Central Bank Of Lesotho

Central Bank of Lesotho
Financial statements
for the year ended 31 December 2019

General Information

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

Contents

Corporate Governance Report

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

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

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

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

In line with section 13 (2) of the Act, which requires the Board to meet as frequently as possible and not less than once in every two months, the Board of Directors convened twelve (12) meetings during the 2019 Financial Year

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

Apart from these Committees, there is the Executive Committee, which comprises 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 facilitates regular training to capacitate the Board as a whole on issues of central banking and corporate governance trends to enhance its efficiency and effectiveness. In addition, the Board also has access to the services and advice of the Board Secretary.

Adv. N. Rantsane
Secretary to the Board

Audit Committee Report

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

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

The Committee comprises four independent Non-Executive Directors, one of whom serves as the Chairperson. 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 ended 31st December 2019, the Committee convened nine meetings which considered the following; Internal Audit Department Annual Plan for 2019, and the reports of the Internal Audit Department on identified areas of internal control, and the appointment of the External Auditors of the Bank. The Committee also considered and approved the External Auditor's Plan for 2019. Further, the Committee considered audit fees for the financial year 2019 and recommended their approval by the Board of Directors. The Committee also considered and recommended for approval the audited Annual Financial Statements for the Year Ended 31st December 2019.

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

The Committee is satisfied with the independence of the External Auditors of the Bank. This assessment is made after considering the representations of independence from External Auditors, continuous monitoring and approval of the non-audit services undertaken by the External Auditors for the Bank.

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

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

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

On behalf of the Audit Committee:

Mohapi

Mrs. S. Mohapi
Chairperson of the Audit Committee

Directors' Responsibilities and Approval

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

It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Bank at the end of the financial year and the results of its operations and cash flows for the year ended 31st December, 2019, in conformity with the Central Bank of Lesotho Act No. 2 of 2000 and according to the policies set out in note 1 of the financial statements. The external auditors are engaged to express an independent opinion on the annual financial statements

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

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

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

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

The financial statements were approved by the Board of Directors on 24 March 2020 and are signed on its behalf by:

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

Directors' Report

The Directors present their annual report, which forms part of the audited annual financial statements of Central Bank of Lesotho for the year ended 31 December 2019. The annual financial statements are expressed in Maloti, the local currency of Lesotho and the functional currency of the Bank that is at par with South African Rand.

1. Review of financial results and activities

Nature of business

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

Financial results

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

The financial results of the Bank are set out in the statement of profit or loss and other comprehensive income on page 15. The residual profits, after a transfer of the foreign exchange currency translation to the designated foreign currency translation reserves, and after appropriations have been allocated to the general and other reserves, are paid over to the Government of Lesotho Consolidated Fund as dividends in accordance with Section 21(5) of the Act. These appropriations have been fully disclosed in the statement of changes in equity on page 16. Amounts paid and due in terms of the Act were as follows:

	M '000
31 December 2019	117 840
31 December 2018	108 062

2. Amounts due to Government of Lesotho

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

3. Share capital

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

4. Directors

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

Name	Date of appointment	Position held
Dr. A. R. Matlanyane	January, 2017	Governor and Chairman
Dr. M. P. Makhetha	January, 2017	First Deputy Governor
Ms. M. G. Makenete	January, 2017	Second Deputy Governor
Mrs. N. Foulo	December, 2017	Non-Executive Director
Mrs S. Mohapi	December, 2017	Non-Executive Director
Dr. E. M. Letete	August , 2018	Non-Executive Director
Mrs. K. Thabane (Adv)	June, 2018	Non-Executive Director
Mr. M. Letsoela	July, 2019	Non-Executive Director

5. Secretary

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

6. Events after the reporting period

On 27 March 2020 the South African government credit rating was downgraded to below investment grade. The impact of this will be noted in the ECL as the exposures would then be classified as Level 2 and a lifetime ECL will then be raised.

Coronavirus Disease (COVID-19) erupted in China around late 2019. Cases around the globe have been increasing exponentially, with confirmed cases approaching half a million (462 684) and related deaths recorded at over 20 thousand as per World Health Organisation (WHO) figures dated 26 March 2020. In the final weeks of February and beginning of March, Europe was the epicentre of the pandemic, with Italy being the most hit as it registered over 50% of global cases. However, almost one month later, (March 27) the United States had surpassed both China and Italy with over 86000 confirmed cases. The African region has the lowest confirmed cases due to limited testing kits, but South Africa's cases are increasing significantly, as they intensify the testing.

COVID-19 has both social and economic implications. Most the economies around the world are under complete lockdown in order to slow the spread of the infectious COVID-19. Some have restrictions on maximum number of people allowed for gathering and the extreme case is that of Germany which prohibits meeting between more than 2 people if they are not family or leaving together. It will most likely lead to global recession and massive job losses. t

This piece attempts to assess the impact of the COVID-19 on our portfolio. The portfolio is comprised of long-term investments (bonds) and short-term investments (term deposits) and are categorized by tranches.

Impact on investment tranche
The effects on bond portfolio are mixed, depending on the jurisdiction of the investments as exposure is in both South Africa (SA) and United States of America's (US) markets. Since yields are inversely related to bond prices, U.S. bond portfolio realised positive returns during the coronavirus period as yields dropped to record lows in anticipation of Fed rate cuts on the short end of the curve. The SA bond portfolio, on the other hand, realized negative returns due to increasing yields, an indication of the level of perceived risk by investors. The performance of the investment tranche is dependent on the interventions of government and monetary authorities through monetary and fiscal stimulus.

COVID-19 has resulted in increased volatility to levels higher than those seen during the 2008 global financial crises. Increased volatility leads to sharp price movements of instruments, which therefore affects liquidity (trading volumes) as bid/ask spreads widen. During these periods, Central Banks' interventions such as cheap loans to commercial banks, purchases of bonds, etc. are expected to assist to restore liquidity in the markets. It is therefore not surprising that, the week March 27 has been the best for most assets classes including bonds for the whole of March following stimulus put in place by both major monetary authorities and governments around the world.
Worth noting is the fact that the biggest losses on the portfolio will be unrealized losses due to uncertainty in the markets, which in turn will affect bond prices, but consistent support from the government and central banks will minimise or reverse the losses over time. Realize losses will, on the other hand, be recorded only if portfolio managers attempt to sell off their portfolio during this time when bond prices are at their lowest.

Impact on money- markets (Short-investments)
Money markets instrument are perceived to be relatively low risk in nature and highly liquid. They include bank deposits and short debt instruments. This does not mean they are risk free, so the major concern is counterparty and reinvestment risk.
Reinvestment Risk
Reinvestment risk is the risk of investing maturing funds at lower interest rate and getting lower yield than on the maturing investment. Consequently, money markets are most profitable in an environment where interest rates are increasing. COVID-19 spread led to lower interest rates across the globe as central banks cut rates to stimulate economy in an effort to reduce economic impact. Reinvestment risk was elevated during the coronavirus era since all maturing investments have to be reinvested at relatively lower interest rates; hence lower revenue.

Counterparty Risk (Credit risk)
Counterparty credit risk is the risk of the borrower not honouring contractual obligations when they fall due, either capital or interest. Understanding and managing counterparty risk is vital to avoid capital losses. The counterparts are domiciled in different countries across the globe with South African banks holding larger chunk of our deposits. Despite the low rating of South African banks, they appear to be fundamentally strong as the big four banks (ABSA, Nedbank, Standard Bank and First National bank (FNB)) have strong balance sheets. They also meet the prudential liquidity requirements of the Reserve Bank. Standard bank, FNB and Nedbank announced relief (loan payments holiday) to small businesses and students affected by the coronavirus, which illustrates that they are liquid enough to survive without some loans being paid for 3 months.

Other counterparts are highly rated institutions with strong balance sheets. The Impact of coronavirus on different economies include massive job losses and collapse of other companies (e.g airlines). Governments in major economies are ready to intervene in any way to reduce the impact on local companies, while central banks have put aside funds to increase liquidity through cheap lending in the short-term. There is minimal chances of losing capital but revenue generation remains the biggest risk.

Conclusion
The impact of coronavirus can be devastating if the virus is not contained for extended periods of time, with major economies due to be affected due to extended lockdowns and falling global demand. The fact that China was able to contain the virus, we are hopeful that other nations will deploy all necessary measures to minimize the damage on global financial markets. Considering the nature of the Central Bank of Lesotho's portfolio (sovereign bonds and money markets), it is less likely to lose capital due to the nature of the asset classes. However, emphasis remains on the Bank's ability to make available necessary liquidity to finance obligations and to a lesser extent, generating returns. It is this last objective where the the greatest risk lie, where due to low interest rates and high volatility, revenue is likely to drop below the projected levels.

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. 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 appropritate 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.

The financial statements have been prepared in accordance with the CBL Act, No. 2 of (2000) and the accounting policies usually set out in note 1 of the Annual Financial Statements.

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 Bank has been showing this figure on the phase of the the Profit and loss statement, for disclosure purpose for users of financial statements. The amount is then reversed under the note for Dividend Payable where the gain/(loss) on foreign exchange activities is either deducted or added back to Profit after tax. This is done so that the distribution of profits between the revaluation reserve and Government Consolidated account is done based on profit which has not been affected by the Gain/Loss on foreign exchange activities.

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

2. Rand Compensation reserve

The Rand cmpensation reserve 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 treated as split between equity and government consolidated account. This is done to comply with the requirements of the Government directive that instructs that 25% of the monies received from the Government of the Republic of South Africa be transferred to equity while 75% of the monies must be credited to the Government consolidated account.

3. Profits and General Reserves

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

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

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

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

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

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

Directors' Report

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

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

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

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

(9) The allocations stipulated in subsections (2), (3), (4) and (5) shall refer only to the balance of profits which remains after the

cancellation of accumulated losses carried forward from previous years

Dr. A. R. Matlanyane
Governor

Mrs. S. Mohapi
Director

SNG Grant Thornton

An instinct for growth™

MOTEANE, QUASHIE & ASSOCIATES
CHARTERED ACCOUNTANTS
& MANAGEMENT CONSULTANTS

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of the Central Bank of Lesotho ("the Bank"), set out on pages 14 to 70, which comprise the statement of financial position as at 31 December 2019, 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 2019 are prepared, in all material respects, in accordance with the accounting policies described in Note 1 to the financial statements and the requirements of the Central Bank Act No.2 of 2000.

