Central Bank of Lesotho

MALOTI

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

Central Bank of Lesotho Financial statements for the year ended 31 December 2022

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 & Associates and SNG Grant Thornton
Secretary	Mr. N. Rantsane (Adv.)
Lawyer	Webber & Newdigate

Contents

Corporate Governance Report

This report sets out salient aspects of corporate governance of the Central Bank of Lesotho. The Bank is committed to ensuring that its policies and business practices comply with principles of good corporate governance and best practice. The Board of Directors is committed to ensuring that the Bank engages with its stakeholders with integrity, respect, accountability and transparency.

Report for the year.

The Bank has a unitary Board, which comprises 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 execution of their fiduciary dutieS.

The Governor is the Chairperson of the Board and provides its leadership and sets the tone for its performance. He is responsible for effective organisation and conduct of the Board's affairs. He 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 stated in the Central Bank of Lesotho Act. No. 2 of 2000. 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. The Committees have charters in terms of which they perform their respective roles as delegated by the Board. Matters that have been dealt with by the Committees are referred to the Board with clear recommendations for consideration and decision. Each Committee provides periodic reports to the Board on the matters that it dealt with.

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

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

In line with section 13 (2) of the Act, the Board meets as frequently as possible, but not less than once in every two months. The Board convened thirteen (13) meetings during the 2022 Financial Year.

On 1st January 2022, Mr. Powell Lehlomela Mohapi was appointed as the Acting Governor, following the end of term of office of the former Governor, First Deputy Governor, and Second Deputy Governor on 31st December 2021. He held the position of Acting Governor until 31st May 2022. On 1st June 2022 Dr. Emmanuel Maluke Letete was appointed as the Governor while Mr. Powell Lehlomela Mohapi was appointed as the First Deputy Governor.

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.

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 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 three independent Non-Executive Directors one of whom serves as the Chairperson and one external non-board 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 nine meetings which considered the following: , Internal Audit Department Annual Plan for 2023, the reports of the Internal Audit Department on identified areas of internal control, financial management reports from the Finance Department, External Auditors' Evaluation tool as well as evaluation of External Auditors' performance. The Committee also considered and approved the External Auditors Plan for 2022. 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 2022.

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.

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.

On behalf of the Audit Committee

Mrs. R. Tlali
Chairperson of the Audit Committee

Directors' Responsibilities and Approval

In accordance with the CBL Act No. 2 of 2000, the Directors are responsible for the preparation of the annual financial statements. These financial statements are prepared in accordance with the Central Bank of Lesotho Act No. 2 of 2000 and in line with the policies set out in note 1 of the financial statements. The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates, and fairly present the affairs of the Bank as at 31 December 2022, and the results of its operations, net loss and cash flows for the year then ended.

The Directors are responsible for the content and integrity of the annual financial statements and related disclosures in this report. Management enables the Directors to meet these responsibilities through the design, implementation and monitoring standards and systems of internal control. These standards and systems of internal control are designed, implemented and monitored to provide reasonable assurance of the integrity and reliability of the annual financial statements and to adequately safeguard, verify and maintain accountability to the stakeholders. The systems and controls include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.

The external auditors are engaged to express an independent opinion on the annual financial statements.

The Directors are of the opinion, based on the information and explanations given by 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. Nothing has come to the attention of the Directors to indicate that a breakdown in the functioning of these controls, resulting in material loss to the Bank, has occurred during the year and up to the date of this report.

These 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 31 March 2023 and are signed on its behalf by:

Dr. E.M Letete	**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 2022. 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 of Lesotho.

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 13. 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, 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 in terms of the Act were as follows:

	M'000
31 December 2022	28 449

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. 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 the date of this report are as follows:

Name	Date of appointment	Position held	Changes
Dr. E.M Letete	June, 2022	Governor and Chairman	Appointed 1 June 2022
Mr. P.L Mohapi	June, 2022	First Deputy Governor	Appointed 1 June 2022
Mrs. K. Thabane (Adv)	June, 2021	Non-Executive Director	
Mr. M. Letsoela	July, 2019	Non-Executive Director	
Mr. R. Thamae	September, 2020	Non-Executive Director	
Mrs. R. Tlali	February, 2021	Non-Executive Director	
Mr. O. 'Nete	February, 2021	Non-Executive Director	

5. Secretary

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

Directors' Report (continued)

6. Events after the reporting period

Global economies were struggling to keep inflaton under control throughout 2022 reaching record highs. The inflation emanated from fiscal and monetary policy easing in order to prevent world economies from crashing after Coronavirus impact was felt. Major economies such as United states (US) were not an exception, as inflation rate skyrocketed and reached levels as high as 9.1 percent year on year in June, which way higher than its inflation target of 2 percent. The major drivers of inflation are fiscal and monetary policy easing measures from 2019, surge in oil prices and supply distruptions caused by lockdowns.

As US economy continued to run hot throughout 2022, the Federal Reserve Bank (Fed) was left with no choice but to engage in monetary policy tightening cycle as the central bank targeted to bring inflation back to 2 percent inflation target. Fed's interest rate hikes were aggressive in order to try to cool the economy which was seeing record highs in cost of living. The inflation was successfully moderated though still high as it closed the year (December) at 6.4 percent year on year. There was a huge cost the Fed had to pay to bring such inflation from around 10 percent down to around 6 percent. The yield curve was inverted for most of the periods in 2022 and that is regarded as the best predictor of upcoming recession in 2023 brought by aggressive monetary policy tightening.

South Africa like other global economies and emerging markets was faced with rampant inflation resulting from previous stimulus put in place to cushion the economy against the impact of the pandemic, and rising oil prices. The South African Reserve Bank (SARB) was also forced to engage in aggressive monetary policy tightening to fight inflation and also to attract foreign investors' funds through increased interest rates as global econmies are increasing their respective interest rates. The repo rate opened the year at 3.75 percent and closed at 7 percent; that is an increase of 325 basis points cumulatively. The economy is dragged by persistent blackouts as Eskom's power generating plants are aging and continue to break down. The government went on to remove the license rules for private power generators to generate their own electricity and sell the suplus.

It is important to briefly highlight how the economic environment affected our portfolio and the analysis will be based on the impact on money markets and bonds. Rising interest rates made money markets (deposits) attractive as returns rose while bonds were negatively affected especially the price return component. However, on-the-run bonds benefited on time return component as coupon rates are higher for newly issued bonds.

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 as 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.

8.1 Revaluation Reserve Account

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

The Act further continues to prescribe that “The profits or losses arising from such change shall not be included in the computation of the annual profits and losses of the Bank”. The 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.. 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.

Directors' Report (continued)

8.2 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.

8.3 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. E.M Letete	**Mrs. R.Tlali**
Governor	**Director**
29 March 2023	**29 March 2023**

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDER OF THE CENTRAL BANK OF LESOTHO

Opinion

We have audited the financial statements of the Central Bank of Lesotho ("the Bank"), set out on pages 12 to 64, which comprise the statement of financial position as at 31 December 2022, 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 2022 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 of Lesotho 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
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 of Lesotho Act No.2 of 2000. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Bank's directors are responsible for the other information. The other information comprises the information included in the document titled "Central Bank of Lesotho Financial statements for the year ended 31 December 2022". The other information does not include the financial statements and our auditors' 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 of Lesotho Act No.2 of 2000, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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	SizweNtsalubaGobodo Grant Thornton Inc.
Kobla Quashie	**Agnes Dire**
Moteane, Quashie & Associates	SizweNtsalubaGobodo Grant Thornton Inc.
Chartered Registered Auditor	Chartered Registered Auditor
31 March 2023	31 March 2023
Plot 582 Hoohlo	20 Morris Streat East
Maseru	Woodmead
100	2191

Statement of Financial Position as at 31 December 2022

	Note(s)	2022 M'000	2021 M'000
Assets			
Cash and cash equivalents	2	5 114 609	4 688 374
Deposit Floaters	3	250 000	1 265 635
Investment in Swift	4	395	328
Treasury notes and bonds	5	5 639 000	5 943 017
Treasury bills at amortised cost	6	448 203	80 464
IMF Subscription Account	7	1 589 772	1 484 227
IMF Holding of Special Drawing Rights (SDR)	8	1 594 810	1 519 373
IMF Funded PRGF Advances	9	38 810	139 332
Lesotho Government Securities	10	946	-
Currency Inventory	11	44 991	44 456
Loans and advances	12	135 575	110 642
Other assets	13	15 788	154 385
Property, plant and equipment	14	996 206	986 988
Intangible assets	15	28 451	20 521
Current tax receivable	22	1 081	18 253
Deferred tax	27	83 979	53 050
Total Assets		**15 982 616**	**16 509 045**
Equity and Liabilities			
Liabilities			
Notes and coins issued	16	1 806 697	1 830 228
Deposits	17	528 062	568 257
Lesotho Government Deposits		2 866 980	3 622 150
IMF Maloti Currency Holding	18	1 828 867	1 708 138
IMF Special Drawing Rights Allocation	19	2 272 562	2 227 462
IMF-PRGF Facility	20	38 810	139 332
IMF Rapid Credit Facility	21	265 569	247 938
Dividends Due to Government of Lesotho Consolidated Fund	23	28 449	11 646
Trade and other payables	24	203 466	137 503
Long-term employee benefit obligation	25	108 305	122 790
Total Liabilities		**9 947 767**	**10 615 444**
Equity			
Share capital	28	100 000	100 000
General reserve		328 305	322 615
Rand compensation reserve		1 089 248	996 339
SDR revaluation reserve		151 922	185 421
Foreign exchange revaluation reserve		4 111 428	3 933 060
Property revaluation reserve		239 993	222 581
Bond revaluation reserve		(35 442)	40 431
Loss allowance recognised for debt investments at fair value through other comprehensive income		49 395	93 154
		6 034 849	**5 893 601**
Total Equity and Liabilities		**15 982 616**	**16 509 045**

