2021 ANNUAL REPORT

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

March 30, 20**22**

Hon. Thabo Sophonea, MP,
Minister of Finance
Office of Minister of Finance
P O Box 395
MASERU 100
Lesotho

Honourable Minister,

I have the honour to transmit the Annual Report of the Central Bank of Lesotho for the year 2021 which includes:

1. a review of economic developments during the year

2. pursuant to Section 53(1) of the Central Bank of Lesotho Act No.2 of 2000;

    a) The Bank's annual financial statements for the year ended December 31, 2021 certified by the auditors Moteane, Quashie & Associates and SNG Grant Thornton.

    b) A report on the operations and activities of the Bank during 2021.

Yours sincerely,

P. L. Mohapi (Mr.)
ACTING GOVERNOR

Corner of Airport and Moshoeshoe Roads, Maseru Central | (+266) 22 314281 | www.centralbank.org.ls

CENTRAL BANK OF LESOTHO
2021 ANNUAL REPORT

for the year ended December 31, 2021

The contents of this 2021 annual report are pursuant to Sections 46 and 53 of the
of the Central Bank of Lesotho Act No. 2 of 2000.

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

For further information, contact:

Knowledge Management Unit
Research Department
Central Bank of Lesotho
P.O. Box 1184
Corner Airport & Moshoeshoe Road
Maseru 100, Lesotho
Telephone: +266 2231 4281 / 2223 2000 • Facsimile: +266 2231 0051 / 2231 0679
Email: **info@centralbank.org.ls**
Website: **www.centralbank.org.ls**

GOVERNANCE, MISSION & OBJECTIVES

Ownership and Governance

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

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

Mission Statement

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

Objectives

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

Other statutory functions of the Bank are:

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

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Contents, Figures & Tables

CONTENTS

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

TABLES & FIGURES

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Board of Directors & Executive Management

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

BOARD OF DIRECTORS


Dr. Retšelisitsoe Matlanyane
Executive Chairman


Dr. Masilo Makhetha
Executive Director


Ms. 'Mathabo Makenete
Executive Director


Ms. Refiloe Tlali
Non-Executive Director


Mr. Retšelisitsoe Thamae
Non-Executive Director


Mr. Obed 'Nete
Non-Executive Director


Mr. Matooane Letsoela
Non-Executive Director


Adv. Kuena Thabane
Non-Executive Director

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

EXECUTIVE MANAGEMENT

Dr. Retšelisitsoe Matlanyane
Governor

Dr. Masilo Makhetha
First Deputy Governor

Ms. 'Mathabo Makenete
Second Deputy Governor

Mr. Lehlomela Mohapi
Director of Research Department

Mr. Bohlale Phakoe
Director of Financial Markets Department*

Mr. Mokotjo Mphaka
Director of Other Financial Institutions Supervision Department

Mr. Fusi Morokole
Director of Operations Department

Mrs. Puseletso Tau
Director of Banking Supervision & Financial Stability

Mr. Mothetsi Sekoati
Acting Director of Payments & Settlements Department

Mrs. 'Mamakhaola Mohale
Director of Internal Audit Department

Mr. Napo Rantsane
Director of Corporate Affairs Department

Mrs. 'Mateboho Morojele
Director of Human Resources Department

Mrs. Mpono Mosaase
Director of Enterprise Risk Management Department

Mr. Thabiso Makula
Director of ICT Department

Mrs. Rebecca Ralebakeng
Director of Finance Department

* From October to end of 2021 Mr Motebang Mphi was appointed as Acting Head of Financial Markets Department.

Foreword by the Acting Governor

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

FOREWORD BY THE GOVERNOR

Mr. Lehlomela Mohapi
Acting Governor

THE YEAR 2021 WAS CHARACTERISED by the continued domination of COVID-19 pandemic on the global economy and the potential turning point with the approval of several vaccine drugs. While the vaccine approvals provided an avenue for return to normalcy, the vaccine rollout was hampered by severe supply constraints and hoarding of vaccines by advanced countries. This resulted in widening gap in vaccinations between advanced and developing countries. As such the waves of the pandemic driven by the virus mutations continued.

With instances of hard lockdowns severely diminished, if not abolished, the economies started the long journeys of recovery. The global economy was estimated to grow by 5.9 per cent in 2021 compared with the contraction of 3.1 per cent in the previous year. The recovery was mainly driven by positive developments surrounding the COVID-19 pandemic in the first half of the year, as well as, robust policy support, especially in advanced economies. The gradual re-opening of most economies, together with vaccine rollout proved to be supportive to growth in 2021. Fiscal policy support in countries, such as, the United States (US) and United Kingdom (UK) was expected to boost growth in these economies, with positive spill-over effects to other trading partners. Growth in the Emerging and Developing economies, was estimated at 6.5 per cent in 2021, in contrast to a decline of 2.0 per cent in the previous year. These largely reflected stronger than expected output in the first half of the year, emanating from lifting of restrictions following positive uptake of vaccines. However, the resurgence of COVID-19 cases arising from the latter variants, such as the Delta and the Omicron undermined growth in both advanced and developing economies in the second half of 2021. Supply chain disruptions arising from the re-imposition of restrictions were expected to have weighed negatively on growth in 2021.

Lesotho, like the rest of the world exhibited positives signs as restrictions were relaxed during the year under review. The real Gross Domestic Product (GDP) was estimated to have grown by 2.7 per cent in 2021, in contrast to a decline of 6.5 per cent in 2020. This growth was mainly on account of positive developments in the primary and secondary sectors, and to a lesser extent the tertiary sector. Deliberate policy action both internationally and locally boosted activity in the local economy. This was in addition to easing of the COVID-19 induced restrictions during the year.

The labour market conditions remained vulnerable, with both Lesotho National Development Corporation (LNDC) assisted companies and migrant mineworkers continuing to register significant declines. The strong growth observed in broad money supply (M2) over the previous year began to fade away into December 2021. This was anchored by a notable increase in net domestic claims, coupled with a relatively subdued growth in the net foreign assets position.

The Government budgetary operations deteriorated in 2021, registering a deficit that was financed through issuance of Treasury securities, among others, leading to a public debt stock increasing to near the sustainability benchmark of 60 per cent.

The balance of payments was estimated to have recorded a significantly lower surplus during the year. The contraction in the overall balance of payments was mainly driven by the worsening current account deficit due to an expansion on the services account deficit, coupled with, a declining surplus on the secondary income balance. However, the deterioration of overall balance was somewhat cushioned by the sizeable capital account inflows during the year, following a pick-up in phase II of the Lesotho Highlands Water Project (LHWP) activities.

The year under review marked the end of the strategic plan 2019-2021. As such, the Bank completed the review and development of the successor three-year strategic plan 2022-2024. The new strategy was informed by the comprehensive diagnostic assessment of both the Bank, the financial sector, and the economy. The financial sector review was in the form of *World Bank Financial Sector Assessment Programme (FSAP)* Development Module, International Monetary Fund (IMF) *Financial Sector Stability Review (FSSR)*, and the *FinScope Consumer Survey 2021*. Part of the review of the Bank's capabilities and control environment was in the form of the IMF Safeguards Assessment Review. The new strategy would guide the Bank to tackle some of the new emerging issues such as the Central Bank Digital Currency (CBDC), Fintech and Innovation and climate change.