Basis for opinion

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

Emphasis of matter

Basis of preparation and restriction of distribution and use

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

Reclassification of prior year figures

We draw attention to Note 43 to the financial statements which indicates that the previously issued financial statements for the year ended 31 December 2018, on which the predecessor auditors an auditor's report dated 29 March 2019, have been restated. As explained in Note 43, this is to reflect the correct classification of cash and cash equivalents and deposit floaters. Our opinion is not modified in respect of this matter.

Moteane, Quashie & Associates Chartered Accountants & Management Consultants
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M.A. Moteane (Mrs.)(resident) [Managing Director]
Moteane, Quashie & Associates Chartered Accountants & Management Consultants Registration Number: 27612

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Other matter

We draw attention to the matter below. Our opinions are not modified in respect of this matter.

Previous year audited by a predecessor auditor

The financial statements of the previous year were audited by a predecessor auditor on 29 March 2019.

Other Information

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

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

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

Responsibilities of directors for the financial statements

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

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

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

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

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

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

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

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

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

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

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

Moteane Quashie & Associates

Kobla Quashie
Moteane, Quashie & Associates
Chartered Registered Auditor
Director

31 March 2020

Plot 582 Hoohlo
Maseru
100

SizweNtsalubaGobodo Grant Thornton Inc.

Agnes Dire
SizweNtsalubaGobodo Grant Thornton Inc.
Chartered Registered Auditor
Director

31 March 2020

20 Morris Street East
Woodmead
2109

Statement of Financial Position as at 31 December 2019

	Note(s)	2019 M '000	2018 Restated * M '000	2017 Restated * M '000
Assets				
Cash and cash equivalents	2	4 364 889	3 746 860	4 128 747
Deposit Floaters	3	2 020 209	1 660 953	650 000
Accrued interest due from Banks	4	39 173	24 714	9 817
Investment in unit trust	5	-	750 487	635 604
Investment in SWIFT	6	399	399	700
Treasury notes and bonds	7	3 857 235	3 260 895	3 121 639
Treasury bills at amortised cost	8	69 194	71 603	91 813
IMF Subscription Account	9	1 357 310	1 397 173	1 223 196
IMF Holding of Special Drawing Rights (SDR)	10	226 909	437 554	530 125
IMF Funded PRGF Advances	11	475 535	692 091	753 413
Lesotho Government Securities	12	521	524	58
Deferred currency expenditure	13	19 498	7 074	8 303
Loans and Advances	14	108 898	95 910	86 196
Other assets	15	10 744	7 775	11 953
Property, plant and equipment	16	805 688	742 870	695 445
Intangible assets	17	31 428	32 464	41 761
Total Assets		**13 387 630**	**12 929 346**	**12 015 652**
Equity and Liabilities				
Liabilities				
Notes and coins issued	18	1 612 878	1 520 217	1 616 489
Deposits	19	538 418	342 136	401 824
Lesotho Government Deposits		3 715 382	3 371 412	3 208 374
IMF Maloti Currency Holding	20	1 111 063	1 144 226	1 002 220
IMF Special Drawing Rights Allocation	21	637 140	658 116	576 167
IMF-PRGF Facility	22	475 535	692 091	753 413
Taxation payable	23	21 624	4 929	-
Due to Government of Lesotho Consolidated Fund	24	117 840	142 177	84 396
Trade and other payables	25	14 071	24 168	26 944
Long-term employee benefit obligation	26	111 841	104 842	101 879
Deferred tax	27	13 019	11 652	19 344
		8 368 811	**8 015 966**	**7 791 050**
Equity				
Share capital	28	100 000	100 000	100 000
General reserve		320 312	296 744	299 795
Rand compensatory reserve		822 450	745 057	674 708
SDR revaluation reserve		56 704	63 903	(42 297)
Foreign exchange revaluation reserve		3 539 513	3 585 462	3 046 502
Property revaluation reserve		149 788	137 140	141 413
Bond/unit trust revaluation reserve		30 052	(14 926)	4 481
		5 018 819	**4 913 380**	**4 224 602**
Total Equity and Liabilities		**13 387 630**	**12 929 346**	**12 015 652**

* See Note

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2019 M '000	2018 M '000
Interest income *	29	558 410	450 352
Interest expense	30	(9 587)	(7 104)
Net interest income		**548 823**	**443 248**
Other income	31	49 944	30 688
Revaluation gain/(loss) on foreign exchange activities **		-	645 160
Total Income		**598 767**	**1 119 096**
Operating expenses	32	(390 917)	(317 367)
Profit/(Loss) before taxation		**207 850**	**801 729**
Taxation	33	(58 504)	(24 920)
Profit/(Loss) for the period		**149 346**	**776 809**
Other comprehensive income:			
Bond/ unit trusts fair values			
Increase in bond/unit trusts fair values		43 102	(24 459)
Tax effect		1 876	5 052
Net movement		**44 978**	**(19 407)**
Property revaluation reserve			
Increase/(Decrease) in property revaluations		17 708	(3 418)
Tax effect		(5 060)	(855)
Net movement		**12 648**	**(4 273)**
Rand compensation reserve			
Increase in reserve		77 393	70 349
Tax effect		-	-
Net movement		**77 393**	**70 349**
Actuarial gains and losses on employee benefits			
Actuarial (loss)/ gain for the year		(10 583)	(1 975)
Tax effect		2 645	493
Net movement		**(7 938)**	**(1 482)**
Total other comprehensive income for the year net of taxation * **		**127 081**	**45 187**
Total comprehensive income/(loss)		**276 427**	**821 996**

*Interest income in M'000 comprises of interest from amortised cost instruments of 393,426 (2018: 309,354) and from fair value instruments of 162,984 (2018: 141,000).

** "To comply with the requirements of paragraph 54(2) of the Central Bank Act No. 2 of 2000, the revaluation gain or loss on foreign exchange activities has been taken directly to the revaluation reserve account in the statement of changes in equity and has not been included in the statement of profit or loss".

*** Total other comphrehensive income relates to sum of bond/ unit trust revaluation reserve, property revaluation reserve , rand compesation reserve and actual gains or losses on employee benefits,

* See Note

Statement of Changes in Equity

	Share capital	General reserve	Rand compensatory reserve	SDR revaluation reserve	Foreign Exchange revaluation reserve	Property revaluation reserve	Bond /Unit trust revaluation reserve	Accumulated profit/(loss)	Total equity
	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000
Restated* Balance at 01 January 2018	**100 000**	**299 795**	**674 708**	**(42 297)**	**3 046 502**	**141 413**	**4 481**	**-**	**4 224 602**
Total comprehensive income for the year	-	-	-	**-**	**-**	-	**-**	**776 809**	**776 809**
Transfer of foreign exchange translation to designated reserve	-	-	-	106 200	538 960	-	-	(645 160)	-
Movement in bond/unit trust fair values	-	-	-	-	-	-	(19 407)	-	(19 407)
Asset revaluation for the year	-	-	-	-	-	(4 273)	-	-	(4 273)
Rand compensatory receipts	-	-	70 349	-	-	-	-	-	70 349
Actuarial fair value loss	-	-	-	-	-	-	-	(1 975)	(1 975)
Transfer to General Reserve	-	(3 051)	-	-	-	-	-	(21 612)	(24 663)
Dividends	-	-	-	-	-	-	-	(108 062)	(108 062)
Total changes	-	**(3 051)**	**70 349**	**106 200**	**538 960**	**(4 273)**	**(19 407)**		**(88 031)**
Balance at 01 January 2019	**100 000**	**296 744**	**745 057**	**63 903**	**3 585 462**	**137 140**	**(14 926)**	**-**	**4 913 380**
Loss for the period	-	-	-	-	-	-	-	149 346	149 346
Actuarial fair value gain	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	**-**	**-**	**-**	**-**	**149 346**	**149 346**
Foreign exchange translation to designated reserve	-	-	-	(7 199)	(45 949)	-	-	-	(53 148)
Movement in bond/unit trust fair values	-	-	-	-	-	-	44 978	-	44 978
Asset revaluation for the year	-	-	-	-	-	12 648	-	-	12 648
Rand compensatory receipts	-	-	77 393	-	-	-	-	-	77 393
Transfer to General Reserve	-	23 568	-	-	-	-	-	(23 568)	-
Actuarial fair value gain	-	-	-	-	-	-	-	(7 938)	(7 938)
Dividends	-	-	-	-	-	-	-	(117 840)	(117 840)
Total changes	**-**	**23 568**	**77 393**	**(7 199)**	**(45 949)**	**12 648**	**44 978**	**(149 346)**	**(43 907)**
Balance at 31 December 2019	**100 000**	**320 312**	**822 450**	**56 704**	**3 539 513**	**149 788**	**30 052**	**-**	**5 018 819**

* See Note

Statement of Changes in Equity

Explanatory notes
* **General reserve** has been allocated in terms of Section 21(2)(b) of the Central Bank of Lesotho Act No. 2 of 2000.The Act stipulates that one third of the net profits will be allocated to general reserve and in case where general reserve exceeds paid-up capital but less than four times, one sixth of the net profits will be allocated to general reserve. Rand compensation reserve represents amounts received by the Bank being Bank's share of the Rand compensation payments received by the Government in terms of Multilateral Monetary Agreement with the CMA countries.

***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.

***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 theBank for the financial year;
(b) in the case of any year at the end of which the general reserve of the Bank exceeds the minimum paid-up capital of the Bank but does not exceed four times the paid-up capital of the Bank, one-sixth of the net profits of the Bank for the financial year.
(3) After appropriate allocations have been made to the general reserve under subsection (2), one-quarter of the remainder of the net profits for the financia year shall be applied to the redemption of any securities of the Government held by the Bank which have been issued under section 20(6).
(4) With the approval of the Minister, further allocations may be made from time to time to the general reserve to increase it beyond four times the minimum paid-up capital of the Bank.
(5) The residue of the net annual profits for the financial year remaining after all deductions authorized by subsections (2), (3), (4) and section 55 have been made shall be paid into the Consolidated Fund as soon as practicable after the end of each financial year.