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2022 M'000	2021 M'000
Interest income	29	543 907	457 925
Interest expense	30	(54 913)	(31 874)
Net interest income		**488 994**	**426 051**
Other income	31	43 438	18 653
Total Income		**532 432**	**444 704**
Expected credit losses on financial assets		36 991	(19 486)
Operating costs and expenses	32	(509 714)	(444 672)
Operating (loss) /profit		**59 709**	**(19 454)**
Acturial gains and losses on employee benefits	25	(8 910)	6 449
Profit /(Loss) before taxation		**50 799**	**(13 005)**
Tax (income)/expense	33	(16 660)	2 026
Profit /(Loss) for the period		**34 139**	**(10 979)**
Other comprehensive income:			
Bond/ unit trusts fair values			
(Decrease)/Increase in bond/unit trusts fair values		(108 923)	(128 138)
Tax effect		33 050	37 886
Net movement		**(75 873)**	**(90 252)**
Property revaluation reserve			
(Decrease)/Increase in property revaluations		20 045	80 779
Tax effect		(2 633)	(46 956)
Net movement		**17 412**	**33 823**
Rand compensation reserve			
Increase in reserve		92 909	94 845
Tax effect		-	-
Net movement		**92 909**	**94 845**
Loss allowance			
Loss allowance for financial instruments at fair value through other comprehensive income		(43 759)	(18 905)
Net movement		**(43 759)**	**(18 905)**
Other comprehensive income for the year net of taxation		**(9 311)**	**19 511**
Total comprehensive income for the year		**24 828**	**8 532**

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

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	Loss allowance recognised for debt investments at fair value through other comprehensive income	Accumulated profit/(loss)	Total equity
	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000
Balance at 01 January 2021	**100 000**	**329 712**	**901 494**	**161 584**	**3 618 842**	**188 758**	**130 683**	**72 992**	**-**	**5 504 065**
Loss for the year	-	-	-	-	-	-	-	-	(10 979)	(10 979)
Loss allowance recognised for debt investments at fair value through other comprehensive income	-	-	-	-	-	-	-	20 162	-	20 162
Foreign exchange translation to designated reserve	-	-	-	23 837	314 218	-	-	-	-	338 055
Movement in bond/unit trust fair values	-	-	-	-	-	-	(90 252)	-	-	(90 252)
Asset revaluation for the year	-	-	-	-	-	33 823	-	-	-	33 823
Rand compensation receipts	-	-	94 845	-	-	-	-	-	-	94 845
Transfer to General Reserve	-	(7 097)	-	-	-	-	-	-	10 979	3 882
Total changes	**-**	**(7 097)**	**94 845**	**23 837**	**314 218**	**33 823**	**(90 252)**	**-**	**10 979**	**380 353**
Balance at 01 January 2022	**100 000**	**322 615**	**996 339**	**185 421**	**3 933 060**	**222 581**	**40 431**	**93 154**	**-**	**5 893 601**
Profit for the year	-	-	-	-	-	-	-	-	34 139	34 139
Loss allowance recognised for debt investments at fair value through other comprehensive income	-	-	-	-	-	-	-	(43 759)	-	(43 759)
Foreign exchange translation to designated reserve	-	-	-	(33 499)	178 368	-	-	-	-	144 869
Movement in bond/unit trust fair values	-	-	-	-	-	-	(75 873)	-	-	(75 873)
Asset revaluation for the year	-	-	-	-	-	17 412	-	-	-	17 412
Rand compensation receipts	-	-	92 909	-	-	-	-	-	-	92 909
Transfer to General Reserve	-	5 690	-	-	-	-	-	-	(5 690)	-
Dividends payable to Government of Lesotho	-	-	-	-	-	-	-	-	(28 449)	(28 449)
Total changes	**-**	**5 690**	**92 909**	**(33 499)**	**178 368**	**17 412**	**(75 873)**	**(43 759)**	**(34 139)**	**107 109**
Balance as at 31 December 2022	**100 000**	**328 305**	**1 089 248**	**151 922**	**4 111 428**	**239 993**	**(35 442)**	**49 395**	**-**	**6 034 849**

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 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 financial year shall be applied to the redemption of any securities of the Government held by the Bank which have been issued under section 20(6).
(4) With the approval of the Minister, further allocations may be made from time to time to the general reserve to increase it beyond four times the minimum paid-up capital of the Bank.
(5) The residue of the net annual profits for the financial year remaining after all deductions authorized by subsections (2), (3), (4) and section 55 have been made shall be paid into the Consolidated Fund as soon as practicable after the end of each financial year.

Statement of Cash Flows

	Note(s)	2022 M'000	2021 M'000
Cash flows from operating activities			
Cash used in operations	34	(216 132)	(1 505 534)
Interest received	29	532 959	446 134
Interest expense	30	(25 058)	(4 691)
Tax paid	22	(50 917)	-
Rand compensation reserve		92 910	94 845
Payments to Government of Lesotho Consolidated Fund	23	(11 646)	(46 999)
Increase/(decrease) in Other assets		138 599	(148 295)
Decrease /(increase) in Lesotho Government Securities		(946)	4 329
Sale/(Purchase) of Treasury notes and bonds		389 837	(953 928)
Movements in notes and coins	16	(23 530)	11 200
Decrease/ (increase) in staff loans		(24 931)	(8 682)
Net cash from operating activities		**801 145**	**(2 111 621)**
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(58 638)	(115 781)
Purchase of other intangible assets	15	(13 481)	(749)
Disposal of property, plant and equipment		2 281	-
Sale of investment in SWIFT	4	(67)	178
Net cash from investing activities		**(69 905)**	**(116 352)**
Cash flows from financing activities			
Movement in IMF Funded PRGF	20	(106 785)	(100 511)
Total cash movement for the year		**624 455**	**(2 328 484)**
Cash at the beginning of the year		4 688 374	6 840 451
Effect of exchange rate movement on cash balances		(198 220)	176 407
Total cash and cash equivalents at end of the year	2	**5 114 609**	**4 688 374**

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. 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.

Property, plant and equipment is initially measured at cost and recognised when it is probable that expected future economic benefits attributable to the asset will flow to the Bank and the cost of the asset can be measured reliably.

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 values as determined by an independent professional valuer every five years, less accumulated depreciation and impairment.

After recognition as an asset, buildings 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.

Other property, plant and equipment (office furniture, equipment,computers, land and motor vehicles) are subsequently carried at cost less accumulated impairment losses and accumulated depreciation. 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 buildings are transferred to a Revaluation Reserve Account.

The most recent independent valuation for buildings except the new Bank extention building was performed for the year ended December 2021.

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 using the applicable rates 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.

1.1 Property, plant and equipment (continued)

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other 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)	3 years
SAGE & QCBS	10 years

1.3 Current and deferred income tax

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

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

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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.

Accounting Policies

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 distributed.

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 pension contribution account.

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. The Bank is responsible for any shortfall of the defined benefit.

(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.

1.5 Employee benefits (continued)

(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 profit and loss.

(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.

1.6 Provisions

Contingent liabilities are not disclosed because the Bank believes that they may not become an actual liability therefore may not be incurred due to a result of uncertain future event.The Bank holds a belief that the possibility of future outflow of settlement embodying economic benefits is remote.

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 rate. 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 in the statement of f 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 in equity.

Accounting Policies

1.9 Impairment of non-financial assets

The carrying amounts of the Bank’s property, plant and equipment are reviewed at every five years 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 Currency inventory expenditure

The Bank’s currency inventory is measured at lower of cost and NRV. The determination of NRV is an entity-specific estimate and requires the use of judgement

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.

Accounting Policies

1.16 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.

1.17 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.

1.18 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.

1.19 SDR Revaluation Reserve

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

1.20 Property Revaluation Reserve

The Property Revaluation Reserve represents unrealised gains and losses on the revaluation of buildings.

1.21 Bond Revaluation Reserve

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

1.22 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 2022, if the currency had weakened/strengthened by 5% against the functional currencies, the Bank's foreign assets would have been 1.08% (2021: 2.11%) 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 financial instrument due to the variability in interest rates. The Bank owns significant financial instruments 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 instruments at fair value through other comprehensive income or as financial instruments 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.

1.23 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the No.1 and No.2 accounts which total SDR 57 057 629 (2021: SDR 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 SDR 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 SDR rates by the IMF is effected annually on 30 April, and whenever there are IMF transactions using the Maloti. The IMF accounts have been revalued using the latest prevailing SDR rates in IMF website.

1.24 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 12.47% 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 26.

The key assumptions used in the valuation are discount rate 12.30%, price inflation rate of 7.30%, salary increase of 8.30% and the 80% resignations based on the previously applied rates.

Accounting Policies

(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 1.27.

1.25 Memorandum Accounts

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

1.26 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 Value Through 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).

1.26.1 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 FVOCI 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

Instruments at amortised cost

Cash and cash equivalents

Treasury bills.

1.26 Financial Instruments (continued)

Deposit floaters.

Loans and advances.

IMF Holding Account.

Lesotho Government Securities.

Instruments at FVTOCI

Self managed bonds.

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 FVOCI, its contractual terms should give rise to cash flows that are solely payment of principal and interest (SPPI).

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

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

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

When an instrument measured at 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 FVOCI, 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 FVOCI are subject to impairment.

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 equity;
- For debt instruments measured at FVTOCI exchange differences on the amortised cost of the debt instrument are recognised in a special account called the Foreign Exchange Revaluation Reserve Account Other exchange differences are recognised in equity;
- For financial assets measured at FVTPL exchange differences are recognised ia a special account called the Foreign Exchange Revaluation Reserve Account 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

1.26 Financial Instruments (continued)

- For equity instruments measured at FVTOCI, exchange differences are recognised in equity in the investments revaluation reserve.

Impairment of financial assets

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).

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 Effectve Interest Rate (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 borrower is unlikely to pay its credit obligations to the Bank in full. Borrower 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.

1.26 Financial Instruments (continued)

Significant increase in credit risk

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

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

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

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

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

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

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are 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.

1.26 Financial Instruments (continued)

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.

1.26.2 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.

The EIR 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.