The core activities of the Bank of supervising and regulating of the financial sector, developing capital and money markets, overseeing national payments systems, managing of foreign currency reserves, and issuing the national currency continued unhindered. Overall the financial sector continued to display some resilience despite the prolonged COVID-19 pandemic. Migration to Basel II.5 was postponed to January 2023. Basel II.5 would ensure that the banking sector financial health is strengthened. A major milestone was attained with the listing of RMB Properties (Ltd) in the Maseru Securities Market. This was the first listing since the launch of the platform some six years ago. It is expected that more companies would follow suit in the subsequent years. The Bank continued to implement the project to develop the National Payment Switch, which was expected to be completed in September 2022 and provide the Bank with full oversight over the payment system. That would also reduce costs for consumers as card clearance would be done in locally.

The Bank launched the new Maloti banknotes with much improved security features to manage the counterfeit risk. One major improvement in the upgrade was the features that allowed for the visually impaired people to use the currency.

The prolonged COVID-19 pandemic implied that the social distancing measures and regulations had to be complied with during the year. As such, a sizable number of staff continued to work from home with the implementation of the hybrid working model in the Bank. The Bank's capabilities in this regard have been improved further. The Bank's ICT infrastructure capacity and the attendant management of cyber risks were enhanced. The dedication and professionalism of our staff has been tested and proven with significant portion of the work performed remotely.

The economies are still operating at below pre-Covid-19 levels. As previously noted, the operating environment for organizations, as a result, remains complex and riddled with many uncertainties. The Bank had one of the most difficult budget cycles in 2021. Austerity and cost containment were the modus operandi in many areas of the Bank's scope of activities. Even then, as will be noted in the financial statements herein, the Bank still returned an operating loss for the review year. While uncertainties remain, the yield environment is expected to improve with interest rates normalisation in the coming year.

Overall, the assurance and governance structures of the Bank – Board oversight, capacitated executive management, risk and continuity management, and independent internal audit function – continued to be strong and robust ❑

Lehlomela Mohapi (Mr.)
Acting Governor

1

In 2021, the global economy was estimated to have grown by 5.9 per cent, rebounding from a dip of 3.1 per cent in 2020.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

THE ECONOMIC REPORT

1.1 INTERNATIONAL ECONOMIC DEVELOPMENTS

1.1.1 The World Economy

In 2021, the global economy was estimated to have grown by 5.9 per cent, rebounding from a dip of 3.1 per cent in 2020. The recovery of the global economy in 2021 compared was mainly driven by positive developments surrounding the COVID-19 pandemic in the first half of the year, as well as robust policy support, especially in advanced economies. Growth in advanced economies was estimated at 5.0 per cent in 2021, against a contraction of 4.5 per cent in the previous year. The gradual re-opening of most economies together with vaccine rollouts boosted growth in 2021. Fiscal policy support in countries such as the United States (US) and United Kingdom (UK) boosted growth in these economies, with positive spill-over effects to other trading partners.

In emerging and developing economies, economic activity was estimated to have grown by 6.5 per cent in 2021 compared to a decline of 2.0 per cent in the previous year. The rebound in growth in these economies largely reflected stronger than expected output in the first half of the year, emanating from vaccine roll-outs and the lifting of restrictions, which supported economic activity. Nonetheless, there were indications that economic growth in advanced and developing economies moderated in the second half of 2021, amid the resurgence of COVID-19 cases arising from the Delta and Omicron variants, which necessitated re-imposition of restrictions to contain the spread of the virus. Supply chain disruptions arising from the re-imposition of restrictions were also expected to have weighed negatively on growth in 2021.

Global trade rebounded significantly in the year under review after a steep contraction in the previous year. Trade volumes were estimated to have grown by 9.7 per cent in 2021 compared to a fall of 8.2 per cent in 2020. Global trade was buttressed by the re-opening of economies and easing of travel restrictions. However, the recovery in global trade was moderated by the re-imposition of restrictions related to COVID-19 in some countries, in response to resurgence of infection cases towards the end of the year, which impeded productivity and slowed trade.

Labour market conditions improved in 2021, as the global economy recovered. However, unemployment figures remained above their pre-pandemic levels, with contact-intensive sectors being the worst affected. Despite the outbreak of the Delta and Omicron variants, signs of recovery were relatively strong, especially in advanced economies, as firms bridged labour gaps in a bid to resuscitate production. Country-specific policies such as the “jobs-first-policies” in China also supported employment, even in the face of the Delta and Omicron variants.

Consumer prices were generally higher in 2021 compared to 2020. Most countries cited supply side bottlenecks and increasing commodity prices as factors that fuelled consumer price inflation. This was further exacerbated by higher costs of inputs and raw materials. Some countries have attributed the inflation spikes to rising food prices, while others have noted policy related developments, such as the end of the temporary tax cut in Germany and the expiration of mortgage

The gradual re-opening of most economies together with vaccine rollouts boosted growth in 2021.

moratoriums in the US. Monetary policy stance in most countries remained largely accommodative throughout 2021. In response to the rising prices, some central banks raised their policy rates in the last quarter of the year. However, other central banks maintained accommodative monetary policy stances to support economic growth.

1.1.2 Selected Advanced Economies

United States (US)

In 2021, the US economy grew by 5.7 per cent, following a contraction of 3.4 per cent a year earlier. This was the highest GDP growth rate recorded since 1984, when the US economy was similarly rebounding from a recession. Economic activity in the country was buoyed by a surge in consumer spending, together with increases in exports and services. Consumer spending hit a record high in the fourth quarter of 2021, boosted by "panic buying" as households anticipated shortages of consumer items resulting from supply chain disruptions following the discovery of the Omicron variant. The unemployment rate for 2021 declined to 3.9 per cent, from 6.7 per cent in 2020. The labour market benefited from the gradual re-opening of the economy.

The inflation rate for the US rose to 7.0 per cent for the twelve months ending in December 2021, compared with 1.4 per cent in 2020. The rising inflation for the US stemmed from supply chain disruptions associated with new variants of COVID-19. The rise in cost of services, as the economy re-opened, also contributed to higher inflation in 2021. Furthermore, there was a marked increase in gasoline prices throughout 2021, in line with an increase in global oil prices. The Federal Open Market Committee (FOMC) began its asset-tapering programme but maintained an accommodative monetary policy stance and left its policy rate unchanged at 0.00-0.25 per cent in 2021.

