%
Other	0,03 %	1,55 %
Effective tax rate	**25,04 %**	**26,30 %**
Accounting profit	72 846	207 850
Add: Temporary differences disallowed for tax purposes	6 972	3 142
Add: Temporary differences disallowed for tax purposes	12 265	14 168
Taxable profit	**92 083**	**225 160**
Taxation @ 25% (2019: 25%)	23 021	56 290
Less: deferred tax expense	(1 553)	2 214
Total Tax due	**21 468**	**58 504**

Notes to the Financial Statements

37. Cash generated from/(used in) operations

	2020 M '000	2019 M '000
Profit before taxation	72 850	158 061
Adjusted for:		
Depreciation	28 243	12 906
Deferred computer software amortised	11 081	7 155
Interest income	(503 186)	(558 410)
Interest paid	3 767	9 587
Deferred currency amortisation	8 716	(12 424)
Movement in Deposits	490 334	540 252
Treasury bills at amortised cost	(4 231)	2 409
Movement in IMF Maloti Currency Holding	578 206	(33 163)
Movement in Designated as at FV through profit (loss)	(87 262)	63 747
Trade and other payables	292 389	(10 097)
Movement in Held for trading (fair value through other comprehensive income	181 124	210 645
Movement in IMF Special Drawing Rights Allocation	58 711	(20 976)
Movements in Long-term employee benefit obligation	(4 462)	6 999
Deposit Floaters	1 406 558	(359 256)
Impairment	24 460	49 789
Expected credit loss for cash and cash equivalents	(1 256)	(35 258)
Profit on sale of bonds	(34 003)	(7 135)
Gain on instruments designated as FVTPL	(22 826)	(23 884)
Movement in Post -mployment benefit liability	78 801	-
(Gain)/Loss on sale of other instruments	12 963	1 240
Loss on fair valuation of treasury notes and bonds	23 904	12 011
	2 614 881	**14 198**

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

Notes to the Financial Statements

		2020 M '000	2019 M '000

38. Related parties

		2020 M '000	2019 M '000
Gross advances made during the year to:			
Heads of Departments	Car loans	933	969
	Furniture loans	-	50
	Housing loans	1 000	-
Balances due at end of the year:			
Heads of Departments	Car loans	861	2 936
	Furniture loans	-	124
	Housing loans	949	831
Interest charged for the year:			
Heads of Departments	Car loans	5	129
	Furniture loans	-	11
	Housing loans	8	110

There were no loan advances made to the Governors in the current year ended 31 December 2020.
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 loan

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

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

	2020 M '000	2019 M '000
Executive Directors' salaries	9 558	9 257
Key management salaries	12 128	12 250
	21 686	**21 507**
Non-Executive Directors emoluments		
Directors fees	1 088	1 064

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

	2020 M '000	2019 M '000
Government Deposits	4 057 873	3 715 382

Notes to the Financial Statements

	2020 M '000	2019 M '000

39. Financial assets by category

The financial assets have been categorised as follows:

2020

	Amortised cost M '000	Fair value through OCI M '000	Assets at fair value through profit and loss M '000	Total M '000	Fair value M '000
Cash and cash equivalents	6 824 837	-	-	6 824 837	6 824 837
Deposit Floaters	613 650	-	-	613 650	613 650
Accrued interest due from Banks	15 614	-	-	15 614	15 614
Investment in Swift	506	-	-	506	506
Treasury notes and bonds	159	3 213 600	1 608 256	4 822 015	4 822 015
Treasury bills at amortised cost	73 425	-	-	73 425	73 425
IMF Subscription Account	1 467 398	-	-	1 467 398	1 467 398
IMF Holding of Special Drawing Rights (SDR)	45 785	-	-	45 785	45 785
IMF Funded PRGF Advances	317 730	-	-	317 730	317 730
Lesotho Government Securities	4 329	-	-	4 329	4 329
Trade and other receivables	106 773	-	-	106 773	106 773
IMF Rapid Credit Facility	245 127	-	-	245 127	-
	9 715 333	**3 213 600**	**1 608 256**	**14 537 189**	**14 292 062**

2019

	Amortised cost M '000	Fair value through OCI M '000	Assets at fair value through profit and loss M '000	Total M '000	Fair value M '000
Cash and cash equivalents	4 364 889	-	-	4 364 889	4 364 889
Deposit Floaters	2 020 209	-	-	2 020 209	2 020 209
Accrued interest due from Banks	39 173	-	-	39 173	39 173
Investment in Swift	-	399	-	399	399
Treasury notes and bonds	-	2 382 325	1 474 910	3 857 235	3 857 235
Treasury bills at amortised cost	69 194	-	-	69 194	69 194
IMF Subscription Account	1 357 310	-	-	1 357 310	1 357 310
IMF Holding of Special Drawing Rights (SDR)	226 909	-	-	226 909	226 909
IMF Funded PRGF Advances	475 535	-	-	475 535	475 535
Lesotho Government Securities	521	-	-	521	521
Trade and other receivables	108 898	-	-	108 898	108 898
	8 662 638	**2 382 724**	**1 474 910**	**12 520 272**	**12 520 272**