* See Note

Statement of Cash Flows

	Note(s)	2019 M '000	2018 Restated * M '000	2017 Restated * M '000
Cash flows from operating activities				
Cash used in operations	34	(92 041)	(357 224)	(2 149 827)
Interest income		543 951	435 455	445 145
Interest expense	30	(9 587)	(7 104)	(6 471)
Tax paid		(39 595)	(6 707)	(68 802)
Rand compensatory reserve		77 393	70 349	63 295
Payments to Government of Lesotho Consolidated Fund	24	(24 337)	(84 396)	(147 566)
Net cash from operating activities		**455 784**	**50 373**	**(1 864 226)**
Cash flows from investing activities				
Purchase of property, plant and equipment	16	(63 093)	(65 689)	(145 697)
Sale of property, plant and equipment	16&31	-	45	48
Purchase of other intangible assets	17	(6 119)	(2 188)	(918)
Movement in investment in unit trust		750 487	-	-
Purchase of Deferred currency expenditure	13	-	(8 316)	(429)
Movement in Other assets	15	(2 969)	4 178	1 224
Movement in Lesotho Government Securities	12	3	(466)	(51)
Movement in Treasury notes, bonds and unit trust	7	(596 340)	(254 139)	803 905
Movement in investment in SWIFT		603	301	(145)
Net cash from investing activities		**82 572**	**(326 274)**	**657 937**
Cash flows from financing activities				
Movement in staff loans		(12 988)	(9 714)	(5 932)
Movements in notes and coins	18	92 661	(96 272)	280 654
Net cash from financing activities		**79 673**	**(105 986)**	**211 552**
Total cash movement for the year		**618 029**	**(381 887)**	**(994 737)**
Cash at the beginning of the year		3 746 860	4 128 747	5 123 484
Total cash at end of the year	2	**4 364 889**	**3 746 860**	**4 128 747**

* See Note

1. Presentation of financial statements

The principal accounting policies adopted in the preparationof these financial statements are set out below. Theseaccounting policies should be read together with the financial reporting framework on page 7

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

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

1.1 Property, plant and equipment

Owner-occupied properties

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

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 value as determined by an independent professional valuer, less accumulated depreciation every five years.

Other property, plant and equipment are subsequently carried at cost less accumulated impairment losses. Work in progress consists of items under construction and is measured at cost. Work in progress is transferred to the related category of assets and depreciated accordingly when the asset is completed and available for use. Subsequent costs are included in the carrying amount of the asset 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. Items under construction are not used and thus not depreciated.

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

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

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

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 and Lehakoe Buildings	Straight line	1.5%
Office furniture	Straight line	10%
Housing Furniture	Straight line	10%
Motor vehicles	Straight line	20%
Office equipment	Straight line	10%
Office computer	Straight line	20%
Sports/ Music equipment	Straight line	20%
Lehakoe Furniture	Straight line	20%
Housing equipment	Straight line	20%
Security equipment	Straight line	20%

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

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

1.1 Property, plant and equipment (continued)

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.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

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

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

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

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

1.3 Current and deferred income tax

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

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

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

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

1.3 Financial instruments: IFRS 9 (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 STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

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

1.4 Leases

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

1.5 Share capital

(a) Share capital is classified as equity.

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

(b) Dividends on ordinary shares

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

1.6 Employee benefits

(a) Post employment benefits

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

(b) Other long-term employee benefits

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

Long-term employee benefits include:

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

(c) Actuarial gains/losses

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

1.6 Employee benefits (continued)

(d) Accrual for leave pay

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

1.7 Provisions

Contingent assets and contingent liabilities are not recognised.

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

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

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

1.8 Revenue

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

1.9 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 subequently transferred to equity.

1.10 Impairment of non-financial assets

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

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

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

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

Accounting Policies

1.11 Claims on staff

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

1.12 Deferred currency expenditure

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

1.13 Dividend distribution

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

1.14 Notes and coins

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

1.15 IMF Holding of Special Drawing Rights and IMF subscription account

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

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

1.16 IMF Funded PRGF Advances

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

1.17 Comparative figures

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

1.18 General Reserve

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

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

1.19 Rand Compensation Reserve

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

1.20 Foreign Exchange Revaluation Reserve Account

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

1.21 SDR Revaluation Reserve

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

1.22 Property Revaluation Reserve

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

1.23 Bond/Unit Trust Revaluation Reserve

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

1.24 Financial Risk Management

(a) Market Risk

(i) Foreign Exchange Risk

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

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

(ii) Interest Rate Risk

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

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

(iii) Prcice risk
The Bank is exposed to bond securities price risk because of investments held by the Bank which are classified on the stamment of financial position either asfinancial asets at fair value through other comprehensive income or as financial assets at fair value through profit or loss. The Bank's exposure to bond securities price is limited to the bond share prices in the portfolio.

(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 39 to 53.

1.25 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the No.1 and No.2 accounts which total SDR 57,214,433 (2018: SDR 31,063,193) in favour of the IMF. GOL chose to substitute non-interest bearing notes for a portion of the balance held in its Fund's No. 1 account and the securities substituted for currency are recorded in the Securities Account. GOL's holding in IMF SDR Department is posted in the No.1 account and is used for the Fund's operational transactions e.g. purchases and repurchases, whereas the No. 2 account is used for the payment of operational expenses incurred by the Fund in Maloti. The Bank revalues the IMF accounts in its Statement of Financial Position in accordance with the practices of the IMF Treasury Department. The revaluation of the SDR rates by the IMF is effected annually on 30 April, and whenever there are IMF transactions using the Maloti. The IMF accounts have been revalued using the latest prevailing SDR rates in IMF website.

1.26 Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

(a) Employee benefits

The 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 and there is not sufficient information available to use the accounting principles for defined benefit plans. Refer to further disclosure in note 26 and 35.

(b) Fair values

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

i) Balances due to and from banks

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

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

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

1.27 Memorandum Accounts

The Bank holds various amounts of monies on behalf of the Government of Lesotho on a restricted basis in a fiduciary capacity only.These monies are controlled by Government and any gains or losses related to these amounts accrue to the Government. All memorandum account balances are kept off the Balance Sheet as they do not belong to the Bank and do not meet the definition of an asset of the Bank. Refer to note 41 which provides further details of the memorandum accounts.

1.28 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 instrumen

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 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.

1.28 Financial Instruments (continued)

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

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

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

1.27.1 **Financial assets**

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

Specifically:
•Instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

•Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at FVTOCI;

• All other instruments (e.g. instruments managed on a fair value basis or held for sale) and equity investments are subsequently measured at FVTPL.

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

• The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is not held for trading in OCI; and.

• The Bank may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Instruments at amortised cost or at FVTOCI

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

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

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

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

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

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

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

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

Financial assets at FVTPL

1.28 Financial Instruments (continued)

Financial assets at FVTPL are

- assets with contractual cash flows that are not SPPI; or/and

- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

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

Reclassifications

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

Foreign exchange gains and losses

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

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

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

1.28 Financial Instruments (continued)

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or

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

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

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk:

- The Bank considers the following as constituting an event of default
- The borThe borrower is unlikely to pay its credit obligations to the Bank in full.rower is past due more than 90 days on any material credit obligation to the Bank; or
- The borrower is unlikely to pay its credit obligations to the Bank in full.

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

Significant increase in credit risk

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

The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

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

The 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

1.28 Financial Instruments (continued)

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

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

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

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

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

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

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

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

Write-off

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

1.28 Financial Instruments (continued)

1.27.2 Financial liabilities and equity

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

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

Equity instruments

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

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

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

Accounting Policies

1.29 Standards and Interpretations in issue, not yet effective

The Bank has not applied the following new and revised accounting standards and interpretations that have been issued but are not yet effective:

Standard	New and Amended Standard:	Effective for Annual Period beginning on or after
IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	*Disclosure Initiative:* The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards	*1st January 2020*
IAS 1 *Presentation of Financial Statements*	*Disclosure Initiative*: The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards	*1st January 2020*

1.30 Impact of new standards now effective

IFRS 16 is effective for periods beginning periods 01 January 2019. This is a new standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. We made an analysis in regards to contracts where the Bank is a lessee and lessor and have assessed that the standard does not have any impact on the Bank due to the fact that there are no leases held by Bank.

Notes to the Financial Statements

	2019 M '000	2018 M '000

2. Cash and cash equivalents

Cash and cash equivalents consist of:

	2019 M '000	2018 M '000
Cash and cash equivalents		
Cash on hand	992	3 227
Bank balances	181 771	150 618
Short-term deposits	35 953	7 719
Total cash and cash equivalents	218 716	161 564
Current and Call Accounts		
Foreign Banks	25 492	70 420
South African Banks	1 697 715	1 080 605
Total Current and Call Accounts	1 723 207	1 151 025
Fixed Deposits		
Foreign Banks	1 564 945	1 888 417
South African Banks	893 279	545 854
Expected credit loss for cash and cash equivalents	(35 258)	-
Total Fixed deposits (with maturity shorter than 3 months)	858 021	545 854
Balances with banks (with maturity shorter than 3 months)	858 021	545 854
Total cash and balances with Banks	**4 364 889**	**3 746 860**

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

3. Deposit Floaters

	2019 M '000	2018 M '000
SA Banks Deposits	1 810 000	1 230 000
Foreign Banks Deposits	210 209	430 953
	2 020 209	**1 660 953**

4. Accrued interest due from Banks

	2019 M '000	2018 M '000
Accrued interest receivable:		
ZAR call accounts	102	100
ZAR fixed deposits	35 998	20 822
Foreign call and fixed deposit accounts	3 073	3 792
	39 173	**24 714**

5. Investment in unit trusts

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

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

	2019 M '000	2018 M '000

5. Investment in unit trusts (continued)

2018	Fair value through OCI	Total
Unit trusts at fair value	750 487	750 487

The unit trusts were purchased from the Bank for International Settlement (BIS) in 2012. These are equity instruments and measured at Fair value through other comprehensive income and changes in market values are recorded directly in the Bond/unit trust revaluation reserve. The units were however sold during the year therefore the balance was zero as at year end.

6. Investment in Swift

	2019	2018
Investment in SWIFT	399	399

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

7. Treasury notes and bonds

2019	Fair value through Profit and loss	Fair value through OCI	Total
US Bonds at fair value	1 466 033	439 042	1 905 075
ZAR Bonds at fair value	-	1 892 773	1 892 773
US Bonds accrued interest	8 878	1 895	10 773
ZAR Bonds accrued interest	-	63 145	63 145
Expected Credit Loss	-	(14 530)	(14 530)
	1 474 911	**2 382 325**	**3 857 236**

2018	Fair value through profit and loss	Fair value through OC	Total
US Bonds at fair value	1 479 657	326 525	1 806 182
ZAR Bonds at fair value	-	1 429 840	1 429 840
US Bonds accrued interest	7 570	1 267	8 837
ZAR Bonds accrued interest	-	37 819	37 819
Expected Credit Loss	-	(21 783)	(21 783)
	1 487 227	**1 773 668**	**3 260 895**

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

8. Treasury bills at amortised cost

US Treasury Bills

	2019	2018
Treasury Bills at amortised cost	69 194	71 603

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

Notes to the Financial Statements

	2019 M '000	2018 M '000

9. IMF Subscription Account

	2019 M '000	2018 M '000
Balance at beginning of year	1 397 173	1 223 196
Exchange revaluation	(39 863)	173 977
Balance at end of year	**1 357 310**	**1 397 173**

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 69,800,000 in 2019 . The local currency equivalent of the subscription account in the statement of financial position is converted at the year end rate of 0.0559372 (2018: SDR 69,800,000 at 0.0570636).