Euro Area

Economic activity in the Euro area was estimated to have grown by 5.2 per cent in 2021 following a sharp decline of 6.4 per cent in 2020. Growth in the Euro area was underpinned by robust activity in the second quarter of 2021, as the economy rebounded from a recession. The re-opening of the economy boosted aggregate demand and production in various sectors. However, the resurgence of COVID-19 cases in the last quarter of 2021, which led to the reintroduction of COVID-19 related restrictions, counteracted the positive growth momentum. The unemployment rate for the Euro area declined to 7.0 per cent in 2021, from 8.3 per cent in the preceding year, as demand for labour continued to rise with the recovery in economic activity.

Inflation for the Euro area accelerated to 5.0 per cent in the year under review compared to -0.3 per cent in 2020. The pressure on consumer prices came from the energy and services sectors. Moreover, with increased costs of raw materials, manufacturers tended to pass costs through to consumers. Notwithstanding the risk of high inflation, the European Central Bank left its policy rate unchanged at 0.00 per cent in 2021 to continue supporting growth. The Bank also maintained its quantitative easing programme but communicated the intention to scale back its pandemic emergency purchase programme in 2022 to control inflationary pressures in the economy.

Japan

During the year under review, GDP growth rate for Japan was estimated to have rebounded to 2.4 per cent, following a contraction of 4.5 per cent in the previous year. The recovery from the COVID-19 induced slump was driven by increased private consumption, public spending and fixed investment, especially during the first half of 2021 with subdued COVID-19 infections. The unemployment rate fell to 2.7 per cent from 2.9 per cent in 2020. The largest employment contributors were hotels and restaurant services, which continued to recover from COVID-19 induced restrictions that hampered the hospitality sector.

In 2021, the annual inflation rate for Japan rose to 0.8 per cent from -1.2 per cent in the previous year. Inflationary pressures mostly emanated from fuel prices and costs of raw materials, forcing producers to pass the high costs to end users. In addition, interest rates in Japan's trading partners were raised towards the end of 2021, weakening the value of the Japanese Yen and thus increasing the price of imported goods. However, with the inflation rate remaining well below the Bank of Japan's target of 2.0 per cent, the Bank left its policy rate unchanged at -0.10 per cent. The Bank continued with its quantitative easing commitments, but announced the end of the asset purchases commitments at the end of the first quarter of 2022.

United Kingdom (UK)

The UK economy was anticipated to have grown by 6.8 per cent in 2021, from a sharp decline of 9.4 per cent in the preceding year. The economic recovery was boosted by the rapid rollout of COVID-19 vaccines, which facilitated the loosening of pandemic restrictions in the second quarter of 2021. Ironically, the easing of restrictions that allowed for the re-opening of pubs, bars and clubs led to increased cases of COVID-19 infection, which resulted in the reintroduction of restrictions towards the end of 2021. The resurgence of pandemic infections partly offset the recovery momentum. In the labour market, the unemployment rate was expected to decline in 2021, alongside the robust recovery in economic activity, especially in the first half of the year.

The annual inflation rate for the UK rose to 5.4 per cent in 2021, from 0.6 per cent recorded in 2020. This was the highest figure recorded in thirty years, resulting from increased energy costs as well as restaurant and hotel costs. The upward pressure in energy costs followed the lifting of the price cap on gas and electricity in the last quarter of 2021. Costs for restaurant and hotel services rose with increased demand for services, following the relaxation of COVID-19 restrictions. In response to the inflation rate spike, the Bank of England raised its policy rate to 0.25 per cent at the end of 2021, from 0.1 per cent in the previous quarter. However, the Bank maintained its government bond purchases.

1.1.3 Selected Emerging Market Economies

China

China's GDP growth rate rose to a ten-year high of 8.1 per cent in 2021, compared to 2.3 per cent in the previous year. Growth in the world's second largest economy was mainly driven by robust consumption and exports, especially for

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

China’s GDP growth rate rose to a ten-year high of 8.1 per cent in 2021, compared to 2.3 per cent in the previous year.

automobiles in response to high external demand. However, the growth momentum slowed in the last quarter of 2021, amid lower demand and supply chain bottlenecks arising from the spread of the Omicron variant of COVID-19. China’s “zero Covid approach” has proven to be effective in containing the spread of the virus, but it has also constrained economic activity and growth. The unemployment rate was 5.1 per cent in 2021, slightly below 5.2 per cent recorded in the preceding year. The labour market in China was supported by the recovery of the economy and implementation of “jobs-first policies”.

The annual inflation rate rose to 1.5 per cent in 2021, from 0.2 per cent in the preceding year. There was increased domestic demand, which was fuelled by “panic buying” in the last quarter of 2021 amid fears of further restrictions in the wake of the Omicron virus. Additional pressure on consumer prices emanated from the increase in energy prices during the same period. Despite higher inflation, the People’s Bank of China cut its policy rate to 3.80 per cent in the last quarter of 2021, from 3.85 per cent in the previous year, in a bid to support economic growth.

India

In 2021, economic growth in India was estimated to have grown by 9.5 per cent from a contraction of 7.3 per cent a year earlier. The robust performance of the economy was expected to emanate from the agriculture and manufacturing sub-sectors, which contribute the largest shares to GDP in India. The agricultural sub-sector had shown resilience to the COVID-19 induced restrictions. This was attributable to government policies, which supported, among others, credit availability and provision of quality inputs to the sector. The manufacturing sector was supported by improved demand.

The annual consumer price index for India rose by 5.6 per cent in 2021 compared to 4.6 per cent in the previous year. The largest contributions came from high costs for food, energy and manufactured goods, resulting from the pass-through from producers to consumers. However, the Reserve Bank of India left its key policy rate unchanged at 4.0 per cent, to support economic recovery from the effects of COVID-19.

South Africa (SA)

GDP growth rate for South Africa was projected to increase to 5.0 per cent in 2021 from a dip of 6.4 per cent in the previous year. Growth was expected to be buoyed by the gradual re-opening of the economy and softer COVID-19 restrictions, which would support consumption and output, especially in the first half of 2021. However, economic activity in South Africa was expected to be hampered by power supply shortages and increased input costs weighing negatively on production. In the labour market, the unemployment rate was expected to decline in 2021 compared to 2020, with the gradual re-opening of the economy.

The annual inflation rate for South Africa recorded 5.9 per cent in 2021 compared to 3.1 per cent in 2020. This was the highest rate in almost 5 years, driven mainly by higher costs for transportation and food. Transportation costs, which account for the second largest share of the consumer basket, surged alongside the increase in global oil prices. In response to the inflationary pressures and associated risks, the Reserve Bank of South Africa raised its policy rate by 25 basis points from 3.50 per cent in 2020 to 3.75 per cent in 2021.