Gains and losses per financial instrument category 2020	**Armortised cost M'000**	**FV through P/L M'000**	**FV through OCI M'000**	**Total**
Interest Income	288 748	-	214 438	503 186
FV Gains	-	22 826	-	22 826
Subtotal	288 748	22 826	214 438	526 012
Interest expense	(17 141)	-	-	(17 141)
	271 607	**22 826**	**214 438**	**508 871**

Gains and losses per financial instrument category 2019	**Armortised cost M'000**	**FV through P/L M'000**	**FV through OCI M'000**	**Total**
Interest Income	393 426	33 697	131 287	558 410
FV Gains	-	23 884	38 220	62 104
Subtotal	393 426	57 581	169 507	620 514
Interest expense	(9 487)	-	-	(9 487)
	383 939	**57 581**	**169 507**	**611 027**

Notes to the Financial Statements

	2020 M '000	2019 M '000

40. Financial liabilities by category

The financial liabilities have been categorised as follows:

2020

	Financial liabilities at amortised cost M '000	Total M '000
Notes and coins issued	1 819 028	1 819 028
Deposits	686 524	686 524
Lesotho Government Deposits	4 057 873	4 057 873
IMF Maloti Currency Holding	1 689 268	1 689 268
IMF Special Drawing Rights Allocation	695 850	695 850
IMF-PRGF Facility	317 730	317 730
IMF Rapid Credit Facility	245 127	245 127
	9 511 400	**9 511 400**

2019

	Financial liabilities at amortised cost M '000	Total M '000
Notes and coins issued	1 612 878	1 612 878
Deposits	538 680	538 680
Lesotho Government Deposits	3 715 382	3 715 382
IMF Maloti Currency Holding	1 111 063	1 111 063
IMF Special Drawing Rights Allocation	637 140	637 140
IMF-PRGF Facility	475 535	475 535
	8 090 678	**8 090 678**

41. Financial instruments and risk management

Financial risk management

General risk management

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

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.

Foreign currency risk

Foreign currency 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 foreign currency risk is reported on daily, monthly and quarterly basis to the Bank's Management and different Committees.

The below tables discuss impact of different risk exposures that the Bank is exposed to.

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

41. Financial instruments and risk management (continued)

Currency 2020

Currency risk

Cash and balances with Banks	**Value of Currency '000**	**Exchange Rate**	**Maloti Equivalent M '000**
South Africa	5 823 228,53	1,0000	5 823 229
United States	109 431,37	14,6941	1 607 995
Botswana	386,80	1,3592	526
England	687,41	20,0692	13 796
European Union	167,73	18,0635	3 030
IMF	2 163,39	21,1635	45 785

Treasury notes and bonds	**Value of Currency '000**	**Exchange Rate**	**Maloti Equivalent M '000**
South Africa	2 644 842,86	1,0000	-
United States	153 063,34	14,6941	-

Treasury Bills	**Value of Currency '000**	**Exchange Rate**	**Maloti Equivalent M '000**
United States	5 000,00	14,6941	73 471

Currency 2019

Cash and balances with Banks	**Value of Currency '000**	**Exchange Rate**	**Maloti Equivalent M '000**
South Africa	6 922 236,60	1,0000	6 922 237
United States	255 262,87	14,0139	3 577 228
Botswana	422,15	1,3243	559
England	1 547,03	18,4268	28 507
European Union	94,98	15,7172	1 493
Switzerland	0,02	14,4741	-
IMF	11 709,15	19,3788	226 909

Treasury notes and bonds	**Value of Currency '000**	**Exchange Rate**	**Maloti Equivalent M '000**
South Africa	1 892 773,00	1,0000	1 892 773
United States	136 160,88	14,0139	1 908 145

Treasury Bills	**Value of Currency '000**	**Exchange Rate**	**Maloti Equivalent M '000**
United States	5 000,00	14,0139	70 070

Foreign exchange risk

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

41. Financial instruments and risk management (continued)

Credit risk

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

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

Quantitative information

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

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

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

Implementation of ECL model- Central Bank of Lesotho

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

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

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

Assumptions of the CBL MODEL

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

Probability of Default (PD)

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

Credit risk analysis

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

41. Financial instruments and risk management (continued)

2020

Cash	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
ZAR	108 252	108 252	ZAR	none	n/a
USD	959	959	ZAR	none	n/a
GBP	35	-	ZAR	none	n/a
EUR	59	-	ZAR	none	n/a
	109 305	**109 211**			

Current and call accounts	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
ABSA	43	43	ZAR	none	Baa3/P-3
ABSA Maloti Repatriation	18 474	18 474	ZAR	none	Baa3/P-3
ABSA Credit Card	940	940	ZAR	none	Baa3/P-3
B.I.S	6	6	ZAR	none	Supranational
B.I.S	97	97	ZAR	none	Supranational
B.I.S	17	17	ZAR	none	Supranational
Bank of England	12 644	12 644	ZAR	none	Aa2/P-1
Bank of N.Y	18 492	18 492	ZAR	none	Aa2/P-1
Bank of N.Y	206 450	206 450	ZAR	none	Aa21P-1
Bank of N.Y (RAMP}	2 883	2 883	ZAR	none	Aa/P-1
Crown Agents	185	185	ZAR	none	B BB
Crown Agents	82	82	ZAR	none	B BB
Deutsche Bankers trust	13 899	13 899	ZAR	none	Baa11P-1
Deutsche Bundersbank	2 954	2 954	ZAR	none	Aaa
Federal Reserve Bank of N.Y	4 167	4 167	ZAR	none	Aaa
First Rand	89	89	ZAR	none	Baa3/P-3
International Monetary Fund Holdings	45 785	45 785	ZAR	none	Supranational
Investec Bank	88	88	ZAR	none	Baa3/P-3
NedBank	31	31	ZAR	none	Baa3/P-3
SIRESS	2 893 635	2 893 635	ZAR	none	Baa3/P-3
Standard Bank	93	93	ZAR	none	Baa3/P-3
Standard Chartered Botswana	526	526	ZAR	none	A2
Standard Chartered London	927	927	ZAR	none	A1/P-1
	3 222 507	**3 222 507**			

