



2023 ANNUAL REPORT

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO



CENTRAL BANK OF LESOTHO
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March 31, 2024

Hon. Retšelisitsoe Matlanyane, MP,
Minister of Finance
Office of Minister of Finance
P O Box 395
MASERU 100
Lesotho

Honourable Minister,

I have the honour to transmit the Annual Report of the Central Bank of Lesotho for the year 2023 which includes:

1. a review of economic developments during the year
2. pursuant to Section 53(1) of the Central Bank of Lesotho Act No.2 of 2000;
 - a) The Bank's annual financial statements for the year ended December 31, 2023 certified by the auditors Moteane, Quashie & Associates and SNG Grant Thornton.
 - b) A report on the operations and activities of the Bank during 2023.

Yours sincerely,

Emmanuel Maluke Letete (Dr.)
GOVERNOR



CENTRAL BANK OF LESOTHO

2023 ANNUAL REPORT

for the year ended December 31, 2023

The contents of this 2023 annual report are pursuant to Sections 46 and 53 of the of the Central Bank of Lesotho Act No. 2 of 2000.

The *Annual Report* is available on the Bank of Lesotho's website at www.centralbank.org.ls.

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GOVERNANCE, MISSION & OBJECTIVES

Ownership and Governance

The Central Bank of Lesotho is a statutory organisation fully owned by the Government of Lesotho.

The Central Bank enjoys a fair amount of independence in formulating and implementing monetary policy. The Governor, who is also the chairman of the Board of Directors, together with the two Deputy Governors, are appointed by His Majesty The King on the advice of the Prime Minister. The Minister of Finance appoints the other Board Members.

Mission Statement

The Mission of the Central Bank of Lesotho is to achieve and maintain monetary and financial system stability to support balanced macroeconomic development of Lesotho.

Objectives

The principal objective and mandate of the Central Bank of Lesotho, as stipulated in the Central Bank of Lesotho Act of 2000, is to achieve and maintain price stability.

Other statutory functions of the Bank are:

- To foster the liquidity, solvency and proper functioning of a stable market-based financial systems;
- To formulate, adopt and execute the monetary policy of Lesotho;
- To issue, manage and redeem the currency of Lesotho;
- To formulate, adopt and execute the foreign exchange policy of Lesotho;
- To license, register and supervise institutions pursuant to the Financial Institutions;
- To own, hold and manage its official international reserves;
- To act as a banker and advisor to, and as fiscal agent of the Government of Lesotho;
- To promote the efficient operations of the payments system;
- To promote the safe and sound development of the financial system; and
- To monitor and regulate the capital market.



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LIST OF ACRONYMS

AACB	Association of African Central Banks (AACB),
ADT	automated deposit terminal
AFI	Alliance for Financial Inclusion
AML	anti-money laundering
ATM	automated teller machine
BCM	Business Continuity Management
BIS	Bank for International Settlement
CBDCs	central bank issued digital currencies
CBL	Central Bank of Lesotho
CDBG	Committee of Central Bank Governors
CFT	combatting of financial terrorism
COVID-19	coronavirus disease of 2019
FCP	Financial Consumer Protection
GDP	gross domestic product
GNI	gross national income
GRC	governance, risk management and control
IAD	Internal Audit Department
ICT	Information Communication Technology Department
IMF	International Monetary Fund
ISO	International Organization for Standardization
KFS	key facts statements
LHWP	Lesotho Highlands Water Project
LSW	Lesotho wire (settlement system)
M1	narrow money
M2	broad money supply
MFDP	Ministry of Finance and Development Planning
MFIs	micro finance institutions
MSM	Maseru Securities Market
MSME	Micro, Small, and Medium Enterprise
NFA	net foreign assets
SA	South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SWIFT	Society for Worldwide Interbank Financial Telecommunications
TSS	Transactions Screening and Payments
UK	United Kingdom
US	United States



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Board of Directors
& Executive Management



BOARD OF DIRECTORS



Dr. Emmanuel Letete
Executive Chairman



Mr. Lehlomela Mohapi
Executive Director



Ms. Refiloe Tlali
Non-Executive Director



Mr. Retšelisitsoe Thamae
Non-Executive Director



Mr. Obed 'Nete
Non-Executive Director



Mr. Matoane Letsoela
Non-Executive Director



Adv. Kuena Thabane
Non-Executive Director

EXECUTIVE MANAGEMENT



Dr. Emmanuel Letete
Governor



Mr. Lehlomela Mohapi
First Deputy Governor



Dr. Tanka Tlelima
Director of Research
Department



Mr. Matšabisa Thamae
Director of Financial
Markets Department



Mr. Bafokeng Noosi
Acting Director of Other
Financial Institutions
Supervision Department



Mr. Fusi Morokole
Director of Operations
Department



Mrs. Puseletso Tau
Director of Banking
Supervision & Financial
Stability



Mr. Mothetsi Sekoati
Director of Payments &
Settlements Department



Mrs. 'Mamakhaola Mohale
Director of Internal
Audit Department



Mr. Napo Rantsane
Director of Corporate
Affairs Department



Mrs. 'Mateboho Morojele
Director of Human
Resources Department



Mrs. Mpono Mosaase
Director of Enterprise Risk
Management Department



Mr. Thabiso Makula
Director of ICT
Department



Mrs. Rebecca Ralebakeng
Director of Finance
Department



“Despite significant shocks to the global financial markets, the Bank continued to preserve the value of official reserves, meeting liquidity requirements and generating returns.”

Foreword by the Governor

FOREWORD BY THE GOVERNOR

LOOKING BACK AT THE ECONOMIC LANDSCAPE IN 2023, the year unfolded amid global economic challenges and risks, marked by subdued growth, heightened inflation and persistent interest rate pressures. In this context, the Central Bank of Lesotho has been at the forefront, crafting and implementing strategic measures to navigate these challenges, with a steadfast focus on ensuring economic stability and fostering growth.

The lingering effects of the COVID-19 pandemic, coupled with geopolitical tensions and disruptions in global supply chains, hindered global economic recovery efforts. These factors also led to increased inflation rates, prompting central banks worldwide to respond with interest rate adjustments. Projections suggested a further slowdown in global economic growth, with estimates indicating a growth rate of 3.1 percent in 2023, down from 3.5 percent the previous year. This subdued growth was primarily driven by the sluggish economic performance of advanced economies, while emerging and developing economies maintained a durable recovery. Despite attempts to alleviate inflationary pressures and tighten monetary policies, high inflation rates persisted, casting a shadow over global economic prospects.

In Lesotho, economic activity showed signs of improvement, fuelled by a revival in the mining sector and enhanced performance in financial services. However, growth remained below the targets necessary for substantial job creation and poverty reduction. Notably, the primary and tertiary sectors drove economic expansion, while challenges persisted in the secondary sector, particularly in manufacturing. Positive trends in gross national savings and investment ratios underscored a strengthening financial landscape.

However, labour market conditions deteriorated, with declines in employment across various sectors attributed to government recruitment freezes and challenges in the textiles and clothing industry.

Inflationary pressures persisted, reflected by an increase in the average annual inflation rate to 6.4 percent in 2023. Monetary policy remained vigilant, responding to these conditions while ensuring financial stability. There were notable improvements in government budgetary operations, with a surplus recorded in 2023 compared to a deficit in the previous year. The external sector position also strengthened, marked by a balance of payments surplus and increased reserves.

The Central Bank of Lesotho continued its core functions, emphasising prudential supervision, financial regulation, oversight of national payment systems and the management of foreign reserves. Efforts to enhance financial consumer protection, address anti-money laundering concerns, and develop payment systems underscored the Bank's commitment to ensuring the integrity and stability of the financial sector. In the banking sector, the primary focus remained on achieving the full implementation of Basel II.5 by 2024. Commercial banks operated under parallel run reporting requirements for both Basel I and II.5 accords, enhancing risk management practices and regulatory compliance. In the insurance sector, the ongoing review of the Insurance Act 2014 aimed to address emerging industry issues, while progress in the pensions sector was notable, with expanded regulatory coverage and the steady implementation of the Pension Act, 2021.



FOREWORD BY THE GOVERNOR

Maintaining the financial sector's integrity was prioritised, with Lesotho completing its second round of Mutual Evaluation under the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). Efforts at the national level aimed to address identified gaps and strengthen the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime. Furthermore, ongoing improvements in payment systems, including the implementation of the national payment switch and migration to the ISO20022 messaging standard, aimed to enhance efficiency, security and interoperability. It remained crucial to manage reserves in order to achieve macroeconomic stability amid high-risk investments, global geopolitical tensions and inflationary pressures. Initiatives to revitalise the Maseru Securities Market and introduce green technology for banknotes underscored a commitment to innovation and sustainability.

Despite challenges, including a ransomware attack on the Bank's systems, efforts were made to enhance ICT governance, infrastructure and security. Ongoing cyber awareness programs aimed to bolster cybersecurity measures, while initiatives to empower staff with essential skills ensured the effective delivery of the Bank's mandate.

In conclusion, the Central Bank of Lesotho remains steadfast in fostering macroeconomic stability and financial sector resilience. With robust assurance and governance structures in place, the Bank is well-positioned to navigate any uncertainties and support sustainable economic growth in Lesotho ▣



Emmanuel Maluke Letete (Dr.)
Governor



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Global economic performance was expected to slow further in 2023. An economic growth rate of 3.1 per cent was estimated, down from 3.5 per cent the previous year.



THE ECONOMIC REPORT

1.1 INTERNATIONAL ECONOMIC DEVELOPMENTS

1.1.1 The World Economy

Global economic performance was expected to slow further in 2023. An economic growth rate of 3.1 per cent was estimated, down from 3.5 per cent the previous year. The slower growth was attributed to sluggish the economic performance of advanced economies. Real GDP in advanced economies was estimated to grow at a rate of 1.6 per cent, reduced from 2.6 per cent in 2022, while growth in emerging and developing economies was estimated to remain unchanged at 4.1 per cent. High inflation and tighter policy stances by central banks, in addition to high inflation rates across the globe, continued to weigh negatively on the global economy.

The global trade volume of goods and services was weak in advanced economies and emerging market economies. Growth of trade volume of goods and services slowed to 0.9 per cent compared to 5.1 per cent the previous year. This was primarily hampered by weak global demand, which negatively affected exports in key producers of the world. In addition, the stronger dollar made dollar-priced products more expensive, thereby decreasing the volume of imports in most economies.

Labour market developments were mixed in 2023 compared to 2022. Most economies realised improved labour market conditions as there was a rebound in the demand for services such as hotel accommodation and restaurants in the aftermath of the COVID-19 era, which therefore boosted employment in this sector. However, in some economies, employment in interest rate-sensitive sectors such as manufacturing continued to be affected by high interest rates. The inflation rate was moderated in most economies in 2023 as the effects of high oil, food and other commodity prices arising from the Russia–Ukraine war continued to recede. The disinflation was also partly explained by central banks' tightening of monetary policies during the same period.

Growth of trade volume of goods and services slowed to 0.9 per cent compared to 5.1 per cent the previous year.

1.1.2 Selected Advanced Economies

United States (US)

The US economy picked up momentum in 2023, growing by 2.5 per cent, following an increase of 1.9 per cent the previous year. This was mainly attributed to a rise in consumer and government spending, in addition to a surge in exports. Consumer spending was higher on healthcare, recreational goods and vehicles. Government spending was supported by the higher compensation of employees, and non-residential fixed investment in structures, while exports were bolstered by petroleum sales. The unemployment rate rose to 3.6 per cent from 3.5 per cent in 2022 as the high interest rates continued to cripple investment in key sectors such as manufacturing, resulting in low demand for labour. This was coupled with layoffs in some sectors amid the restructuring and cost-cutting measures especially, given the evolving market conditions, in the technology industry.

Consumer prices rose at an annual rate of 4.1 per cent, following an increase of 8.0 per cent in 2022. The decline in the inflation rate resulted mainly from the fall in energy costs, and to some extent, the slower increase in food prices. The Federal Reserve raised its Fed Fund rate to 5.25 – 5.50 per cent from 4.25 – 4.50 per cent the previous year as it continued its efforts to reduce the inflation rate closer to the bank's target.

Euro Area

Economic growth in the euro area was estimated to have slowed further in 2023. Real GDP was anticipated to have increased by 0.5 per cent, following a 3.4 per cent growth the previous year. This deceleration was primarily attributed to high interest rates and inflation, which eroded real incomes and consumer purchasing power. However, these adverse effects were partially offset by a decline in energy prices, partly supported by energy price controls, as well as fiscal stimulus in the form of cash transfers. Accordingly, the unemployment rate declined from 7.0 per cent the previous year to 6.4 per cent in 2023, driven by growth in the services sector.

Consumer prices experienced a 5.6 per cent annual increase in 2023, following a larger rise of 8.0 per cent the previous year. The deceleration in price growth was attributed to several factors. First, there was a decline in energy costs as some countries, including Spain, implemented energy price caps, and consequently lower consumer prices. Simultaneously, the euro area raised its policy rate from 2.50 per cent to 4.50 per cent during the same period, with the aim of curbing the rising inflation and bringing it back to the target level.

Japan

Japan's economic performance was estimated to grow at a faster rate of 1.9 per cent in 2023, compared with 1.0 per cent the previous year. Economic activity received a boost from several factors. First, there was pent-up demand, in addition to an increase in inbound tourism. Furthermore, economic growth was partly fuelled by a rise in automobile exports, compensating for the supply-side disruptions experienced the previous year. Consequently, the unemployment rate declined from 2.5 per cent the previous year to 2.4 per cent, primarily driven by increased employment in the services sector, particularly within the hospitality sub-sector.



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The inflation rate rose to 3.2 per cent from 2.5 per cent the previous year. The higher consumer prices primarily reflected the high costs of imported input materials as the Japanese yen had weakened against its major trading currencies. This was coupled with an increase in food and utility bills during the same period. The Bank of Japan maintained its policy stance and left policy rates unchanged at -0.10 per cent as it continued its efforts to support economic activity.

United Kingdom (UK)

The UK's economic performance was projected to have been modest in 2023. The economy was estimated to have grown by 0.5 per cent, compared to 4.3 per cent the previous year. The low performance of the economy was a result of persistently high inflation and interest rates, which hampered investment and consumer spending. The unemployment rate rose marginally to 3.8 per cent from 3.7 per cent the previous year, in line with the subdued economic performance. Employment dynamics were also partly affected by faster wage growth, which discouraged employers from hiring more workers.

Consumer prices increased by 7.7 per cent, following a 9.1 per cent rise the previous year. Despite the moderation, consumer prices remained well above the Bank of England's inflation target of 2.0 per cent. The deceleration in consumer prices was attributable to, among others, the decline in fuel costs, in addition to the slower increase in food prices compared to the previous year. In response to persistently high inflation, the Bank of England raised its policy rate to 5.25 per cent from 3.50 per cent the previous year.

1.1.3 Selected Emerging Market Economies

China

Economic performance in China regained momentum in 2023. Real GDP growth rate was recorded at 5.2 per cent, an increase from 3.0 per cent the previous year. The improved performance was due to a rebound in industry and service activity, and an increase in consumption, investment and foreign trade as the economy continued to recover from the effects of COVID-19. However, these were moderated by the prolonged weakness of the property sector. The unemployment rate declined to 5.1 per cent from 5.5 per cent the previous year as more workers returned to work in the aftermath of COVID-19. Labour market conditions were further strengthened by the government's policies to support employment.

The inflation rate was recorded at 0.7 per cent compared to 1.9 per cent the previous year. The decline in the inflation rate was largely explained by the fall in food prices, particularly pork prices due to an oversupply of pork. Furthermore, transportation costs decreased due to the decline in fuel prices. During the same period, the People's Bank of China cut its policy rate to 3.45 per cent from 3.65 per cent. The decision was made to stimulate growth in the property sector and provide financing support for technology companies in order to support growth at the wider economic level.

South Africa's economic growth was estimated to have slowed down in 2023, with the real GDP growth rate having fallen to 0.6 per cent from 1.9 per cent the previous year.

India

India's economy was expected to have remained strong, although slower, relative to the previous year. Economic growth was estimated at 6.7 per cent compared to 7.2 per cent the previous year. Growth was supported by stronger than expected consumption, which benefitted from easing consumer cost pressures. This was, however, moderated by the slump in agricultural output due to harsh weather conditions, which affected supply.

The consumer price index rose by 5.5 per cent, compared to an increase of 6.7 per cent the previous year. The slower increase in consumer prices followed the decline in fuel costs. The Reserve Bank of India raised its policy rate to 6.50 per cent from 6.25 per cent the previous year as it continued its efforts to contain the inflation rate.

South Africa (SA)

South Africa's economic growth was estimated to have slowed down in 2023, with the real GDP growth rate having fallen to 0.6 per cent from 1.9 per cent the previous year. The country's energy crisis and logistical problems hampered growth. However, the unemployment rate declined to 32.1 per cent from 32.7 per cent the previous quarter as there was a rebound in activity in sectors such as Finance, Community and Social Services, which had previously been affected by COVID-19.