Table 1	Selected Economic Indicators, 2016 - 2021*				
Indicators	2017	2018	2019	2020	2021
World Output	**3.2**	**3.6**	**2.8**	**-3.1**	**5.9**
Advanced Economies	1.7	2.2	1.6	-4.5	5.0
Of which:					
United States	**1.5**	**2.9**	**2.2**	**-3.4**	**5.7**
Euro Area	1.8	1.9	1.3	-6.4	5.2
Japan	0.9	0.3	0.3	-4.5	2.4
United Kingdom	1.9	1.3	1.4	-9.4	6.8
Emerging and Developing Economies	4.4	4.5	3.6	-2.0	6.5
Of which:					
Africa					
Sub Saharan Africa	**1.4**	**3.2**	**3.2**	**-1.7**	**3.7**
South Africa	0.3	0.8	0.2	-6.4	5.0
Emerging & Developing Asia	6.4	6.4	5.4	-0.9	7.2
China	6.7	6.6	6.0	2.3	8.1
India	7.1	6.8	4.2	-7.3	9.5
Consumer prices					
Advanced Economies					
Of which:					
United States	2.1	1.9	2.3	1.4	7.0
Euro Area	0.3	1.6	1.4	-0.3	5.0
Japan	-0.2	1.0	0.8	-1.2	0.8
United Kingdom	0.7	3.0	1.3	0.6	5.4
Emerging and Developing Economies					
Of which: Africa					
Sub Saharan Africa	11.3	8.5	8.5	10.3	10.7
South Africa	6.4	5.3	4.5	3.1	5.9
Emerging & Developing Asia	**2.8**	**2.6**	**3.3**	**3.1**	**2.3**
China	2.0	2.1	4.5	0.2	1.5
India	3.4	3.4	7.4	4.6	5.6
World Trade Volume	**2.5**	**3.6**	**1.0**	**-8.2**	**9.7**
(Goods and Services)					
Exports					
Advanced Economies	2.6	3.1	1.3	-9.4	8.0
Emerging and Developing Countries	2.3	3.9	0.9	-5.2	11.6
Imports					
Advanced Economies	2.4	3.0	1.7	-9.0	9.0
Emerging and Developing Countries	2.3	5.1	-0.6	-8.0	12.1
Source	IMF World Economic Outlook, October 2021, IMF World Economic Outlook Update, January 2022 * IMF Projections				

Gold price increased by 1.0 per cent to the average of US$1788.07 per ounce in 2021, compared to an increase of 27.1 per cent in the previous year.

1.1.4 Commodities Price Developments

Gold

Gold price increased by 1.0 per cent to the average of US$1788.07 per ounce in 2021, compared to an increase of 27.1 per cent in the previous year. The price of gold was supported by mounting inflationary pressures in 2021, which pushed investors towards the safe haven asset, to hedge against the risk of high inflation. However, the slower increase in gold price in 2021 relative to 2020 was attributed to weak demand for the metal as the global economy slowly recovered from the impact of COVID-19. With the recovery of the global economy, investors opted for investment in equity funds, resulting in outflows from the gold-backed exchange traded funds (ETFs.

Platinum

The price of platinum gained in 2021 and stood at US$1042.31 per ounce. This price level was 13.8 per cent higher than the US$916.00 per ounce observed in the previous year. Platinum prices in 2021 were supported by the shortage of semiconductor chips used in automobile production. Platinum prices were further buttressed by improved demand from the jewellery and industrial applications in 2021. The increase in platinum prices was, however, moderated by the recovery in the metal's output in 2021, following output disruptions in 2020.

Oil

The price of oil increased by 73.4 per cent to an average of US$70.46 a barrel, from US$41.00 a barrel in 2020. The increase in oil prices in 2021 was attributable to the rising global demand for petroleum as the world economy re-opened and travel restrictions were relaxed. On the supply side, global production was slower than demand, which exerted upward pressure on prices. Production remained relatively low as a result of cuts that were introduced by OPEC towards the end of 2020. OPEC and other major oil-producing countries introduced production limits throughout 2021 to support crude oil prices.

Maize

The prices of white and yellow maize recovered by 19.7 per cent and 29.9 per cent, to US$222.15 and US$231.65 per tonne, respectively in 2021, after falling by 5.1 per cent and 4.4 per cent in the previous year. The increase in maize prices was underpinned by a growing demand from China and a series of supply concerns and disruptions at key producing regions, especially in the first half of 2021. Maize prices remained high through the second half of 2021 amid unpredictable weather conditions. The Brazilian corn suffered one of the largest crop losses on record.

Wheat

Wheat prices rose by 16.9 per cent to an average of US$367.25 a tonne in 2021 from US$314.00 in 2020. The price of wheat increased on the prospect of tightening global supplies in the Southern Hemisphere, as well as dry weather in Argentina and excessive rains during harvest in Australia. On the demand side, import demand had increased in some of the world's largest importing countries, especially Iran and Turkey.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

1.1.5 Currency Movements

The rand, hence, the loti appreciated against its major trading currencies in 2021, compared to the preceding year. The rand appreciated by 10.2 per cent against the US dollar, 3.7 per cent against the pound and 6.6 per cent against the euro. The strengthening of the rand against major world currencies was supported by the post-COVID-19 recovery of the global economy, accompanied by higher commodity prices. The rand was also bolstered by the increase in demand for South Africa's exports from its main trading partners such as China, the United States, and the European Union. Nevertheless, power supply disruptions counteracted the rand's appreciation.

1.2 DOMESTIC ECONOMIC DEVELOPMENTS

1.2.1 Real Sector Developments

Trends in Output and Income

Real gross domestic product (GDP) was estimated to have grown by 2.7 per cent in 2021, in contrast to a decline of 6.5 per cent in 2020. The realised growth mainly emanated from the primary and secondary sectors, with a relatively smaller contribution from the tertiary sector. The global rollout of COVID-19 vaccines, and campaigns for broad-based vaccinations to curb the adverse effects of the pandemic, boosted domestic economic activity. The gradual easing of COVID-19 induced restrictions added impetus to the economy.

Gross national income (GNI) also grew significantly. In 2021, GNI grew by 9.7 per cent, in contrast to the 8.8 per cent decline recorded in the preceding year. The observed growth was attributable to an increase in compensation of employees, especially remittances by migrant workers, coupled with an improvement in net payables to the rest of the world.

Table 2 Aggregate Economic Indicators (Percentage Change, 2012=100)

	2017	2018	2019	2020	2021+
GDP	-3.2	-1.2	2.6	-6.5	2.7
GNI	-2.3	-1.0	1.9	-8.8	9.7
GDP Per Capita	-3.6	-1.7	2.1	-7.0	2.2
GNI Per Capita	-2.8	-1.4	1.4	-9.3	9.2

Source Bureau of Statistics, +CBL Estimates

The performance of the mining and quarrying sub-sector improved in the review year, as the adverse effects of the pandemic were subsiding.