Fixed deposits	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
ABSA	400 000	400 000	ZAR	none	Ba2/P-2
African Import-Export Bank	823 505	823 505	ZAR	none	Baa1/P-2
Federal Reserve Bank of NY	44 082	44 082	ZAR	none	Aaa
Firstrand	300 000	300 000	ZAR	none	Ba2/P-2
ICBC ASIA	422 916	422 916	ZAR	none	A1/P-1
Investec	480 000	480 000	ZAR	none	Ba2/P-2
NedBank	450 000	450 000	ZAR	none	Ba2/P-2
Standard Bank	600 000	600 000	ZAR	none	Ba2/P-2
Standard Bank PLC	201 539	201 539	ZAR	none	Baa3/P-3
Standard Bank PLC	350 000	350 000	ZAR	none	Baa3/P-3
Sumitomo Mitsui USD	73 902	73 902	ZAR	none	A-
	4 145 944	**4 145 944**			

41. Financial instruments and risk management (continued)

Accrued interest due from Banks	**Carrying amount M '000**	**Maximum exposure M '000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	2 754	2 754	ZAR	none	Ba2/P-2
African Import-Export Bank	280	280	ZAR	none	Baa1/P-2
Firstrand	1 399	1 399	ZAR	none	Ba2/P-2
ICBC ASIA	128	128	ZAR	none	A1/P-1
Investec	3 983	3 983	ZAR	none	Ba2/P-2
NedBank	2 595	2 595	ZAR	none	Ba2/P-2
Standard Bank PLC	48	48	ZAR	none	Baa3/P-3
Standard Bank	3 675	3 675	ZAR	none	Ba2/P-2
Sumitomo Mitsui	16	16	ZAR	none	A-
Standard Bank PLC	725	725	ZAR	none	Baa3/P-3
	15 603	**15 603**			

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	73 425	73 425	ZAR	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	2 644 843	2 644 843	ZAR	none	Ba2/P-2
United States-RAMP	1 608 255	1 608 255	ZAR	none	Aaa
United States	641 918	641 918	ZAR	none	Aaa
	4 895 016	**4 895 016**			

Loans to staff	**Carrying amount M '000**	**Maximum exposure M '000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Housing Loans	48 244	48 244	ZAR	Title deeds	n/a
Car loans	27 092	27 092	ZAR	Terminal benefits	n/a
Furniture loans	1 307	1 307	ZAR	Terminal benefits	n/a
Other loans and advances	30 130	30 130	ZAR	Terminal benefits	n/a
	106 773	**106 773**			

2019

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

Current and call accounts	**Carrying amount M '000**	**Maximum exposure M '000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	51	51	ZAR	none	Baa3/P-3
ABSA Maloti Repatriation	11 467	11 467	ZAR	none	Baa3/P-3
ABSA Credit Card	2 001	2 001	ZAR	none	Baa3/P-3
B.I.S	5	5	ZAR	none	Supranational
B.I.S	92	92	ZAR	none	Supranational

41. Financial instruments and risk management (continued)

B.I.S	15	15	ZAR	none	Supranational
Bank of England	7 618	7 618	ZAR	none	Aa2/P-1
Bank of N.Y	648	648	ZAR	none	Aa2/P-1
Bank of N.Y	11	11	ZAR	none	Aa21P-1
Bank of N.Y (RAMP}	572	572	ZAR	none	Aa/P-1
Crown Agents	169	169	ZAR	none	B BB
Crown Agents	77	77	ZAR	none	B BB
Deutsche Bankers trust	9 929	9 929	ZAR	none	Baa11P-1
Deutsche Bundersbank	1 427	1 427	ZAR	none	Aaa
Federal Reserve Bank of N.Y	2 209	2 209	ZAR	none	Aaa
First Rand	84	84	ZAR	none	Baa3/P-3
International Monetary Fund Holdings	226 909	226 909	ZAR	none	Supranational
Investec Bank	84	84	ZAR	none	Baa3/P-3
NedBank	30	30	ZAR	none	Baa3/P-3
SIRESS	1 679 775	1 679 775	ZAR	none	Baa3/P-3
Special Rand Deposit	5 000	5 000	ZAR	none	Baa3/P-3
Standard Bank	95	95	ZAR	none	Baa3/P-3
Standard Chartered Botswana	559	559	ZAR	none	A2
Standard Chartered London	2 165	2 165	ZAR	none	A1/P-1
	1 950 992	**1 950 992**			