The inflation rate was 5.8 per cent in 2023, easing from 6.9 per cent the previous year and returning to the South African Reserve Bank's target band of 3.00 – 6.00 per cent. The decline in the inflation rate was explained by the lower transportation costs associated with the fall in fuel prices. Furthermore, there was a slower increase in food prices compared to the previous year. The Reserve Bank of South Africa raised its policy rates to 8.25 per cent from 7.00 per cent the previous year. The decision was based on a deteriorating inflation outlook due to the weak exchange rate and the energy crisis.



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Table 1 Selected Economic Indicators, 2019 – 2023*					
Indicators	2019	2020	2021	2022	2023*
World Output	2.8	-3.1	6.2	3.5	3.1*
Advanced Economies	1.6	-4.5	5.4	2.6	1.6
Of which:					
United States	2.2	-3.4	5.9	1.9	2.5*
Euro Area	1.3	-6.4	5.3	3.4	0.5*
Japan	0.3	-4.5	2.1	1.0	1.9*
United Kingdom	1.4	-9.4	7.6	4.3	0.5*
Emerging and Developing Economies	3.6	-2.0	6.7	4.1	4.1*
Of which:					
Africa					
Sub Saharan Africa	3.2	-1.7	4.5	4.0	3.3*
South Africa	0.2	-6.4	4.9	1.9	0.6*
Emerging & Developing Asia	5.4	-0.9	7.4	4.5	5.4*
China	6.0	2.3	8.4	3.0	5.2
India	4.2	-7.3	8.7	7.2	6.7*
Consumer prices					
Advanced Economies	1.4	0.7	3.1	7.3	4.6
Of which:					
United States	1.8	1.3	4.7	8.0	4.1
Euro Area	1.2	0.3	2.6	8.4	5.6
Japan	0.5	0.0	-0.2	2.5	3.2
United Kingdom	1.8	0.9	2.6	9.1	7.7
Emerging and Developing Economies	5.1	5.2	5.9	9.8	8.5
Of which: Africa					
Sub Saharan Africa	8.1	10.1	11.0	14.5	15.8
South Africa	4.1	3.3	4.6	6.9	5.8
Emerging & Developing Asia	3.3	3.2	2.2	3.8	2.6
China	2.9	2.5	0.9	1.9	0.7
India	4.8	6.2	5.5	6.7	5.5
World Trade Volume (Goods and Services)	1.2	-7.8	10.9	5.1	0.9
Exports					
Advanced Economies	1.5	-8.8	9.8	5.3	1.8
Emerging and Developing Countries	0.8	-5.1	12.8	4.1	-0.1
Imports					
Advanced Economies	2.1	-8.4	10.3	6.7	0.1
Emerging and Developing Countries	-0.9	-7.9	11.8	3.2	1.7
Source	International Monetary Fund (IMF) World Economic Outlook, October 2023, IMF World Economic Outlook Update, January 2022, * IMF Projections, except consumer prices.				

The slump in oil prices followed unexpected increases in output from non-OPEC countries, particularly the US, whose output reached record high levels in 2023.

1.1.4 Commodities Price Developments

Gold

In 2023, the average price of gold rose by 5.7 per cent to US\$1,909.57 an ounce from US\$1,807.44 per ounce the previous year, ending the year as one of the best performing commodities. The price of gold benefited from fears of a global recession, emanating particularly from advanced economies, together with the Israel–Hamas conflict, which have bolstered demand for the safe-haven metal and hence its price. These were, however, partly offset by the stronger value of the dollar, which attracted investment into the dollar and ultimately dampened the demand and price of gold.

Platinum

The average price of platinum fell by 0.6 per cent to US\$950.65 per ounce from US\$956.65 per ounce the previous year. Platinum prices were adversely affected by weak economic performance and, therefore, lower demand from the largest platinum consumer, China, together with subdued demand from vehicle manufacturers. However, this was moderated by supply side challenges emanating from a key producer, South Africa, amid the ongoing power supply disruptions.

Oil

The average price of oil declined by 15.6 per cent to record US\$77.19 per barrel in 2023, from US\$91.45 per barrel the previous year. The slump in oil prices followed unexpected increases in output from non-OPEC countries, particularly the US, whose output reached record high levels in 2023. This was coupled with the uncertainty from disagreements among OPEC members relating to production cuts, which led to lower oil prices. Furthermore, concerns surrounding weak global economic performance dented demand and therefore contributed to a decline in oil prices.

Maize

In 2023, the average price of maize weakened by 20.5 per cent to US\$215.00 from US\$270.00 per tonne the previous year. Maize prices were primarily affected by record harvests in key producers of maize such as Brazil and Argentina, together with a significant decline in global demand. However, this was partly offset by geopolitical tensions in the Red Sea, which had disrupted maize exports from key producers and therefore increased maize prices during the same period.

Wheat

Wheat prices declined by 19.2 per cent to US\$349.54 from US\$432.45 per tonne the previous year. The fall in wheat prices resulted from increased supplies following improved weather conditions, together with strong export competition in wheat producers in Northern Hemisphere. This was coupled with improved production forecasts from key producers such as Russia, Kazakhstan and Ukraine, in addition to the extension of the Black Sea Grain Initiative, which increased wheat exports and resulted in a fall in wheat prices.



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1.1.5 Currency Movements

The value of the local currency weakened against its three major trading currencies in 2023. It depreciated by 14.0 per cent, 15.9 per cent and 17.0 per cent against the dollar, pound and the euro, respectively. The value was primarily affected by a confluence of developments. It was negatively affected by an energy crisis in South Africa, which hampered output in the key producing sectors of the economy and therefore weakened investor sentiment, causing large capital flight. It was also negatively affected by the country's weak economic outlook and US policy rate hikes, which resulted in a stronger US dollar. During the same year, South Africa was grey listed by the Financial Action Task Force, which weakened the rand further.

1.2 DOMESTIC ECONOMIC DEVELOPMENTS

1.2.1 Real Sector Developments

Trends in Output and Income

Economic activity, as measured by Real Gross Domestic Product, was estimated to have recorded improved growth of 1.8 per cent in 2023, compared with 1.1 per cent growth in 2022. The realised growth emanated largely from the tertiary and primary sectors. The developments in the tertiary sector mainly reflected increased performance in the financial service subsector, whereas the primary sector's improvement was buoyed by performance in the mining and quarry subsector, in addition to an improved agricultural subsector performance. In contrast, the secondary sector performance was subdued during the review year, mostly due to the weak external demand for textiles and clothing exports, which moderated strong growth in the construction industry.

Real Gross National Income (GNI) experienced a modest growth of 0.5 per cent in 2023, following an increase of 4.4 per cent in 2022. This growth was primarily driven by an improvement in net factor income, with a significant portion of this income stemming from remittances in South Africa. In addition, the Central Bank of Lesotho (CBL) and commercial banks' interest earnings from abroad contributed to the overall growth. Similarly, GNI per capita was estimated to have increased by 0.01 per cent in 2023 compared to an increase of 3.9 per cent in 2022. However, this growth was moderated by an increase in net payables to other countries.

Real Gross National Income (GNI) experienced a modest growth of 0.5 per cent in 2023, following an increase of 4.4 per cent in 2022.

Table 2	Aggregate Economic Indicators (Percentage Change, 2012=100)				
	2019	2020	2021	2022	2023+
GDP	-1.4	-7.5	1.9	1.1	1.8
GNI	-1.2	-8.0	-0.1	4.4	0.5
GDP Per Capita	-2.1	-8.1	1.2	0.6	1.3
GNI Per Capita	-1.8	-8.6	-0.7	3.9	0.01
Source	Bureau of Statistics, +CBL Estimates				

Sectoral Developments

a) Developments in the Primary Sector

The primary sector exhibited robust growth, primarily driven by increased activities in agriculture and mining subsectors, and was estimated to have grown by 3.3 per cent in 2023, rebounding from a 1.0 per cent contraction in 2022. Notable positive performances were observed in animal production and crop farming, in addition to mining and quarrying. The animal production subsector grew by 3.7 per cent, a slowdown compared to 6.7 per cent growth in 2022. The slowed growth was attributed to a slight reduction in livestock herd sizes across most regions of the country, primarily due to heavy rains and low temperatures, particularly in the mountainous area. In addition, crop farming experienced a growth of 3.4 per cent in 2023, rebounding from a significant decline of 13.5 per cent observed in 2022, primarily due to increased wheat production.

Furthermore, the mining and quarry subsector rose by 2.9 per cent in 2023, in contrast to a decline of 6.5 per cent in 2022. This was partly explained by increased mining activities following COVID-19-induced restrictions the previous year. Moreover, there was relatively higher diamond production, coupled with the recovery of high-grade stones and favourable diamond prices for some mines despite the global downward trend in diamond prices.



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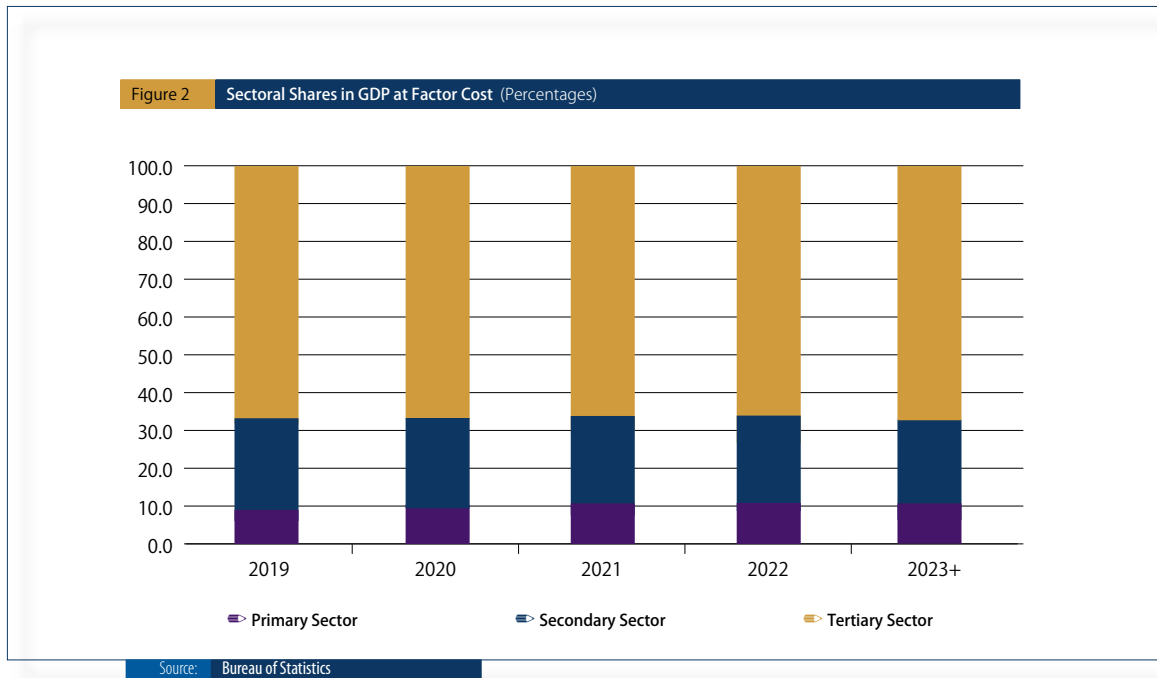


b) Developments in the Secondary Sector

The secondary sector was estimated to have contracted by 5.4 per cent in 2023, down from a growth of 1.0 per cent in 2022. The decline was mainly due to weak performances in the manufacturing and water subsectors. The manufacturing subsector, on the one hand, witnessed a substantial decline of 12.6 per cent in 2023, compared to a 3.7 per cent contraction in 2022. The slump was largely driven by clothing and textile manufacturing, which plummeted by 14.8 per cent relative to 2.4 the previous year due to weak demand from the US. This was primarily due to intensified global competition from countries with low manufacturing costs that offer similar products. The water supply subsector, on the other hand, contracted by 0.4 per cent in 2023, following a 0.9 per cent decline in 2022.

However, the construction subsector grew, expanding by 13.2 per cent in 2023, following a significant increase of 23.7 per cent the previous year. Positive developments in the construction activity were fuelled by major ongoing projects, such as the second phase of the Lesotho Highlands Water Project (LHWP II), telecommunications base stations, rural water supply, and other government-related construction works. Likewise, the electricity supply subsector registered growth for the second successive year during the period under review.

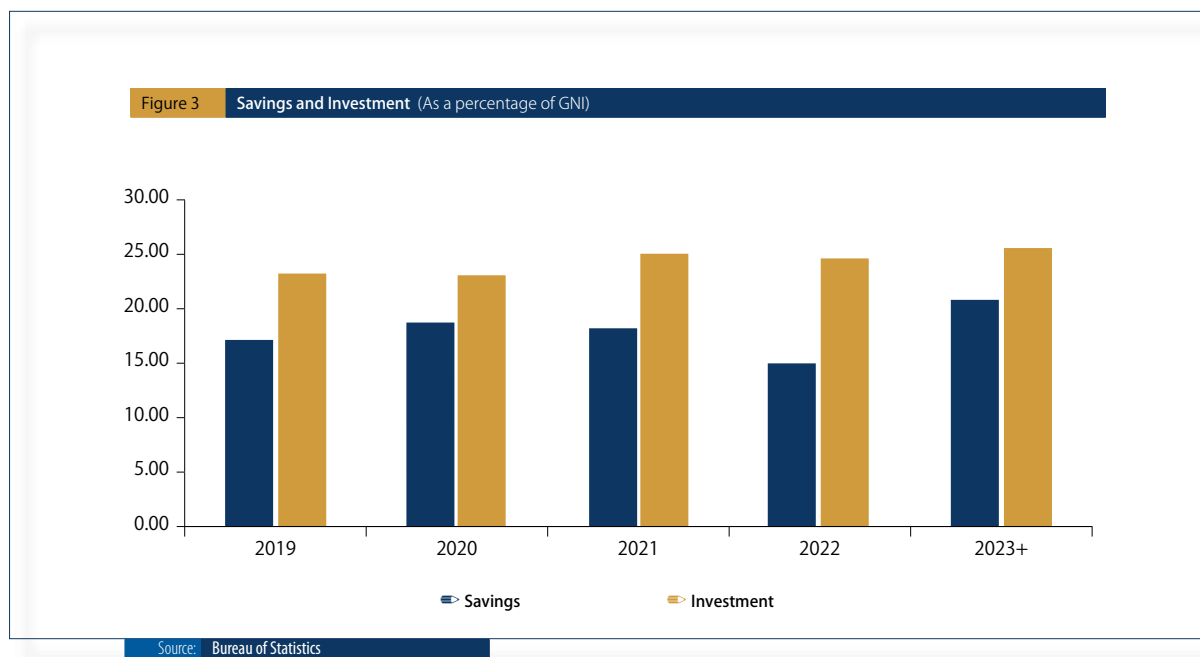
The secondary sector was estimated to have contracted by 5.4 per cent in 2023, down from a growth of 1.0 per cent in 2022.



Savings and Investments

The ratio of gross national savings to GNI was estimated to have increased to 20.8 per cent in 2023, up from 14.9 per cent the previous year. The upsurge was largely due to an increase in government savings. Furthermore, the investment-to-GNI ratio increased, rising from 24.6 per cent in 2022 to 25.5 per cent in 2023. This improvement was attributed to heightened private sector investment. Overall, the improved ratios signified positive economic trends and a strengthened financial landscape.

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Employment, Wages and Prices

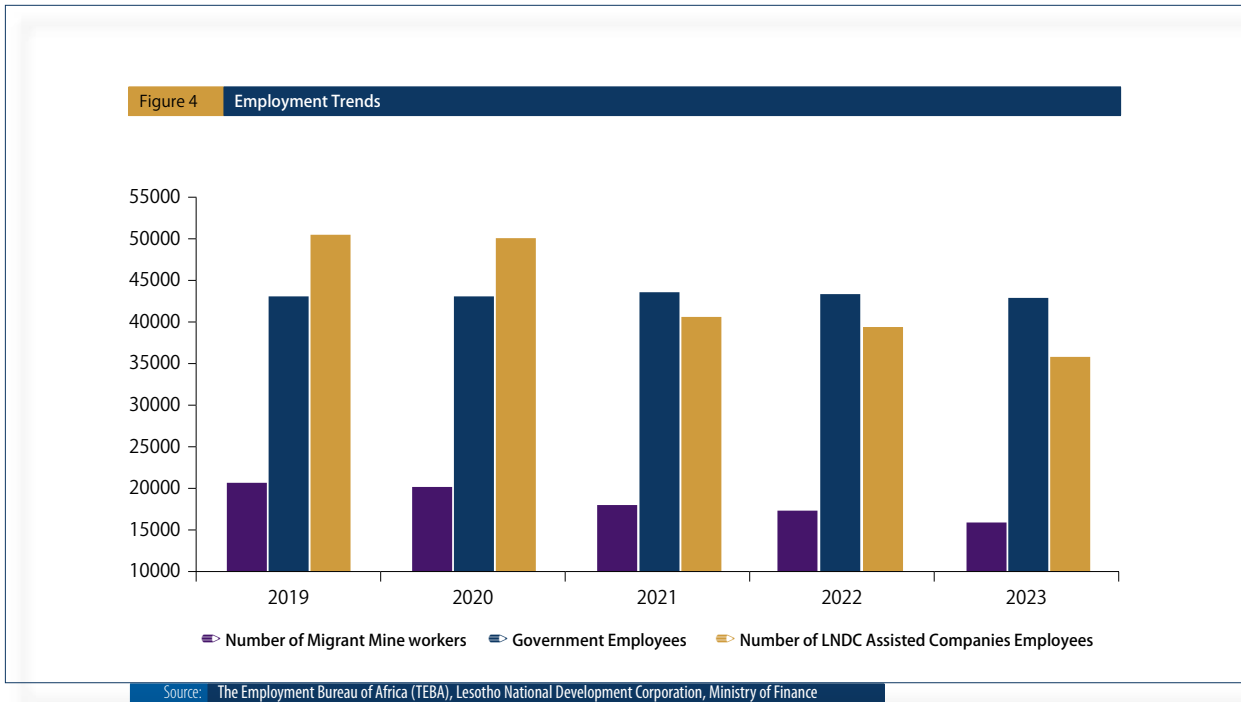
a) Employment Trends

Employment by the government, companies assisted by Lesotho National Development Corporation (LNDC) and the Basotho migrant mineworkers in SA declined at a higher rate in 2023 than the previous year. Employment in the LNDC-assisted companies segment declined by 9.4 per cent the review year compared with 1.7 per cent in 2022. This was mainly due to subdued demand for Lesotho's products by the U.S markets. However, South Africa's demand for the manufactured exports increased, thus boosting employment for firms exporting to its markets.