Sectoral Developments

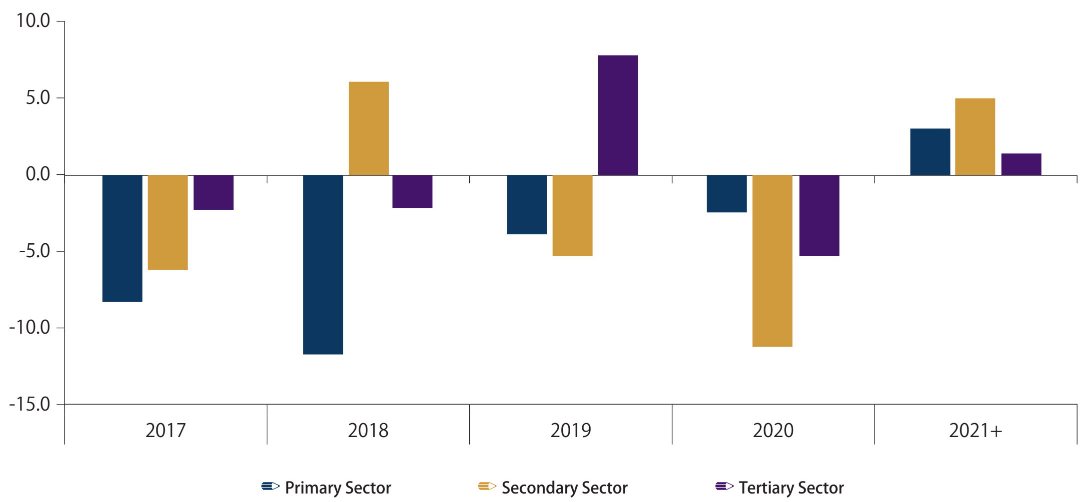
a) Developments in the Primary Sector

The performance of the primary sector was expected to improve in 2021. The sector grew by 3.2 per cent in in the review period, in contrast to the 2.3 per cent decline recorded in 2020. The improvement in the sector's performance resulted from growth in both *agriculture, forestry and fishing, and mining and quarrying* sub-sectors. The agriculture, forestry and fishing sub-sector withstood the adverse effects of the COVID-19, including challenges of availability or mobility of agricultural inputs during the 2020/21 farming season. The mining and quarrying subsector, on the other hand, grew for the first time in 2021 after contracting for three consecutive years.

The agriculture, forestry and fishing subsector was expected to grow by 3.6 per cent in 2021. However, this forecast represents slower growth compared to the 8.3 per cent growth realized in the preceding year. The slowdown in growth emanated mainly from the decline in growing of crops, gardening and horticulture, as well as a contraction in the forestry industry. Access to farm inputs, which are mainly imported from South Africa, remained a challenge in 2021, despite a slight improvement.

The performance of the mining and quarrying sub-sector improved in the review year, as the adverse effects of the pandemic were subsiding. The sub-sector, which is mostly export oriented, grew by 2.4 per cent, in contrast to the 17.2 per cent decline in the preceding year. The subsector was boosted mainly by favourable diamond prices and buoyant demand conditions as pandemic lockdown restrictions were eased in key markets.

Figure 1 **Sectoral Real Growth Rate** (Percentage)



Source: Bureau of Statistics

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

b) Developments in the Secondary Sector

The secondary sector, which was the main contributor to growth in 2021, expanded by 5.0 per cent, in contrast to the 11.2 per cent decline recorded in 2020. The sector benefited from the partial relaxation of movement restrictions in both domestic and international economies, as most non-essential services started operating at close to full capacity. While the construction sub-sector was the main contributor, growth in the sector was broad-based, as all the sub-sectors recorded positive growth.

The manufacturing industry also recovered and grew by 3.6 per cent in 2021, in contrast to the 7.3 per cent decline suffered in the preceding year. Despite worrisome job losses, the manufacturing sub-sector's performance remained generally strong, as all three components - food products and beverages; textiles, clothing, footwear and leather; and other manufacturing - registered positive growth.

The electricity and water subsector continued to grow. The subsector was forecast to grow by 2.9 per cent in 2021, which was slightly faster than the 2.7 per cent growth that occurred in 2020. Both electricity and water (plus sewerage treatment) supply contributed to the growth of the subsector, mostly in support of activity in the manufacturing.

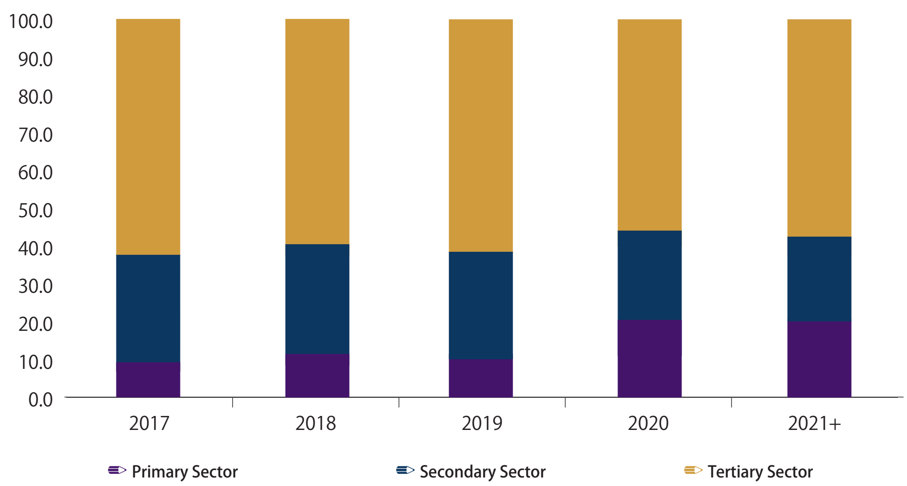
The construction sub-sector registered a strong recovery in the review year after performing poorly in the four preceding years. The industry grew by 15.3 per cent in 2021, compared to the 38.5 per cent contraction recorded in the previous year. The industry's performance was mainly boosted by construction works in advance infrastructure for the second phase of the Lesotho Highlands Water Project (LHWP II).

c) Developments in the Tertiary Sector

The tertiary sector was expected to improve in 2021. The sector grew by 1.5 per cent, following 5.2 per cent contraction in the preceding year. Growth was mainly underpinned by activity in the transport industry and hotel services. As pandemic lockdown restrictions were gradually eased throughout the year, demand for services improved, despite still slow job creation. However, education and health services, counteracted the sector's recovery with a contraction of 0.3 per cent and 7.5 per cent, respectively.

The manufacturing industry also recovered and grew by 3.6 per cent in 2021, in contrast to the 7.3 per cent decline suffered in the preceding year.