Fixed deposits	**Carrying amount M '000**	**Maximum exposure M '000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	600 000	600 000	ZAR	none	Baaa3/P-3
African Import-Export Bank	140 139	140 139	ZAR	none	P-2/Baa1
BIS	70 070	70 070	ZAR	none	Supranational
Crown Agents	70 070	70 070	ZAR	none	A1/P-1
Federal Reserve Bank of NY	231 229	231 229	ZAR	none	Aaa
Firstrand	430 000	430 000	ZAR	none	Baa3/P-3
ICBC ASIA	400 239	400 239	ZAR	none	P1/A1
Investec	600 000	600 000	ZAR	none	Baa31P-3
NedBank	473 279	473 279	ZAR	none	Baa31P-3
Standard Bank	600 000	600 000	ZAR	none	Baa31P-3
Standard Chartered London	18 514	18 514	ZAR	none	A11P-1
Standard Chartered London	143 651	143 651	ZAR	none	A1/P-1
Standard Bank PLC	471 069	471 069	ZAR	none	Baa3/P-3
Standard Bank PLC	350 000	350 000	ZAR	none	Baa3/P-3
World Bank RAMP	23 824	23 824	ZAR	none	P1/Aa1
	4 622 084	**4 622 084**			

Accrued interest due from Banks	**Carrying amount M '000**	**Maximum exposure M '000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	8 288	8 288	ZAR	none	Baa3/P-3
African Import-Export Bank	258	258	ZAR	none	P-2/Baa1
BIS	149	149	ZAR	none	Supranat ional
Firstrand	2 406	2 406	ZAR	none	Baa3/P-3
ICBC ASIA	818	818	ZAR	none	P1/A1
Investec	6 474	6 474	ZAR	none	Baa31P-3
NedBank	5 440	5 440	ZAR	none	Baa3/P..3
Special Rand Deposit	102	102	ZAR	none	Baa31P-3
Standard Bank	7 604	7 604	ZAR	none	Baa31P-3
Standard Chartered London	4	4	ZAR	none	A11P-1
Standard Bank PLC	5 787	5 787	ZAR	none	Baa3/P-3
Standard Bank	1 761	1 761	ZAR	none	Baa3/P-3
Sumitomo Mitsui	139	139	ZAR	none	A1/P-1
	39 230	**39 230**			

41. Financial instruments and risk management (continued)

Treasury bills	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
Federal Reserve Bank of New York	70 070	70 070	ZAR	none	Aaa

Treasury notes, bonds and unit trusts	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
South Africa	1 955 918	1 955 918	ZAR	none	P-3/Baa3
United States-RAMP	1 498 361	1 498 361	ZAR	none	Aaa
United States	440 944	440 944	ZAR	none	Aaa
	3 895 223	**3 895 223**			

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

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.

Staging per class of financial assets - 2020

	Stage 1 M '000	Stage 1 12-month ECL M '000	Stage 2 M '000	Stage 3 M '000	Total M '000
Treasury notes and bonds	1 408 038	1 878 714	-	-	3 286 752
FVOCI Instruments	**1 408 038**	**1 878 714**	**-**	**-**	**3 286 752**

	Stage 1 M '000	Stage 2 M '000	Stage 3 M '000	Total M '000
Cash and cash equivalents	6 826 094	-	-	6 826 094
Deposit Floaters	613 650	-	-	613 650
Accrued interest due from Banks	15 614	-	-	15 614
Treasury bills at amortised cost	73 425	-	-	73 425
IMF Subscription Account	1 467 398	-	-	1 467 398
IMF Holding of Special Drawing Rights (SDR)	45 785	-	-	45 785
IMF Funded PRGF Advances	317 730	-	-	317 730
Lesotho Government Securities	4 329	-	-	4 329
IMF Rapid Credit Facility	245 127	-	-	245 127
Trade and other receivables	106 774	-	-	106 774
Instruments at amortised cost	**9 715 926**	**-**	**-**	**9 715 926**
Balance as at 31 December 2020	**11 123 964**	**-**	**-**	**13 002 678**

Notes to the Financial Statements

	2020 M '000	2019 M '000

41. Financial instruments and risk management (continued)

Staging per class of financial assets - 2019

	Stage 1 M '000	Stage 2 M '000	Stage 3 M '000	Total M '000
Treasury notes and bonds	1 466 033	-	-	1 466 033
FVOCI Instruments	**1 466 033**	**-**	**-**	**1 466 033**

	Stage 1 M '000	Stage 2 M '000	Stage 3 M '000	Total M '000
Cash and cash equivalents	4 400 146	-	-	4 400 146
Deposit Floaters	2 020 209	-	-	2 020 209
Accrued interest due from Banks	39 174	-	-	39 174
Treasury bills at amortised cost	69 194	-	-	69 194
IMF Subscription Account	1 357 310	-	-	1 357 310
IMF Holding of Special Drawing Rights (SDR)	226 909	-	-	226 909
IMF Funded PRGF Advances	475 535	-	-	475 535
Lesotho Government Securities	521	-	-	521
Trade and other receivables	108 897	-	-	108 897
Instruments at amortised cost	**8 697 895**	**-**	**-**	**8 697 895**
Balance as at 31 December 2019	**10 163 928**	**-**	**-**	**10 163 928**