10. IMF Holding of Special Drawing Rights (SDR)

	2019 M '000	2018 M '000
Balance at beginning of year	437 554	530 125
Net transactions - (decrease) / increase in rights	(204 324)	(149 475)
Exchange revaluation	(6 321)	56 904
Balance at end of year	**226 909**	**437 554**

The value of SDR 21,852,390 (2017: SDR 30, 213, 620) allocated by the International Monetary Fund less utilisation is converted at 0.0559372 (2018:0.0550793).

11. IMF Funded PRGF Advances

	2019 M '000	2018 M '000
Balance at beginning of year	692 091	753 413
Paid during the year	(204 324)	(150 472)
Exchange revaluation	(12 232)	89 150
Balance at end of year	**475 535**	**692 091**

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 22.

12. Lesotho Government Securities

	2019 M '000	2018 M '000
Maturing within 1 month	521	524

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.

13. Deferred currency expenditure

	2019 M '000	2018 M '000
Balance at beginning of year	7 074	8 303
Expenditure incurred	5 496	8 316
Amortised during the year	6 928	(9 545)
Balance at end of year	**19 498**	**7 074**

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

Notes to the Financial Statements

	2019 M '000	2018 M '000
14. Loans and Advances		
Housing loans	47 499	42 038
Car loans	30 805	26 179
Furniture loans	1 512	1 408
Other loans and advances	29 082	26 285
	108 898	**95 910**

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 36 and risk management note 39 for further details.

15. Other assets

	2019 M '000	2018 M '000
Other prepayments	5 968	3 628
Other receivables	1 297	640
Commemorative coins	3 479	3 507
	10 744	**7 775**

Other prepayments relate to prepaid licenses that have been paid in advance. Other receivables refer to gym membership fees which were invoiced as at year end but were not paid as at year end.

16. Property, plant and equipment

	2019			2018		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
CBL buildings	96 042	(20 785)	75 257	96 042	(19 277)	76 765
Land	10 225	-	10 225	10 225	-	10 225
Lehakoe buildings	149 020	(26 707)	122 313	149 020	(24 543)	124 477
Residential land and buildings	20 177	(2 948)	17 229	20 177	(2 646)	17 531
Housing furniture	427	(358)	69	359	(356)	3
Office furniture	10 092	(7 440)	2 652	8 946	(7 010)	1 936
Motor vehicles	17 978	(10 142)	7 836	11 932	(10 180)	1 752
Office equipment	45 745	(34 629)	11 116	40 269	(31 171)	9 098
Office computer	20 604	(11 346)	9 258	16 077	(8 171)	7 906
Lehakoe furniture	4 006	(2 985)	1 021	3 512	(3 007)	505
Sports/music equipment	9 711	(7 774)	1 937	7 894	(7 639)	255
Housing equipment	234	(195)	39	195	(193)	2
Security equipment	23 196	(16 906)	6 290	19 004	(15 956)	3 048
Work in progress	540 446	-	540 446	489 367	-	489 367
Total	**947 903**	**(142 215)**	**805 688**	**873 019**	**(130 149)**	**742 870**

Notes to the Financial Statements

16. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Depreciation on disposal	Revaluations / Useful life reassessment	Depreciation	Total
CBL buildings	76 765	-	-	-	(80)	(1 428)	75 257
Land	10 225	-	-	-	-	-	10 225
Lehakoe buildings	124 477	-	-	-	(143)	(2 022)	122 313
Residential land and buildings	17 531	-	-	-	(24)	(279)	17 229
Housing furniture	3	-	-	-	68	(2)	69
Office furniture	1 936	165	-	-	980	(429)	2 652
Motor vehicles	1 752	5 186	(813)	813	1 673	(775)	7 836
Office equipment	9 098	720	(1)	1	4 757	(3 458)	11 116
Office computer	7 906	4 270	-	-	212	(3 184)	9 258
Lehakoe furniture	505	71	(103)	103	525	(82)	1 021
Sports/music equipment	255	382	(9)	9	1 464	(135)	1 937
Housing equipment	2	-	-	-	39	(2)	39
Security equipment	3 048	1 241	-	-	2 951	(950)	6 290
Work in progress	489 367	51 078	-	-	-	-	540 446
	742 870	**63 093**	**(926)**	**926**	**12 422**	**(12 746)**	**805 688**

Notes to the Financial Statements

16. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation on Disposal	Transfers	Revaluations / Useful life reassessment	Depreciation	Revaluation Excess	Total
CBL buildings	79 248	-	-	-	-	-	(1 428)	(1 055)	76 765
Land	10 225	-	-	-	-	-	-	-	10 225
Lehakoe buildings	128 462	-	-	-	-	-	(2 022)	(1 963)	124 477
Residential land and buildings	17 995	-	-	-	-	-	(279)	(185)	17 531
Housing furniture	4	-	(24)	24	-	-	(1)	-	3
Office furniture	2 362	61	(524)	514	-	-	(477)	-	1 936
Motor vehicles	1 638	590	(614)	614	-	-	(462)	6	1 752
Office equipment	6 105	5 075	(617)	615	1 410	-	(3 490)	-	9 098
Office computer	10 328	1 286	(15 976)	15 962	-	42	(3 685)	(51)	7 906
Lehakoe furniture	458	128	-	-	-	-	(81)	-	505
Sports/music equipment	368	55	(163)	163	-	-	(168)	-	255
Housing equipment	6	10	(10)	-	-	-	(6)	2	2
Security equipment	5 953	-	(1 228)	1 221	-	-	(2 685)	(213)	3 048
Work in progress	432 293	58 484	-	-	(1 410)	-	-	-	489 367
	695 445	**65 689**	**(19 156)**	**19 113**	**-**	**42**	**(14 804)**	**(3 459)**	**742 870**

Analysis of carrying amount as at 31 December 2019 had the Bank remained on cost:

	Cost Analysis	Revalued Amount
CBL Building	M21,725,818.31	M75,256,701.00
LRCC Building	M67,494,980.00	M122,312,461.12
Residential Building	M1,340,215.60	M17,228,897.67

Depreciation on disposal represents the write-off from accumuated depreciation of disposed asset, the depreciation on the other hand represents the charge for the year.
Revaluation excess is the depreciation from the revaluation of buildings.

Notes to the Financial Statements

16. 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. Properties under development are reflected at cost.
Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.
Subsequent to initial recognition, buildings are reflected at a valuation based on fair value as determined by an independent professional valuer, less accumulated depreciation.
Increases in the carrying amount arising on revaluation of buildings are credited to revaluation reserves in equity. Decreases that offset previous increases of the same asset are charged against property revaluation reserves.
Unrealised surpluses or deficits arising on revaluation of land and buildings are transferred to a Revaluation Reserve Account.
The most recent independent valuation for buildings was performed for the year ended December 2017

	2019 M '000	2018 M '000

17. Intangible assets

	2019			2018		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	102 052	(70 624)	31 428	95 983	(63 519)	32 464

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Useful life reassessment	Amortisation	Total
Computer software	32 464	1 497	4 571	(7 104)	31 428

Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	41 761	2 188	(11 485)	32 464

SAGE and QCBS softwares are written off over a period of 10 years while all other computer softwares are written off over a 3 year period on a straight line basis.

18. Notes and coins issued

	2019	2018
Notes	1 591 621	1 501 489
Coins	21 257	18 728
	1 612 878	**1 520 217**

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 circulaion.

19. Deposits

	2019	2018
Deposits from Banks - Non-interest bearing		
Banks	535 820	339 570
Other Deposits - Non-interest bearing		
International Institutions	463	393
Parastatals and others	2 135	2 173
	538 418	**342 136**

20. IMF Maloti Currency Holding

	2019	2018
Securities account	240 937	274 823
General resources account	870 126	869 403
	1 111 063	**1 144 226**

Notes to the Financial Statements

	2019 M '000	2018 M '000

21. IMF Special Drawing Rights Allocation

Balance at beginning of year	658 116	576 167
Exchange revaluation	(20 976)	81 949
Balance at end of year	**637 140**	**658 116**

Lesotho's allocation by IMF of SDR32,878,186 is converted at 0.0570636 (2018: 0.0497992)

22. IMF-PRGF Facility

Balance at beginning of year	692 091	753 413
Paid during the year	(204 324)	(150 472)
Exchange revaluation	(12 232)	89 150
	475 535	**692 091**

This IMF loan was secured under the Poverty Reduction and Growth Facility. The Ministry of Finance tranche is accounted for through the Bank's records to present the amount due to the IMF. The balance due to the IMF amounted to SDR 42,992,500.00, converted at 0.0570636 as at 31 December 2019 (2018:SDR 47,697,000 at 0.0497992). The loan has been on-lent as per note 10. Interest expense and exchange rate differences are borne by the Government of Lesotho.

23. Taxation(receivable)/ payable

Balance at beginning of year	4 929	(26 882)
Paid during the year	(39 595)	(6 707)
Current year charge	56 290	38 518
	21 624	**4 929**

24. Dividend payable

Balance at beginning of year	142 177	84 396
Paid during the year	(142 177)	(84 396)
Profit appropriations for the current year	117 840	108 062
Prior year correction of foreign exchange activities that mistated due to GOL	-	34 115
Balance at end of year	**117 840**	**142 177**

The Foreign exchange differences which are not taxable, are eliminated from the Profit after tax ,after which a portion is transferred to the Government of Lesotho Consolidated Fund and the General Reserve account in terms of Section 21 of the Central Bank of Lesotho Act No.2 of 2000.

Profit after tax appropriates as follows:		
Profit/(Loss)/ after tax (after actuarial (loss)/gain on employee benefits)	80 322	776 809
Loss /(Gain) on foreign exchange activities	61 086	(645 160)
Profit after tax net of gain on foreign exchange activities	141 408	131 649
Transfer to General Reserve	(23 568)	10 528
	117 840	**142 177**

25. Trade and other payables

Divisional cheques accounts	(11 179)	1 487
Other	15 066	13 222
Various accruals	9 086	5 608
Accrued leave pay	1 098	3 851
	14 071	**24 168**

Notes to the Financial Statements

	2019 M '000	2018 M '000

25. Trade and other payables (continued)

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

Various accruals relate to accrued expenses and leave pay provision as at year end.