Figure 2 Sectoral Shares in GDP at Factor Cost (Percentages)

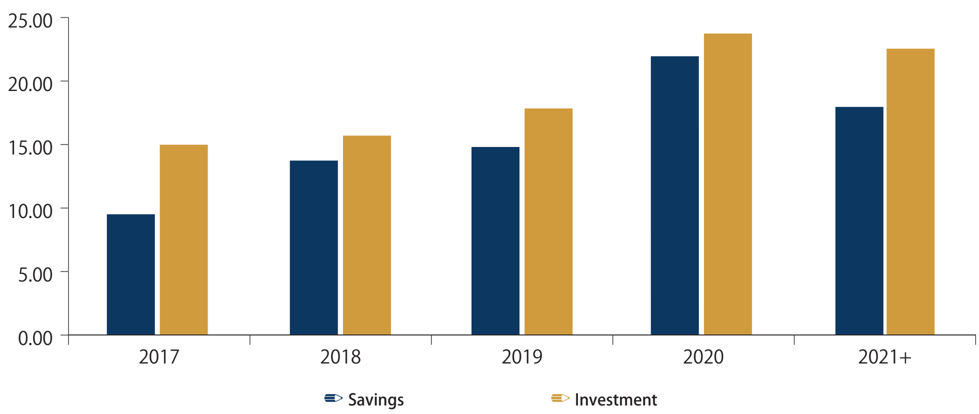


Source: Bureau of Statistics

Savings and Investments

Gross national savings, as a share of GNI, was estimated at 18.0 per cent in 2021, compared to 22.0 per cent registered in the previous year. The ratio of total investment to GNI declined from 23.7 per cent in 2020 to 22.5 per cent in the review year. The private sector continued to account for the bigger share of gross national savings and investment than the public sector. The savings-investment gap, as a share of GNI, was expected to widen from -1.7 per cent in 2020 to -4.5 per cent in 2021.

Figure 3 Savings and Investment (As a percentage of GNI)



Source: Bureau of Statistics

Employment, Wages and Prices

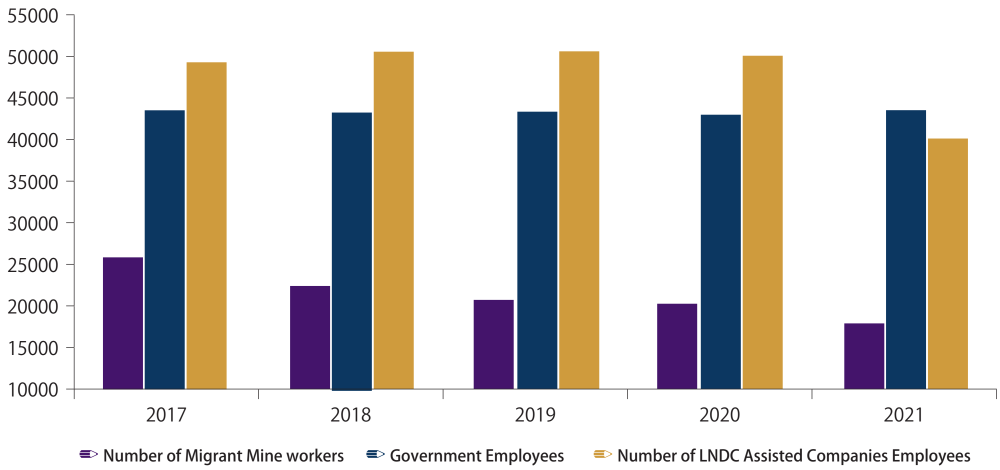
a) Employment Trends

The Central Bank of Lesotho monitors employment trends in Lesotho through three categories, namely government, manufacturing and Basotho migrant mineworkers in SA. Employment declined in 2021 from its 2020 levels for both the manufacturing sector and Basotho migrant mineworkers, while government employment increased marginally.

The LNDC-assisted companies experienced substantial job losses in 2021. There were 9,171 lay-offs from 2020 to 2021. This was mainly attributed to weak demand for Lesotho's exports in its international markets due to the protracted effects of COVID-19. According to the Lesotho National Development Corporation (LNDC), the progressive deterioration in business climate in the country worsened the sector's employment prospects. In the public sector, employment increased marginally by 0.7 per cent to 43,405 employees in 2021, from 43,107 employees in 2020.

The number of Basotho migrant mineworkers declined by 10.8 per cent from 20,101 in 2020 to 17,930 in 2021. Employment in the South African mining industry continued to fall along with declining output. A number of factors contributed to the worsening performance of the SA mining industry. These included electricity supply disruptions, in addition to the continued effects of COVID-19.

Figure 4 Employment Trends



Source: The Employment Bureau of Africa (TEBA), Lesotho National Development Corporation, Ministry of Finance

Employment declined in 2021 from its 2020 levels for both the manufacturing sector and Basotho migrant mineworkers, while government employment increased marginally.

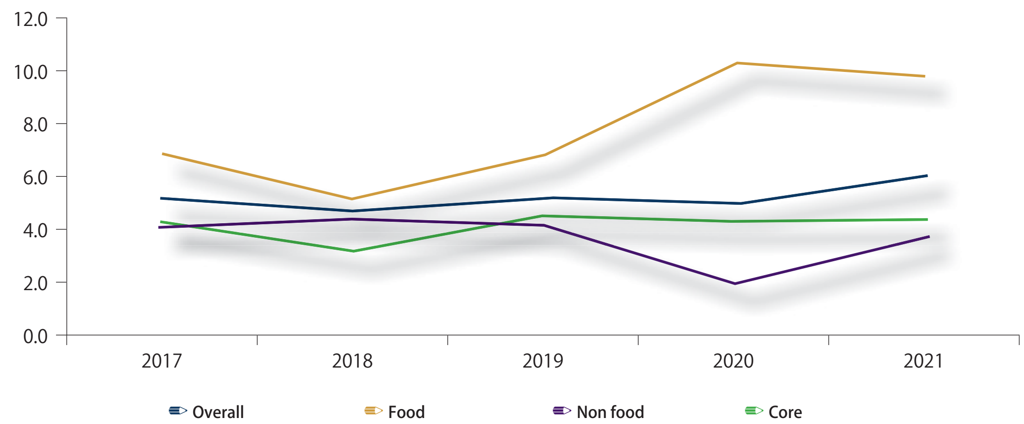
b) Wages

The general minimum wage rate for the 2021/2022 period was increased by 9.0 per cent, with a notable increase of 14.0 per cent for the manufacturing industry. This minimum wage increase followed a no adjustment in the preceding fiscal year. In the public sector, the Government of Lesotho kept wages and salaries unchanged for the 2021/2022 fiscal year, after an increment of 5.0 per cent during the 2020/2021 fiscal year.

c) Price Developments

The average headline inflation rate increased to 6.1 per cent in 2021 from 5.0 per cent in 2020. The higher inflation was mainly attributed to increased prices for the non-food component, while the slowdown in food inflation moderated the increase in the overall consumer inflation. The non-food inflation rate increased from 2.0 per cent in 2020 to 3.8 per cent in 2021, while food inflation rate decreased from 10.3 per cent to 9.8 per cent during the review period. The major drivers of inflation during the review period were the rise in international crude oil prices and administered prices, such as transport fares and electricity price adjustment, in 2021. However, the underlying inflation pressures in the economy, as measured by core inflation, remained relatively stable. The core inflation rate increased marginally from 4.3 per cent in 2020 to 4.4 per cent in 2021, as the underlying demand pressures were muted during the review period.