Accounting Policies

1.26 Financial Instruments (continued)

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

1.27 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 2023, 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**
Amendments to IAS 1 Presentation of Financial Statements (IAS 1)-Classification of Liabilities as Current or Non-Current	*The amendments clarify that liabilities are classified as either current or non-current liabilities, depending on the rights that exist at the end of the reporting period as well as clarify what IAS 1 means in reference to the “settlement” of a liability*	*Annual periods beginning on or after 1 January 2023*
Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	*The amendments require an entity to recognise deferred tax on certain transactions (eg leases and decommissioning liabilities) that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.*	*Annual periods beginning on or after 1 January 2023*
Disclosure of Accounting Policies (IAS 1)	The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies, with additional guidance added to the standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely material	Annual periods beginning on or after 1 January 2023.
Accounting Policies, Changes in Accounting Estmates and Errors (IAS8)	*The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates, be replacing the definition of a change in accounting estimates with a new definition, accounting estimates are 'monetary amounts in financia statements that are subject to measurement uncertainty'. The requirements for recognising the effect of change in accounting prospectively remain unchanged.*	*Annual periods beginning on or after 1 january 2023*

1.28 Related Parties

As per *IAS 24 Related Party Disclosures*, the financial statements contain the disclosures necessary to draw attention to the possibility that the Bank's financial position and profit or loss may have been affected by the existence of related parties.

Related parties of the Bank include, but are not limited to the Government of Lesotho, Non Executive Directors, Executive Directors and Key Management who are charged with governance in accordance with legislation and hold positions of responsibility respectively. Their remuneration may be established by statute or by another body independent of the Bank. Their responsibilities may enable them to influence the benefits of office that flow to them, their related parties or parties that they represent on the governing body.

Notes to the Financial Statements

2. Cash and cash equivalents

Cash and cash equivalents consist of:

	2022 M'000	2021 M'000
Cash and Balances with Banks		
Cash on hand	2 580	1 137
Bank balances	361 174	254 867
Short-term deposits	7 139	2 650
Total cash in hand and cash at bank	370 893	258 654
Current and Call Accounts		
Foreign Banks	148 485	44 415
South African Banks	1 774 343	2 248 167
Total Current and Call Accounts	1 922 828	2 292 582
Fixed Deposits		
Foreign Banks	1 458 744	2 027 045
Interest Accrued	19 493	10 674
South African Banks	1 350 000	100 000
Expected credit loss for cash and cash equivalents	(7 349)	(581)
Total Fixed deposits (with maturity shorter than 3 months)	2 820 888	2 126 464
Total cash and cash equivalents	**5 114 609**	**4 688 374**

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

3. Deposit Floaters

	2022 M'000	2021 M'000
SA Banks Deposits	250 000	1 200 000
Foreign Banks Deposits	-	65 635
	250 000	**1 265 635**

4. Investment in Swift

	2022 M'000	2021 M'000
Investment in SWIFT	395	328

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.

The SWIFT shares are revalued at the end of the year to Maloti using the price in the shareholding certificate as at year end.

5. Treasury notes and bonds

2022	**Fair value through Profit and loss**	**Fair value through OCI**	**Total**
US Bonds at fair value	1 785 183	926 777	2 711 960
ZAR Bonds at fair value	-	2 845 416	2 845 416
US Bonds accrued interest	7 574	5 638	13 212
ZAR Bonds accrued interest	-	68 412	68 412
	1 792 757	**3 846 243**	**5 639 000**

2021	**Fair value through Profit and loss**	**Fair value through OCI**	**Total**
US Bonds at fair value	1 703 622	771 878	2 475 500
ZAR Bonds at fair value	-	3 388 022	3 388 022
US Bonds accrued interest	5 692	2 513	8 205
ZAR Bonds accrued interest	-	71 290	71 290
	1 709 314	**4 233 703**	**5 943 017**

Notes to the Financial Statements

	2022 M'000	2021 M'000

6. Treasury bills at amortised cost

US Treasury Bills

	2022 M'000	2021 M'000
Treasury bills at amortised cost	448 203	80 464

The Treasury bills are debt securities issued by the United States Treasury Departments and South African Government for a term of one year and are treated as securities at armortised cost. All treasury bills are subject to fixed interest risk rate of 1.24%.

7. IMF Subscription Account

	2022 M'000	2021 M'000
Balance at beginning of year	1 484 227	1 467 398
Exchange revaluation	105 545	16 829
Balance at end of year	**1 589 772**	**1 484 227**

A member's subscription to IMF resources is equal to its quota and determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full A country must pay 25% of its quota in widely accepted foreign currencies or SDRs, and the remaining 75% in its own currency.

The quota defines a member's voting power in IMF decisions. The Kingdom of Lesotho has been a member of the IMF since 25th July 1968. As fiscal agent, the Bank is authorized to carry out all operations and transactions with IMF.

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 69,800,000 in 2022. The local currency equivalent of the subscription account in the statement of financial position is converted at the rate of 0.046993900000 (2021: SDR 69,800,000 at 0.0405208).

8. IMF Holding of Special Drawing Rights (SDR)

	2022 M'000	2021 M'000
Balance at beginning of year	1 519 373	45 785
Net transactions - (decrease) / increase in rights	157 461	1 447 251
Exchange revaluation	(82 024)	26 337
Balance at end of year	**1 594 810**	**1 519 373**

Holding of SDRs is potentially a claim on freely usable currencies of IMF members, in that holders of SDR can exchange their currencies for SDRs. The SDR's value as a reserve asset derives from the commitmentsof members to hold and accept SDRs and to honour various obligations connected with the operation of the SDR system. The IMF ensures that the SDR's claim on freely usable currencies is being honoured in two ways: by designating IMF members with a strong external position to purchase SDRs from members with weak external positions, and through the arrangement of voluntary exchanges between participating members in a managed market. During the year IMF credited the Bank with SDR allocatiton of SDR 66,900,161 which was equivalent to 99.8455 of the qouta. There will be no charge on this transfer and the only existing charge for SDRs is the annual administrative levy.

The value of SDR 70,186,463 (2021: SDR 64,100,600) allocated by the International Monetary Fund less utilisation is converted at 0.04699390000 (2021:0.0405208).

9. IMF Funded PRGF Advances

	2022 M'000	2021 M'000
Balance at beginning of year	139 332	317 730
Paid during the year	(106 785)	(100 511)
Exchange revaluation	6 263	(77 887)
Balance at end of year	**38 810**	**139 332**

These are funds secured under the IMF Poverty Reduction and Growth Facility (PRGF) and on-lent to the Government of Lesotho. The SDR equivalents and translation thereof are shown in note 20.

Notes to the Financial Statements

	2022 M'000	2021 M'000

10. Lesotho Government Securities

Maturing within 1 month	946	-

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.

11. Currency Inventory

	2022 M'000	2021 M'000
Balance at beginning of year	44 456	10 782
Expenditure incurred	(24 171)	(10 820)
Re-instatement in the prior year	-	15 527
Valuation of currency	24 706	28 967
Balance at end of year	**44 991**	**44 456**

12. Loans and advances

	2022 M'000	2021 M'000
Housing loans	54 757	52 229
Car loans	28 999	27 010
Furniture loans	1 319	1 632
Personal loans and comprehensive insurance	50 500	29 771
	135 575	**110 642**

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 35 and risk management note 38 for further details.

13. Other assets

	2022 M'000	2021 M'000
Other prepayments	7 508	150 717
Other receivables	4 802	189
Commemorative coins	3 478	3 479
	15 788	**154 385**

Notes to the Financial Statements

14. Property, plant and equipment

	2022			2021		
	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	660 517	(55 011)	605 506	657 891	(33 933)	623 958
CBL and Lehakoe Land	10 225	-	10 225	10 225	-	10 225
Lehakoe buildings	144 355	(32 957)	111 398	143 737	(30 807)	112 930
Residential land and buildings	15 682	(2 758)	12 924	15 682	(3 517)	12 165
Housing furniture	640	(569)	71	569	(498)	71
Office furniture	24 021	(14 043)	9 978	22 679	(11 507)	11 172
Motor vehicles	15 878	(12 789)	3 089	20 632	(15 249)	5 383
Office equipment	91 042	(58 557)	32 485	60 334	(50 177)	10 157
Office computers	48 908	(25 932)	22 976	37 299	(19 313)	17 986
Lehakoe furniture	5 642	(4 298)	1 344	5 097	(3 685)	1 412
Sports/music equipment	14 596	(11 200)	3 396	13 034	(9 523)	3 511
Housing equipment	350	(311)	39	311	(273)	38
Security equipment	34 114	(28 736)	5 378	30 418	(24 786)	5 632
Work in progress	177 397	-	177 397	172 348	-	172 348
Total	**1 243 367**	**(247 161)**	**996 206**	**1 190 256**	**(203 268)**	**986 988**

Notes to the Financial Statements

14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Depreciation on Disposal	Transfers	Revaluations	Depreciation	Revaluation excess	Total
	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000
CBL buildings	623 958	2 626	-	-	-	-	(9 240)	(11 838)	605 506
Land	10 225	-	-	-	-	-	-	-	10 225
Lehakoe buildings	112 930	617	-	-	-	-	(2 024)	(125)	111 398
Residential land and buildings	12 165	-	-	-	-	-	(277)	1 036	12 924
Housing furniture	71	-	-	-	-	72	-	(72)	71
Office furniture	11 172	110	-	-	-	1 232	(1 332)	(1 204)	9 978
Motor vehicles	5 383	2 398	(8 687)	4 883	-	1 535	(766)	(1 657)	3 089
Office equipment	10 157	668	-	-	23 296	6 744	(1 721)	(6 659)	32 485
Office computers	17 986	10 229	-	-	-	1 381	(5 750)	(870)	22 976
Lehakoe furniture	1 412	-	-	-	-	546	(83)	(531)	1 344
Sports/music equipment	3 511	-	-	-	-	1 561	(146)	(1 530)	3 396
Housing equipment	38	-	-	-	-	39	-	(38)	39
Security equipment	5 632	164	-	-	-	3 589	(411)	(3 596)	5 378
Work in progress	172 348	41 826	-	-	(36 777)	-	-	-	177 397
	986 988	**58 638**	**(8 687)**	**4 883**	**(13 481)**	**16 699**	**(21 750)**	**(27 084)**	**996 206**

Notes to the Financial Statements

14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation on Disposal	Revaluations	Depreciation	Total
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
CBL buildings	596 600	283	-	-	36 747	(9 672)	623 958
Land	10 225	-	-	-	-	-	10 225
Lehakoe buildings	115 728	70	-	-	(932)	(1 936)	112 930
Residential land and buildings	16 926	-	-	-	(4 495)	(266)	12 165
Housing furniture	71	-	-	-	70	(70)	71
Office furniture	11 542	877	-	-	1 204	(2 451)	11 172
Motor vehicles	7 382	-	(1 889)	1 574	1 657	(3 341)	5 383
Office equipment	12 083	308	-	-	6 058	(8 292)	10 157
Office computers	10 151	4 741	(45)	45	7 253	(4 159)	17 986
Lehakoe furniture	1 000	-	-	-	499	(87)	1 412
Sports/music equipment	2 145	295	-	-	1 237	(166)	3 511
Housing equipment	39	-	-	-	-	(1)	38
Security equipment	6 043	-	-	-	3 539	(3 950)	5 632
Work in progress	63 141	109 207	-	-	-	-	172 348
	853 076	**115 781**	**(1 934)**	**1 619**	**52 837**	**(34 391)**	**986 988**

Analysis at carrying amount as at 31 December 2022 had the Bank remained on cost.