Government employment declined by 0.9 per cent in 2023 from a marginal decrease of 0.2 per cent in 2022. The 0.7 percentage point decline in government employment was mainly due to the government policy decision to freeze recruitment, except for those positions deemed crucial.

The employment of Basotho migrant mineworkers continued its downward spiral in 2023 and at a higher pace compared to 2022. The employment of Basotho migrant mineworkers declined by 8.3 per cent compared with 3.5 per cent in 2022. This sustained fall was attributed to reduced demand for foreign labour in South Africa, the retirement of Basotho migrants without replacements, and the continual decline in mining activity in South Africa.

The employment of Basotho migrant mineworkers continued its downward spiral in 2023 and at a higher pace compared to 2022.



b) Wages

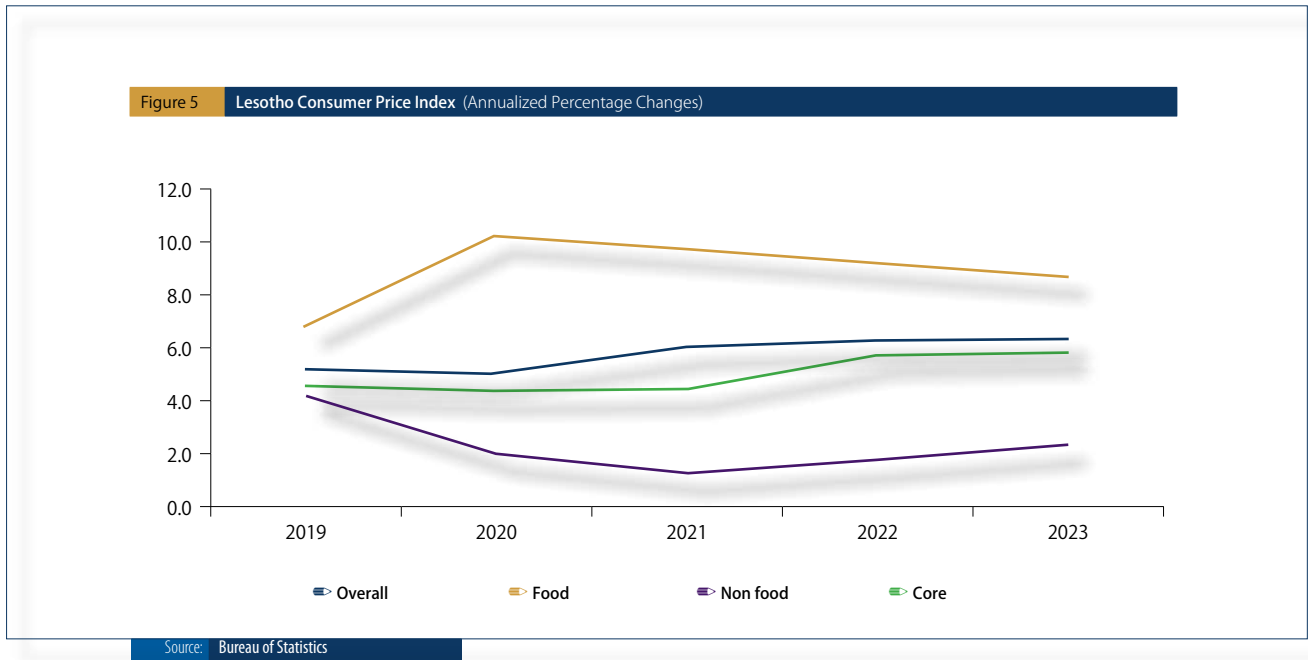
The general minimum wage rate for the 2023/2024 period increased by 7.0 per cent, with a notable increase of 18.0 per cent for the manufacturing industry. However, concerning the public sector, the Government of Lesotho increased wages and salaries by 5.0 per cent across the board following unchanged wages and salaries for the 2022/2023 fiscal year.

c) Price Developments

The average headline inflation rate increased to 6.4 per cent in 2023 from 6.2 per cent in 2022. The higher inflation mainly reflected an increase in the non-food component, which was moderated by the food component. The non-food inflation rate increased to 2.2 per cent in 2023 from 1.7 per cent in 2022, whereas food inflation decreased to 8.8 per cent during the review period from 9.3 per cent in 2023.

The major drivers of inflation during the review year were increased international crude oil prices and a weaker exchange rate. However, the underlying inflation pressures in the economy, as measured by core inflation, remained relatively stable and stubbornly high. The core inflation rate increased marginally to 5.8 per cent in 2023 from 5.7 per cent in 2022.

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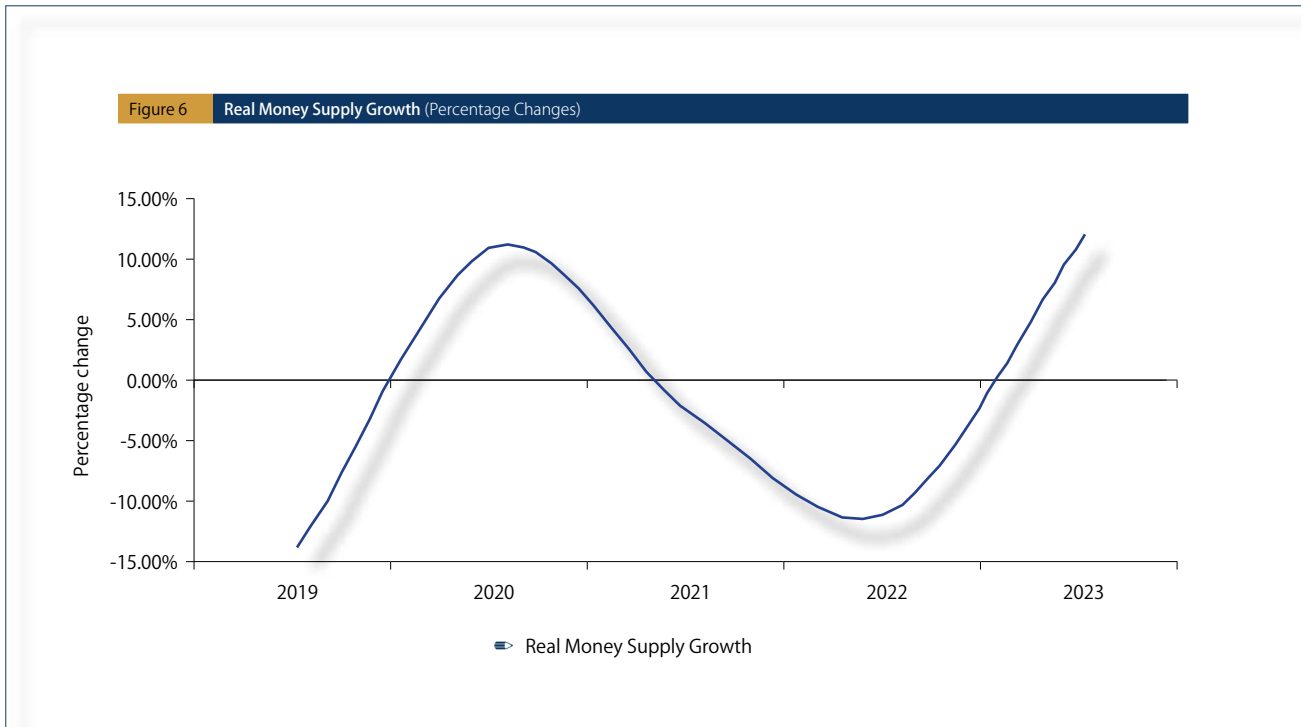


1.2.2 Monetary and Financial Sector Developments

Money Supply

Broad money supply (M2) rose by 20.0 per cent in 2023, in contrast to a decline of 3.4 per cent in 2022. This reflected an increase in net foreign assets of the banking system, which outweighed the fall in the net domestic claims. Expressed in real terms, M2 grew by 11.9 per cent in 2023, compared to a decline of 10.6 per cent observed in 2022.

Broad money supply (M2) rose by 20.0 per cent in 2023, in contrast to a decline of 3.4 per cent in 2022.



Domestic Claims

Domestic claims fell by 6.4 per cent in 2023, in contrast to a 25.5 per cent surge in 2022. This decline was mainly influenced by the surge in government deposits following receipts of a significantly higher share from the Southern African Customs Union (SACU). This, coupled with the redemption of government securities, translated into a fall in claims on government. Nonetheless, private sector credit exhibited resilience, rising by 16.3 per cent in 2023. This growth was due to an increase in credit extended to both households and business enterprises.

Table 3 Domestic Credit (Million Maloti: End Period)

	2019	2020	2021	2022	2023
Claims on Government (Net)	-2,776.88	-3,364.52	-2,955.72	-2,058.09	-3,829.27
<i>Claims on Central Government</i>	2,638.93	2,425.85	2,544.95	2,725.15	1,733.11
<i>Liabilities to Central Government</i>	5,415.81	5,790.37	5,500.67	4,783.24	5,562.38
Claims on Public NFCs (Official entities)	38.20	87.00	60.21	58.05	57.77
Claims on Private Sector	7,368.91	7,415.60	7,959.78	8,356.83	9,716.23
<i>Claims on Other Resident Sector (Households)</i>	5,196.57	5,400.15	5,887.17	6,146.91	6,998.51
<i>Claims on Other NFCs (Enterprise)</i>	2,172.34	2,015.45	2,072.61	2,209.92	2,717.72
Domestic Claims	4,630.24	4,138.09	5,064.28	6,356.78	5,944.73

Source: Central Bank of Lesotho



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Net Foreign Assets

Total net foreign assets (NFA) jumped by 39.2 per cent in 2023 from a contraction of 10.1 per cent in 2022. This improvement emanated from increases in the NFA positions of both the central bank and commercial banks. The rise in the central bank's NFA was due to higher SACU receipts. Meanwhile, the boom in commercial banks' NFA was partly explained by advanced mobilisation by the Trans-Caledon Tunnel Authority (TCTA) for construction of the second phase of the Lesotho Highlands Water Project (LHWP II), and the redemption of government securities.

Table 4 Banking System's Net Foreign Assets (Million Maloti: End Period)		2019	2020	2021	2022	2023
Commercial banks		4,603.91	6,374.23	6,965.49	5,545.60	10,297.75
Assets		5,026.74	6,679.44	7,451.12	5,877.44	10,840.31
Liabilities		422.83	305.20	485.62	331.84	542.56
Central Bank		9,704.69	10,939.86	10,671.12	10,316.29	11,781.22
Assets		10,819.51	12,682.90	13,674.28	13,422.48	15,037.37
Liabilities		1,114.83	1,743.04	3,003.16	3,106.19	3,256.15
Net Foreign Assets		14,308.60	17,314.10	17,636.61	15,861.89	22,078.97
Source	Central Bank of Lesotho					

Components of Money Supply

Regarding its components, the growth in M2 was evidenced by a rise in both narrow money (M1) and quasi money. M1 increased by 23.3 per cent from a fall of 3.7 in 2022, while quasi money rose by 16.9 per cent, compared to a decline of 3.1 per cent in 2022. On the one hand, the increase in M1 was due to a rise in transferable deposits held by business enterprises, other financial institutions and households. On the other hand, the increase in quasi money was attributed to an expansion in call deposits held by business enterprises and public non-financial institutions, and fixed-time deposits held by households and business enterprises.

Credit Extension

Trends of Credit to Business Enterprises

The total credit extended to the business sector rose by 23.0 per cent in 2023, following 6.6 per cent growth in 2022. The growth in loans to business enterprises stemmed from newly contracted loans and the utilisation of overdraft facilities against the backdrop of a directive on credit extension issued by the central bank¹. Notably, a significant portion of these newly contracted loans was directed towards the construction industry, specifically aimed at supporting ongoing major projects.

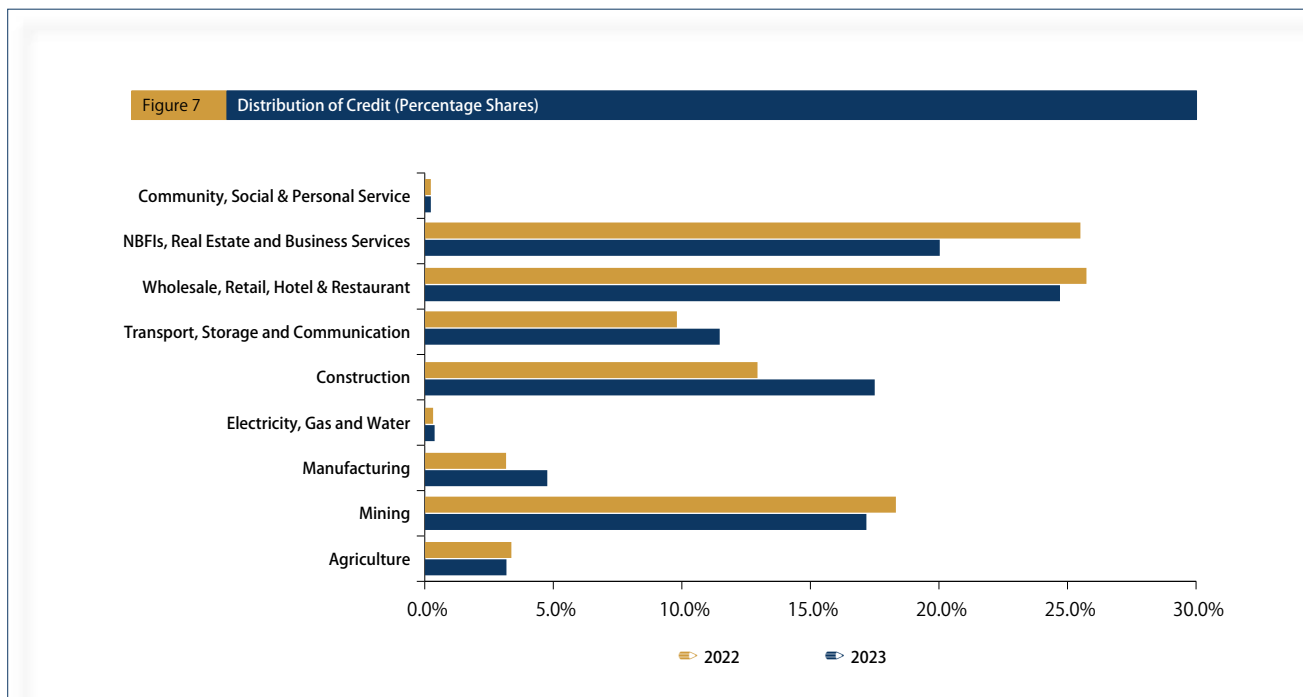
¹ In an effort to improve access to credit, banks were requested to extend at least 70 per cent of their deposits to credit. This limit was expected to be fully attained by 31 December 2023.

Total net foreign assets (NFA) jumped by 39.2 per cent in 2023 from a contraction of 10.1 per cent in 2022.