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

Expected credit loss per class of financial assets

2020	Stage 1 M '000	Stage 1 12-month ECL M '000	Stage 2 M '000	Stage 3 M '000	Stage 3 Lifetime ECL M '000	Total M '000
FVOCI Instruments	1 408 038	80	23 122	-	-	23 202
Instruments at amortised cost	9 715 926	1 256	-	-	-	1 256
Balance as at 31 December 2020	**11 123 964**	**1 336**	**23 122**	**-**	**-**	**24 458**

2019	Stage 1 M '000	Stage 1 12-month ECL M '000	Stage 2 M '000	Stage 3 M '000	Stage 3 Lifetime ECL M '000	Total M '000
FVOCI Instruments	1 466 033	14 530	-	-	-	14 530
Instruments at amortised cost	8 697 895	35 259	-	-	-	35 259
Balance as at 31 December 2019	**10 163 928**	**49 789**	**-**	**-**	**-**	**49 789**

Reconciliation of the expected credit loss allowance

2020	Stage 1 12-month ECL M '000	Stage 2 Lifetime ECL M '000	Stage 3 Lifetime ECL M '000	Total M '000
Balance as at 01 January 2020	**49 789**	**-**	**-**	**49 789**
- Instruments at amortised cost	35 259	-	-	35 259
- FVOCI Instruments	14 530	-	-	14 530
Net charge for the year	**(2 208)**	**(23 123)**	**-**	**(25 331)**
- Instruments at amortised cost	(2 128)	-	-	(2 128)
- FVOCI Instruments	(80)	(23 123)	-	(23 203)
Balance as at 31 December 2020	**47 581**	**(23 123)**	**-**	**24 458**

	2020	2019
	M '000	M '000

41. Financial instruments and risk management (continued)

2019	Stage 1 12-month ECL M '000	Stage 2 Lifetime ECL M '000	Stage 3 Lifetime ECL M '000	Total M '000
Balance as at 01 January 2019	**21 783**	**-**	**-**	**21 783**
Net charge for the year	**28 006**	**-**	**-**	**28 006**
- Instruments at amortised cost	35 259	-	-	35 259
- FVOCI Instruments	(7 253)	-	-	(7 253)
Balance as at 31 December 2020	**49 789**	**-**	**-**	**49 789**

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

Sensitivity Analysis for the year ended 31 December 2020

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.

The FX sensitivity analysis takes into consideration the impact of a -/+5 percent increase in the exchange rates of currencies the Central Bank of Lesotho holds in its portfolio.

Table 1 provides a comparative view of holdings in original currency, along with the closing foreign exchange rates for 2019 and 2020 financial years.

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

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

	31 December 2020		31 December 2019	
	Portfolio level M '000	Exchange Rate M '000	Portfolio level M '000	Exchange Rate M '000
South Africa	8 468 071	1,00	6 922 284	1,00
United States	267 495	14,69	255 563	14,01
Botswana	387	1,36	95	15,72
England	687	20,07	1 547	18,43
European Union	168	18,06	422	1,32
Switzerland	-	16,69	-	14,47
IMF	2 163	21,16	11 709	19,38

	31 December 2020			31 December 2019		
Base case Data for currency and foreign investment risk	**Portfolio level**	**Portfolio level in %**	**Exchange Rate**	**Portfolio level**	**Portfolio level in %**	**Exchange Rate**
Currency composition	**M '000**			**M '000**		
ZAR	8 468 071	67,95 %	1,00	6 922 284	64,35 %	1,00
USD	3 930 594	31,54 %	14,69	3 577 216	33,25 %	14,01
EUR	3 030	0,02 %	18,06	1 493	0,01 %	15,72
GBP	13 796	0,11 %	20,07	28 507	0,27 %	18,43
BWP	526	- %	1,36	559	0,01 %	1,32
CHF	-	- %	16,69	-	- %	14,47
SDR	45 785	0,37 %	21,16	226 909	2,11 %	19,37
	12 461 802	**100 %**		**10 756 968**	**100 %**	

Notes to the Financial Statements

	2020 M '000	2019 M '000

41. Financial instruments and risk management (continued)

31 December 2020

5% Increase in exchange rate for currency and foreign investment risk Currency composition	Portfolio level M '000	Portfolio level in %	Level change M '000	Exchange Rate
ZAR	8 468 071	66,88 %	-	1,0000
USD	4 127 124	32,60 %	(196 530)	15,4288
EUR	3 181	0,03 %	(151)	18,9667
GBP	14 485	0,11 %	(689)	21,0727
BWP	552	- %	(26)	1,4272
CHF	-	- %	-	17,5208
SDR	48 074	0,38 %	(2 289)	22,2217
	12 661 487	**100 %**		

31 December 2019

5% Increase in exchange rate for currency and foreign investment risk Currency composition	Portfolio level M '000	Portfolio level in %	Level change M '000	Exchange Rate
ZAR	6 922 284	63,22 %	-	1,0000
USD	3 756 076	34,31 %	(178 860)	14,7145
EUR	1 568	0,01 %	(75)	16,5031
GBP	29 932	0,27 %	(1 425)	19,3481
BWP	587	0,01 %	(28)	1,3905
SDR	238 255	2,18 %	(11 346)	20,3277
	10 948 702	**100 %**		