26. Long-term employee benefit obligation

	2019 M '000	2018 M '000
Provision for severance pay		
Opening obligation	25 855	24 661
Interest cost	2 655	2 437
Current service cost	3 070	2 919
Actuarial (gain)/ loss on employee benefits	(3 551)	(201)
Benefits paid	(2 632)	(3 961)
Closing obligation	**25 397**	**25 855**
Provision for gratuity		
Opening obligation	78 725	77 218
Interest cost	8 166	7 360
Current service cost	13 377	13 183
Actuarial (gain)/ loss on employee benefits	(4 077)	2 902
Benefits paid	(10 029)	(21 938)
Closing obligation	**86 162**	**78 725**
Total	**111 841**	**104 842**

The Bank's liability is valued using the Projected Unit Credit Method by the independent Acturial Valuer. The Valuer has used assumptions based on statistics South African market data. The valuer has determined the discount rate to be equal 10,49% p.a., general inflation rate to be 7,98% p.a. The valuer has used the discount rate assumption of high quality corporate bond. The valuer has set the discount rate by using the best fit discount rate at 10 November 2019 based on yields from the zero coupon South African government bond curve. The computation has been determined taking into consideration the cash-flow weighted duration of the liabilities which is approximately 10 years. The recommended discount rate is 10,49%.

	2019 M '000	2018 M '000
Net expense recognised in profit and loss		
Current service cost	16 448	16 102
Interest cost	11 225	10 232
	27 673	**26 334**

Notes to the Financial Statements

	2019 M '000	2018 M '000

26. Long-term employee benefit obligation (continued)

Key assumptions used

	2019	2018
Discount rates used	10,49 %	10,19 %

Sensitivity Analysis 2019	**Current Assumption 10.49%**	**1% decrease 9.49%**	**1% increase 11.49%**
Bank	111 841	122 055	104 571
Cost/(Saving)	-	9 378	(8 106)
	111 841	**131 433**	**96 465**

Sensitivity Analysis 2018	**Current Assumption 10.19%**	**1% decrease 9.19%**	**1% increase 11.19%**
Bank	104 842	124 029	104 582
Cost/(Saving)	-	10 456	(8 991)
	104 842	**134 485**	**95 591**

27. Deferred tax

Deferred tax liability

	2019	2018
Property plant and equipment	(13 019)	(11 652)

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

	2019	2018
Deferred tax liability	(13 019)	(11 652)

Reconciliation of deferred tax asset / (liability)

	2019	2018
At beginning of year	(11 652)	(19 344)
Movements in profit and loss	(2 214)	(201)
Movement in equity - current year	847	7 893
	(13 019)	**(11 652)**

Reconciliation of deferred tax asset / (liability)

	2019	2018
Accelerated capital allowance for tax purposes	5 508	5 302
Liabilities for Health care benefits accrued	28 169	27 107
Deferred expenses	(3 710)	(3 333)
Bond/unit trust revaluation reserve	8 339	4 985
Property revaluation reserve	(51 325)	(45 713)
	(13 019)	**(11 652)**

Notes to the Financial Statements

	2019 M '000	2018 M '000

28. Share capital

Authorised		
Authorised capital	100 000	100 000
Issued		
Issued and fully paid	100 000	100 000

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

29. Interest income

Interest income		
Foreign currency deposits (Armotised cost)	385 297	301 331
Interest treasury bills and SDR holdings (Armortised cost)	8 129	8 021
Debt instrument at fair value through other comprehensve income	131 287	125 524
Debt instruments at fair value through profit or loss	33 697	15 476
Total interest income	**558 410**	**450 352**

30. Interest expense

Interest on non financial Public Enterprises	51	83
Accrued premium amortisation	2 739	1 652
IMF SDR allocation account	6 797	5 369
	9 587	**7 104**

31. Other income

Profit on sale of bonds	7 135	833
Interest on staff loans (Armotised cost)	1 805	1 660
Lehakoe income	13 599	7 031
Other income	3 516	4 195
Gain on instruments designated as fair value through profit and loss	23 884	16 969
Loss/profit on sale of fixed assets	5	-
	49 944	**30 688**

Notes to the Financial Statements

	2019 M '000	2018 M '000

32. Operating costs and expense per nature

	2019 M '000	2018 M '000
Administration and other expenses	68 242	59 875
Auditors remuneration	2 348	2 963
Deferred currency expenses amortised	5 407	7 915
Deferred computer software amortization	7 155	11 413
Depreciation and impairment	12 905	14 804
Property, plant and equipment maintenance expenses	20 617	13 005
Loss on sale of other instruments	1 240	8 159
Loss on fair valuation of treasury notes and bonds	12 011	10 419
Impairment	49 789	(9 703)
Personnel costs:		
Staff welfare expenses	24 609	17 685
Non-executive directors' fees	1 064	849
Executive directors' salaries	9 258	8 339
Key management (heads of departments)	12 520	11 832
Staff salaries and expenses	141 069	127 998
Pension fund contributions	5 978	5 915
Gratuity and severance pay (interest and service cost)	16 705	25 899
	390 917	317 367

33. Taxation

Major components of the tax expense

	2019 M '000	2018 M '000
Current		
Local income tax - current period	58 504	24 920
Tax on actuarial gain(loss)	2 645	494

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

	2019	2018
Chargeable profit (before foreign exchange gain/loss and after actuarial gain/loss)	(149 386)	(146 866)
Statutory tax rate	25,00 %	25,00 %
Permanent differences:		
Donations	0,50 %	0,62 %
50 % Entertainment	0,09 %	0,27 %
Training expenses additional 25%	(0,84)%	(0,93)%
Other	1,55 %	2,38 %
Effective tax rate	**26,30 %**	**27,34 %**

	2019	2018
Profit/ (loss) before tax	207 850	146 866
Add: Permanent differences disallowed for tax purposes	3 142	3 453
Add: Temporary differences disallowed for tax purposes	14 168	3 753
Taxable profit	225 160	154 073
Taxation @25%	56 290	38 518
Add:Tax expense	2 214	(13 598)
Total Tax due	58 504	24 920

Notes to the Financial Statements

	2019 M '000	2018 M '000
34. Cash used in operations		
Profit(Loss) before taxation	207 850	801 729
Adjustments for:		
Depreciation	12 906	14 804
Deferred computer software amortised	7 155	11 413
Profits/Losses on RAMP Bonds	-	7 326
Interest income	(558 410)	(450 352)
Interest expense	9 587	7 104
Deferred currency amortisation	(12 424)	7 915
FV Gains on RAMP Bonds	-	(6 551)
Movement in reserves	(135 381)	(5 955)
Movement in Deposits	540 252	103 350
Treasury bills at amortised cost	2 409	20 210
Movement in IMF Maloti Currency Holding	(33 163)	142 006
Movement in Designated as at FV through profit (loss) (FV through income)	39 863	(173 977)
Trade and other payables	(10 097)	(2 776)
Movement in Held for trading (fair value through income)	210 645	92 571
Movement in IMF Special Drawing Rights Allocation Assets	(20 976)	81 949
Movements in Long-term employee benefit obligation	6 999	2 963
Deposit Floaters	(359 256)	(1 010 953)
	(92 041)	**(357 224)**

Other Comprehensive income movements relates to the movement between bond/unit trust fair values, rand compensatory reserve and actuaril gains/losses.

35. Post retirement obligations

	2019	2018
Total employer contributions	5 978	5 915

The Bank contributes towards a post retirement Corporate Bodies Pension Scheme (CBPS) which is administered by Lesotho National Insurance Group in terms of the Corporate Bodies (Pension Scheme) Regulations 1983 legal notice No. 108 of 1983. CBPS is a defined benefit pension fund that covers all permanent employees. CBPS is funded by way of contribution from both the employer and employee. The minimum fund requirements is determined by Actuaries. Contributions rate by employees is fixed at 5% of their basic salary and the Bank's contributions is not fixed and can fluctuate from time to time depending on the results of the Actuarial valuation.

The Bank is not liable for obligations of other entities. The allocation or deficit or surplus on winding up of the scheme or on withdrawal of the Bank from the scheme will be determined by Actuaries as they are the ones responsible for such allocations. Any deficit on the scheme following Actuarial valuation will attract an increase in contributions by the Bank or can be settled by a lump sum payment. Any surplus however will be carried forward to the following year and no additional contributions will be required.

The liability Bank in the scheme relating to active members is determined using the Attained Age Method. Under this method the accrued liability for the active members is derived as the present value of their expected benefit entitlement based on service up to the valuation date and projected salary to the benefit entitlement date, using specific actuarial assumptions.

The Bank has historically contributed almost half of the membership of the scheme. The scheme deficit would need to be funded in the same proportion of the member contribution as well as based on historical underfunding determined based on contribution rates into the scheme. If the scheme is 50% underfunded at the current rates of 8% employer contributions the Bank would need to fund the scheme deficit for historical underfunding to the extent of the 50% funding and also increase their contribution to double the current rate, thus 16% per employee.

At the date of these financial statements an actuarial valuation had not been prepared to determine whether the current contribution rate of 8% will be increased in the next reporting period and as to what will be the overall impact on the Bank.

	2019 M '000	2018 M '000

36. Related parties

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.

The following were Government balances with the Bank.

		2019	2018
Gross advances made during the year to:			
Heads of Departments and Division Heads	Car loans	959	1 147
	Furniture loans	50	150
	Housing loans	-	1 000
Balances due at end of December:			
Heads of Departments and Division Heads	Car loans	2 936	3 313
	Furniture loans	124	299
	Housing loans	831	6 204
Interest charged for the year:			
Heads of Departments and Division Heads	Car loans	129	53
	Furniture loans	11	9
	Housing loans	110	80

	2019 M'000	2018 M'000
Government Deposits	3 715 382	3 371 412

There were no loan advances made to the Governor and Deputy Governor I in the current year, however Deputy Governor II was advanced with a car loan during the year and Governor and Deputy Governor II had outstanding car loans as at at 31 December 2019.