Table 5 Trends of Credit to Business Enterprises (Million Maloti)		2019	2020	2021	2022	2023
Agriculture		29.23	47.22	90.83	76.94	87.22
Mining		419.93	359.16	284.68	405.54	468.30
Manufacturing		57.95	29.74	48.90	71.56	131.06
Electricity, gas and water		6.46	2.42	5.45	8.54	12.41
Construction		328.05	321.87	311.53	287.08	477.83
Transport, Storage and Communication		423.67	357.52	436.98	219.11	312.90
Wholesale, Retail, Hotel and Restaurant		387.47	354.36	412.37	568.99	672.90
NBFIs, Real Estate and Business Services		504.62	530.03	470.06	564.43	546.34
Community, Social and Personal Service		14.97	13.41	11.81	7.74	8.76
Total		2,172.34	2,015.74	2,072.61	2,209.92	2,717.72
Source	Central Bank of Lesotho					

Distribution of Credit Extended to Business Enterprises

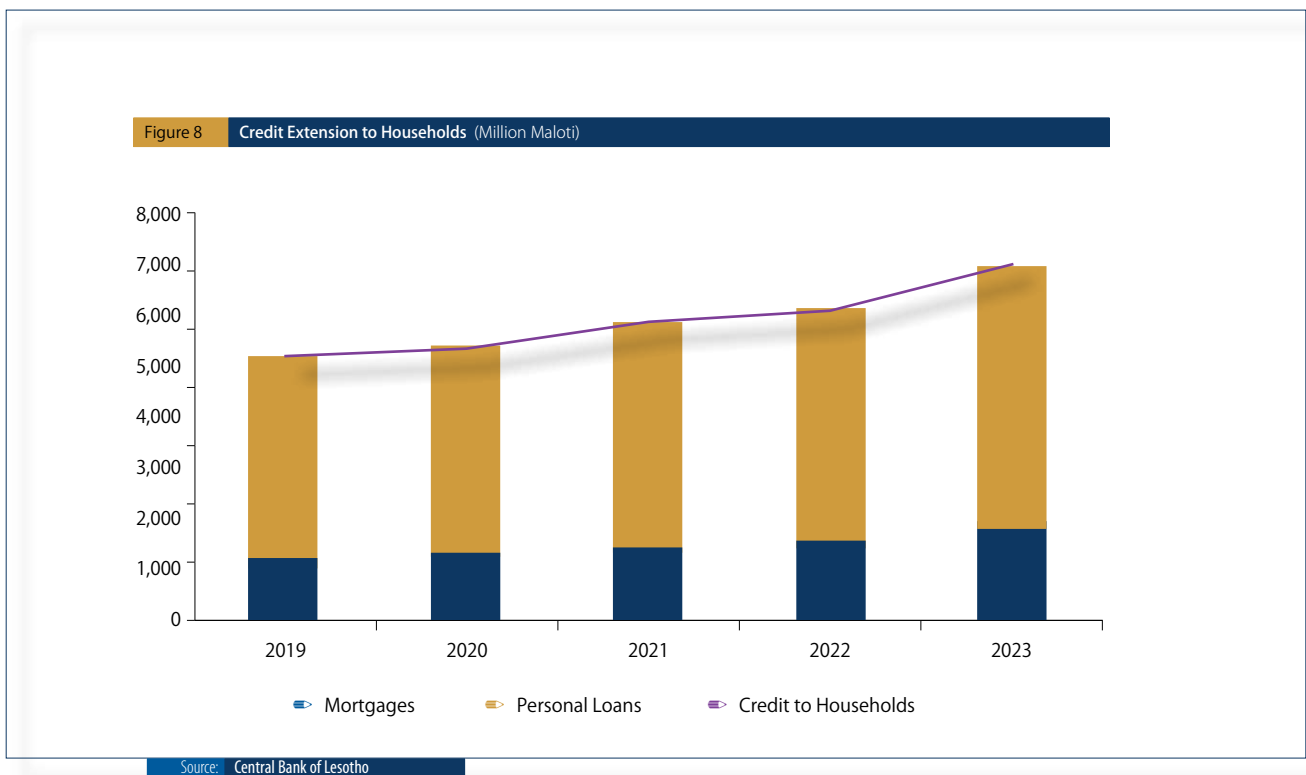
In 2023, the sectoral distribution of credit extended to business enterprises in Lesotho continued to be dominated by the Wholesale, Retail, Hotel & Restaurant subsector, which received the largest share at 24.8 per cent. This was followed by the non-bank financial institutions (NBFIs), Real Estate & Business Services, and the Construction subsectors, with shares of 20.1 per cent and 17.6 per cent, respectively. The Community, Social & Personal Services subsector received the smallest portion of credit, accounting for just 0.3 per cent of the total credit extended to business enterprises.



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Credit Extended to Households

Credit extended to the household sector grew by 13.9 per cent in 2023, following 4.5 per cent growth in 2022. Personal loans rose by 13.7 per cent, whereas mortgage loans increased by 14.2 per cent. The growth in both personal and mortgage loans benefitted from the increased demand, coupled with strategies adopted by banks to ease access to credit. However, the bulk of household loans was dominated by non-productive loans – personal loans amounted to 74 per cent.



Liquidity of Commercial Banks

Components of liquidity

The credit to deposit ratio fell to 52.7 per cent from 54.5 per cent in 2022. This was due to an increase in total deposits, which outweighed the rise in private sector credit. Total banking sector liquidity stood at 37.6 per cent during the review period compared to 40.8 per cent recorded in December 2022. This mainly reflected a much higher increase in total deposits compared to a rise in total liquid assets.

Total banking sector liquidity stood at 37.6 per cent during the review period compared to 40.8 per cent recorded in December 2022.

Table 6 Components of Liquidity (Million Maloti)		2019	2020	2021	2022	2023
Credit to Deposit Ratio (%)		56.8%	49.6%	50.8%	54.5%	52.7%
Private Sector Credit		7,257.25	7,309.67	7,849.43	8,248.52	9,561.30
Total Deposits		12,772.12	14,732.28	15,449.52	15,145.56	18,137.11
Liquidity Ratio (%)		42.9%	42.6%	46.0%	40.8%	37.6%
Notes and Coins		726.47	707.97	734.29	916.06	1,086.98
Net Balances Due from Banks in Lesotho		-369.15	-2.73	-4.18	-5.43	11.64
Net Balances Due from Banks in SA		2,894.49	3,251.52	3,767.78	2,551.44	4,148.07
Surplus funds		151.93	233.15	246.09	105.53	-163.59
Government Securities		2,079.79	2,087.84	2,358.59	2,616.12	1,733.11
Total		5,483.53	6,277.76	7,102.56	6,183.72	6,816.21
Source	Central Bank of Lesotho					

Money and Capital Market Developments

Money Market

Interest Rates

The CBL policy rate closed the year 2023 at 7.75 per cent, which was equivalent to an increase of 75 basis points from December 2022. Consequently, the average prime lending rate increased from 10.50 per cent to 11.25 per cent, whereas the one-year deposit rate rose by 27 basis points to 4.74 per cent. The 91-day Treasury bill rate increased from 6.36 per cent to 7.12 per cent, remaining within the desired range of +/-200 basis points relative to the South African counterpart rate.



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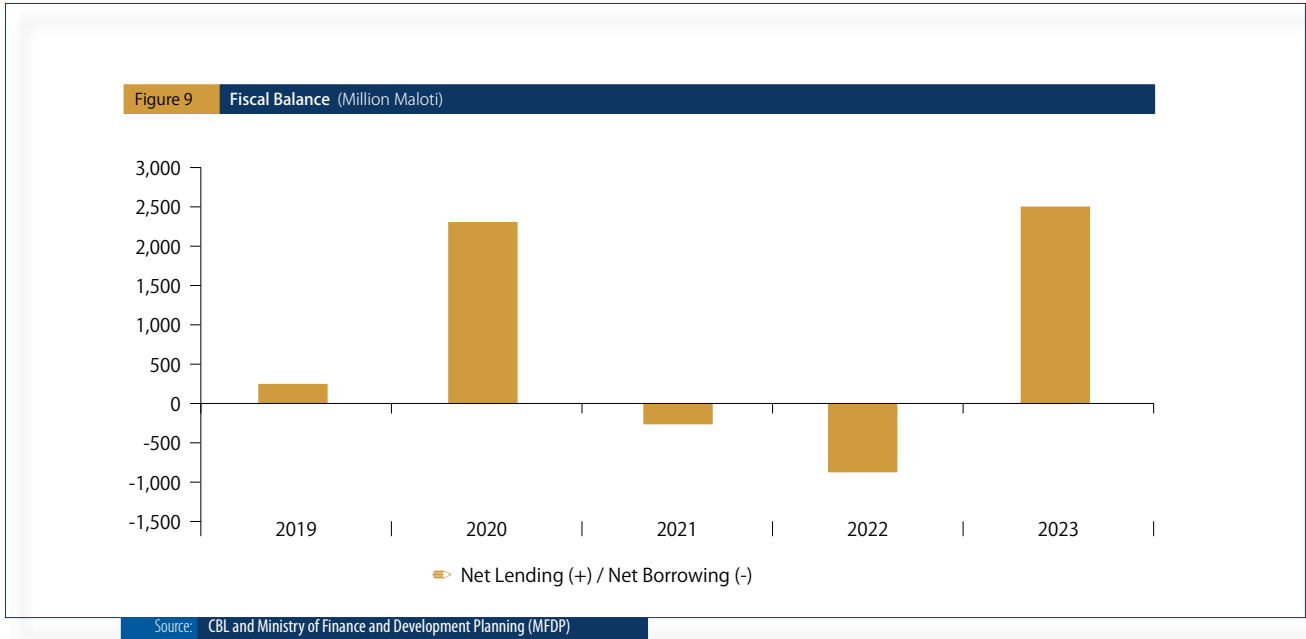
Table 7 Interest Rates		2019	2020	2021	2022	2023
Central Bank Rate		6.5	3.5	3.75	7.00	7.75
91-days TB Rate		6.26	3.2	4.06	6.36	7.12
Lombard Rate		10.26	7.2	8.06	10.36	11.12
Commercial Banks						
Call		1.09	0.99	1.05	2.09	2.65
Time						
31 days		0.7	0.67	0.67	1.33	1.47
88 days		1.65	1.88	1.64	2.33	2.46
6 months		2.9	3	3.18	3.75	4.01
1 year		4.24	3.79	3.2	4.47	4.74
Savings		1.36	0.7	0.7	1.48	1.60
Prime		11.19	8.19	8.44	10.50	11.25
South Africa						
Repo		6.5	3.5	3.75	7.0000	8.25
T Bill Rate – 91 Days		7.18	3.87	3.85	6.56	8.43
Prime		10	7	7.25	10.5	11.75
Source	Central Bank of Lesotho					

1.2.3 Government Finance Operations

Fiscal Performance in 2023

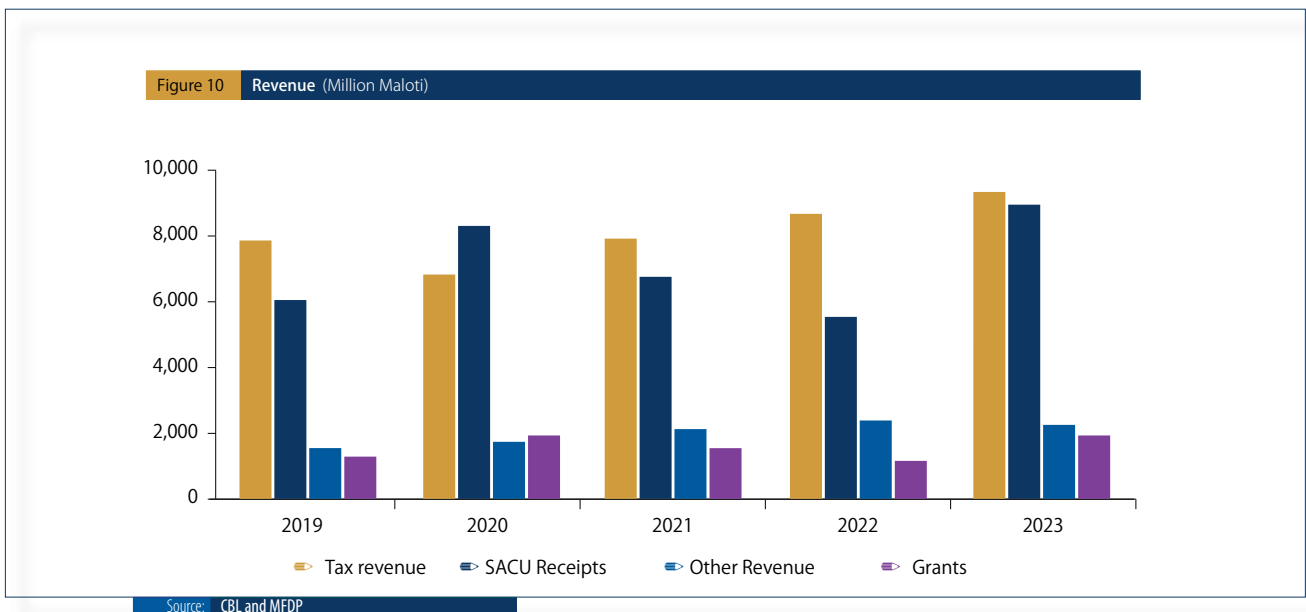
There was a significant improvement in Government budgetary operations in 2023, with a surplus equivalent to 6.1 per cent of GDP. This positive change contrasted with the revised fiscal deficit of 2.3 per cent of GDP observed in 2022. In addition, the ratio of public debt stock to GDP increased slightly to 59.8 per cent during the year under review, compared with 59.5 per cent in 2022.

There was a significant improvement in Government budgetary operations in 2023, with a surplus equivalent to 6.1 per cent of GDP.



Total Revenue

In 2023, the total revenue experienced an increase of 23.3 per cent. This growth was primarily attributed to a significant rise in SACU receipts. Moreover, this was further complemented by a relatively higher rand monetary compensation in addition to higher collections of excise taxes. This was in contrast to a 1.7 per cent fall in revenue the previous year. As a share of GDP, total revenue was estimated at 50.4 per cent, up from 44.5 per cent the previous year.

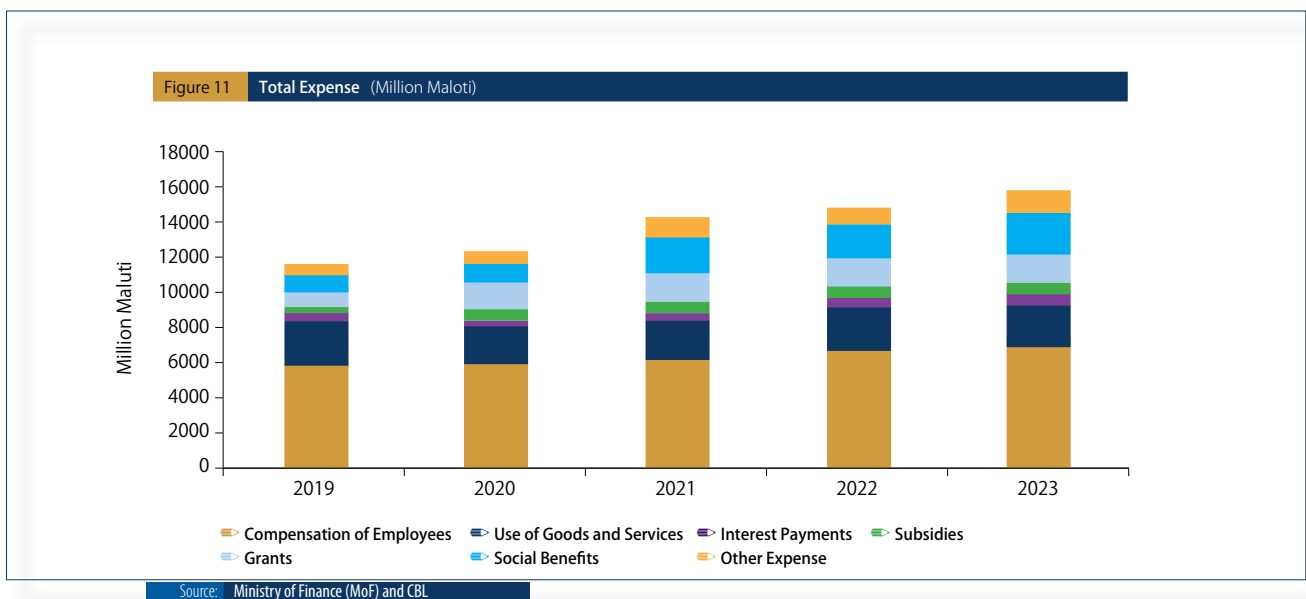


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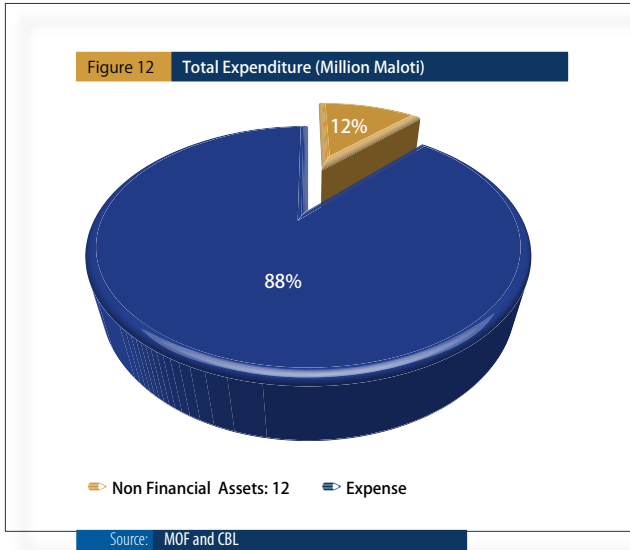
Total Expenditure

Government expenditure was estimated to have increased by 2.9 per cent during the year under review, following a revised 1.9 per cent in 2022. This rise was due to high spending on wages and salaries, following a 2.5 per cent upward adjustment. Moreover, student grants were also increased to align with the inflation effect, in addition to an increment of M50 on the old age pension scheme. However, the significant increase in public assistance in cash was moderated by the phasing out of safety nets and the LLA pension as the number of beneficiaries declined.

In 2023, recurrent expenditure accounted for a higher percentage share compared to capital spending. Specifically, it increased from 82.4 per cent in 2022 to 88.0 per cent in 2023. This indicates that a larger portion of the budget was allocated to day-to-day operational costs (recurrent spending) rather than productive spending (capital spending).