31 December 2020

5% decrease in exchange rate for currency and foreign investment risk Currency composition	Portfolio level M '000	Portfolio level in %	Level change M '000	Exchange Rate
ZAR	8 468 071	69,06 %	-	1,00
USD	3 734 064	30,45 %	196 530	13,96
EUR	2 878	0,02 %	152	17,16
GBP	13 106	0,11 %	690	19,07
BWP	499	- %	27	1,29
CHF	-	- %	-	15,85
SDR	43 496	0,35 %	2 289	20,11
	12 262 114	**100 %**		

31 December 2019

5% decrease in exchange rate for currency and foreign investment risk Currency composition	Portfolio level M '000	Portfolio level in %	Level change M '000	Exchange Rate
ZAR	6 922 284	65,52 %	-	1,00
USD	3 398 355	32,17 %	178 861	13,31
EUR	1 418	0,01 %	75	14,93
GBP	27 081	0,26 %	1 426	17,51
BWP	531	0,01 %	28	1,26
SDR	215 564	2,04 %	11 345	18,41
	10 565 233	**100 %**		

% Change -2.57%.

Interest rate risk

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

41. Financial instruments and risk management (continued)

31 December 2020

	Cash M '000	0 to 6 Months M '000	6 months to 1 year M '000	1 year to 5 years M '000	More than 5 years M '000	Total M '000
ZAR	108 252	6 001 253	277 286	925 086	1 156 195	8 468 072
USD	959	2 071 465	398 116	1 460 054	-	3 930 594
EUR	59	2 971	-	-	-	3 030
GBP	35	13 761	-	-	-	13 796
Other	-	46 311	-	-	-	46 311
	109 305	**8 135 761**	**675 402**	**2 385 140**	**1 156 195**	**12 461 803**

31 December 2019

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

31 December 2020

Base case yields	0 to 6 Months M '000	6 months to 1 year M '000	1 year to 5 years M '000	More than 5 years M '000
ZAR	4,79 %	4,81 %	7,48 %	10,50 %
USD	0,35 %	0,55 %	1,04 %	- %
EUR	(0,49)%	- %	- %	- %
GBP	0,14 %	- %	- %	- %

31 December 2019

Base case yields	0 to 6 Months M '000	6 months to 1 year M '000	1 year to 5 years M '000	More than 5 years M '000
ZAR	6,93 %	6,90 %	7,58 %	8,00 %
USD	2,04 %	2,04 %	2,87 %	- %
EUR	0,44 %	- %	- %	- %
GBP	0,75 %	- %	- %	- %

31 December 2020

100 Basis points increase in yields	0 to 6 Months M '000	6 months to 1 year M '000	1 year to 5 years M '000	More than 5 years M '000
ZAR	5,79 %	5,81 %	8,48 %	11,50 %
USD	1,35 %	1,55 %	2,04 %	- %
EUR	0,51 %	- %	- %	- %
GBP	1,14 %	- %	- %	- %

41. Financial instruments and risk management (continued)

31 December 2019

100 Basis points increase in yields	**0 to 6 Months M '000**	**6 months to 1 year M '000**	**1 year to 5 years M '000**	**More than 5 years M '000**
ZAR	7,93 %	7,90 %	8,58 %	9,00 %
USD	3,04 %	3,04 %	3,87 %	1,00 %
EUR	0,56 %	- %	- %	- %
GBP	1,76 %	- %	- %	- %

31 December 2020

100 Basis points decrease in yields	**0 to 6 Months M '000**	**6 months to 1 year M '000**	**1 year to 5 years M '000**	**More than 5 years M '000**
ZAR	3,79 %	3,81 %	6,48 %	9,50 %
USD	(0,65)%	(0,45)%	0,04 %	- %
EUR	(1,49)%	- %	- %	- %
GBP	(0,86)%	- %	- %	- %

31 December 2019

100 Basis points decrease in yields	**0 to 6 Months M '000**	**6 months to 1 year M '000**	**1 year to 5 years M '000**	**More than 5 years M '000**
ZAR	5,93 %	5,90 %	6,58 %	7,00 %
USD	1,04 %	1,04 %	1,87 %	- %

31 December 2020

Nominal return in base case yields	**0 to 6 Months M '000**	**6 months to 1 year M '000**	**1 year to 5 years M '000**	**More than 5 years M '000**	**Nominal Income M '000**	**% Change M '000**
ZAR	287 538	13 338	69 189	121 400	516 192	- %
USD	7 316	2 186	15 220	-	-	- %
EUR	(14)	-	-	-	-	- %
GBP	19	-	-	-	-	- %

31 December 2019

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

41. Financial instruments and risk management (continued)

31 December 2020

Nominal return in increasing yields	0 to 6 Months M '000	6 months to 1 year M '000	1 year to 5 years M '000	More than 5 years M '000	Nominal Income M '000	% Change
ZAR	347 551	11 849	48 697	43 529	466 459	- %
USD	28 032	(884)	(12 485)	-	-	- %
EUR	15	-	-	-	-	- %
GBP	157	-	-	-	-	- %