The loans issued to Executive Directors (Governors) and other key management (Heads of Departments) personnel during the year are repayable monthly and have interest rates of 3% per annum,

The Bank however requires and accordingly has the following as collateral:
- terminal benefits;
- title deeds and registered mortgages in relation to housing loans

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

Annual remuneration to key management which includes car allowances and housing allowances:		
Executive Directors' salaries	9 257	9 499
Key management salaries	12 250	13 660

37. Financial assets by category

The financial assets have been categorised as follows :

2019 - M '000

	Armortised Cost	Fair value through OCI	Assets at fair value through profit and loss (designated)	Total
Cash and balances with Banks	4 364 889	-	-	4 364 889
Deposit Floaters	2 020 209	-	-	2 020 209
Accrued interest due from Banks	39 173	-	-	39 173
Investment in SWIFT	-	399	-	399
Treasury notes and bonds	-	2 382 325	1 474 911	3 857 236
Treasury bills	69 194	-	-	69 194
IMF Subscription Account	1 357 310	-	-	1 357 310
IMF Holding of Special Drawing Rights	226 909	-	-	226 909
IMF Funded PRGF Advances	475 535	-	-	475 535
Lesotho Government Securities	521	-	-	521
Loans to staff	108 898	-	-	108 898
	8 662 638	**2 382 724**	**1 474 911**	**12 520 273**

The Bank holds shares in Bank for International Settlemets (equity investments) as part of the Bank's function and its business model of collecting contractual cash flows and selling them.

Equity instruments have been designated at fair value through other comprehensive income because of the the fact that these instruments do ot have an active market, these instruments are measured at fair value with their fair value movements recognised in OCI.

2018 - M '000

	Armotised cost	Fair value through Profit and Loss(designated)	Assets at fair value through OCI	Total
Cash and balances with Banks	3 746 860	-	-	3 746 860
Deposit Floaters	1 660 953	-	-	1 660 953
Accrued interest due from Banks	24 714	-	-	24 714
Treasury notes and bonds	-	1 773 668	1 487 227	3 260 895
Treasury bills	71 603	-	-	71 603
IMF Subscription Account	1 397 173	-	-	1 397 173
IMF Holding of Special Drawing Rights	437 554	-	-	437 554
IMF Funded PRGF Advances	692 091	-	-	692 091
Lesotho Government Securities	524	-	-	524
Loans to staff	95 910	-	-	95 910
	8 127 382	**1 774 067**	**1 487 227**	**11 388 676**

38. Financial liabilities by category

The financial liabilities have been categorised as follows:

Notes to the Financial Statements

38. Financial liabilities by category (continued)

2019 - M '000

	Financial liabilities at amortised cost	Total
Notes and coins issued	1 612 878	1 612 878
Deposits	538 418	538 418
Lesotho Government Deposits	3 715 382	3 715 382
IMF Maloti Currency Holding	1 111 063	1 111 063
IMF Special Drawing Rights Allocation	637 140	637 140
IMF PRGF Facility	475 535	475 535
	8 090 416	**8 090 416**

2018 - M '000

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

Gains and losses per financial instrument category 2019	**Armortised cost M'000**	**FV through P/L M'000**	**FV through OCI**	**Total**
Interest income	393 426	33 697	131 287	558 410
FV Gains	-	23 884	38 220	62 104
Interest expense	9 487	-	-	9 487
	402 913	**57 581**	**169 507**	**630 001**

Gains and losses per financial instrument category 2019	**Armortised cost M'000**	**FV through P/L M'000**	**FV through OCI**	**Total**
Interest income	309 352	15 476	125 524	450 352
FV Gains	-	16 969	8 758	25 727
Interest expense	7 104	-	-	7 104
	316 456	**32 445**	**134 282**	**483 183**

39. Risk management

General risk management

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

Management structures

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

Risk elements

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

39. Risk management (continued)

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 accountsAdditional text

Human resource risk

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

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

Legal risk

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

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

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

Reputational risk

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

39. Risk management (continued)

Market price risk

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

The market price risk is reported on daily, monthly and quarterly basis to the Bank's Management and different Committees.

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

Currency 2019	Value of Currency M '000	Exchange Rate	Maloti Equivalent M '000
Cash and balances with Banks			
South Africa	6 922 236,60	1,0000	6 922 237
United States	255 262,87	14,0139	3 577 228
Botswana	422,15	1,3243	559
England	1 547,03	18,4268	28 507
European Union	94,98	15,7172	1 493
Switzerland	0,02	14,4741	-
IMF	11 709,15	19,3788	226 909
Treasury notes and bonds			
South Africa	1 892 773,00	1,0000	1 892 773
United States	136 160,88	14,0139	1 908 145
Treasury Bills			
United States	5 000,00	14,0139	70 070

Currency 2018	Value of Currency M'000	Exchange Rate	Maloti Equivalent M '000
Cash and balances with Banks			
South Africa	4 840 033,00	1,0000	4 840 033
United States	322 907,00	14,3651	4 638 591
Botswana	137,00	1,3417	184
England	2 264,00	18,3888	41 632
European Union	137,00	16,4567	2 255
Switzerland	266,00	14,5972	3 883
IMF	21 900,00	19,9788	437 536
Treasury notes, bonds and unit trusts			
South Africa	1 406 994,00	1,0000	1 406 994
United States	138 835,00	12,3502	1 714 640
Unit trust - US Dollar based	51 510,00	12,3502	636 159
Treasury Bills			
United States	7 433,00	12,3502	91 799

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

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

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.

39. Risk management (continued)

Liquidity risk

One of the Bank's motives for holding reserves is that of ensuring that assets are sufficiently liquid to pay Government's and the Bank's liabilities upon instruction. Liquidity risk is said to exist where there are insufficient funds to cover obligations when they fall due. The Bank's reserves are therefore segregated into tranches to mitigate this risk. Specifically, the Working Capital and Liquidity tranches are meant to help manage liquidity risk by ensuring that sufficient funds are available on demand at all times or on short notice.

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 Commitee upon recommendation by the Investment Technical Committee (ITC), a technical arm of the Investment Commitee. 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 signficantly increased if the credit rating moves to the next lower rating of the credit rating scale. Other considerations by Management are ratings downgrade by one of or all international rating agencies resulting in the instrument or issuer falling out of the investment grade.

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

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

Implementation of ECL model- Central Bank of Lesotho

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

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

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

Assumptions of the CBL MODEL

• Loss given default follows the recovery rates of the international swaps and derivatives association (ISDA) CDS standard model, as a function of the seniority and the region.

• The rating given to each security is the lowest between the ratings of S&P, Fitch and Moody's.

• The transition matrix is the S&P's global corporate s from 1981 to 2018.

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

39. Risk management (continued)

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.

2019

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

Current and call accounts	Carrying amount M'000	Maximum exposure M'000	Held in Denomi-nation	Type of collateral held	Credit rating
ABSA	51	51	ZAR	none	Baa3/P-3
ABSA Maloti Repatriation	11 467	11 467	ZAR	none	Baa3/P-3
ABSA Credit Card	2 001	2 001	ZAR	none	Baa3/P-3
B.I.S	5	5	GBP	none	Supranational
B.I.S	92	92	USD	none	Supranational
B.I.S	15	15	EUR	none	Supranational
Bank of England	7 618	7 618	GBP	none	Aa2/P-1
Bank of N.Y	648	648	USD	none	Aa2/P-1
Bank of N.Y	11	11	ZAR	none	Aa2/P-1
Bank of N.Y (RAMP)	572	572	USD	none	Aa/P-1
Crown Agents	169	169	GBP	none	B/BB
Crown Agents	77	77	USD	none	B/BB
Deutsche Bankers trust	9 929	9 929	USD	none	Baa1/P-1
Deutsche Bundersbank	1 427	1 427	EUR	none	Aaa
Federal Reserve Bank of N.Y	2 209	2 209	USD	none	Aaa
First Rand	84	84	ZAR	none	Baa3/P-3
International Monetary Fund - Holdings	226 909	226 909	ZAR	none	Supranational
Investec Bank	84	84	ZAR	none	Baa3/P-3
NedBank	30	30	ZAR	none	Baa3/P-3
SIRESS	1 679 775	1 679 775	ZAR	none	Baa3/P-3
Special Rand Deposit	5 000	5 000	ZAR	none	Baa3/P-3
Standard Bank	95	95	ZAR	none	Baa3/P-3
Standard Chartered Botswana	559	559	BWP	none	A2
Standard Chartered London	2 165	2 165	GBP	none	A1/P-1
	1 950 992	1 950 992			

39. Risk management (continued)

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

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

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

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

39. 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	47 499	47 499	LSL	Title deeds	n/a
Car loans	30 805	30 805	LSL	Terminal benefits	n/a
Furniture loans	1 511	1 511	LSL	Terminal benefits	n/a
Other loans and advances	29 060	29 060	LSL	Terminal benefits	n/a
	108 875	**108 875**			

2018

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

Current and call accounts	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
ABSA	120	120	ZAR	none	P-3/Baa3
ABSA Maloti Repatriation	10 671	10 671	ZAR	none	P-3/Baa3
ABSA Credit Card	499	499	ZAR	none	P-3/Baa3
B.I.S	960	960	GBP	none	Supranational
B.I.S	1 233	1 233	USD	none	Supranational
B.I.S	48	48	EUR	none	Supranational
Bank of England	37 787	37 787	GBP	none	P-1/Aa2
Bank of N.Y	242	242	USD	none	P-1/Aa1
Bank of N.Y	15	15	ZAR	none	P-1/Aa1
Bank of N.Y(RAMP)	3 683	3 683	USD	none	P-1/AA1
Crown Agents	1 640	1 640	GBP	none	B/BB
Crown Agents	2 447	2 447	USD	none	B/BB
Deutsche Bankers trust	15 847	15 847	USD	none	P-1/A2
Deutsche Bundersbank	2 127	2 127	EUR	none	Aaa
Federal Reserve Bank of N.Y	1 976	1 976	USD	none	Aaa
First Rand	80	80	ZAR	none	P-3/Baa3
Investec Bank	104	104	ZAR	none	P-3/Baa3
NedBank	28	28	ZAR	none	P-3/Baa3
SIRESS	1 242	1 242	ZAR	none	P-3/Baa3
South African Reserve Bank	1 062 568	1 062 568	ZAR	none	P-3/Baa3
Special Rand Deposit	5 000	5 000	ZAR	none	P-3/Baa3
Standard Bank	152	152	ZAR	none	P-3/Baa3
Standard Chartered Botswana	184	184	BWP	none	A2
Standard Chartered London	1 238	1 238	GBP	none	P1/A1
Union Bank of Switzerland	3 888	3 888	CHF	none	P-1/Aa2
International Monetary Fund	437 554	437 554	ZAR	none	Supranational
	1 591 333	**1 591 333**			