Figure 5 **Lesotho Consumer Price Index** (Annualized Percentage Changes)



Source: Bureau of Statistics

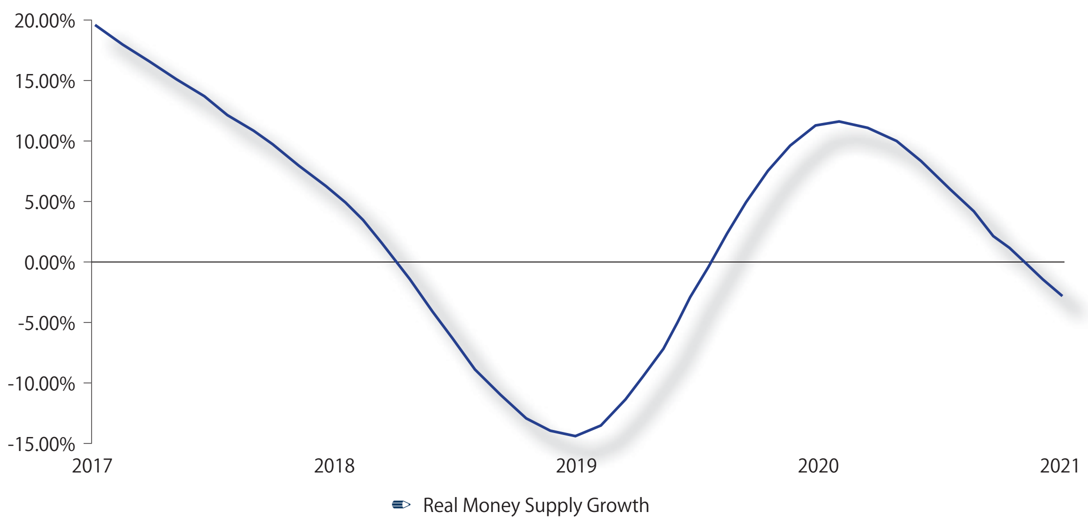
1.2.2 Monetary and Financial Sector Developments

Money Supply

The strong growth of broad money supply (M2) that was observed in 2020 faded away 2021. Growth in M2 slowed from 17.1 per cent in 2020 to 4.1 per cent in the review period. This was anchored by a notable increase in net domestic claims, coupled with a relatively subdued growth in the net foreign assets position. Expressed in real terms, M2 fell by 2.7 per cent in 2021, relative to a growth of 11.4 per cent observed in 2020.

Both components of M2, narrow money (M1) and quasi money, increased for the period ending in December 2021. The most notable change in M2 was observed in quasi money, which improved by 5.7 per cent, following a growth of 6.9 per cent in 2020. This was mainly attributable to the rise in fixed deposits associated with both business enterprises and non-profit institutions, which grew by 14.6 per cent and 72.3 per cent, respectively. Likewise, M1 increased by 2.4 per cent in 2021, following a growth of 30.3 per cent in 2020. The sharp deceleration in M1 was mainly reflective of base effects from demand deposits accumulated at the height of the pandemic. Despite the slowdown, growth in M1 was mainly driven by the household sector's demand deposits, which rose by 16.4 per cent in 2021.

Figure 6 **Real Money Supply Growth** (Percentage Change)



Source: Central Bank of Lesotho

The commercial banks NFA continued to benefit from an increase in foreign placements, supported by higher bank deposits in the year ending in December 2021.

Domestic Claims

Domestic claims reverted from a contraction of 3.0 per cent in December 2020, to an increase of 13.6 per cent in the review period. This was supported by growth in private sector credit coupled with a rise in net claims on central government, as they increased by 7.3 per cent and 13.9 per cent, respectively. Private sector credit was mainly driven by a rise in credit extended to the household sector, which was recorded at 9.0 per cent in December 2021. Moreover, the rise in net claims on government mainly reflected a 12.3 per cent decline in government deposits held with the Central Bank of Lesotho. The decline in government deposits offset the fiscal financing gap emanating from lower SACU revenue in the 2021/2022 fiscal year.

Table 3 **Domestic Credit** (Million Maloti: End Of Period)

	2017	2018	2019	2020	2021
Claims on Government (Net)	-770.5	-665.5	-2,117.4	-2,418.6	-2,083.1
Claims on Central Government	*1,844.3*	*2,126.0*	*2,678.5*	*2,750.8*	*2,792.9*
Liabilities to Central Government	*2,614.8*	*2,791.5*	*4,795.9*	*5,169.3*	*4,876.0*
Claims on Public NFCs (Official entities)	0.0	0.0	38.2	87.0	60.2
Claims on OFCs	78.0	256.7	231.4	266.8	144.1
Claims on Private Sector	6,131.0	6,807.7	7,365.1	7,415.2	7,958.5
Claims on Other Resident Sector (Households)	*4,147.8*	*4,710.1*	*5,192.8*	*5,399.8*	*5,885.9*
Claims on Other NFCs (Enterprise)	*1,983.2*	*2,097.6*	*2,172.3*	*2,015.4*	*2,072.6*
Domestic Claims	**5,438.5**	**6,398.8**	**5,517.3**	**5,349.4**	**6,079.4**
Source	Central Bank of Lesotho				

Net Foreign Assets

The annual growth in total net foreign assets (NFA) was less intensive in the period under review, registering a growth of 1.7 per cent in December 2021, relative to a surge of 20.7 per cent in the previous period. This was at the back of a 9.3 per cent growth in commercial banks NFA, which was moderated by a 2.7 per cent decline in the central bank NFA. The commercial banks NFA continued to benefit from an increase in foreign placements, supported by higher bank deposits in the year ending in December 2021. On the contrary, the decline in central bank NFA was mainly due to lower SACU revenue received during the review period.

Table 4 **Banking System's Net Foreign Assets** (Million Maloti: End Period)

	2017	2018	2019	2020	2021
Commercial banks	4,523.7	5,200.7	4,603.9	6,374.2	6,965.5
Assets	*5,010.8*	*5,700.4*	*5,026.7*	*6,679.4*	*7,451.1*
Liabilities	*-487.1*	*-499.8*	*-422.8*	*-305.2*	*-485.6*
Central Bank	8,094.5	9,135.2	9,734.8	10,937.6	10,646.3
Assets	*9,427.3*	*10,485.5*	*10,849.6*	*12,680.2*	*13,649.5*
Liabilities	*-1,332.8*	*-1,350.3*	*-1,114.8*	*-1,742.6*	*-3,003.2*
Net Foreign Assets	**12,618.2**	**14,335.9**	**14,338.7**	**17,311.8**	**17,611.8**
Source	Central Bank of Lesotho				

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Credit Extension

Trends of Credit to Business Enterprises

The yearly growth in total credit extended to the business sector displayed a moderate recovery in the period ending in December 2021. This was possibly a result of the improved economic performance, following the waning of the COVID-19 pandemic. Total credit extended to business enterprises increased by 2.8 per cent during the period under review, compared to a decline of 7.2 per cent recorded in the preceding year. The growth in credit to the business sector was mainly observed across the transport, storage & communication and wholesale, retail, hotel & restaurant sectors. Credit extended to the agricultural sector also improved notably in 2021, partly reflecting government policy measures to support agriculture through improved access to credit.