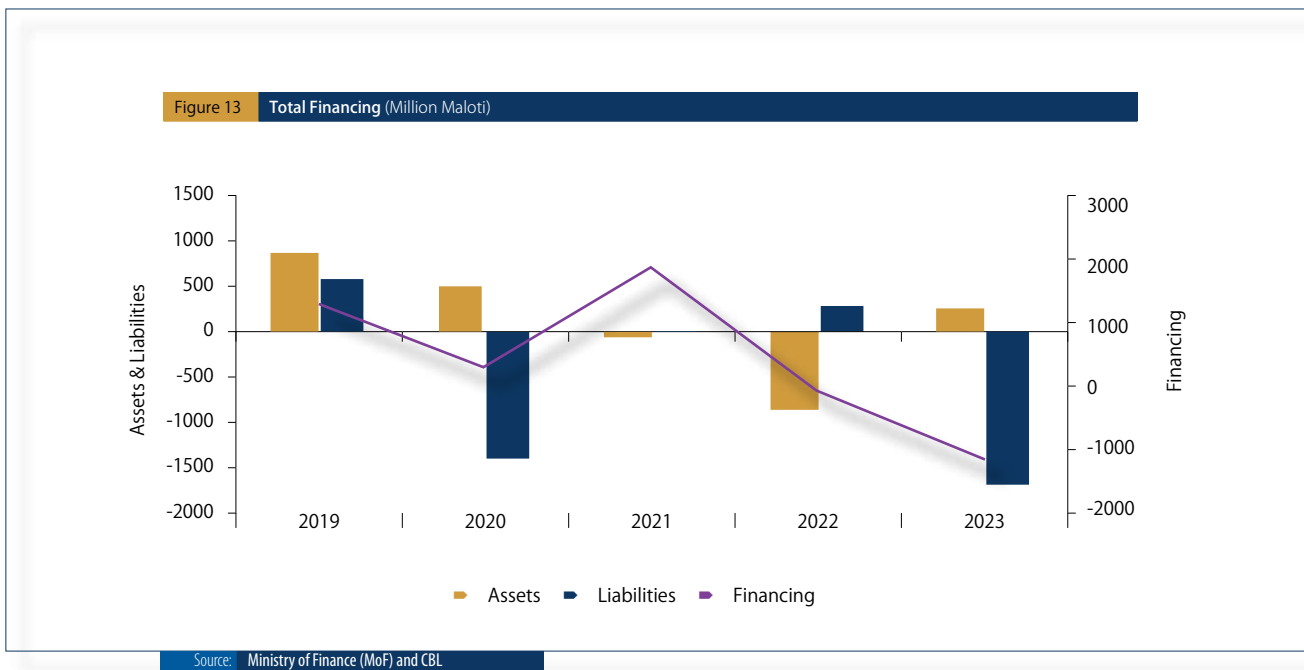


Government expenditure was estimated to have increased by 2.9 per cent during the year under review, following a revised 1.9 per cent in 2022.



Financial Assets and Liabilities²

The fiscal surplus was partly used to redeem maturing domestic securities and other government liabilities, and the balance used to accumulate deposits in the banking system, leading to an increase in financial assets.



² All categories are on net terms.



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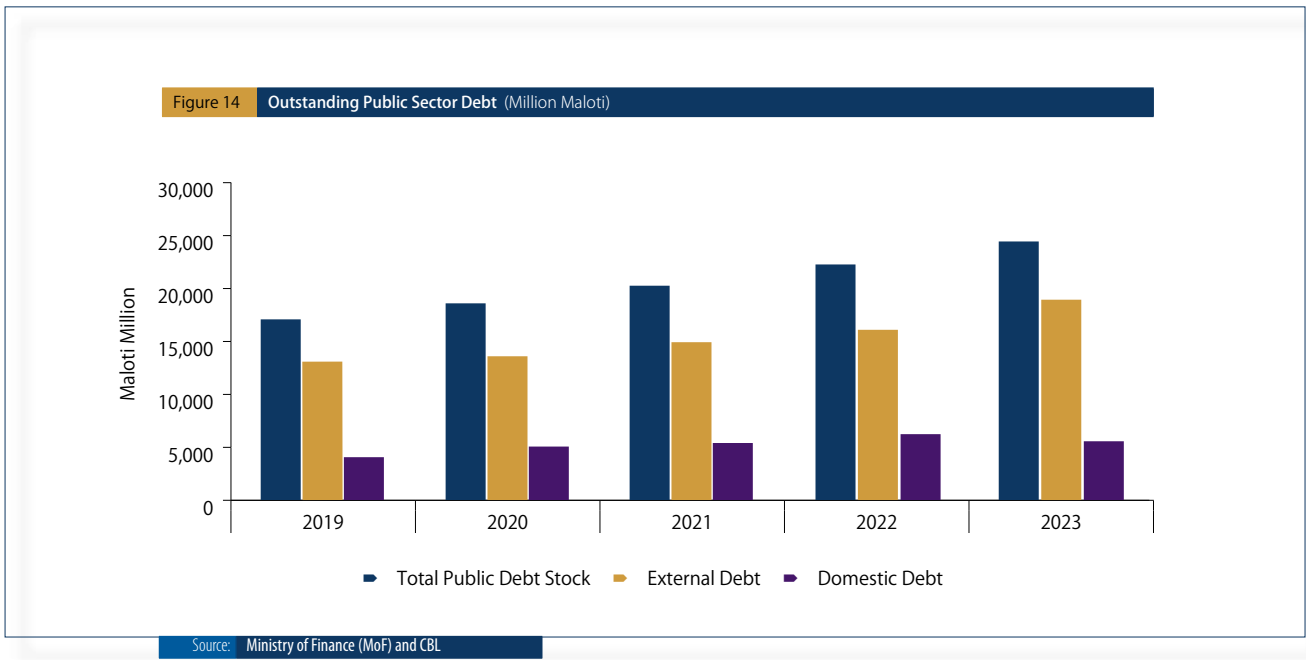
Table 8	Statement of Government Operations (Million Maloti)				
	2019	2020	2021	2022	2023
Revenue	15,465.83	17,029.87	16,949.70	16,665.50	20,547.42
Tax revenue	12,577.86	13,324.4	13,223.9	13,069.1	16,319.24
Social Contributions	0.00	0.00	0.00	0.00	0.00
Grants	1,332.65	1,968.93	1,568.39	1,211.71	1,950.39
Other revenue	1,555.33	1,736.53	2,157.42	2,384.64	2,277.79
Expense	11,614.76	12,352.6	14,339.7	14,875.1	15,880.55
Compensation of Employees	5,775.31	5,863.82	6,075.94	6,667.15	6,894.61
Purchases of goods and services	2,642.43	2,182.65	2,308.56	2,517.99	2,419.03
Interest Payments	392.15	338.54	494.24	483.76	553.08
Subsidies	338.12	646.92	634.74	655.23	738.82
Grants	826.01	1,508.75	1,599.43	1,618.70	1,588.35
Social benefits	981.15	1,089.57	2,023.22	1,917.82	2,395.35
Other expense	659.60	722.39	1,203.64	1,014.51	1,291.31
Net Operating Balance	3,851.07	4,677.22	2,609.94	1,790.35	4,666.87
Nonfinancial Assets	3,593.06	2,364.43	2,880.92	2,664.99	2,168.68
Fixed Assets	3,583.27	2,364.43	2,880.92	2,664.99	2,168.68
Buildings and structures	1,689.62	937.78	1,018.11	1,365.93	1,376.25
Machinery and equipment	234.07	112.90	83.50	64.61	55.03
Unidentified	1,659.57	1,313.75	1,779.32	1,234.44	737.39
Non-Produced Assets	9.79	0.00	0.00	0.00	0.00
Net lending (+) / Net borrowing (-)	258.01	2,312.79	-270.98	-874.64	2,498.19
Financing	302.81	1,893.94	-75.95	-1,126.55	1,956.42
Financial assets	872.83	501.72	-73.59	-851.71	251.90
Domestic	872.83	501.72	-73.79	-851.71	251.90
Foreign	0.00	0.00	0.21	0.00	0.00
Liabilities	570.02	-1,392.22	2.36	274.84	-1,704.52
Domestic	-740.19	-1,129.63	-180.46	188.05	-1,809.88
Foreign	1,310.21	-262.59	182.82	86.79	105.36
Statistical Discrepancy	-44.80	418.85	-195.04	251.91	541.77
Memo Items					
SACU receipts	6,055.22	8,291.95	6,750.95	5,551.59	8,961.27
Annual GDP (current prices)	9,449.24	8,758.26	9,601.16	9,238.56	10,190.50
Source	CBL and MFDP; *Figures in this column refer to projected outturn.				

The outstanding public debt increased by 9.4 per cent, primarily due to the disbursement of ongoing projects that are funded through the external debt.

Total Public Sector Debt³

The outstanding public debt increased by 9.4 per cent, primarily due to the disbursement of ongoing projects that are funded through the external debt. This was further affected by the exchange rate effects. However, this was moderated by the redemption of government securities issued for budget operations.

As a share of GDP, the outstanding public debt was estimated at 59.8 per cent. At this level, it was hovering at the SADC sustainability threshold. However, the other indicators, such as the solvency and liquidity, remained within the target ranges. This was mainly due to the overall debt structure in which about 75 per cent was concessional, whereas roughly 80 per cent of the total debt stock was externally contracted.



³ All categories are on net terms.



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Table 9	Public Sector Debt Stock (Million Maloti)				
	2019	2020	2021	2022	2023
Total Public Debt Stock	17,057.40	18,609.44	20,193.71	22,299.56	24,387.00
External Debt	13,013.53	13,631.19	14,858.80	16,149.10	18,839.40
Bilateral Loans (concessional)	1,044.28	975.64	1,032.50	699.22	1,008.10
Multilateral Loans	11,001.83	11,090.74	11,921.30	12,637.93	14,425.80
Concessional	9,459.91	9,620.03	10,535.40	11,330.77	13,156.80
Non-concessional	1,541.92	1,470.71	1,385.90	1,307.16	1,269.00
Financial Institutions (non-concessional)	0.00	0.00	0.00	176.89	80.70
Suppliers' Credit (non-concessional)	967.42	1,564.81	1,905.00	2,635.05	3,324.80
Domestic Debt	4,043.87	4,978.25	5,334.91	6,150.47	5,547.60
Banks	2,658.36	3,215.15	3,470.75	3,689.16	2,636.51
Treasury Bonds	963.96	1,096.06	1,118.18	1,278.13	1,225.86
Treasury Bills	517.49	1,105.89	1,085.80	1,030.59	848.40
Central Bank (IMF-ECF)	1,176.91	1,013.21	1,266.77	1,380.44	562.25
Non-bank	1,385.51	1,763.09	1,864.15	2,461.31	2,911.09
Treasury Bonds	1,080.71	1,464.18	1,668.13	2,245.26	2,609.34
Treasury Bills	304.80	298.91	196.02	216.05	301.75
Total debt as % of GDP	49.38	55.06	56.77	59.55	59.83
External debt service as % of revenue	0.7	1.3	2.1	3.0	3.5
External debt as % of total	76.3	73.2	73.6	72.4	77.3
Domestic debt as % of total	23.7	26.8	26.4	27.6	22.7
Concessional as % of External debt	80.7	77.7	77.9	74.5	75.2
Source	Ministry of Finance (MoF) and Central Bank of Lesotho (CBL)				

1.2.4 Foreign Trade and Payment

Overall Balance

The external sector position improved in 2023 compared to the previous year. This was evident with a surplus equivalent to 0.3 per cent of GDP, in contrast to a revised deficit equivalent to 4.3 per cent a year earlier. The surplus on the external sector position was explained by improved balances for the current account and capital account, in addition to the financial account. The stock of foreign reserves was recorded at M15.04 billion, an increase from M12.86 billion in 2022, primarily on account of increased SACU receipts. Therefore, in months of import coverage, reserve assets increased to 5.5 months from 4.7 months the previous year.

The stock of foreign reserves was recorded at M15.04 billion, an increase from M12.86 billion in 2022.

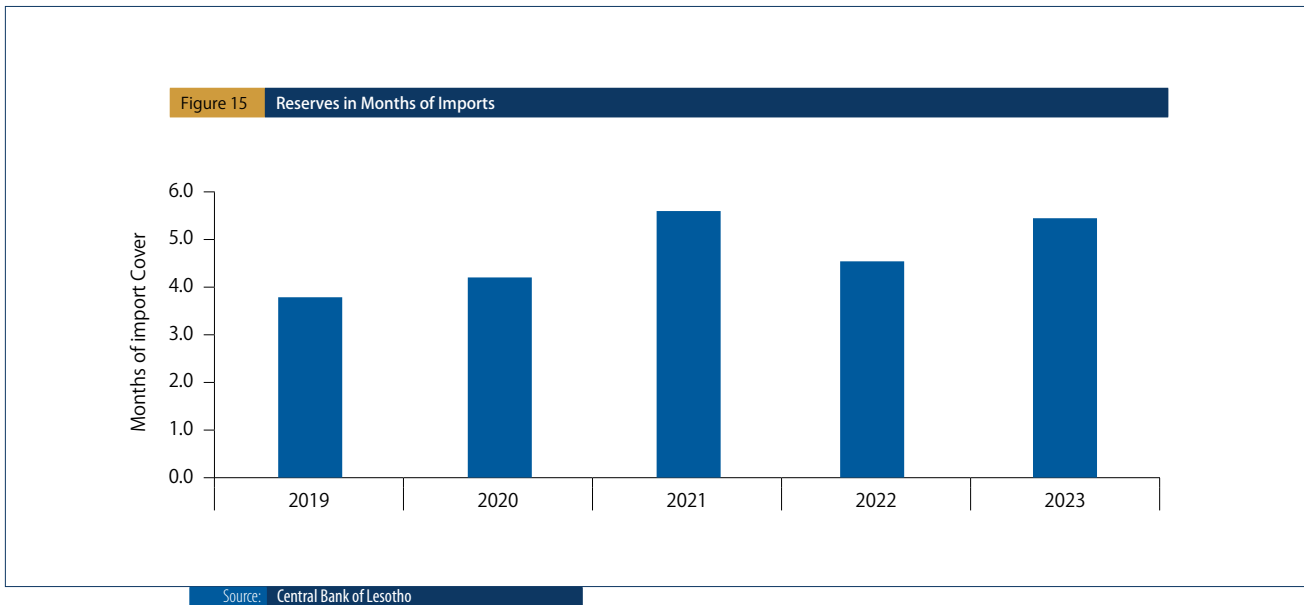


Table 10 Summary of Balance of Payments (As percentage of GDP)

	2020	2021	2022	2023
Current Account	-5.11	-7.60	-11.54	-5.3
Goods	-31.36	-29.69	-32.52	-35.8
Services	-16.18	-15.25	-18.59	-18.4
Primary Income	17.56	16.16	20.9	22.7
Secondary Income	24.87	21.18	18.67	26.9
Capital Account	4.06	5.12	4.28	17.0
Financial Account	12.51	2.36	-6.45	14.7

Source: Central Bank of Lesotho

Current Account

The current account deficit improved significantly, decreasing from M4.32 billion to M2.12 billion due to improved surpluses on primary income and secondary income accounts. However, the goods and services accounts deficits worsened and, therefore, moderated the observed performance of the current account. As a percentage of GDP, the current account balance accounted for 5.30 per cent, a decline from the 11.54 per cent recorded in the previous year.

THE ECONOMIC REPORT

The goods account deficit widened by 17.3 per cent, compared to 9.5 per cent the previous year. This resulted mainly from the decline in exports for diamonds, in addition to textiles and clothing exports. Diamonds exports declined due to weaker demand and lower prices for diamonds in the international markets, whereas textile exports fell due to low numbers of orders from the US. However, there was an increase in exports for agricultural products, in addition to water, which moderated the observed performance of the current account. Expressed as a percentage of GDP, the goods account deficit accounted for 35.9 per cent, an increase from 32.5 per cent the previous year.

Merchandise imports increased by 4.1 per cent, compared to a 9.5 per cent increase the previous year. The increase in merchandise imports was explained by a rise in imports for machinery, in addition to the steel and iron products associated with the ongoing activities at the Lesotho Highlands Water Project phase II. Nonetheless, there was a decline in imports for crude materials, in addition to food and live animals, which partly offset the observed performance of imports during the same period. As a percentage of GDP, they accounted for 76.3 per cent, a slight decline from the previous year's 78.5 per cent.

The services account deficit widened by 5.3 per cent, in contrast to an increase of 21.9 per cent in the previous year. This was mainly due to higher payments for freight services in line with increased imports, together with increased payments for telecommunications services and official foreign travel. These were, however, moderated by an increase in receipts for tourism related services and courier services, which largely benefitted from the relaxation of COVID-19-induced restrictions. As a percentage of GDP, the services account deficit accounted for 18.4 per cent, compared to 18.6 per cent the previous year.