Analysis at carrying amount as at 31 December 2022 had the Bank remained on cost.	**Cost Analysis**	**Revalued Amount**
	M'000	**M'000**
CBL Building	636 643	605 506
LRCC Building	22 000	111 398
Residential Building	1 312	12 924

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.

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 statement during the financial period in which they are incurred.

	2022 M'000	2021 M'000

14. Property, plant and equipment (continued)

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.

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 buildings are transferred to a Revaluation Reserve Account. The most recent independent valuation for buildings was performed in the year 2021.

The items of property, plant and equipment which were fully depreciated were revalued by Management. The was no surplus arising from the revaluation therefore no distribution to the Government of Lesotho.

15. Intangible assets

	2022			2021		
	Cost M'000	Accumulated amortisation M'000	Carrying value M'000	Cost M'000	Accumulated amortisation M'000	Carrying value M'000
Computer software	117 156	(88 705)	28 451	88 705	(68 184)	20 521

Reconciliation of intangible assets - 2022

	Opening balance M'000	Additions M'000	Revaluations M'000	Amortisation M'000	Total M'000
Computer software	20 521	13 481	5 072	(10 623)	28 451

Reconciliation of intangible assets - 2021

	Opening balance M'000	Additions M'000	Revaluations M'000	Amortisation M'000	Total M'000
Computer software	25 063	749	5 008	(10 299)	20 521

Details of valuation

The effective date of the revaluations was 31 December 2022. Revaluations were performed internally by management by giving fully amortised intangible assets 20% of their original cost price. The revaluations are posted to property revaluation reserve.

Revaluation at the beginning of the year was M5,008 million and at the end of the period was M5,072 million resulting in the surplus of M64,000.

The carrying value of the revalued assets under the cost model would have been:

	2022	2021
Computer software	1	1

16. Notes and coins issued

	2022	2021
Notes	1 771 819	1 795 314
Coins	34 878	34 914
	1 806 697	**1 830 228**

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.

Notes to the Financial Statements

	2022 M'000	2021 M'000
17. Deposits		
Current liabilities	528 062	568 257
Deposits from Banks - Non-interest bearing		
Banks	525 524	560 088
Other Deposits - Non-interest bearing		
International Institutions	930	321
Parastatals and others	1 608	7 848
	528 062	**568 257**
18. IMF Maloti Currency Holding		
Securities account	755 841	705 661
General resources account	1 073 026	1 002 477
	1 828 867	**1 708 138**

The No. 1 account is used for IMF transactions and operations, including subscription payments, purchases repurchases, repayment of borrowing, and sales in Lesotho Local Currency. The No. 2 account is used for the IMF's administrative expenditures and receipts (for example, receipts from sales of IMF publications) in the member's currency and within its territory. Small out-of-pocket expenses, such as telecommunication charges, may be debited to this account on a quarterly basis. The IMF securities account is a security held in custody in respect of the IMF Quota.

19. IMF Special Drawing Rights Allocation

	2022 M'000	2021 M'000
Balance at beginning of year	2 227 462	695 850
Paid during the year	-	1 447 251
Exchange revaluation	45 100	84 361
Balance at end of year	**2 272 562**	**2 227 462**

The SDR allocation is an unsecured, interest bearing distribution of SDRs by the IMF through general and special allocations. The general allocation is made by the IMF according to the Articles of Agreement to all participants in its SDR Department in proportion to countries' quotas in the IMF On 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one time allocation of SDRs entered into force to boost global liquidity. According to the amendment dated 9 August 2021, the special allocation was made to the IMF members, which includes the Kingdom of Lesotho amounting to SDR 66,900,161. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Bank treats the allocation as a foreign currency liability to the IMF. There is an interest charge if the country's SDR holdings fall below its SDR allocations some countries' SDR allocations are in excess of their holding eg Lesotho, reflecting their purchases of SDRs, or charges that they have paid on their reserve tranche positions in the GRA.

Lesotho's allocation by IMF of SDR99,778,347 is converted at 0.046993900000 (2021: SDR99,778,347 is converted at 0.048391300000)

20. IMF-PRGF Facility

	2022 M'000	2021 M'000
Balance at beginning of year	139 332	317 730
Paid during the year	(106 785)	(100 511)
Exchange revaluation	6 263	(77 887)
Balance at end of year	**38 810**	**139 332**

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. So far, five tranches have been disbursed and the last tranche has been disbursed in 2013.

The balance due to the IMF amounted to SDR 1,704,000, converted at 0.046993900000 as at 31 December 2022 (2021: SDR 15,113,500.00 at 0.048391300000). The loan has been on-lent as per note 8. Interest expense and exchange rate differences are borne by the Government of Lesotho.The corresponding interest receivable and exchange gains are recognised.

21. IMF Rapid Credit Facility

	2022 M'000	2021 M'000
Balance at beginning of year	247 938	245 127
Exchange revaluation	17 631	2 811
Balance at end of year	**265 569**	**247 938**

Notes to the Financial Statements

	2022 M'000	2021 M'000

21. IMF Rapid Credit Facility (continued)

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 11,660,000 (2021: SDR 11,660,000) allocated by the International Monetary Fund is converted at 0.046993900000 (2021:0.048391300000).

22. Taxation(receivable)/ payable

	2022 M'000	2021 M'000
Balance at beginning of year	(18 253)	(27 640)
Current year charge	17 172	9 387
Balance at end of year	**(1 081)**	**(18 253)**

23. Dividend due to the Government of Lesotho

	2022 M'000	2021 M'000
Balance at beginning of year	11 646	46 999
Paid during the year	(11 646)	(46 999)
Profit appropriation for the current year	28 449	-
Prior year correction of foreign activities that mistated due to GOL	-	11 646
Balance at end of year	**28 449**	**11 646**

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.

	2022 M'000	2021 M'000
Profit after tax appropriates as follows:		
Profit/(Loss)/ after tax (after actuarial (loss)/gain on employee benefits)	34 139	(10 979)
Profit after tax net of gain on foreign exchange activities	34 139	(10 979)
Transfer to General Reserve	(5 690)	11 646
Loss to be tranferred to General Reserve	-	10 979
Balance at end of year	**28 449**	**11 646**

24. Trade and other payables

	2022 M'000	2021 M'000
Various accruals	61 829	105 938
Divisional cheques accounts	92 424	107
Other	46 656	28 976
Accrued leave pay	2 557	2 482
	203 466	**137 503**

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

Various accruals relate to accrued expenses as at year end.

Notes to the Financial Statements

	2022 M'000	2021 M'000
25. Retirement benefits		
Provision for severance pay		
Opening obligation	27 258	24 391
Interest cost	3 040	3 138
Current service cost	3 044	3 247
Actuarial (gain)/ loss on employee benefits	(1 859)	(2 046)
Benefits paid	(6 676)	(1 472)
	24 807	**27 258**
Provision for gratuity		
Opening obligation	95 532	82 726
Interest cost	9 540	10 673
Current service cost	12 639	14 344
Actuarial (gain)/ loss on employee benefits	10 377	(4 403)
Benefits paid	(44 590)	(7 808)
	83 498	**95 532**
	108 305	**122 790**

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 as at 31 December 2022. The valuer has determined the discount rate to be equal 12,47% p.a., implied inflation assumption rate to be 7,55% p.a for future inflation. Future salaries can be expected to increase in line with salary inflation. It is assumed that salary inflation will exceed general inflation by 1.25% p.a. The valuer has used the discount rate assumption of high quality corporate bond. The valuer has set the discount rate by using the best fit discount rate at 31 December 2022 based on yields from the zero coupon South African government bond curve with the duration of between 10-15 years. The computation has been determined taking into consideration the cash-flow weighted duration of the liabilities. The recommended discount rate is 12.47%. The benefits paid for severance and gratuity payments have been recognised in the statement of profit or loss.

Key assumptions used

	2022	2021
Discount rates used	12.47 %	11.92 %

Sensitivity Analysis 2022	**Current Assumption**	**1% decrease**	**1% increase**
	12.47%	**11.47%**	**13.47%**
Bank	108 305	120 728	122 894

Sensitivity Analysis 2021	**Current Assumption**	**1% decrease**	**1% increase**
	11.92%	**10.92%**	**12.92%**
Bank	122 790	136 199	138 654

	2022 M'000	2021 M'000

26. Post-employment retirement fund benefits

Opening balance	-	78 801
Post- employment retirement fund benefits	-	-
Liability paid during the year	-	(78 801)
	-	**-**

Statutory actuarial valuations of the Corporate Bodies Pension Scheme has been performed on the14th March 2023 for the year ended 31 December 2022 and found that the fund is in a sound financial position as funding level stood at 96.44% with a deficit of just M7.8 million. The Bank does not have a share of the deficit as at 31st December 2022 therefore no liability has been raised.

Financial position of the scheme		
Value of assets	**210 515**	**137 508**
Value of liabilities	**(218 291)**	**(257 857)**
Active member liabilities	(103 891)	(149 481)
Pensioner liabilities	(110 775)	(105 299)
Deferred liabilities	(3 625)	(3 077)
Surplus/(deficit)	**(7 776)**	**(120 349)**
Funding level	**96.44 %**	**53.33 %**
CBL liability paid during the year	-	(78 801)
Surplus/(deficit) attributable to the contributors	**(7 776)**	**(319 446)**

The plan assets were invested in the following different asset classes as at 31 December 2022 per the Actuarial valuation:

Investment		
Property	60 341	60 341
Lesotho Bank 24 Hour Call Account	9 757	4 291
RMB Asset Management	-	30
Stanlib Income Fund	37 578	18 683
Standard Bank Short Term Deposits	-	23 000
Nedbank Short Term Deposits	-	10 000
FNB Short Term Deposits	-	10 657
Government Bonds	35 000	15 000
Accrued Interest	1 127	1 837
Creditors	(1 207)	(6 783)
Bank Account	304	452
Stanlib Balanced Fund	67 615	-
Total	**210 515**	**137 508**

Assumptions

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

Assumption		
Discount rate	12.30 %	9.90 %
Price inflation	7.30 %	8.30 %
Salary increases	8.30 %	6.60 %
Pension increases	- %	- %
Pre-retirement real rate	3.69 %	3.10 %
Post-retirement real rate	12.30 %	9.90 %
Pre-retirement mortality	125%*SA56/62	125%*SA56/62
Post-retirement mortality	a(55)	a(55)
Resignations	custom rates	80% of the previously applied rates was assumed 25%
Commutation	25.00 %	25.00 %

Discount rate is considered to be the only significant assumption.