31 December 2019

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

31 December 2020

Nominal return in decreasing yields	0 to 6 Months M '000	6 months to 1 year M '000	1 year to 5 years M '000	More than 5 years M '000	Nominal Income M '000	% Change
ZAR	227 526	14 827	89 680	199 272	565 926	- %
USD	(13 400)	5 257	42 925	-	-	- %
EUR	(44)	-	-	-	-	- %
GBP	(119)	-	-	-	-	- %

31 December 2019

Nominal return in decreasing yields	0 to 6 Months M '000	6 months to 1 year M '000	1 year to 5 years M '000	More than 5 years M '000	Nominal Income M '000	% Change M '000
ZAR	296 420	-	91 945	24 597	-	- %
USD	20 608	-	25 090	-	-	- %
EUR	-	-	-	-	461	(18)%
GBP	175	-	-	-	-	- %

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

Liquidity Risk

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.

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

41. Financial instruments and risk management (continued)

31 December 2020

Financial assets	**Redeemable on demand M '000**	**Maturing within 1 month M '000**	**Maturing after 1 month but within 6 months M '000**	**Maturing after 6 months but within 12 months M '000**	**Maturing after 1 year but within 5 years M '000**	**Maturing after 5 years M '000**	**Total M '000**
Cash and balances with banks	4 652 510	546 940	2 124 920	-	-	-	7 324 370
Accrued interest due from Banks	23 560	3 460	7 510	-	-	-	34 530
Expected interest cashflows from Bonds	-	18 000	84 520	90 090	512 450	207 000	912 060
Treasury Notes, Bonds and Unit Trust	1 587 380	-	380 220	462 420	1 248 410	1 139 110	4 817 540
IMF accounts	2 076 040	-	-	-	-	-	2 076 040
Lesotho Government Securities	4 329	-	-	-	-	-	4 329
Loans to staff	-	-	-	30 130	28 399	48 244	106 773
Investment in SWIFT	506	-	-	-	-	-	506
	8 344 325	**568 400**	**2 597 170**	**582 640**	**1 789 259**	**1 394 354**	**15 276 148**

31 December 2020

Financial liabilities	**Redeemable on demand M '000**	**Maturing within 1 month M '000**	**Maturing after 1 month but within 6 months M '000**	**Maturing after 6 months but within 12 months M '000**	**Maturing after 1 year but within 5 years M '000**	**Maturing after 5 years M '000**	**Total M '000**
Notes & coins issued	1 819 028	-	-	-	-	-	1 819 028
Deposits	686 529	-	-	-	-	-	686 529
Lesotho Government Deposits	4 057 873	-	-	-	-	-	4 057 873
IMF Accounts	2 947 975	-	-	-	-	-	2 947 975
	9 511 405	**-**	**-**	**-**	**-**	**-**	**9 511 405**
Net liquidity gap	**(1 167 080)**	**568 400**	**2 597 170**	**582 640**	**1 789 259**	**1 394 354**	**5 764 743**

31 December 2019

Financial assets	**Redeemable on demand M '000**	**Maturing within 1 month M '000**	**Maturing after 1 month but within 6 months M '000**	**Maturing after 6 months but within 12 months M '000**	**Maturing after 1 year but within 5 years M '000**	**Maturing after 5 years M '000**	**Total M '000**
Cash and balances with banks	2 361 601	1 914 468	1 622 527	710 209	-	-	6 608 805
Accrued interest due from Banks	101	39 544	57 132	16 369	-	-	113 146
Expected interest cashflows from Bonds	-	17 294	58 317	67 441	325 291	94 000	562 343
Treasury Notes, Bonds and Unit Trust	1 466 033	207 017	91 163	56 176	1 528 171	336 025	3 684 585
IMF accounts	2 526 818	-	-	-	-	-	2 526 818
Lesotho Government Securities	521	-	-	-	-	-	521
Loans to staff	-	-	-	-	53 872	42 038	95 910
Investment in SWIFT	399	-	-	-	-	-	399
	6 355 473	**2 178 323**	**1 829 139**	**850 195**	**1 907 334**	**472 063**	**13 592 527**

	2020 M '000	2019 M '000

41. Financial instruments and risk management (continued)

31 December 2019

Financial liabilities	Redeemable on demand M '000	Maturing within 1 month M '000	Maturing after 1 month but within 6 months M '000	Maturing after 6 months but within 12 months M '000	Maturing after 1 year but within 5 years M '000	Maturing after 5 years M '000	Total M '000
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
	7 107 028	**-**	**-**	**-**	**-**	**-**	**7 107 028**
Net liquidity gap	**(751 555)**	**2 178 323**	**1 829 139**	**850 195**	**1 907 334**	**472 063**	**6 485 499**

Price risk

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

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

	2020 M '000	**2019 M '000**
10% increase	285 866	385 724
10% decrease	(285 866)	(385 724)

42. Fair value information

Levels of fair value measurements

Level 1

Fair value through profit or loss		
Treasury notes and bonds	1 613 107	1 474 911
Financial assets at fair value through OCI		
Treasury notes and bonds	3 232 111	2 382 325
	4 845 218	**3 857 236**
Total	**4 845 218**	**3 857 236**

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 havein 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 arm's 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.