Primary Income Account

The primary income account surplus rose by 15.6 per cent to M9.04 billion in 2023, relatively higher than the 7.82 billion in 2022. The growth was mainly supported by increased returns on foreign investments held by the central bank, commercial banks and other financial institutions benefiting from higher interest rates in the global money markets, particularly South Africa and the United States. In addition, there was an increase in remittances associated with relatively higher remunerations paid to migrant workers, together with increased transfers for maintenance and repairs for LHWP phase I. The surplus on the primary income account, therefore, accounted for 22.7 per cent, slightly higher than 20.9 per cent the previous year.

The current account deficit improved significantly, decreasing from M4.32 billion to M2.12 billion due to improved surpluses on primary income and secondary income accounts.

Secondary Income Account

The secondary income account surplus surged by 49.6 per cent in 2023, contrasted with a contraction of 11.9 per cent in 2022. The improved balance was on account of increased SACU receipts, following increases in the SACU revenue pool. In addition, there was an increase in rand compensation receipts which contributed to the further improvement of the secondary income account. These were, however, partly offset by the increase in subscriptions to international organisations during the same year. Expressed as a share of GDP, the surplus on the secondary income account constituted 26.3 per cent, slightly lower than the 18.7 per cent recorded in 2022.

Capital Account

The capital account inflows increased significantly by 321.8 per cent to M6,758.73 in 2023, from a slump of 16.4 per cent the previous year. This rise was due to significant receipts for infrastructure development contractual work for LHWP-Phase II activities as major construction work commenced this year. As a ratio of GDP, capital account balance constituted 17.0 per cent in 2023, relative to last year's 4.2 per cent.

Financial Account

The financial account recorded a net outflow totalling M5.84 billion in 2023, from a revised net inflow totalling M2.41 billion the previous year. The observed performance of the financial account emanated from increased outflows for portfolio investments and other investments. The increase in portfolio investment outflows was due to financial institutions' investments into foreign debt securities, in search for higher yields given the global rise in interest rates. Direct investment outflows increased as there was a reduction in loan disbursements from non-resident shareholders, together with increased loan repayments to non-resident shareholders. Other investment outflows were attributed to a rise in commercial banks and central bank investments abroad. Commercial bank investments increased due to higher placements associated with increased local deposits, whereas central bank investments were influenced by higher liquidity due to SACU receipts in 2023 compared to the previous year. Expressed as a share of GDP, the financial account net outflows constituted 14.7 per cent compared to a net inflow of 6.4 per cent the previous year ▣





2

The financial sector emerged as one of the few sectors demonstrating resilience in the aftermath of the substantial economic shocks.

CENTRAL BANKING ACTIVITIES

2.1 MONETARY POLICY OPERATIONS

2.1.1 Overview

The financial sector emerged as one of the few sectors demonstrating resilience in the aftermath of the substantial economic shocks. The sector's resilience was evidenced by its growing contribution to GDP, outpacing other sectors in 2023. This performance benefitted, in part, from interventions by the Bank, which implemented policies targeted at achieving and maintaining monetary and financial system stability and thus supporting economic activity.

Among others, the following interventions were implemented:

- **Improvement of the regulatory environment:** The adoption of innovative regulatory and supervisory instruments, in line with the rapidly evolving financial landscape, augmented the safety and soundness of the financial system to align with international standards.
- **Promotion of innovative payment systems:** The Bank promoted innovative payment systems to ensure effective financial intermediation, which is crucial for the health of the financial sector.
- **Fostering financial inclusion:** An enabling environment for financial inclusion was developed, aimed at encouraging the participation of the entire population, including those in rural areas. This was achieved through policies that facilitated the development of new financial products, expanding their breadth and depth.

In support of these endeavours, the CBL Monetary Policy Committee (MPC) diligently monitored global and domestic developments, making necessary policy adjustments. Notably, the MPC adjusted the net international reserves target, in alignment with emerging macroeconomic developments. This was instrumental in maintaining parity between the local currency, the Loti and the South African Rand, thereby keeping domestic prices in line with prices in the Common Monetary Area (CMA). In addition, the MPC raised the CBL policy rate by a cumulative 75 basis points in response to the relatively high rate of inflation. At 50 basis points below South Africa's repo rate, the CBL policy rate was deemed appropriate to curb inflation without excessively restraining private sector credit and overall economic activity.

2.1.2 Reserves Management

The management of reserves remains a critical aspect of the bank's operations to attain macroeconomic stability. This is particularly true in the face of global market shocks characterised by high-risk investment climate, global geo-political tension and rising consumer prices. These developments added further uncertainty to the fragile global economic recovery and contributed to challenges in various sectors.

In response to these developments, the Bank adapted alternative investment strategies to navigate the impact of macroeconomic conditions on asset allocation and investment returns. To reduce duration exposure, reserves management moved away from longer-dated maturity bonds and other instruments to the shorter-dated instruments. More emphasis was placed on risk management and governance frameworks in asset allocation. In this regard, the Bank adopted a risk budgeting framework to navigate the investment landscape. In addition, the Bank designed and approved an internal credit rating model aimed at enhancing the monitoring of credit risk exposure. Furthermore, the Strategic



CENTRAL BANKING ACTIVITIES

Asset Allocation (SAA) framework was improved by introducing stress testing, which validates the outputs of SAA by assessing the robustness of the outcome under certain extreme but plausible scenarios.

Various initiatives were also undertaken to improve the reserves management processes and processes flows throughout the year. The Bank migrated to the new financial messaging standard, ISO 20022, aligning with both regional and international migration timelines

2.1.2 Domestic Capital Markets Operations

The Bank is the fiscal agent of the Government of Lesotho in raising domestic financing for budget operations. During the year the Bank managed to conduct three successful auctions of treasury bonds, with the new three-year bond introduced in June 2023 and the new 15-year bond introduced in August 2023, in addition to the reopening of the other existing bonds to meet the government fiscus needs. Bi-weekly auctions of treasury bills for monetary policy purposes were also conducted successfully throughout the year.

On another key aspect of the domestic capital, the Maseru Securities Market listing and trading activities continue to fall below the anticipated performance. This is in part due to the reluctance of the corporate sector to use the platform to raise capital. Despite these challenges and following the listing of RNB Properties Ltd, the platform traded 18,770 RNB shares to the value of M262,780 at an average price of M14.00. The platform has also seen the gradually increasing trade activity of government securities, with over 253 recorded trades to the value of M575,463,807.

2.2 ECONOMIC RESEARCH AND ADVISORY SERVICES

The Bank continued to play its role as an economic and financial adviser to the Government of Lesotho. In 2023, work in this area focused mainly on the production of the Bank's flagship reports and advisory work.

2.2.1 Economic Reports

Production of the Bank's flagship reports continued in line with the schedule. Four bulletins of the Quarterly Economic Review and the 2022 Annual Report were produced. In addition, the Bank continued to produce the Lesotho's Macroeconomic Outlook reports on a quarterly basis. Finally, monthly economic reviews were produced throughout the year, providing high frequency updates and early indicators of economic performance. The reports were key in highlighting Lesotho's economic performance and prospects, informing policy decisions by the Government and planning by the private sector.

The management of reserves remains a critical aspect of the bank's operations to attain macroeconomic stability.

2.2.2 Advisory Work

Advisory work in the review period included a policy brief for the Minister of Finance, which evaluated the possibility of adopting fiscal rules as a tool for fiscal policy operations. Fiscal policy rules may be desirable for the economy given the macroeconomic management challenges the country is facing. In addition, an article on public private partnership that recommended a need for a legal framework to safeguard the public interest.

Moreover, the Bank continued to provide policy advice to other national structures and regional groups through technical representations. An advisory service, assessing the state of the economy, was provided to the Minimum Wage Advisory Board in preparation for its annual wage setting exercise.

2.3 BANKING AND FINANCIAL STABILITY

2.3.1 The Banking Sector Financial Surveillance Integrity

Lesotho underwent its second round of Mutual Evaluation as part of the ESAAMLG peer review assessment during the year. This was meant to assess the level of compliance with the Financial Action Task Force (FATF) and determine the level of effectiveness of the country's AML/CFT system.

The Mutual Evaluation report highlighted certain strategic deficiencies on both CBL's supervision of financial institutions and the operations of the supervised financial institutions. It rated both aspects -supervision and preventive measures implemented by financial institutions – at a moderate level of effectiveness, signalling that major improvements were needed to achieve desirable outcomes.

2.3.2 Developments in the Banking Sector

As part of the Bank's strategic objective to improve financial stability and boost stakeholder confidence, the implementation of Basel II.5 remained a priority. The banks continued to operate on a parallel run, reporting under both Basel I and II.5 accords. The Financial Institutions (Computation of Capital Charge for Credit, Operational and Market Risks) Regulations 2023 (Basel II.5 Pillar I Regulations), were promulgated in August 2023. Therefore, the Basel II.5 was expected to become effective within a six-month transitional period ending in February 2024.

The CBL, through the Department of Banking Supervision and Financial Stability, continued with the enhancement of the Risk Based Supervision Framework, which ensures that banks have frameworks in place to facilitate the navigation of the risks they are exposed to and implement the necessary mitigations measures.



CENTRAL BANKING ACTIVITIES

2.4 NATIONAL PAYMENT SYSTEMS

2.4.1 National Payment Switch

The implementation of the national payment switch continued, with significant progress achieved during the review period. First, commissioning of the national payment switch production environment was completed in June 2023. Second, a dedicated disaster recovery site was also established, ensuring the resilience and reliability of the infrastructure. Third, the crafting of governance instruments, such as card scheme rules, was completed in collaboration with key stakeholders, demonstrating a commitment to operational efficiency and the fostering of standardised practices within the national payment. However, despite these notable achievements, the project encountered challenges that led to several postponements of the go-live date. Some of the contributing factors to the delays included the low success rate in participant testing, delays in the domestication of card issuing, and emerging security requirements on National Payments Switch Financial Market Infrastructure.

2.4.2 Lesotho Wire (LSW)

The national wholesale payment systems, also known as the LSW⁴, was scheduled to migrate to the ISO20022 messaging standard. This standard brings a richer messaging platform that will address certain AML/CFT issues in the financial market infrastructure. Detailed project planning, industry-wide technical workshops, and the completion of the LSW upgrade specification document were notable developments undertaken in 2023. However, the ISO migration project experienced setbacks in its commencement phase, primarily attributed to the challenges with third-party service providers. This challenge was identified as the key factor contributing to delays, necessitating the rescheduling of the go-live date to October 2024. However, concerted efforts were undertaken to rectify this issue, leading to the completion of the relevant project planning documentation by the end of the year.

⁴Wholesale payment systems are fund transfer systems that process and settle large value, and time critical, payments, and play a pivotal role in global financial markets. In Lesotho, the Real-Time Gross Settlement (RTGS) system, known as the LSW, is the only large-value payment system that provides real-time and intraday settlement of financial transactions on a continuous and gross basis. Its participants are the four local commercial banks and the CBL.

⁵ISO 20022 is a global standard for electronic data interchange between financial institutions, ensuring clear and consistent communication for transactions worldwide. It streamlines and simplifies financial messages, such as payments, making them more efficient and accurate.

The implementation of the national payment switch continued, with significant progress achieved during the review period.

2.5 Currency Management

Lesotho's Green Banknotes

In 2023, the Bank unveiled its first green banknotes in commemoration of the 60th birthday of His Majesty King Letsie III, which was on 17 July 2023. It is widely known that the King is passionate about agriculture and the environment, and the Government is focused on implementing strategies to conserve the environment, biodiversity and nature in addition to improving sanitation. It is against this background that the Bank celebrated His Majesty's 60th birthday by printing and issuing circulating green M200 maloti banknotes. The front of the regular M200 banknote features three Kings while the circulating commemorative M200 banknote has been redesigned exclusively with the portrait of His Majesty King Letsie III.

The Green banknote was selected to mark the event as it is made from sustainable renewable cotton from Africa with a lower carbon footprint. This cotton is more durable than the standard cotton banknotes. The banknote is composed of 75 per cent cotton from Africa and 25 per cent certified wood pulp, making it the first banknote made of cotton from Africa. All the subsequent banknotes to be printed in 2024 will be green banknotes.

2.6 FINANCIAL CONSUMER PROTECTION AND MARKET CONDUCT

2.6.1 Financial Consumer Protection and Market Conduct

During the year, the CBL continued to implement the Financial Consumer Protection Act, 2022. The Act provides the CBL with the powers to regulate market conduct by all regulated financial service providers. They include commercial banks, insurance companies, microfinance institutions (MFIs), pension funds, payments services providers, credit bureau, large financial cooperatives and Maseru Securities Market (MSM). The Financial Consumer Protection Division established within the CBL is tasked with the implementation of the Act. The Division's functions include the mediation of consumer complaints, supervision of market conduct and promotion of consumer empowerment.

a) Complaints handling and redress

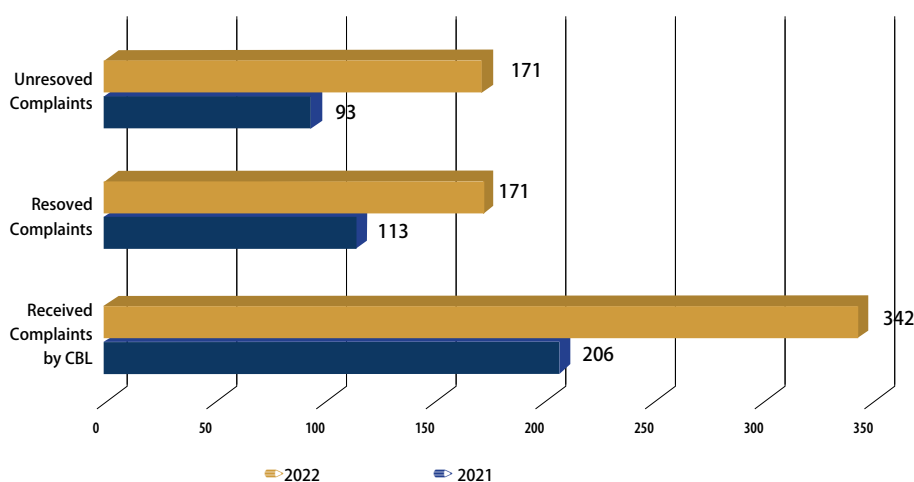
The Financial Consumer Protection (FCP) division continued to investigate and facilitate the resolution of consumers' complaints. Consumers dissatisfied with responses by financial institutions escalate their complaints to the FCP division.

Complaints against MFIs continued to lead, constituting 34 per cent of the mediated complaints. This was followed by complaints against commercial banks, insurance companies, large financial cooperative, mobile money issuing companies, and credit bureaus, which accounted for approximately 31 percent, 23 percent, 6 percent, 6 percent and 1 percent of the total complaints, respectively. The nature of complaints received and mediated indicates that the key risks and issues facing the financial products consumers in Lesotho in 2023 were over-indebtedness, inadequate transparency and disclosure, and unsatisfactory service quality.



CENTRAL BANKING ACTIVITIES

Figure 16 The Number of Complaints Handled in 2022-2023



Source: Central Bank of Lesotho

b) Market conduct supervision

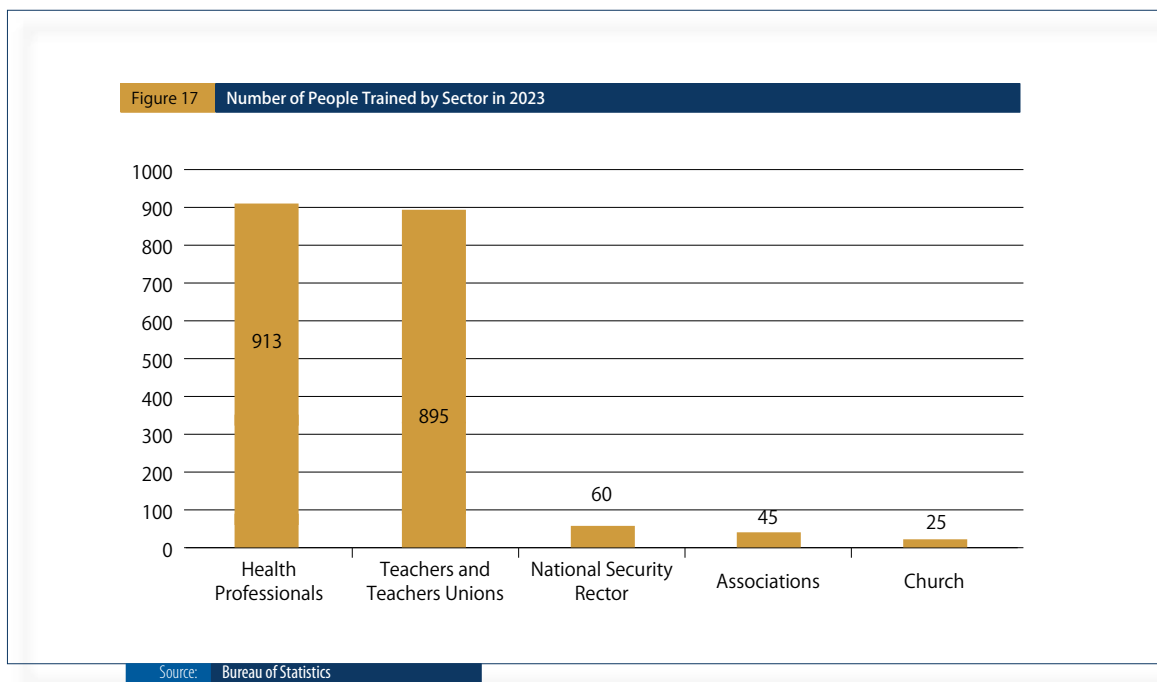
During the year, the CBL continued to implement measures to ensure proper market conduct by the financial sector providers. First, the Financial Consumer Protection (Credit Information Disclosure) Regulations 2023 were promulgated. These regulations are aimed at enhancing information disclosure and transparency in credit contracts. A Key Facts Statement provision will enable borrowers to appreciate the true cost of borrowing and compare pricing across banks, MFLs and other lenders before acquiring loans as a standardised cost of borrowing calculation method is prescribed. Second, market conduct off-site supervision activities were conducted which entailed off-site analysis and market monitoring. Finally, bilateral quarterly engagements with banks to track compliance with the FCP Act 2022 and the Banking pricing directives were held.

c) Consumer empowerment

The Financial Consumer Division continued to implement financial education programmes aimed at providing individuals with the knowledge and skills necessary to make informed and effective financial decisions. The programmes cover a broad range of topics, including budgeting, saving, investing, debt management, understanding financial products and retirement planning. Financial education is associated with improved consumer protection and financial health. The following financial education initiatives were implemented in 2023.