Notes to the Financial Statements

	2022 M'000	2021 M'000

27. Deferred tax

Deferred tax asset

Property plant and equipment	83 979	53 050

The deferred tax assets and the deferred tax asset relate to income tax in the same jurisdiction, and the law allows net settlement. Therefore, they have been offset in the statement of financial position as follows:

Deferred tax asset	83 979	53 050

Reconciliation of deferred tax asset / (liability)

At beginning of year	53 050	21 972
Movements in profit and loss	(513)	1 734
Movement in equity - current year	31 442	29 344
	83 979	**53 050**

Reconciliation of deferred tax asset / (liability)

Accelerated capital allowance for tax purposes	1 037	9 766
Liabilities for benefits accrued	27 716	31 318
Deferred expenses	(2 818)	653
Bond/unit trust revaluation reserve	(22 831)	86 254
Property revaluation reserve	80 875	(74 941)
	83 979	**53 050**

Recognition of deferred tax asset

Deferred taxation assets are recognised for all deductible temporary differences, the carry forward of unused taxation losses and the carry forward of unused taxation credits. Deferred taxation assets are recognised for unused taxation losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Deferred taxation assets and liabilities are offset when the deferred taxation assets and liabilities relate to income taxation levied by the same taxation authority/jurisdiction on the same taxable entity. Management holds a strong view that there will be future taxable incomes against which the dereffed tax will be utilised.

The bank's profitability was considered in determining the appropriateness of recognising deferred taxation assets.

28. Share capital

Authorised

Authorised capital	100 000	100 000

Issued

Issued and fully paid	100 000	100 000

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

29. Investment income

Interest income

Foreign currency deposits (Armotised cost)	227 085	202 325
Interest treasury bills and SDR holdings (Armortised cost)	19 590	1 637
Debt instrument at fair value through Other Comprehensive Income and Profit and Loss	297 232	253 963
Total interest income	**543 907**	**457 925**

Notes to the Financial Statements

	2022 M'000	2021 M'000

30. Interest expense

Interest on non-financial Public Enterprises	59	104
Accrued premium amortisation	29 855	27 311
IMF SDR allocation account	24 999	4 459
Total interest expense	**54 913**	**31 874**

31. Other income

Profit on sale of bonds	(458)	2 747
Interest on staff loans (Armotised cost)	2 201	2 008
Lehakoe income	14 333	3 663
Other income	4 988	9 008
Gain on instruments as at fair value through profit and loss	22 374	1 227
	43 438	**18 653**

Other income consists of license fees and penalties charged to financial institutions,commission fee charged for banking services and Lehakoe income relates to staff membership fees and revenue for sale of food and refreshments at the Bank 's Recreational and Cultural Centre .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.

32. Operating costs and expense per nature

Administration and other expenses	83 275	66 867
Auditors remuneration	2 556	3 723
Currency Printing and Minting	24 164	7 048
Computer software amortisation	10 623	10 299
Depreciation and impairment	48 366	34 391
Property, plant and equipment maintenance expenses	16 310	13 141
Loss on sale of other instruments	28 480	7 146
Loss on fair valuation of treasury notes and bonds	60 329	23 301
Personnel costs:		
Staff welfare expenses	29 367	26 256
Non-executive directors' fees	2 425	2 200
Executive directors' salaries	2 033	10 202
Key management (heads of departments)	9 803	14 446
Staff salaries and expenses	146 695	176 313
Pension fund contributions	7 828	9 129
Gratuity and severance pay (interest and service cost)	37 460	40 210
	509 714	**444 672**

33. Taxation

Major components of the tax expense

Current		
Local income tax - current period	16 660	(2 026)
Tax on actuarial gain	-	1 568

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

Chargeable profit (before foreign exchange gain/loss and after actuarial gain/loss)	(26 735)	(12 170)
Statutory tax rate	25.00 %	25.00 %

Notes to the Financial Statements

	2022 M'000	2021 M'000
33. Taxation (continued)		
Permanent differences:		
Donations	0.02 %	0.03 %
Depreciation	0.01 %	0.02 %
Effective tax rate	**25.03 %**	**25.05 %**
Accounting profit	50 799	(13 005)
Add: Permanent differences disallowed for tax purposes	21 905	11 838
Add: Temporary differences disallowed for tax purposes	(4 015)	38 713
Taxable profit	**68 689**	**37 546**
Taxation @ 25% (2021: 25%)	17 173	9 387
Add:Tax expense	(513)	(11 413)
Total Tax due	**16 660**	**(2 026)**

34. Cash used in operations

	2022 M'000	2021 M'000
Profit before taxation	50 799	(13 007)
Adjusted for:		
Depreciation	48 367	34 391
Computer software amortised	10 623	10 299
Interest income	(543 907)	(457 925)
Interest paid	25 058	4 564
Currency Printing and Minting	(535)	(33 674)
Movement in Designated as at FV through profit (loss)	(83 443)	-
Movement in securities held at fair value through other comprehensive income	387 460	-
Movement in Deposits	(795 365)	(553 988)
Treasury bills at amortised cost	(367 739)	(7 039)
Movement in IMF Maloti Currency Holding	120 729	18 870
Movement in IMF Subscription	(105 545)	(101 661)
Trade and other payables	65 956	(168 910)
Movement in IMF Holding of Special Drawing Rights (SDR)	(75 437)	(1 129 811)
Movement in IMF Special Drawing Rights Allocation	45 100	1 531 611
Movements in Long-term employee benefit obligation	(14 485)	15 673
Deposit Floaters	1 015 635	(651 985)
Expected credit loss	(43 758)	19 486
Expected credit loss for cash and cash equivalents	6 768	581
Profit on sale of bonds	458	(2 747)
Gain on instruments designated as FVTPL	(22 374)	(1 227)
Movement in Post-employment benefit liability	-	(78 801)
(Gain)/Loss on sale of other instruments	(28 480)	7 146
Loss on fair valuation of treasury notes and bonds	60 329	23 301
Accrued premium amortisation	29 855	27 311
Interest on staff loans	(2 201)	2 008
	(216 132)	**(1 505 534)**

Notes to the Financial Statements

35. Related parties

		2022 M'000	2021 M'000
Gross advances made during period:			
Heads of Departments	Car loans	2 469	2 388
	Furniture loans	100	50
	Personal loans	3 695	2 482
	Comprehensive insurance	113	44
Balances due at end of the period:			
Heads of Departments	Car loans	2 220	2 387
	Furniture loans	83	46
	Personal loans	3 088	2 483
	Comprehensive insurance	67	-
Interest charged for the period			
Heads of Departments	Car loans	8	16
	Furniture loans	1	-
	Personal loans	16	9
	Comprehensive insurance	1	-

During the period ended 31 December 2022 a car loan and personal loans were advanced to First Deputy Governor and personal loan was advanced to the Governor.
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 to the tune of M89,513,910 for car and personal loan.;
-title deeds, insurance cover 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.

Mortgages amounting to M61,823,963 (2021: M55,823,963) are registered with the Bank's attorneys and life cover policies ceded to the Bank.

During the year the terminal benefits amounting to M4,748,763 (2021: M21,353,852) were paid to key management staff while accrued benefits payable upon termination amount to M 5,454,257.07.

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

	2022 M'000	2021 M'000
Executive Directors' salaries	2 033	10 202
Key management salaries	9 803	14 446
	11 836	**24 648**
Non - Executive Directors emoluments		
Directors fees	2 425	1 868

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.

	2022 M'000	2021 M'000
Government Deposits	2 799 957	3 622 150

Notes to the Financial Statements

36. Financial assets by category

The financial assets have been categorised as follows:

2022

	Amortised cost M'000	Fair value through OCI M'000	Assets at fair value through profit and loss M'000	Total M'000
Cash and cash equivalents	5 114 609	-	-	5 114 609
Deposit Floaters	250 000	-	-	250 000
Investment in Swift	395	-	-	395
Treasury notes and bonds	106 576	4 001 869	1 530 555	5 639 000
Treasury bills at amortised cost	448 203	-	-	448 203
IMF Subscription Account	1 589 772	-	-	1 589 772
IMF Holding of Special Drawing Rights (SDR)	1 594 810	-	-	1 594 810
IMF Funded PRGF Advances	38 810	-	-	38 810
Lesotho Government Securities	946	-	-	946
Loans and advances	135 575	-	-	135 575

2021

	Amortised cost M'000	Fair value through OCI M'000	Assets at fair value through profit and loss M'000	Total M'000
Cash and cash equivalents	4 688 374	-	-	4 688 374
Deposit Floaters	1 265 635	-	-	1 265 635
Investment in Swift	328	-	-	328
Treasury notes and bonds	92 485	4 141 218	1 709 314	5 943 017
Treasury bills at amortised cost	80 464	-	-	80 464
IMF Subscription Account	1 484 227	-	-	1 484 227
IMF Holding of Special Drawing Rights (SDR)	1 519 373	-	-	1 519 373
IMF Funded PRGF Advances	139 332	-	-	139 332
Loans and advances	110 642	-	-	110 642
	9 380 860	**4 141 218**	**1 709 314**	**15 231 392**

Gains and losses per financial instrument category 2022	**Armortised cost M'000**	**FV through P/L M'000**	**FV through OCI M'000**	**Total M'000**
Interest Income	227 085	-	297 232	524 317
Interest treasury bills and SDR holdings	-	19 590	-	19 590
Gain on instruments at FVTPL	-	22 374	-	22 374
Subtotal	227 085	41 964	297 232	566 281
	227 085	**41 964**	**297 232**	**566 281**