		2020 M '000	2019 M '000

42. Fair value information (continued)

Level 2

Recurring fair value measurements

Assets	Note(s)		
Financial assets at fair value through profit (loss)			
Cash		6 824 837	4 364 888
Deposit Floaters		613 650	2 020 209
Treasury bills		73 425	69 194
Total financial assets designated at fair value through profit (loss)		**7 511 912**	**6 454 291**
Total		**7 511 912**	**6 454 291**

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.The present value technique is used to measure fair value using circumstances specific to the to the asset.

Level 2: Inputs other than bond prices included within level 1 that are observable for the asset or liability, either directly (that is, interest rates observed in the market) or indirectly (that is, derived from interest rates)

Level 3

Recurring fair value measurements

Assets	Note(s)		
Financial assets			
Investment in SWIFT		506	399
Non-financial assets			
Property, plant and equipment		402 009	397 232
Total		**402 515**	**397 631**

	Note(s)	Opening balance	Closing balance

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

Valuation processes applied by the Bank

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

Inputs into the valuation:

Commercial buildings

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

M14,259

Residential buildings

The Bank uses the estimated rental for vacant land:

M387,750

Notes to the Financial Statements

	2020 M '000	2019 M '000

42. Fair value information (continued)

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

The table below summarises the impact on increases/(decreases) of the property prices. The analysis is based on the assumption that the property prices had increaded /(decreased) by 10% with all variables held constant

	2020 M '000	2019 M '000
Impact on the fair value of property, plant and equipment		
10% increase	526 355	526 093
10% decrease	(526 355)	(526 093)

43. Memorandum Accounts

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

	2020	2019
Amounts in USD		
Deutsche Bank Trust Company America	16 188 513	17 000 000
Amounts in Euro		
Deutsche Bundesbank	2 037 802	2 817 241

As per the Bank's accounting policy in note 1.26 these amounts have not been recorded on the Balance Sheet.

44. Events after the reporting period

The COVID-19 pandemic has thrown the global economy into disarray, with over 99.86 million confirmed cases and over 2.15 million deaths as at January 28, 2021 (World Health Organization). As a result, most economies responded by restricting movements, thereby negatively affecting global economic growth. The global economy, however, expected to rebound strongly in 2021 driven by a successful rollout of vaccines and continued fiscal and monetary policy support. Should economic activity resume, global GDP is expected to reach its highest levels in more than a decade in 2021 as the race to meet global demand heightens.

The US, a market the CBL continues to be heavily exposed to, remains the hardest hit by COVID-19, with over 25 million confirmed cases and 419, 000 deaths (WHO-January 28). The US Fed is expected to keep rates unchanged throughout the most part of the year with a change only expected on the basis of heavy inflationary pressures. The Bank exposure in this market is primarily in Treasury Bonds, and credit risk assessed as low due to the US's strong capacity to meet its obligations (also depicted by a low probability of default) as well as the strength and stability of the US Dollar.

As South Africa continues to battle COVID-19 and the new strain, the economy is expected to contract 8 percent in 2020. However, SARB is optimistic that the GDP will expand 3.5 percent and 2.4 percent in 2021 and 2022 respectively. The SARB is expected to keep rates unchanged; however, there remains room for a slight cut of around 25 bps to help improve liquidity in the market in the first half of the year.

While the Rand has historically been very volatile, it has however been one of the best-performing emerging market currencies in recent months, and is expected to continue the rally as the world rushes to secure and rollout COVID-19 vaccines. 52.9% of the Bank's portfolio is expected to be in Rand in 2021 as per the currency allocation, and this is influenced heavily by the country's obligations. Despite having taken a hit as a result of the double-dip downgrade at the onset of the pandemic, the Rand has since made an incredible comeback; ranking highest in emerging market currencies. And in spite of the recovery of the Rand, risk is still perceived as high in the South African market due to fiscal issues. However, the robustness of the South African financial markets and governance institutions, economic resilience is expected to remain for a while.

No financial assets have been impaired during the year. Financial assets held at fair value through Other Comprehensive Income (South African Government bonds) and financial assets held at armortised cost habe moved to stage 2 and therefore lifetime ECL has been performed on them.

Notes to the Financial Statements

	2020	2019
	M '000	M '000

44. Events after the reporting period (continued)

Impact of COVID 19 on revenue
Regardless of the impact of COVID 19 globally there were good revenue returns from bonds as the Bank made allocation of more reserves to higher yielding SA bonds (financial assets at fair value through other comprehensive income) and also fair value gains from dollar bonds resulted in higher performance in the sub-portfolio. The performance of the Rand however decelerated monthly to the end of the year as low interest rates began to affect portfolio positions. On the other hand, revenue earned from US dollar holdings (debt instruments at fair value through profit or loss) was affected by low interest rates though this effect was mitigated by exchange rate gains from weak rand exchange rate against the dollar and other major currencies during the year under review. Overall higher levels of reserves, weak exchange rate of Rand currency relative to other currencies strategies like longer term floating rate deposits have resulted in superior performance of revenue

45. Going concern

The financial statements have been prepared on a going concern basis, and the Directors have every reason to believe that the Bank has adequate resources in place to continue in operation for the foreseeable future. This assumption is enshrined by the Constitution. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Due to the fact that there was no impact on revenue as a result of COVID 19 there are no uncertainties in terms of going concern.