During the year, the CBL continued to implement measures to ensure proper market conduct by the financial sector providers.

- The Bank continued to roll out the campaign against over-indebtedness among the salaried workers in Lesotho. During the year, the Bank held the Household Indebtedness Roundtable, which brought together all stakeholders to build a consensus around strategies to effectively deal with high household debt levels. The stakeholders included employers, credit providers, labour unions and the government. The roundtable agreed on several resolutions for implementation by different stakeholders.
- The training on indebtedness also continued during the year. Approximately 1938 participants from the health, education, and national security sectors, churches and labour associations were trained in workshops held across the country. The workshops were arranged in collaboration with the relevant ministries.
- The CBL implemented the insurance policy lapses awareness. The awareness was carried out through the local radio stations. It was in response to an emerging issue whereby a sizable number of complaints were received regarding claim repudiations.



CENTRAL BANKING ACTIVITIES

2.6.2 Financial Sector Development Strategy (FSDS)

During the year 2023, the process to develop the FSDS II commenced. The FSDS II follows the comprehensive diagnosis of the status of the financial sector through the IMF-supported Financial Sector Stability Review and World Bank-supported Financial Sector Assessment Program. The process commenced with a high-level workshop comprising the Honourable Minister of Finance and Development Planning, the Governor of the CBL and the Principal Secretary of the Ministry of Finance and Development Planning, who set out a vision for the strategy and discussed the developmental needs and priorities across financial inclusion and financial stability pillars. Thereafter a series of consultations were conducted with various stakeholders. The process resulted in the production of the draft Lesotho Financial Sector Development Strategy II in July 2023. The draft strategy is being reviewed and is expected to be submitted for Cabinet approval in 2024.

2.7 CORPORATE AND ASSURANCE SERVICES, AND LEGISLATIVE DEVELOPMENTS

2.7.1 Assurance and Governance

Internal Audit

The internal audit function provides advisory oversight on the Bank's internal control system, governance, and risk management. This is achieved through the execution of a risk-based annual audit plan. The implementation of this risk-based plan aligns and conforms to the Institute of Internal Auditors' (IIA) International Professional Practice Framework (IPPF) and the Information Systems Auditing and Control Association (ISACA) standards.

Through internal audit interventions, the overall governance, risk management and internal controls by the Bank is gradually and consistently improving. The Bank continues to perform well with the implementation of remedial measures, with a significant number of audit findings resolved within the agreed timelines.

The Bank is continuing with the roll out of the Combined Assurance (CA) Model in line with the concepts of King IV to incorporate all assurance services and functions. Because of the amount of work covered thus far, the CA model is beginning to mature as there is a significant improvement in terms of the milestones achieved collectively by respective assurance providers in 2023. For the first time, comprehensive reviews have been performed through the collaborative efforts of the CA participants.

Through internal audit interventions, the overall governance, risk management and internal controls by the Bank is gradually and consistently improving.

Risk Management

The Bank continued to monitor its overall risk landscape, which could have an impact on the achievement of its objectives at all levels: strategic, tactical and operational. The threats and opportunities were assessed, prioritised and mitigated through a robust enterprise risk management programme, with reviews undertaken quarterly and annually. These risk profile reviews were undertaken in consideration of the global and regional risk trends, and the internal context, which includes the Bank's risk appetite as established by the Board of Directors of the Bank. In the year 2023, the Bank focused on mitigating key risks that included: global markets movements, cyber security, economic and national payments systems stability, money laundering and financing of terrorism, amongst others. These risks were monitored using the key risk indicators and progress reported to the Management and the Board on a quarterly basis.

Business Continuity Management

To manage business continuity, the Bank continued to build and test its resilience capabilities aimed at recovering and resuming its operations following a disruptive event. These included the review of the business continuity frameworks, business areas recovery plans and testing various components of the business continuity plan (BCP). During the year, three BCP tests were undertaken successfully, with some improvements. Nonetheless, the capabilities were undermined by the cyber incident that occurred in December 2023 and sent shockwaves throughout the financial sector risk landscape. Although the incident compromised both the primary and disaster recovery sites, the Bank was able to restore its operations. Following the incident, the Bank has engaged in a robust plan to further build its resilience. The Bank has also ensured that it offers a conducive working environment to its members of staff, clients and visitors through the occupational health and safety programme implemented.

2.7.2 Regulatory and Legislative Developments

1. *Central Bank of Lesotho (Capital Markets) (Amendment) Regulations, 2023*

The amendment regulations were published on 27 January 2023 and became effective on the date of publication in the Gazette. This was done to remove the apparent conflict between the Capital Markets Regulations and Companies Act on the proper authority for approval of issuance of shares.

2. *Central Bank of Lesotho (Collective Investment Schemes) Regulations*

They were amended and published during the year. These were aimed at empowering the Bank to supervise and regulate the sector.



CENTRAL BANKING ACTIVITIES

3. *Financial Institutions (Computation of Capital Charge for Credit, Operational and Market Risks) Regulations 2023*
The regulations provide the minimum regulatory capital that banks must hold to support their credit, operational and market risk exposure. In this manner, the regulations reinforce the National Strategic Development Plan or the need to improve the regulatory and supervisory framework within the financial sector to deal with risk.
4. *Financial Institutions (Amendment) Act, 2023*
The object of this amendment was to repeal the Money lenders Order 1989 to fully migrate the administration, regulation and supervision of traditional money lenders under the purview of the Financial Institutions Act 2012 and the Financial Institutions (Credit only and Deposit Taking Micro Finance Institution) Regulations of 2014 as amended.
5. *Money Laundering (Administrative Sanctions) Rules, 2023*
The rules were published on 10 February 2023 and became effective on the date of publication in the Gazette. The objective of these rules is to provide for a administrative sanctions regime for breach of the provisions of the Money Laundering and Proceeds of Crime Act, 2008 and its implementing Regulations by accountable institutions, which are supervised by the CBL.
6. *Financial Consumer Protection (Disclosure of Credit Information) Regulations, 2023*
The regulations were published on 24 February 2023 and became effective on the date of publication in the Gazette. The main purpose of these regulations is to establish a consistent disclosure regime of essential information on credit agreements on financial products and services.
7. *Insurance (Approval of Surrender of License) Notice, 2023*
The notice was published on 12 May 2023 and became effective on the date of publication in the Gazette. The notice gives effect to Section 17(4) of the Insurance Act, which obliges the Commissioner to publish the approval of surrender in the Gazette after notifying the concerned intermediary about the approval to surrender of its licence. In this Notice, the surrender of licence was made by Mots Insurance Brokers and *Thari-ea-Tšepe* (Pty) Ltd.
8. *Money Laundering and Proceeds of Crime (Amendment of Schedule) Notice, 2023 (Published on 25 August 2023)*
The notice was published on 25 August 2023 and became effective on the date of publication. The main objective of this notice is to amend the Money Laundering and Proceeds of Crime (Amendment of Schedule) Notice, 2019 (the Notice) to include insurance intermediaries in the list of accountable institutions under the Notice. This amendment is due to a recommendation made by ESAAMLG assessors on a mutual evaluation on Lesotho which began in 2021, for insurance intermediaries to be included in the list of accountable institutions under the Notice.

The ICT Department continually assesses application systems in terms of fitness of purpose and technology in four areas of Tolerate, Invest, Migrate and Eliminate (TIME).

2.8 INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

a) Strategic Alignment

The ICT Department continued to be the Bank's business enabler through various functional areas, including the provision and maintenance of ICT solutions, comprising technical infrastructures, systems and business applications software. The Department participates in the implementation of the following key projects for the IT portfolio: National Payments Switch, eBidding system, Migration to ISO 20022 Standard and Vault Automation. These are some of the projects which will transform how central banking business is done in addition to introducing new capabilities.

b) Value Delivery

The ICT Department continually assesses application systems in terms of fitness of purpose and technology in four areas of Tolerate, Invest, Migrate and Eliminate (TIME). The ideal quadrant for all systems, especially those that support critical processes, is Invest. Almost all the Bank's systems are in this quadrant, with some on the margin or in Migrate, which objectively places them on a path for upgrade or replacement. Maintenance support continued to be characterised by the high average availability of mission critical systems.

c) Cyber security risk management and business continuity

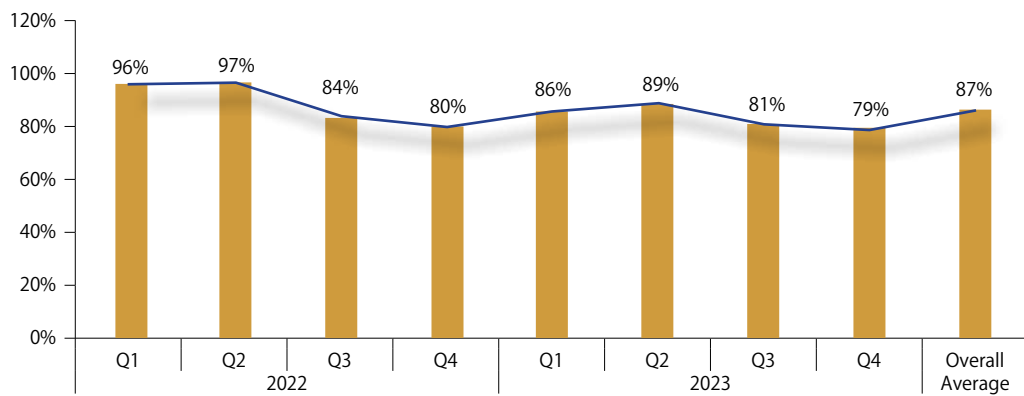
The Bank experienced a ransomware attack on its systems and infrastructure in December 2023. The attack necessitated isolating the Bank's systems from all access to contain any possible spread and to implement eradication measures in a protected environment. This incident caused downtime in the online services that the Bank provides to stakeholders such as the Banking sector, and it took the Bank nine (9) working days to recover and restore services to normal working order, with improved perimeter and internal security. As a measure of business continuity, manual payment operations were instituted through the SADC RTGS while eradication and recovery efforts were being implemented. Threat actors were demanding payment of ransom of an undisclosed amount, but the Bank did not engage them; instead, systems were recovered in full, with full data integrity. The Bank has since embarked on a journey to bolster its cyber resilience posture through initiatives that include but are not limited to the implementation of a security operations centre that provides security surveillance on a 24/7 basis.

Investigations showed no evidence of unauthorised financial transactions or data compromise; however, the incident was a catalyst for significant security improvements. Despite the unfortunate end of year incident, the Department's performance remained reasonably high in the reporting period, as shown in the following figure.



CENTRAL BANKING ACTIVITIES

Figure 18 2022 – 2023 ICT Department's performance summary



Source: Central Bank of Lesotho

The Bank continued to participate in meetings and conferences of various international organisations to which it is a member.

2.9 INTERNATIONAL COOPERATION

The Bank continued to participate in meetings and conferences of various international organisations to which it is a member. These include the International Monetary Fund (IMF), the World Bank Group, Bank for International Settlements (BIS), the SADC's CCBG, Common Monetary Area (CMA), the South African Customs Union (SACU), Association of African Central Banks (AACB), Alliance for Financial Inclusion (AFI), Financial Stability Board Regional Consultative Group for Sub-Saharan Africa, and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa.



REPORT ON THE ACTIVITIES OF THE BANK

3

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





Financial Statements for the year ended 31 December 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

Postal address

P.O. Box 1184 Maseru 100 Lesotho

Auditors

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

Secretary

Mr. Napo Rantsane (Adv.)

Lawyer

Webber & Newdigate

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Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

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



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

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
Governor



Mrs. K. Thabane (Adv)
Director



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

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 66. 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 65.

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.

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Directors' Report

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

6. Events after the reporting period

Global economies were struggling to keep inflation 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 disruptions 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 economies 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 surplus.



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Directors' Report

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.

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Directors' Report

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)".



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Directors' Report

(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

Governor

29 March 2023



Mrs. R. Tlali

Director

29 March 2023

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Central Bank of Lesotho ("the Bank"), set out on pages 64 to 134, 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 presented, in all material respects, in accordance with the accounting policies described in note 1 to the financial statements and the requirements of the Central Bank Act No.2 of 2000.

Basis for Opinion

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

Emphasis of matter

Basis of preparation

We draw attention to note 1 of the financial statements which describes the basis of accounting. The financial statements are prepared to assist the Bank in complying with the requirements of the Central Bank Act No.2 of 2000. As a result, the financial statements may not be suitable for another purpose. Our report is intended mainly for the Bank, the Government of Lesotho, as well as the International Monetary Fund and should not be distributed or used by other parties. 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 Corporate Governance Report, the Directors' Responsibilities and Approval, the Audit Committee Report as well as the Directors' Report. The other information does not include the financial statements and our auditor's report thereon.

Moteane, Quashie & Associates Chartered Accountants & Management Consultants

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Tel: (+266) 22 316 490, VAT NO: 1519433 TIN NO:1028676-4. Please see www.mqa.ls for further details.

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

Moteane, Quashie & Associates Chartered Accountants & Management Consultants Registration Number: 27612

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Victor Sekese [Chief Executive]

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

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

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

Responsibilities of directors for the financial statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

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.

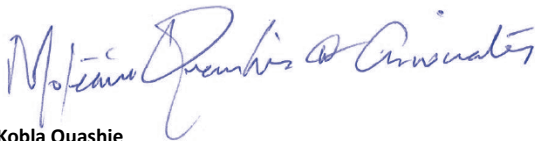
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- 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.

Independent Auditors' Report

- 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.



Kobra Quashie

Moteane, Quashie & Associates
Chartered Registered Auditor
Plot 582 Hoohlo
Maseru
100



Agnes Dire

SizweNtsalubaGobodo Grant Thornton Inc.
Chartered Registered Auditor
20 Morris Street East
Woodmead
2109



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Statement of Financial Position

	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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Statement of Financial Position

	Note(s)	2022 M '000	2021 M '000
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



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

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)
Actuarial 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 Change in Equity

	Share capital	General reserve	Rand compensatory 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	-	5 046 065
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)
Movement in bond/unit trust fair values	-	-	-	(33 499)	178 368	-	-	-	-	144 869
Foreign exchange translation to designated reserve	-	-	-	-	-	-	(75 873)	-	-	(75 873)
Movement in bond/unit trust fair values	-	-	-	-	-	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 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



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Statement of Change in Equity

Explanatory notes

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

* **The Rand compensation reserve** represents amounts received by the Bank from the Government of Lesotho, being the Bank's share of the Rand compensation payments received by the Government, in terms of the Multilateral Monetary Agreement amongst the Government of Namibia, Swaziland, Lesotho and the Republic of South Africa. The Government has directed that 25% of this amount be treated as a reserve.

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

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

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

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

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

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

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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Statement of Cash Flows

	Notes	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 at end of the year	2	5 114 609	4 688 374

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

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 58.

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. Properties under development are reflected 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 other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.

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

After recognition as an asset, buildings whose fair values can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Other property, plant and equipment (office furniture, equipment, computers 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 land and buildings are transferred to a Revaluation Reserve Account.

The most recent independent valuation for buildings except the new Bank extension 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 over their estimated useful lives, as follows:

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

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

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.



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

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.

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Accounting Policies

1.5 Employee benefits (continued)

(b) Other long-term employee benefits

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

Long-term employee benefits include:

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

(c) Actuarial gains/losses

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

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 actual coupon and interest received. 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.



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Accounting Policies

1.8 Translation of foreign currencies

(a) Functional and presentation

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

(b) Transactions and balances

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

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

1.9 Impairment of non-financial assets

The carrying amounts of the Bank's 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.

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Accounting Policies

1.13 Notes and coins

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

1.14 IMF Holding of Special Drawing Rights and IMF subscription account

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

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

1.15 IMF Funded PRGF Advances

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

1.16 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.



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Accounting Policies

1.20 Property Revaluation Reserve

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

1.21 Bond/Unit Trust Revaluation Reserve

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

1.22 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 interest paying asset due to the variability in interest rates. The Bank owns significant interest paying assets and this makes it exposed to interest rate risk.

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

(iii) Price risk

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

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

(b) Credit risk

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

(c) Liquidity risk

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

Refer to the Risk Management Statements on pages 108 to 133.