Gains and losses per financial instrument category 2021	**Armortised cost M'000**	**FV through P/L M'000**	**FV through OCI M'000**	**Total M'000**
Interest Income	202 325	-	253 963	456 288
Interest treasury bills and SDR holdings	-	1 637	-	1 637
Gain on instruments at FVTPL	-	1 227	-	1 227
Subtotal	202 325	2 864	253 963	459 152
	202 325	**2 864**	**253 963**	**459 152**

37. Financial liabilities by category

The financial liabilities have been categorised as follows:

2022

	Financial liabilities at amortised cost M'000	Total M'000
Notes and coins issued	1 806 697	1 806 697
Deposits	528 062	528 062
Lesotho Government Deposits	2 866 980	2 866 980
IMF Maloti Currency Holding	1 828 867	1 828 867
IMF Special Drawing Rights Allocation	2 272 562	2 272 562
IMF-PRGF Facility	38 810	38 810
IMF Rapid Credit Facility	265 569	265 569
Trade and other payables	111 680	111 680
Dividend due to Government of Lesotho	28 449	28 449
	9 747 676	**9 747 676**

2021

	Financial liabilities at amortised cost M'000	Total M'000
Notes and coins issued	1 830 228	1 830 228
Deposits	568 257	568 257
Lesotho Government Deposits	3 622 150	3 622 150
IMF Maloti Currency Holding	1 708 138	1 708 138
IMF Special Drawing Rights Allocation	2 227 462	2 227 462
IMF-PRGF Facility	139 332	139 332
IMF Rapid Credit Facility	247 938	247 938
Trade and other payables	137 503	137 503
Dividends due to Government of Lesotho	11 646	11 646
	10 492 654	**10 492 654**

2022	**Amortised cost**	**FV through P/L**	**FV through OCI**	**Total**
Gains and losses per financial instrument category	**M'000**	**M'000**	**M'000**	**M'000**
Interest expense	(54 913)	-	-	(54 913)

2021	**Amortised cost**	**FV through P/L**	**FV through OCI**	**Total**
Gains and losses per financial instrument category	**M'000**	**M'000**	**M'000**	**M'000**
Interest expense	(31 874)	-	-	(31 874)

38. Financial instruments and risk management

Financial risk management

General risk management

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

Management structures

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

Risk elements

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

Operational risk

Operational risk is the risk of 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.

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

Currency 2022

Currency risk

Cash and balances with Banks	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
South Africa	3 748 586	1.0000	3 748 586
United States	88 987	16.9560	1 508 864
Botswana	80	1.3294	106
England	2 770	20.3999	56 505
European Union	2 705	18.0974	48 961
IMF	70 186	22.5657	1 583 798

Treasury notes and bonds	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
South Africa	2 845 416	1.0000	2 845 416
United States	159 940	16.9560	2 711 949

Treasury Bills	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
United States	9 920	16.9560	168 204
South Africa	280 002	1.0000	280 002

Currency 2021

Cash and balances with Banks	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
South Africa	7 353 669	1.0000	7 353 669
United States	259 437	14.6941	4 138 141
Botswana	186	1.3592	253
England	502	20.0692	10 792
European Union	424	18.0635	7 668
IMF	71 792	21.1635	1 602 695

Treasury notes and bonds	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
South Africa	2 845 126	1.0000	2 845 126
United States	157 476	14.0139	2 206 852

Treasury Bills	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
United States	5 000	14.0139	79 753
South Africa	50 000	0.0000	50 000

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.

38. 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 liquid 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.ECL has been computed for both 12-month and lifetime.

The standard borrows the model from credit risk modelling 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 Standards &Poor, Fitch and Moody's.
- The transition matrix is the S&P's global corporate s from 1981 to 2022.
- 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.

38. Financial instruments and risk management (continued)

2022

Cash	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ZAR	359 411	359 411	ZAR	none	n/a
USD	126	126	USD	none	n/a
GBP	2	2	GBP	none	n/a
EUR	14	14	EUR	none	n/a
	359 553	**359 553**			

Current and call accounts	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	47	47	ZAR	none	Ba2/P-2
ABSA Maloti Repatriation	11 587	11 587	ZAR	none	Ba2/P-2
ABSA Credit Card	489	489	ZAR	none	Ba2/P-2
B.I.S	7	7	USD	none	Supranational
B.I.S	1	1	EUR	none	Supranational
Bank of England	2 692	2 692	GBP	none	Aa3/P-1
Bank of N.Y	44	44	USD	none	A1/P-1
Bank of N.Y (RAMP}	596	596	USD	none	A1/P-1
Crown Agents	9	9	GBP	none	BB
Crown Agents	6	6	USD	none	BB
Deutsche Bankers trust	1 644	1 644	USD	none	A2/P-1
Deutsche Bundersbank	2 691	2 691	EUR	none	A3/P-2
Federal Reserve Bank of N.Y	253	253	USD	none	Aaa
First Rand	100	100	ZAR	none	Ba2/P-2
International Monetary Fund Holdings	70 186	70 186	ZAR	none	Supranational
Investec Bank	96	96	ZAR	none	Ba2/P-2
NedBank	32	32	ZAR	none	Ba2/P-2
SIRESS	10 026	10 026	ZAR	none	Ba2/P-2
Standard Bank	95	95	ZAR	none	Ba2/P-2
Standard Chartered Botswana	80	80	BWP	none	A2
Standard Chartered London	67	67	GBP	none	A3/P2
South African Reserve Bank	1 751 972	1 751 972	ZAR	none	Ba2/P-2
	1 852 720	**1 852 720**			

Fixed deposits	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	200 000	200 000	ZAR	none	Ba2/P-2
African Import-Export Bank	10 000	10 000	USD	none	Baa1/P-2
BIS	10 000	10 000	ZAR	none	Supranational
Federal Reserve Bank of NY	10 900	10 900	USD	none	Aaa
Firstrand	250 000	250 000	ZAR	none	Ba2/P-2
ICBC ASIA	24 762	24 762	USD	none	A1/P-1
Investec	250 000	250 000	ZAR	none	Ba2/P-2
Standard Bank	400 000	400 000	ZAR	none	Ba2/P-2
Standard Chartered London	5 048	5 048	USD	none	A3/P2
Standard Bank PLC	14 172	14 172	USD	none	Baa1/P-2
Standard Bank PLC	500 000	500 000	ZAR	none	Baa1/P-2
Sumitomo Mitsui USD	11 150	11 150	USD	none	A1
	1 686 032	**1 686 032**			

38. 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	1 333	1 333	ZAR	none	Ba2/P-2
African Import-Export Bank	28	28	ZAR	none	Baa1/P-2
BIS	29	29	ZAR	none	Supranational
Firstrand	1 769	1 769	ZAR	none	Ba2/P-2
ICBC ASIA	108	108	USD	none	A1/P-1
Investec	3 616	3 616	ZAR	none	Ba2/P-2
Standard Chartered London	36	36	USD	none	A3/P2
Standard Bank PLC	3 603	3 603	ZAR	none	Baa1/P-2
Standard Bank	4 407	4 407	USD	none	Ba2/P-2
Sumitomo Mitsui	39	39	USD	none	A1
Standard Bank PLC	40	40	USD	none	Baa1/P-2
	15 008	**15 008**			

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	9 920	168 204	USD	none	Aaa
ZAR Tbills	280 002	280 002	ZAR	none	Ba2/P-2
	289 922	**448 206**			

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	2 845 416	2 845 416	ZAR	none	Ba2/P-2
United States-RAMP	1 785 183	1 785 183	USD	none	Aaa
United States	926 767	926 767	USD	none	Aaa
	5 557 366	**5 557 366**			

Loans to staff	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Housing Loans	54 757	54 757	LSL	Title deeds	n/a
Car loans	28 999	28 999	LSL	Terminal benefits	n/a
Furniture loans	1 319	1 319	LSL	Terminal benefits	n/a
Other loans and advances	50 500	50 500	LSL	Terminal benefits	n/a
	135 575	**135 575**			

2021

Cash	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ZAR	249 515	249 515	ZAR	none	n/a
USD	1 914	1 914	USD	none	n/a
GBP	37	37	GBP	none	n/a
EUR	59	59	EUR	none	n/a
	251 525	**251 525**			

38. Financial instruments and risk management (continued)

Current and call accounts	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	45	45	ZAR	none	Baa3/P-3
ABSA Maloti Repatriation	31 992	31 992	ZAR	none	Baa3/P-3
ABSA Credit Card	878	878	ZAR	none	Baa3/P-3
B.I.S	6	6	GBP	none	Supranational
B.I.S	105	105	USO	none	Supranational
B.I.S	17	17	EUR	none	Supranational
Bank of England	6 427	6 427	GBP	none	Aa2/P-1
Bank of N.Y	1 341	1 341	USD	none	Aa2/P-1
Bank of N.Y	2	2	ZAR	none	Aa21P-1
Bank of N.Y (RAMP}	28 711	28 711	USD	none	Aa/P-1
Crown Agents	198	198	GBP	none	B BB
Crown Agents	89	89	USD	none	B BB
Deutsche Bankers trust	19 380	19 380	USD	none	Baa11P-1
Deutsche Bundersbank	7 591	7 591	EUR	none	Aaa
Federal Reserve Bank of N.Y	473	473	USD	none	Aaa
First Rand	95	95	ZAR	none	Baa3/P-3
International Monetary Fund Holdings	1 519 373	1 519 373	ZAR	none	Supranational
Investec Bank	91	91	ZAR	none	Baa3/P-3
NedBank	32	32	ZAR	none	Baa3/P-3
SIRESS	39 733	39 733	ZAR	none	Baa3/P-3
Special Rand Deposit	84	84	ZAR	none	Baa3/P-3
Standard Bank	64	64	ZAR	none	Baa3/P-3
Standard Chartered Botswana	253	253	BWP	none	A2
Standard Chartered London	3 404	3 404	GBP	none	A1/P-1
South African Reserve Bank	2 175 683	2 175 683	ZAR	none	Baa3/P-3
	3 836 067	**3 836 067**			