Notes to the Financial Statements

39. Risk management (continued)

Fixed deposits	Carrying amount M '000	Maximum exposure M '000	Held in Denomi-nation	Type of collateral held	Credit rating
ABSA	300 000	300 000	ZAR	none	P-3/Baa3
African Import-Export Bank	475 144	475 144	GBP	none	P-2/Baa1
FEDRES	136 468	136 468	USD	none	Aaa
Firstrand	300 000	300 000	ZAR	none	P-3/Baa3
ICBC ASIA	404 370	404 370	USD	none	P1/A1
Investec	379 638	379 638	ZAR	none	P-3/Baa3
NedBank	343 410	343 410	ZAR	none	P-3/BAA8
Standard Bank	450 000	450 000	ZAR	none	P-3/BAA9
Standard Chartered London	143 651	143 651	GBP	none	P1/A1
Standard Bank PLC	809 518	809 518	USD	none	P-3/Baa3
Standard Bank PLC	350 000	350 000	ZAR	none	P-3/Baa3
	4 092 199	**4 092 199**			

Accrued interest due from Banks	Carrying amount M '000	Maximum exposure M '000	Held in Denomi-nation	Type of collateral held	Credit rating
ABSA	2 277	2 277	ZAR	none	P-3/Baa3
African Import-Export Bank	592	592	USD	none	P-2/Baa1
Firstrand	2 822	2 822	ZAR	none	P-3/BAA9
ICBC ASIA	538	538	ZAR	none	P-2/Baa3
Investec	5 190	5 190	ZAR	none	P-3/Baa3
NedBank	3 895	3 895	ZAR	none	P-3/Baa3
Special Rand Deposit	100	100	ZAR	none	P-3/Baa3
Standard Bank	5 229	5 229	ZAR	none	P-3/BAA19
Standard Chartered London	183	183	USD	none	P-1/A1
Standard Bank PLC	2 471	2 471	USD	none	P-2/Baa3
Standard Bank PLC	1 417	1 417	ZAR	none	P-2/Baa2
	24 714	**24 714**			

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

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

Notes to the Financial Statements

39. 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	42 038	42 038	LSL	Title deeds	n/a
Car loans	26 179	26 179	LSL	Terminal benefits	n/a
Furniture loans	1 408	1 408	LSL	Terminal benefits	n/a
Other loans and advances	26 285	26 285	LSL	Terminal benefits	n/a
	95 910	**95 910**			

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 shortterm obligations.

39. Risk management (continued)

Credit quality per class of financial assets 2019	Stage 1 M'000	Stage 2 M'000	Total
Treasury notes and bonds	1 466 033	-	1 466 033
FVOCI Instruments	1 466 033	-	1 466 033
	-	-	-

	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total
Cash and cash equivalents	4 400 147	-	-	4 400 147
Deposit Floaters	2 020 209	-	-	2 020 209
Accrued interest due from Banks	39 173	-	-	39 173
Treasury bills at amortised cost	69 194	-	-	69 194
IMF Subscription Account	1 357 310	-	-	1 357 310
IMF Holding of Special Drawing Rights	226 909	-	-	226 909
IMF Funded PRGF Advances	475 535	-	-	475 535
Lesotho Government Securities	521	-	-	521
Loans and advances	108 898	-	-	108 898
Instruments at amortised cost	8 697 896	-	-	8 697 896
Balance as at 31 December 2019	**10 163 929**	**-**	**-**	**10 163 929**

Credit quality per class of financial assets 2018	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total
Treasury notes and bonds	1 795 438	-	-	1 795 438
FVOCI Instruments	1 795 438	-	-	1 795 438
	-	-	-	-

	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total
Cash and cash equivalents	3 746 860	-	-	3 746 860
Deposit Floaters	1 660 953	-	-	1 660 953
Accrued interest due from Banks	24 714	-	-	24 714
Treasury bills at amortised cost	71 603	-	-	71 603
IMF Subscription Account	1 397 173	-	-	1 397 173
IMF Holding of Special Drawing Rights	437 554	-	-	437 554
IMF Funded PRGF Advances	692 091	-	-	692 091
Lesotho Government Securities	524	-	-	524
Loans and advances	95 910	-	-	95 910
Instruments at amortised cost	8 127 382	-	-	8 127 382
Balance as at 31 December 2018	**9 922 820**	**-**	**-**	**9 922 820**

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

39. Risk management (continued)

Expected credit loss per class of financial assets 2019	Stage 1 M'000	Stage 1 12-month ECL M'000	Stage 2 M'000	Stage 3 M'000	Stage 3 Lifetime ECL M'000	Total ECL M'000
FVOCI Instruments	1 466 033	14 530	-	-	-	14 530
Instruments at amortised cost	8 697 896	35 259	-	-	-	35 259
Balance as at 31 December 2019	10 163 929	49 789	-	-	-	49 789
	10 163 929	**49 789**	-	-	-	**49 789**

Expected credit loss per class of financial assets 2018	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	1 795 438	21 783	-	-	-	21 783
Instruments at amortised cost	8 127 382	-	-	-	-	-
Balance as at 31 December 2018	9 922 820	21 783	-	-	-	21 783
	9 922 820	**21 783**	-	-	-	**21 783**

Reconciliation of the expected credit loss allowance 2019	Stage 1 12-month ECL	Stage 2 Lifetime ECL M'000	Stage 3 Lifetime ECL M'000	Total
Balance as at 1 Jan 2019	21 783	-	-	21 783
Net charge for the yeart	28 006	-	-	28 006
instruments at amortised cost	35 259	-	-	35 259
FVOCI Instruments	(7 253)	-	-	(7 253)
Balance as at 31 December 2019	**49 789**	-	-	**49 789**

Reconciliation of the expected credit loss allowance 2018	Stage 1 12-month ECL	Stage 2 Lifetime ECL M'000	Stage 3 Lifetime ECL M'000	Total
IFRS9 Transition adjustment	31 485	-	-	31 485
Net charge for the year	(9 702)	-	-	(9 702)
FVOCI Instruments	(9 702)	-	-	(9 702)
Balance as at 31 December 2018	**21 783**	-	-	**21 783**

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 2019

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.

39. Risk management (continued)

Table 1 provides a comparative view of holdings in original currency, along with the closing foreign exchange rates for 2018 and 2019 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.

Data for currency and foreign investment risk (figures in original currencies)	**31 December 2019**		**31 December 2018**	
Currency ('000)	**Portfolio level**	**Exchange rate**	**Portfolio level**	**Exchange rate**
ZAR	6 922 284	1,00	4 840 033	1,00
USD	255 563	14,01	322 907	14,87
EUR	95	15,72	137	16,46
GBP	1 547	18,43	2 265	18,39
BWP	422	1,32	137	1,34
CHF	-	14,47	266	14,60
SDR	11 709	19,38	21 901	19,98

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

		31 December 2019	
Currency composition	**Portfolio level**	**Portfolio level in %**	**Exchange rate**
ZAR	6 922 284	64,35 %	1,00
USD	3 577 216	33,25 %	14,01
EUR	1 493	0,01 %	15,72
GBP	28 507	0,27 %	18,43
BWP	559	0,01 %	1,32
CHF	-	- %	14,47
SDR	226 909	2,11 %	19,37
	10 756 968	**100 %**	

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

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

Notes to the Financial Statements

39. Risk management (continued)

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

Currency Composition	Portfolio level	Portfolio level in %	Level change	Exchange rate
	31 December 2019			
ZAR	6 922 284	63,22 %	-	1,0000
USD	3 756 076	34,31 %	(178 861)	14,7145
EUR	1 568	0,01 %	(75)	16,5031
GBP	29 932	0,27 %	(1 425)	19,3481
BWP	587	0,01 %	(28)	1,3905
SDR	238 255	2,18 %	(11 346)	20,3477
	10 948 702	**100 %**		

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

Currency Composition	Portfolio level	Portfolio level in %	Level change	Exchange rate
	31 December 2019			
ZAR	6 922 284	65,52 %	-	1,00
USD	3 398 355	32,17 %	178 861	13,31
EUR	1 418	0,01 %	75	14,93
GBP	27 081	0,26 %	1 425	17,51
BWP	531	0,01 %	28	1,26
SDR	215 564	2,04 %	11 345	18,41
	10 565 233	**100 %**		

% Change -1.78%

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

Currency Composition	Portfolio level	Portfolio level in %	Level change	Exchange rate
	31 December 2018			
ZAR	4 840 033	47,36 %	-	1,00
USD	4 870 524	47,66 %	(231 930)	15,08
EUR	2 375	0,02 %	(113)	17,28
GBP	43 724	0,43 %	(2 082)	19,31
BWP	193	- %	(9)	1,32
CHF	4 082	0,04 %	(194)	15,33
SDR	459 432	4,50 %	(21 878)	20,98
	10 220 363	**100 %**		

% Change 2.21%

39. Risk management (continued)

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

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

% Change -2.57%.

39. Risk management (continued)

Interest rate risk

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

2019

Interest rates risk	Cash	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	2019	2019	2019	2019	2019	2019
	M '000	M '000	M '000	M '000	M '000	M '000
ZAR	178 387	4 999 744	-	1 397 763	351 389	6 927 283
USD	911	1 976 524	244 904	1 331 430	14 669	3 568 438
EUR	50	19 960	-	-	-	20 010
GBP	30	9 957	-	-	-	9 987
Other	-	227 468	-	-	-	227 468
	179 378	7 233 653	244 904	2 729 193	366 058	10 753 186

Base case yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	6,93 %	6,90 %	7,58 %	8,00 %
USD	2,04 %	2,04 %	2,87 %	- %
EUR	0,44 %	- %	- %	- %
GBP	0,76 %	- %	- %	- %

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

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

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

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

39. Risk management (continued)

Nominal return in decreasing yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Nominal Income	% Change
	M '000	M '000	M '000	M '000	M '000	
ZAR	296 420	-	91 945	24 597		
USD	20 608	2 535	25 090	-		
	-	-	-	-	461	(18)

Sensitivity: For a 1 percentage increase in yields, income increase by 18%

For a 1 percentage decrease in yields, income decreases by -18%

2018

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

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

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

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

39. Risk management (continued)

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

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

Nominal return in decreasing yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Nominal Income	% Change
	M '000	M '000	M '000	M '000		
ZAR	190 530	-	87 930	6 570		
USD	25 740,00	1 630	26 860	-		
					339	(22)

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

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

39. Risk management (continued)

Liquidity risk

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):

2019	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6months	Maturing after 6 months but within 12 months	Maturing after 1year but within 5 years	Maturing after 5 years	Total
Financial assets	**M '000**	**M '000**	**M '000**	**M '000**	**M '000**	**M '000**	**M '000**
Cash and balances with banks	2 361 601	1 914 468	1 622 527	710 209	-	-	6 608 805
Accrued interest due from Banks	101	39 544	57 132	16 369	-	-	113 146
Expected interest cashflows from Bonds	-	17 294	58 317	67 441	325 291	94 000	562 343
Treasury Notes, Bonds and Unit Trust	1 466 033	207 017	91 163	56 176	1 528 171	336 025	3 684 585
IMF accounts	2 526 818	-	-	-	-	-	2 526 818
Lesotho Government Securities	521	-	-	-	-	-	521
Loans to staff	-	-	-	-	53 872	42 038	95 910
Investment in SWIFT	399	-	-	-	-	-	399
Total Financial Assets	**6 355 473**	**2 178 323**	**1 829 139**	**850 195**	**1 907 334**	**472 063**	**13 592 527**
Financial liabilities							
Notes & coins issued	1 518 979	-	-	-	-	-	1 518 979
Deposits	342 136	-	-	-	-	-	342 136
Lesotho Government Deposits	2 751 480	-	-	-	-	-	2 751 480
IMF Accounts	2 494 433	-	-	-	-	-	2 494 433
Total Financial liabilities	**7 107 028**	-	-	-	-	-	**7 107 028**
Net liquidity gap	**(751 555)**	**2 178 323**	**1 829 139**	**850 195**	**1 907 334**	**472 063**	**6 485 499**

39. Risk management (continued)

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

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 vaule through other comprehensive income or as financial assets at fair value through profit and loss. The Bank's exposureto 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.