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Accounting Policies

1.23 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the No.1 and No.2 accounts which total SDR 57 214 433 (2020: 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 for the Fund's operational transactions e.g. purchases and repurchases, whereas the No. 2 account is used for the payment of operational expenses incurred by the Fund in Maloti. The Bank revalues the IMF accounts in its Statement of Financial Position in accordance with the practices of the IMF Treasury Department. The revaluation of the SDR rates by the IMF is effected annually on 30 April, and whenever there are IMF transactions using the Maloti. The IMF accounts have been revalued using the latest prevailing SDR rates in IMF website.

1.24 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 0.58% pa has been used.

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

(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



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Accounting Policies

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 FVOCI

Instruments at amortised cost

Cash and cash equivalents

Treasury bills.

Deposit floaters.

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Accounting Policies

1.26 Financial assets (continued)

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 payments of principal and interest on the principal outstanding (SPPI).

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

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

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

When an instrument measured at 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.



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Accounting Policies

1.26 Financial Instruments (continued)

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 other comprehensive income the 'other income' line item;
- 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 OCI in the investments revaluation reserve;
- For financial assets measured at FVTPL exchange differences are recognised in 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
- For equity instruments measured at FVTOCI, exchange differences are recognised in OCI 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 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

1.26 Financial Instruments (continued)

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, unlikelihood 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.

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).



1.26 Financial Instruments (continued)

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

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

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

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

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

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

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

Write-off

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

Central Bank of Lesotho

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Accounting Policies

1.26 Financial Instruments (continued)

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 amortised 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 effective interest rate (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.



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Accounting Policies

1.26 Financial Instruments (continued)

Derecognition of financial liabilities (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
<i>Amendments to IAS 1 Presentation of Financial Statements (IAS 1)-Classification of Liabilities as Current or Non-Current</i>	<i>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.</i>	Annual periods beginning on or after 1 January 2023
<i>Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)</i>	<i>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.</i>	Annual periods beginning on or after 1 January 2023
<i>Disclosure of Accounting Policies (IAS 1)</i>	<i>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.</i>	Annual periods beginning on or after 1 January 2023
<i>Accounting Policies, Changes in Accounting Estimates and Errors (IAS8)</i>	<i>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.</i>	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

Central Bank of Lesotho

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Accounting Policies

	2022	2021
	M '000	M '000
2. Cash and balances with Banks		
Cash and cash equivalents consist of:		
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

SA Banks Deposits	250 000	1 200 000
Foreign Banks Deposits	-	65 635
	250 000	1 265 635



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Accounting Policies

	2022	2021
	M '000	M '000
4. Investment in Swift		
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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Accounting Policies

	2022	2021
	M '000	M '000
6. Treasury bills at amortised cost		
US Treasury Bills		
Treasury Bills at amortised cost	448 203	80 464

The Treasury bills are debt securities issued by the US Treasury Departments 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

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)

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 commitments of 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 allocation 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).



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022	2021
	M '000	M '000
9. IMF Funded PRGF Advances		
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.

10. Lesotho Government Securities

Maturing within 1 month	946	-
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Treasury bills are debt securities issued by the Lesotho Treasury Department for a term of three months, six months, nine months or a year. All Treasury bills are subject to fixed interest rate risk and are held to maturity.

11. Currency Inventory

Balance at beginning of year	44 456	10 782
Expenditure incurred	(24 171)	(10 820)
Re-instatement at beginning of the year	-	15 527
Valuation of currency	24 706	28 967
Balance at end of year	44 991	44 456

Central Bank of Lesotho

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Notes to the Financial Statements

	2022	2021
	M '000	M '000
12. Loans and advances		
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

Other prepayments	7 508	150 717
Other receivables	4 802	189
Commemorative coins	3 478	3 479
	15 788	154 385



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



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

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	(1 46)	(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



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022
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	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	
Lehakoae buildings	115 728	70	-	-	-	(932)	-	-	(932)	-	(1 936)	-	112 930	
Residential land and buildings	16 926	-	-	-	-	(4 495)	-	-	(4 495)	-	(266)	-	12 165	
Housing furniture	71	-	-	-	-	70	-	-	70	-	(70)	-	71	
Office furniture	11 542	877	-	-	-	1 204	-	-	1 204	-	(2 451)	-	11 172	
Motor vehicles	7 382	-	-	(1 889)	-	1 574	-	-	1 574	-	(3 341)	-	5 383	
Office equipment	12 083	308	-	-	-	6 058	-	-	6 058	-	(8 292)	-	10 157	
Office computers	10 151	4 741	-	(45)	-	45	-	-	7 253	-	(4 159)	-	17 986	
Lehakoae 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



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022 M'000	2021 M'000
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14. Property, plant and equipment (continued)

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.

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. There was no surplus arising from the revaluation. Therefore, no distribution to the Government of Lesotho.

15. Intangible assets

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

Reconciliation of intangible assets - 2022

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

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Revaluations	Amortisation	Total
	M '000	M '000	M '000	M '000	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:

Computer software	1	1
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Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022 M'000	2021 M'000
16. Notes and coins issued		
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.

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

Balance at beginning of year	2 227 462	695 850
Allocated 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).

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022 M'000	2021 M'000
20. IMF-PRGF Facility		
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
<p>This IMF loan was secured under the Poverty Reduction and Growth Facility. The Ministry of Finance tranche is accounted for through the Bank's records to present the amount due to the IMF. So far, five tranches have been disbursed and the last tranche has been disbursed in 2013.</p> <p>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.</p>		
21. IMF Rapid Credit Facility		
Balance at beginning of year	247 938	245 127
Exchange revaluation	17 631	2 811
Balance at end of year	265 569	247 938
<p>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.</p> <p>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).</p>		
22. Taxation(receivable)/ payable		
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 payable		
Balance at beginning of year	11 646	46 999
Paid during the year	(11 646)	(46 999)
Profit appropriations for the current year	28 449	46 999
Prior year correction of change in Accounting policy activities that mistated due to GOL	-	-
Balance at end of year	28 449	11 646



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022 M'000	2021 M'000
23. Dividend payable (continued)		
<p>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.</p>		
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 transferred to General Reserve	-	10 979
Balance at end of year	28 449	11 646
24. Trade and other payables		
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
<p>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.</p> <p>Various accruals relate to accrued expenses as at year end.</p>		
25. Retirement benefits		
Provision for severance pay	27 258	24 391
Opening obligation	3 040	3 138
Interest cost	3 044	3 247
Current service cost	(1 859)	(2 046)
Actuarial (gain)/ loss on employee benefits	(6 676)	(1 472)
Benefits paid	24 807	27 258

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022 M'000	2021 M'000
25. Retirement benefits (continued)		
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

Discount rates used	12.47 %	11.92%
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Sensitivity Analysis 2022

	Current Assumption 12.47%	1% decrease 11.47%	1% increase 13.47%
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Bank	108 305	120 728	122 894
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Sensitivity Analysis 2021

	Current Assumption 11.92%	1% decrease 10,92%	1% increase 12.92%
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Bank	122 790	136 199	138 654
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Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	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 the 14th 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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022 M'000	2021 M'000
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26. Post-employment retirement fund benefits (continued)

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
Commutation	25,00 %	25,00 %

Discount rate is considered to be the only significant assumption.

27. Deferred tax

Deferred tax

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
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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



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022 M'000	2021 M'000
27. Deferred tax (continued)		
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		
<p>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 deferred tax will be utilised.</p>		
<p>The bank's profitability was considered in determining the appropriateness of recognising deferred taxation assets.</p>		
28 Share capital		
Authorised		
Authorised capital	100 000	100 000
Issued		
Issued and fully paid	100 000	100 000
<p>The entire issued share capital is held by the Government of Lesotho.</p>		
29. Investment income		
Interest income		
Foreign currency deposits (Armortised 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
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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022 M'000	2021 M'000
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 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



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022 M'000	2021 M'000
33. Taxation (continued)		
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 %
Permanent differences:		
Donations	0,02 %	0,03 %
Other	0,01 %	0,02 %
Effective tax rate	25,03 %	25,05 %
Accounting profit (loss)	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)

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022 M'000	2021 M'000
34. Cash (used in)/generated from operations		
Profit before taxation	50 799	(13 007)
Adjusted for:		
Depreciation	48 367	34 391
Deferred 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)
35. Related parties		
Gross advances made during the year to:		
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 year:		
Heads of Departments		
Car loans	2 220	2 387
Furniture loans	83	46
Personal loans	3 088	2 483
Comprehensive insurance	67	-



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	2022 M'000	2021 M'000
35. Related parties (continued)		
Interest charged for the year:		
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:

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.

Government Deposits	2 799 957	3 622 150
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Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

36. Financial assets by category

The financial assets have been categorised as follows:

2022

	Armortised Cost	Fair value through OCI	Assets at fair value through profit and loss	Total
	M'000	M'000	M'000	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

	Armortised Cost	Fair value through OCI	Assets at fair value through profit and loss	Total
	M'000	M'000	M'000	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



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Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

36. Financial liabilities by category (continued)

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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

37. Financial liabilities by category (continued)

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

2021 Gains and losses per financial instrument category	Armortised cost M'000	FV through P/L M'000	FV through OCI M'000	Total 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.



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

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.

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Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

Currency 2022	Value of Currency M'000	Exchange Rate	Maloti Equivalent M'000
Currency risk			
Cash and balances with Banks			
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 M'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 M'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 M'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 M'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 M'000	Exchange Rate	Maloti Equivalent M'000
United States	5 000	14.0139	79 753
South Africa	50 000	0.0000	50 000



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

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.

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.

Central Bank of Lesotho

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Notes to the Financial Statements

38. Financial instruments and risk management (continued)

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

Assumptions of the CBL MODEL

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



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

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	Baa2/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			

Central Bank of Lesotho

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Notes to the Financial Statements

38. Financial instruments and risk management (continued)

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
Firststrand	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			

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
Firststrand	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			



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Notes to the Financial Statements

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	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			

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Notes to the Financial Statements

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			



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Notes to the Financial Statements

38. Financial instruments and risk management (continued)

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
Firststrand	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
Firststrand	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			
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			

Central Bank of Lesotho

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Notes to the Financial Statements

38. Financial instruments and risk management (continued)

Loans to staff	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
Housing Loans	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.

Staging 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 2021	10 106 849	2 845 416	-	12 952 265



Central Bank of Lesotho

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Notes to the Financial Statements

38. Financial instruments and risk management (continued)

Staging per class of financial assets - 2021	Stage 1	Stage 2	Stage 3	Total
	M'000	M'000	M'000	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 ECL 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 ECL 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

Central Bank of Lesotho

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Notes to the Financial Statements

38. Financial instruments and risk management (continued)

Reconciliation of the expected credit loss allowance

2022	Stage 1 12-	Stage 2	Stage 3	Total
	month ECL	Lifetime ECL	Lifetime ECL	
	M'000	M'000	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

2021	Stage 1 12-	Stage 2	Stage 3	Total
	month ECL	Lifetime ECL	Lifetime ECL	
	M'000	M'000	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. All the instruments are currently at stage 1.

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.



Central Bank of Lesotho

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Notes to the Financial Statements

38. Financial instruments and risk management (continued)

	31 December 2022		31 December 2021	
	Portfolio level	Exchange rate	Portfolio level	Exchange rate
	M'000	M'000	M'000	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

Base case Data for currency and foreign investment risk	31 December 2022			31 December 2021		
	Portfolio level	Portfolio level in %	Exchange Rate	Portfolio level	Portfolio level in %	Exchange Rate
	M'000			M'000		
Currency composition						
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 %	

31 December 2022

5% Increase in exchange rate for currency and foreign investment risk	Portfolio level	Portfolio level in %	Level change	Exchange rate
	M'000		M'000	
Currency composition				
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 %		

Central Bank of Lesotho

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Notes to the Financial Statements

38. Financial instruments and risk management (continued)

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%.

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.



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

31 December 2022

	Cash	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	M '000	M '000	M '000	M '000	M '000	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	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	M '000	M '000	M '000	M '000	M '000	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
	M '000	M '000	M '000	M '000
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
	M '000	M '000	M '000	M '000
ZAR	3,96 %	4,18 %	7,60 %	10,50 %
USD	0,10 %	0,20 %	1,29 %	
EUR	(0,61)%			
GBP	0,09 %			

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

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
	M '000	M '000	M '000	M '000
ZAR	6,80 %	7,49 %	7,60 %	10,50 %
USD	4,32 %	4,32 %	2,44 %	
EUR	1,39%			
GBP	2,96 %			

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
	M '000	M '000	M '000	M '000
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
	M '000	M '000	M '000	M '000
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
	M '000	M '000	M '000	M '000
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	6 months to 1 year	1 year to 5 years	More than 5 years	Nominal Income
	M '000	M '000	M '000	M '000	M '000
ZAR	451 360	18 160	104 489	32 065	-
USD	19 569	14 399	25 110	-	-
EUR	10	-	-	-	-
GBP	54	-	-	-	-
GBP	-	-	-	-	483 827



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Notes to the Financial Statements

38. Financial instruments and risk management (continued)

31 December 2021

Nominal return in base case yields	0 to 6 Months	6 months	1 year to	More than	Nominal
	M '000	to 1 year	5 years	5 years	
	M '000	M '000	M '000	M '000	M '000
ZAR	172 606	10 737	72 198	123 149	-
USD	1 836	561	21 110	-	-
EUR	(46)	-	-	-	-
GBP	9	-	-	-	-
	-	-	-	-	402 160

31 December 2022

Nominal return in increasing yields	0 to 6 Months	6 months	1 year to	More than	Nominal
	M '000	to 1 year	5 years	5 years	
	M '000	M '000	M '000	M '000	M '000
ZAR	529 239	16 656	68 040	5 070	-
USD	25 584	11 052	(8 184)	-	-
EUR	37	-	-	-	-
GBP	87	-	-	-	-
	-	-	-	-	465 534

31 December 2021

Nominal return in increasing yields	0 to 6 Months	6 months	1 year to	More than	Nominal
	M '000	to 1 year	5 years	5 years	
	M '000	M '000	M '000	M '000	M '000
ZAR	216 144	9 357	51 156	19 470	-
USD	20 739	(1 597)	(10 010)	-	-
EUR	15	-	-	-	-
GBP	109	-	-	-	-
	-	-	-	-	305 397

31 December 2022

Nominal return in decreasing yields	0 to 6 Months	6 months	1 year to	More than	Nominal
	M '000	to 1 year	5 years	5 years	
	M '000	M '000	M '000	M '000	M '000
ZAR	373 480	19 663	140 937	59 061	-
USD	13 735	17 746	59 531	-	-
EUR	(16)	-	-	-	-
GBP	27	-	-	-	-
	-	-	-	-	502 121

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

31 December 2021

Nominal return in decreasing yields	0 to 6 Months	6 months	1 year to	More than	Nominal
	M '000	to 1 year	5 years	5 years	Income
		M '000	M '000	M '000	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):



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Notes to the Financial Statements

38. Financial instruments and risk management (continued)

31 December 2022

Financial assets	Redeemable	Maturing	Maturing after 1	Maturing after 6	Maturing after 1	Maturing after 5	Total
	on demand	within 1 month	but within 6 months	but within 12 months	but within 5 years	5 years	
	M'000	M'000	M'000	M'000	M'000	M'000	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	Maturing	Maturing after 1	Maturing after 6	Maturing after 1	Maturing after 5	Total
	on demand	within 1 month	but within 6 months	but within 12 months	but within 5 years	5 years	
	M'000	M'000	M'000	M'000	M'000	M'000	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



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Financial Statements for the year ended 31 December 2022 Notes to the Financial Statements

38. Financial instruments and risk management (continued)

31 December 2021

Financial assets	Redeemable	Maturing	Maturing after 1	Maturing after 6	Maturing after 1	Maturing after 5	Total
	on demand	within 1 month	but within 6 months	but within 12 months	but within 5 years	5 years	
	M'000	M'000	M'000	M'000	M'000	M'000	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

31 December 2021

Financial liabilities	Redeemable	Maturing	Maturing after 1	Maturing after 6	Maturing after 1	Maturing after 5	Total
	on demand	within 1 month	but within 6 months	but within 12 months	but within 5 years	5 years	
	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



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

38. Financial instruments and risk management (continued)

Price risk

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

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

	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.

Level 2

Non-recurring fair value measurements

Assets

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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

Notes	2022 M'000	2021 M'000
39. Fair value information (continued)		
<p>The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The present value technique is used to measure fair value using circumstances specific to the to the asset.</p> <p>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)..</p> <p>Level 3</p>		
	2022 M'000	2021 M'000
Recurring fair value measurements		
Assets		
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 valued. 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. The Bank uses the estimated rental for vacant land:

M410,448.75



Central Bank of Lesotho

Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements

	Notes	2022 M'000	2021 M'000
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39. Fair value information (continued)

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

The fair value is based on input 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

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:

Amounts in USD

Deutsche Bank Trust Company America		1 643 850	24 791 092
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Amounts in Euro

Deutsche Bundesbank		2 690 930	2 662 091
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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 inflation 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 was 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 disruptions caused by lockdowns.

Central Bank of Lesotho

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Notes to the Financial Statements

41. Events after the reporting period (continued)

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 economies 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 surplus

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.

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.





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