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	511 099	511 099	USD	none	Baa1/P-2
Federal Reserve Bank of NY	143 555	143 555	USD	none	Aaa
Firstrand	200 000	200 000	ZAR	none	Ba2/P-2
ICBC ASIA	459 675	459 675	USD	none	A1/P-1
Investec	400 000	400 000	ZAR	none	Ba2/P-2
NedBank	100 000	100 000	ZAR	none	Ba2/P-2
Standard Bank	200 000	200 000	ZAR	none	Ba2/P-2
Standard Bank PLC	219 290	219 290	USD	none	Baa3/P-3
Standard Bank PLC	650 000	650 000	ZAR	none	Baa3/P-3
Sumitomo Mitsui USD	80 351	80 351	USD	none	A-
	3 363 970	**3 363 970**			

Accrued interest due from Banks	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	2 055	2 055	ZAR	none	Ba2/P-2
African Import-Export Bank	191	191	ZAR	none	Baa1/P-2
Firstrand	1 200	1 200	ZAR	none	Ba2/P-2
ICBC ASIA	88	88	USD	none	A1/P-1
Investec	2 978	2 978	ZAR	none	Ba2/P-2
NedBank	267	267	ZAR	none	Ba2/P-2
Standard Bank	848	848	ZAR	none	Baa31P-3
Standard Bank PLC	2 981	2 981	ZAR	none	Baa3/P-3
Standard Bank	54	54	USD	none	Baa3/P-3
Sumitomo Mitsui	11	11	USD	none	Baaa3/P-3
	10 673	**10 673**			

38. 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	31 901	31 901	USD	none	Aaa
ZAR Tbills	50 000	50 000	ZAR	none	Ba2/P-2
	81 901	**81 901**			

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	2 845 126	2 845 126	ZAR	none	Ba2/P-3
United States-RAMP	1 600 573	1 600 573	USD	none	Aaa
United States	713 396	713 396	USD	none	Aaa
	5 159 095	**5 159 095**			

Loans to staff	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
Housing Loans	52 229	52 229	LSL	Title deeds	n/a
Car loans	27 010	27 010	LSL	Terminal benefits	n/a
Furniture loans	1 632	1 632	LSL	Terminal benefits	n/a
Other loans and advances	29 771	29 771	LSL	Terminal benefits	n/a
	110 642	**110 642**			

All financial assets were fully performing at year end.

AAA - Obligations rated AAA are judged to be of the highest quality, with minimal credit risk.
Aa - Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A - Obligations rated A are considered upper-medium grade and are subject to low credit risk.
B - Obligations rated B are considered speculative and are subject to high credit risk.
P-1 - Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
P-2 - Issuers (supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.
P-3 - Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.

Credit quality per class of financial assets - 2022

	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Treasury notes and bonds	926 777	2 845 416	-	3 772 193
FVOCI Instruments	**926 777**	**2 845 416**	**-**	**3 772 193**

	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Cash and cash equivalents	5 121 957	-	-	5 121 957
Deposit Floaters	250 000	-	-	250 000
Treasury bills at amortised cost	448 203	-	-	448 203
IMF Subscription Account	1 589 772	-	-	1 589 772
IMF Holding of Special Drawing Rights (SDR)	1 594 810	-	-	1 594 810
IMF Funded PRGF Advances	38 810	-	-	38 810
Lesotho Government Securities	946	-	-	946
Trade and other receivables	135 574	-	-	135 574
Instruments at amortised cost	**9 180 072**	**-**	**-**	**9 180 072**
Balance as at 31 December 2022	**10 106 849**	**2 845 416**	**-**	**12 952 265**

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

Credit quality per class of financial assets - 2021

	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Treasury notes and bonds	771 878	3 388 022	-	4 159 900
FVOCI Instruments	**771 878**	**3 388 022**	**-**	**4 159 900**

	Stage 1 M'000	Stage 1 12-month ECL M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Cash and cash equivalents	4 688 955	-	-	-	4 688 955
Deposit Floaters	1 265 635	-	-	-	1 265 635
Treasury bills at amortised cost	80 464	-	-	-	80 464
IMF Subscription Account	1 484 227	-	-	-	1 484 227
IMF Holding of Special Drawing Rights (SDR)	1 519 373	-	-	-	1 519 373
IMF Funded PRGF Advances	139 332	-	-	-	139 332
Trade and other receivables	110 643	-	-	-	110 643
Instruments at amortised cost	**9 288 629**	**-**	**-**	**-**	**9 288 629**
Balance as at 31 December 2021		**10 060 507**	**3 388 022**	**-**	**13 448 529**

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

Expected credit loss per class of financial assets

2022	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	926 777	-	43 759	-	-	43 759
Instruments at amortised cost	9 180 072	(6 768)	-	-	-	(6 768)
Balance as at 31 December 2022	**10 106 849**	**(6 768)**	**43 759**	**-**	**-**	**36 991**

2021	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	771 878	669	18 236	-	-	18 905
Instruments at amortised cost	9 288 629	581	-	-	-	581
Balance as at 31 December 2021	**10 060 507**	**1 250**	**18 236**	**-**	**-**	**19 486**

Reconciliation of the expected credit loss allowance

2022	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 2022	**1 250**	**18 236**	**-**	**19 486**
- Instruments at amortised cost	581	-	-	581
- FVOCI Instruments	669	18 236	-	18 905
Net charge for the year	**6 099**	**11 406**	**-**	**17 505**
- Instruments at amortised cost	7 349	11 406	-	18 755
- FVOCI Instruments	(1 250)	-	-	(1 250)
Balance as at 31 December 2022	**7 349**	**29 642**	**-**	**36 991**

38. Financial instruments and risk management (continued)

2021	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 2021	**1 336**	**23 122**	**-**	**24 458**
- Instruments at amortised cost	1 256	-	-	1 256
- FVOCI Instruments	80	23 122	-	23 202
Net charge for the year	**(17 654)**	**12 682**	**-**	**(4 972)**
- Instruments at amortised cost	582	-	-	582
- FVOCI Instruments	(18 236)	12 682	-	(5 554)
Balance as at 31 December 2021	**(16 318)**	**35 804**	**-**	**19 486**

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. The instruments are currently at stage 1 and stage 2.

Sensitivity Analysis for the year ended 31 December 2022

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 2020 and 2021 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 2022		31 December 2021	
	Portfolio level M'000	Exchange Rate M'000	Portfolio level M'000	Exchange Rate M'000
South Africa	10 473 688	1.00	7 353 669	1.00
United States	165 774	16.96	267 495	16.96
Botswana	60	1.33	424	1.33
England	136	20.40	502	20.40
European Union	149	18.10	186	18.10
IMF	70 186	22.57	71 792	22.57

	31 December 2022			31 December 2021		
Base case Data for currency and foreign investment risk Currency composition	**Portfolio level M'000**	**Portfolio level in %**	**Exchange Rate**	**Portfolio level M'000**	**Portfolio level in %**	**Exchange Rate**
ZAR	10 473 688	78.39 %	1.00	7 353 669	57.89 %	1.00
USD	2 810 856	21.04 %	16.96	3 812 197	30.01 %	16.96
EUR	2 705	0.02 %	18.07	7 666	0.06 %	18.07
GBP	2 770	0.02 %	20.40	10 072	0.08 %	20.40
BWP	80	- %	1.36	253	- %	1.36
SDR	70 186	0.53 %	22.57	1 519 373	11.96 %	22.57
	13 360 285	**100 %**		**12 703 230**	**100 %**	

38. Financial instruments and risk management (continued)

31 December 2022

5% Increase in exchange rate for currency and foreign investment risk	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange Rate**
Currency composition	**M'000**		**M'000**	
ZAR	10 473 688	77.56 %	-	1.0000
USD	2 951 399	21.85 %	(140 543)	17.8038
EUR	2 841	0.02 %	(136)	19.0023
GBP	2 908	0.02 %	(138)	21.4199
BWP	84	- %	(4)	1.3996
SDR	73 695	0.55 %	(3 509)	23.6940
	13 504 615	**100 %**		

31 December 2021

5% Increase in exchange rate for currency and foreign investment risk	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange Rate**
Currency composition	**M'000**		**M'000**	
ZAR	7 353 669	56.69 %	-	1.0000
USD	4 002 807	30.86 %	(190 610)	15.9505
EUR	8 050	0.06 %	(384)	18.0671
GBP	10 576	0.08 %	(504)	21.5036
BWP	266	- %	(13)	1.3574
SDR	1 595 342	12.30 %	(75 969)	22.3241
	12 970 710	**100 %**		

%change 1.08%

31 December 2022

5% decrease in exchange rate for currency and foreign investment risk	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange Rate**
Currency composition	**M'000**		**M'000**	
ZAR	10 473 688	79.25 %	-	1.00
USD	2 670 314	20.21 %	140 542	16.11
EUR	2 570	0.02 %	135	17.19
GBP	2 631	0.02 %	139	19.38
BWP	76	- %	4	1.26
SDR	66 676	0.50 %	3 510	21.44
	13 215 955	**100 %**		

31 December 2021

5% decrease in exchange rate for currency and foreign investment risk	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange Rate**
Currency composition	**M'000**		**M'000**	
ZAR	7 353 669	59.13 %	-	1.00
USD	3 621 587	29.12 %	190 610	15.95
EUR	7 283	0.06 %	383	18.07
GBP	9 569	0.08 %	503	21.50
BWP	240	- %	13	1.36
SDR	1 443 404	11.61 %	75 969	22.32
	12 435 752	**100 %**		

% Change -2.11%.