	2019	2018
	M'000	M'000
10% increase	385 724	326 090
10% decrease	(385 724)	(326 090)

Notes to the Financial Statements

	2019 M '000	2018 M '000

40. Fair value information

Levels of fair value measurements		
Level 1		
Fair value through profit or loss		
Treasury notes and bonds	1 474 911	1 487 227
Financial assets at fair value through OCI:		
Treasury notes and bonds	2 382 325	1 773 668
	3 857 236	**3 260 895**

All other financial instruments where fair value disclosure is required are considered to be level 2. All other non financial assets which are measured at fair value are considered to be level 3 . The land and buildings havein previous years been revalued based on the open market value of the property which is defined under the International Assets Valuation Standards Committee as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms length transaction after proper marketing. The market value is estimated through the application of valuation methods and peocedures 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.

Levels of fair value measurements

Level 2

Assets	Note(s)		
Items measured at armortised cost			
Cash		4 364 888	3 746 860
Deposit Floaters		2 020 209	1 660 953
Unit trusts		-	750 487
Treasury bills		69 194	71 603
Total financial assets designated at fair value through profit (loss)		**6 454 291**	**6 229 903**
		-	-

Non recurring fair value measurements		
Financial liabilities at armortised cost		
Notes and coins in circulation	1 612 878	1 520 217
Deposits	538 418	342 136
Lesotho Government deposits	3 715 382	3 371 412
IMF accounts	1 748 203	1 802 342
Total other	**7 614 881**	**7 036 107**
Total	-	-

The fair value of financial instruments that are not traded in an active market as they do not have a regular market pricing although a fair value can be determined for them. Level 2 asset values can be closely approximated using observable prices as inputs such as interest rates and yield curves.

Level 3

Recurring fair value measurements

Assets	Note(s)		
Financial assets			
Investment in SWIFT		399	399

Notes to the Financial Statements

		2019 M '000	2018 M '000

40. Fair value information (continued)

		2019 M '000	2018 M '000
Non-financial assets	16		
Property, plant and equipment		397 232	243 278
Total		**397 631**	**243 278**

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

Valuation processes applied by the Bank

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

Inputs into the valuation:

Commercial buildings

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

M14,259

Residential buildings

The Bank uses the estimated rental for vacant land:

M387,750

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.

41. 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:

	2019	2018
Amounts in USD		
Deutsche Bank Trust Company America	17 000 000	14 846 277
Amounts in Euro		
Deutsche Bundesbank	2 817 241	653 118

As per the Bank's accounting policy in 1.27 these amounts have not been recorded on the Balance Sheet.

42. Events after the reporting period

On 27 March 2020 the South African government credit rating was downgraded to below investment grade. The impact of this will be noted in the ECL as the exposures would then be classified as Level 2 and a lifetime ECL will then be raised.

Coronavirus Disease (COVID-19) erupted in China around late 2019. Cases around the globe have been increasing exponentially, with confirmed cases approaching half a million (462 684) and related deaths recorded at over 20 thousand as per World Health Organisation (WHO) figures dated 26 March 2020. In the final weeks of February and beginning of March, Europe was the epicentre of the pandemic, with Italy being the most hit as it registered over 50% of global cases. However, almost one month later, (March 27) the United States had surpassed both China and Italy with over 86000 confirmed cases. The African region has the lowest confirmed cases due to limited testing kits, but South Africa's cases are increasing significantly, as they intensify the testing.

	2019 M '000	2018 M '000

42. Events after the reporting period (continued)

COVID-19 has both social and economic implications. Most the economies around the world are under complete lockdown in order to slow the spread of the infectious COVID-19. Some have restrictions on maximum number of people allowed for gathering and the extreme case is that of Germany which prohibits meeting between more than 2 people if they are not family or leaving together. It will most likely lead to global recession and massive job losses.

This piece attempts to assess the impact of the COVID-19 on our portfolio. The portfolio is comprised of long-term investments (bonds) and short-term investments (term deposits) and are categorized by tranches.

IMPACT ON INVESTMENT TRANCHE

The effects on bond portfolio are mixed, depending on the jurisdiction of the investments as exposure is in both South Africa (SA) and United States of America's (US) markets. Since yields are inversely related to bond prices, U.S. bond portfolio realised positive returns during the coronavirus period as yields dropped to record lows in anticipation of Fed rate cuts on the short end of the curve. The SA bond portfolio, on the other hand, realized negative returns due to increasing yields, an indication of the level of perceived risk by investors. The performance of the investment tranche is dependent on the interventions of government and monetary authorities through monetary and fiscal stimulus.

COVID-19 has resulted in increased volatility to levels higher than those seen during the 2008 global financial crises. Increased volatility leads to sharp price movements of instruments, which therefore affects liquidity (trading volumes) as bid/ask spreads widen. During these periods, Central Banks' interventions such as cheap loans to commercial banks, purchases of bonds, etc. are expected to assist to restore liquidity in the markets. It is therefore not surprising that, the week March 27 has been the best for most assets classes including bonds for the whole of March following stimulus put in place by both major monetary authorities and governments around the world.

Worth noting is the fact that the biggest losses on the portfolio will be *unrealized losses* due to uncertainty in the markets, which in turn will affect bond prices, but consistent support from the government and central banks will minimise or reverse the losses over time. Realize losses will, on the other hand, be recorded only if portfolio managers attempt to sell off their portfolio during this time when bond prices are at their lowest.

IMPACT ON MONEY-MARKETS (SHORT-INVESTMENTS)

Money markets instrument are perceived to be relatively low risk in nature and highly liquid. They include bank deposits and short debt instruments. This does not mean they are risk free, so the major concern is counterparty and reinvestment risk.

Reinvestment Risk

Reinvestment risk is the risk of investing maturing funds at lower interest rate and getting lower yield than on the maturing investment. Consequently, money markets are most profitable in an environment where interest rates are increasing. COVID-19 spread led to lower interest rates across the globe as central banks cut rates to stimulate economy in an effort to reduce economic impact. Reinvestment risk was elevated during the coronavirus era since all maturing investments have to be reinvested at relatively lower interest rates; hence lower revenue.

Counterparty Risk (Credit risk)

Counterparty credit risk is the risk of the borrower not honouring contractual obligations when they fall due, either capital or interest. Understanding and managing counterparty risk is vital to avoid capital losses. The counterparts are domiciled in different countries across the globe with South African banks holding larger chunk of our deposits. Despite the low rating of South African banks, they appear to be fundamentally strong as the big four banks (ABSA, Nedbank, Standard Bank and First National bank (FNB)) have strong balance sheets. They also meet the prudential liquidity requirements of the Reserve Bank. Standard bank, FNB and Nedbank announced relief (loan payments holiday) to small businesses and students affected by the coronavirus, which illustrates that they are liquid enough to survive without some loans being paid for 3 months.

Other counterparts are highly rated institutions with strong balance sheets. The Impact of coronavirus on different economies include massive job losses and collapse of other companies (e.g airlines). Governments in major economies are ready to intervene in any way to reduce the impact on local companies, while central banks have put aside funds to increase liquidity through cheap lending in the short-term. There is minimal chances of losing capital but revenue generation remains the biggest risk.

CONCLUSION

2019 M '000
2018 M '000

42. Events after the reporting period (continued)

The impact of coronavirus can be devastating if the virus is not contained for extended periods of time, with major economies due to be affected due to extended lockdowns and falling global demand. The fact that China was able to contain the virus, we are hopeful that other nations will deploy all necessary measures to minimize the damage on global financial markets. Considering the nature of the Central Bank of Lesotho's portfolio (sovereign bonds and money markets), it is less likely to lose capital due to the nature of the asset classes. However, emphasis remains on the Bank's ability to make available necessary liquidity to finance obligations and to a lesser extent, generating returns. It is this last objective where the greatest risk lie, where due to low interest rates and high volatility, revenue is likely to drop below the projected levels.

43. Reclassifications

The classification of the Bank's cash and cash equaivalents has been reconsidered, resulting in the reclassifiction of deposit floaters with original maturities of three months or more as defined in IAS 7, *Statement of Cash Flows* out of cash and cash equivalents. These instruments had previously been treated as cash and cash equivalents due to the fact that interest was resetting every three months though it was considered insignificant The instruments were acquired durign 2017. The reclassification of financial information has resulted in the comparative being restated for years ended 31 December 2017 and 31 December 2018.

Summarised Statement of financial position 2018	**Notes**	**As at 31 December 2018**	**Reclasification**	**As at 31 December 2018(restated)**
Cash and cash equivalents	2	5 407 813	(1 660 953)	3 746 860
Deposit Floaters	3	-	1 660 953	-
Subtotal	-	5 407 813	-	3 746 860
	-	**5 407 813**	-	**3 746 860**

Summarised Statement of financial position 2017	**Notes**	**As at 31 December 2017**	**Reclasification**	**As at 31 December 2017(restated)**
Cash and cash equivalents	2	4 778 747	(650 000)	4 128 747
Deposit Floaters	3	-	650 000	-
Subtotal	-	4 778 747	-	4 128 747
	-	**4 778 747**	-	**4 128 747**