38. Financial instruments and risk management (continued)

Interest rate risk

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

31 December 2022

	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	359 411	7 787 969	280 002	1 645 492	400 815	10 473 689
USD	126	592 491	433 949	1 784 291	-	2 810 857
EUR	14	2 692	-	-	-	2 706
GBP	2	2 768	-	-	-	2 770
Other	-	71 402	-	-	-	71 402
	359 553	**8 457 322**	**713 951**	**3 429 783**	**400 815**	**13 361 424**

31 December 2021

	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	249 515	4 357 739	257 084	949 975	1 539 357	7 353 670
USD	1 913	1 890 354	279 869	1 640 062	-	3 812 198
EUR	59	7 608	-	-	-	7 667
GBP	37	10 035	-	-	-	10 072
Other	-	1 519 626	-	-	-	1 519 626
	251 524	**7 785 362**	**536 953**	**2 590 037**	**1 539 357**	**12 703 233**

31 December 2022

Base case yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	5.80 %	6.49 %	6.35 %	8.00 %
USD	3.32 %	3.32 %	1.44 %	
EUR	0.39 %			
GBP	1.96 %			

31 December 2021

Base case yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	3.96 %	4.18 %	7.60 %	8.00 %
USD	0.10 %	0.20 %	1.29 %	
EUR	(0.61)%			
GBP	0.09 %			

31 December 2022

100 Basis points increase in yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	6.80 %	7.49 %	7.35 %	9.00 %
USD	4.32 %	4.32 %	2.44 %	1.00
EUR	1.39 %			
GBP	2.96 %			

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

31 December 2021

100 Basis points increase in yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	4.96 %	5.18 %	8.60 %	9.00 %
USD	1.10 %	1.20 %	2.29 %	
EUR	0.39 %			
GBP	1.09 %			

31 December 2022

100 Basis points decrease in yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	4.80 %	5.49 %	5.35 %	7.00 %
USD	2.32 %	2.32 %	0.44 %	
GBP	0.96 %			

31 December 2021

100 Basis points decrease in yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	2.96 %	3.18 %	6.60 %	7.00 %
USD	(0.90)%	(0.80)%	0.29 %	
EUR	(1.61)%			
GBP	(0.91)%			

31 December 2022

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
ZAR	451 360	18 160	104 489	32 065	-
USD	19 569	14 399	25 673	-	-
EUR	10	-	-	-	-
GBP	54	-	-	-	-
	-	-	-	-	483 827

31 December 2021

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
ZAR	172 606	10 737	72 198	123 149	-
USD	1 836	561	21 110	-	-
EUR	(46)	-	-	-	-
GBP	9	-	-	-	-
	-	-	-	-	402 160

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

31 December 2022

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
ZAR	529 239	16 656	68 040	5 070	-
USD	25 584	11 052	(8 184)	-	-
EUR	37	-	-	-	-
GBP	82	-	-	-	-
	-	-	-	-	465 534

31 December 2021

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
ZAR	216 144	9 357	51 156	19 470	-
USD	20 739	(1 597)	(10 010)	-	-
EUR	30	-	-	-	-
GBP	109	-	-	-	-
	-	-	-	-	305 397

31 December 2022

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
ZAR	373 480	19 663	140 937	59 061	-
USD	13 735	17 746	59 531	-	-
EUR	(16)	-	-	-	-
GBP	27	-	-	-	-
	-	-	-	-	502 121

31 December 2021

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
ZAR	129 028	12 118	93 241	226 827	-
USD	(17 068)	2 720	52 231	-	-
EUR	(122)	-	-	-	-
GBP	(91)	-	-	-	-
	-	-	-	-	498 883

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):

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

31 December 2022

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	2 856 600	1 914 470	1 622 530	698 340	-	-	7 091 940
Accrued interest due from Banks	100	39 540	57 130	16 370	-	-	113 140
Expected interest cashflows from Bonds	-	17 290	65 010	67 440	325 290	94 000	569 030
Treasury Notes, Bonds and Unit Trust	1 528 860	207 020	91 160	56 180	1 701 230	336 020	3 920 470
	4 385 560	**2 178 320**	**1 835 830**	**838 330**	**2 026 520**	**430 020**	**11 694 580**

31 December 2022

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	1 806 697	-	-	-	-	-	1 806 697
Deposits	562 435	-	-	-	-	-	562 435
Lesotho Government Deposits	2 799 967	-	-	-	-	-	2 799 967
IMF Accounts	2 538 131	-	-	-	-	-	2 538 131
	7 707 230	**-**	**-**	**-**	**-**	**-**	**7 707 230**
Net liquidity gap	**(3 321 670)**	**2 178 320**	**1 835 830**	**838 330**	**2 026 520**	**430 020**	**3 987 350**

31 December 2021

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	1 984 096	67 787	1 253 578	-	-	-	3 305 461
Accrued interest due from Banks	12 975	241	14 523	-	-	-	27 739
Expected interest cashflows from Bonds	-	-	130 590	115 978	627 143	18 000	891 711
Treasury Notes, Bonds and Unit Trust	748 012	-	607 789	583 904	2 446 319	450 000	4 836 024
	2 745 083	**68 028**	**2 006 480**	**699 882**	**3 073 462**	**468 000**	**9 060 935**

38. Financial instruments and risk management (continued)

31 December 2021

Financial liabilities	**Redeemable on demand**	**Maturing within 1 month**	**Maturing after 1 month but within 6 months**	**Maturing after 6 months but within 12 months**	**Maturing after 1 year but within 5 years**	**Maturing after 5 years**	**Total**
	M'000	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**
Notes & coins issued	1 829 728	-	-	-	-	-	1 829 728
Deposits	847 741	-	-	-	-	-	847 741
Lesotho Government Deposits	3 622 463	-	-	-	-	-	3 622 463
IMF Accounts	2 475 400	-	-	-	-	-	2 475 400
	8 775 332	**-**	**-**	**-**	**-**	**-**	**8 775 332**
Net liquidity gap	**(6 030 249)**	**68 028**	**2 006 480**	**699 882**	**3 073 462**	**468 000**	**285 603**

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 in the statement of profit or loss and other comprehensive income. The analysis is based on the assumption that the bond share prices had increased/(decreased) by 10% with all other variables held constant.

	2022	**2021**
	M'000	**M'000**
10% increase	556 495	594 302
10% decrease	(556 495)	(594 302)

39. Fair value information

Levels of fair value measurements

Level 1

Recurring fair value measurements

Assets

Fair value through profit or loss		
Treasury notes and bonds	1 792 757	1 709 314
Financial assets at fair value through other comprehensive income		
Treasury notes and bonds	3 772 193	4 233 703
	5 564 950	**5 943 017**
Total	**5 564 950**	**5 943 017**

Fair value is based on quoted prices (unadjusted) in active markets for identical assets. These are readily available in the market and are normally obtainable from multiple sources.The fair value of financial instruments traded in active markets are based on quoted market prices as obtained from the custodians at the reporting date.

	2022 M'000	2021 M'000

39. Fair value information (continued)

Level 2

Non-recurring fair value measurements

Assets

	2022 M'000	2021 M'000
Financial assets at amortised cost		
Cash	5 095 116	4 677 700
Deposit Floaters	250 000	1 265 635
Treasury bills	448 203	80 464
IMF Subscription Account	1 589 772	1 484 227
IMF Holding of Special Drawing Rights	1 594 810	1 519 373
IMF PRGT Advances	38 810	139 332
Total financial assets at amortised cost	**9 016 711**	**9 166 731**
Total	**9 016 711**	**6 023 799**

The fair value of financial instruments that are not traded in an active market 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 instrument specific interest rates).

Level 3

Recurring fair value measurements

Assets

	2022 M'000	2021 M'000
Financial assets		
Investment in SWIFT	394	328
Non-financial assets		
Property, plant and equipment	727 129	749 053
Total	**727 523**	**749 381**

The buildings have in previous years been revalued based on the open market value of the property which is defined under the International Assets Valuation Standards Committee as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an 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.]

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:

For commercial buildings the valuer used the Gross Replacement Cost method.

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

M22,311.01

For residential buildings the valuer used the Income Approach to value the building using the rentals earned from these buildings.

Notes to the Financial Statements

	2022 M'000	2021 M'000

39. Fair value information (continued)

The Bank uses the estimated rental for vacant land:

M410,448.75

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 fair value is based on iput for the asset that is not based on observable market data (i.e. unobservable inputs).

Impact on the fair value of property, plant and equipment	2022 M'000	2021 M'000
10% increase	799 841	823 958
10% decrease	654 770	674 148

40. 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:

	2022	2021
Amounts in USD		
Deutsche Bank Trust Company America	1 643 850	24 791 092
Amounts in Euro		
Deutsche Bundesbank	2 690 930	2 662 091

As per the Bank's accounting policy in note 1.25 these amounts have not been recorded on the Balance Sheet.

41. Events after the reporting period

Global economies were struggling to keep inflaton under control throughout 2022 reaching record highs. The inflation emanated from fiscal and monetary policy easing in order to prevent world economies from crashing after Coronavirus impact was felt. Major economies such as United states (US) were not an exception, as inflation rate skyrocketed and reached levels as high as 9.1 percent year on year in June, which way higher than its inflation target of 2 percent. The major drivers of inflation are fiscal and monetary policy easing measures from 2019, surge in oil prices and supply distruptions caused by lockdowns

As US economy continued to run hot throughout 2022, the Federal Reserve Bank (Fed) was left with no choice but to engage in monetary policy tightening cycle as the central bank targeted to bring inflation back to 2 percent inflation target. Fed's interest rate hikes were aggressive in order to try to cool the economy which was seeing record highs in cost of living. The inflation was successfully moderated though still high as it closed the year (December) at 6.4 percent year on year. There was a huge cost the Fed had to pay to bring such inflation from around 10 percent down to around 6 percent. The yield curve was inverted for most of the periods in 2022 and that is regarded as the best predictor of upcoming recession in 2023 brought by aggressive monetary policy tightening

South Africa like other global economies and emerging markets was faced with rampant inflation resulting from previous stimulus put in place to cushion the economy against the impact of the pandemic, and rising oil prices. The South African Reserve Bank (SARB) was also forced to engage in aggressive monetary policy tightening to fight inflation and also to attract foreign investors' funds through increased interest rates as global econmies are increasing their respective interest rates. The repo rate opened the year at 3.75 percent and closed at 7 percent; that is an increase of 325 basis points cumulatively. The economy is dragged by persistent blackouts as Eskom's power generating plants are aging and continue to break down. The government went on to remove the license rules for private power generators to generate their own electricity and sell the suplus

It is important to briefly highlight how the economic environment affected our portfolio and the analysis will be based on the impact on money markets and bonds. Rising interest rates made money markets (deposits) attractive as returns rose while bonds were negatively affected especially the price return component. However, on-the-run bonds benefited on time return component as coupon rates are higher for newly issued bonds

Notes to the Financial Statements

42. 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. The directors are responsible for governance, which is monitored on an ongoing basis.The Directors have considered the impact of COVID-19 and the Russia-Ukraine conflict on the going concern of the Bank and concluded that they have no material impact on the going concern assumption.The assessment covers twelve months..

There was some decline in revenue however this does not lead to any uncertainties in terms of the ability of the Bank to remain as a going concern.