Table 5 Trends of Credit to Business Enterprises (Millions of Maloti)

	2017	2018	2019	2020	2021
Agriculture	17.0	30.3	29.2	47.2	90.8
Mining	284.1	379.7	419.9	359.2	284.7
Manufacturing	252.1	174.1	58.0	29.7	48.9
Electricity, gas and water	41.2	46.2	6.46	2.4	5.5
Construction	284.0	301.8	328.1	321.9	311.5
Transport, Storage and Communication	370.9	349.6	423.7	357.5	437.0
Wholesale, Retail, Hotel & Restaurant	167.1	261.7	387.5	354.4	412.4
NBFIs, Real Estate and Business Services	522.9	553.2	504.6	530.0	470.1
Community, Social & Personal Service	43.9	889.0	15.0	13.4	11.8
Total	**1,983.2**	**2,985.7**	**2,172.5**	**2,015.7**	**2,072.6**

Source: Central Bank of Lesotho

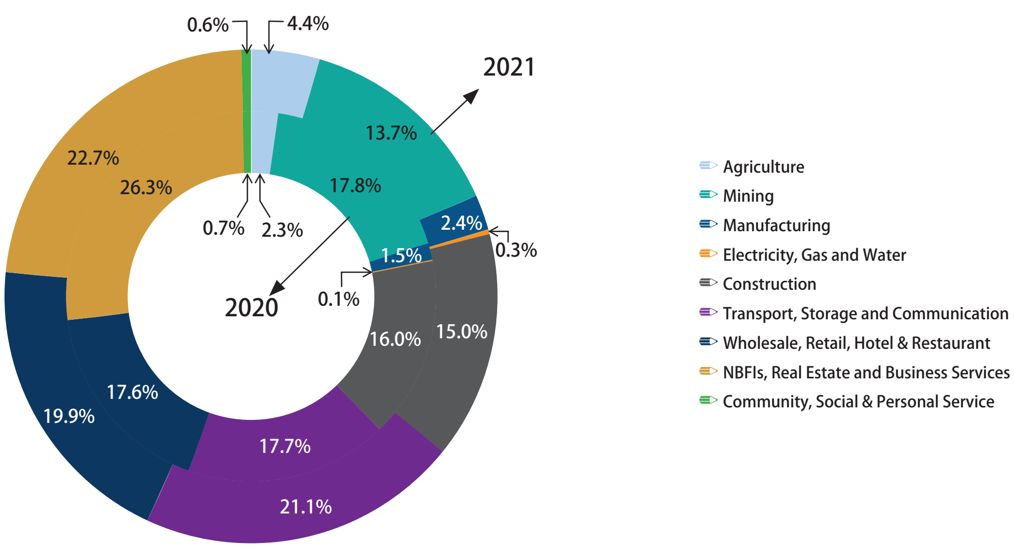
Distribution of Credit Extended to Business Enterprises

With regard to the sectoral distribution of credit extended to business enterprises, NBFIs, real estate & business services sector remained the largest recipient with a 22.7 per cent share of total credit to businesses in 2021. This was followed by the transport, storage & communication and wholesale, retail, hotel & restaurant sectors, with 21.1 per cent and 19.9 per cent, respectively. The electricity, gas & water sector remained the lowest recipient of credit, recording a share of 0.3 per cent in December 2021.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

The yearly growth in total credit extended to the business sector displayed a moderate recovery in the period ending in December 2021.

Figure 7 Distribution of Credit (Percentage Shares)

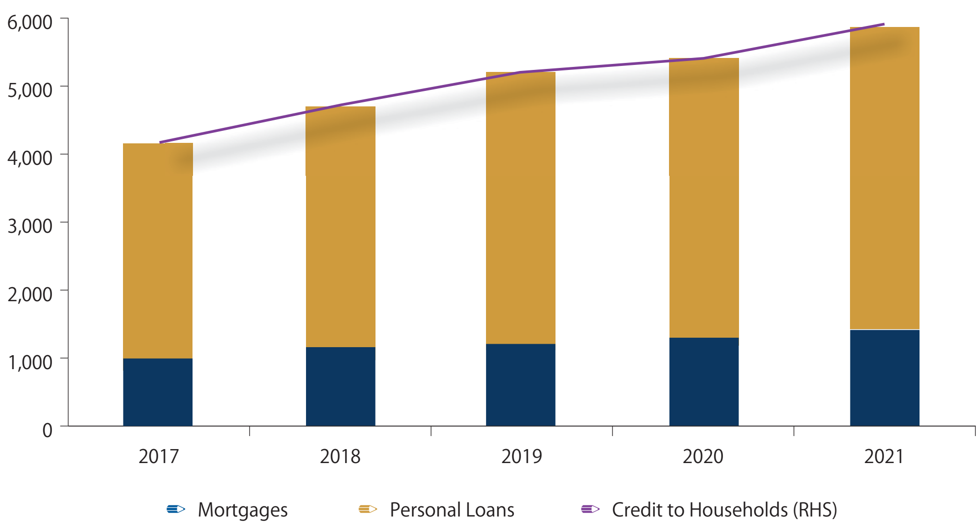


Source: Central Bank of Lesotho

Credit Extension to Households

Growth in credit extended to the household sector accelerated from 4.0 per cent in 2020 to 9.0 per cent in the review period. This improvement was partly indicative of the increased demand for credit, possibly fostered by the low interest rate environment and improved economic activity during the review period. The personal loans category, which continues to constitute the largest share in household sector credit, grew by 9.3 per cent, compared to 2.8 per cent to in 2020. Growth in mortgage loans also improved, rising from 7.9 per cent in 2020 to 8.0 per cent in 2021.

Figure 8 **Credit Extension to Households** (Million Maloti: End Period)



Source: Central Bank of Lesotho

Liquidity of Commercial Banks

Components of liquidity

The banking industry recorded a modest improvement in the level of intermediation, as evidenced by a rise in the credit to deposit ratio from 49.9 per cent in 2020 to 51.1 per cent in the review period. This was supported by growth in private sector credit, alongside a strong deceleration in total deposits. Moreover, the total banking sector liquidity stood at 44.0 per cent during the review period, up from 42.9 per cent recorded in December 2020. This was, particularly, attributed to the rise in commercial banks' placements with banks in South Africa.

[1] The Liquidity Ratio is expressed as a ratio of total liquid assets to total deposits.

In December 2021, the Central Bank of Lesotho (CBL) policy rate stood at 3.75 per cent, reflecting a 25 basis points rise from the rate registered in December 2020.

Table 6	Components of Liquidity (Millions of Maloti)				
	2017	2018	2019	2020	2021
Credit to Deposit Ratio (%)	55.2	54.6	57.1	49.9	51.1
Private Sector Credit	**6,045.5**	**6,713.0**	**7,257.3**	**7,309.7**	**7,849.4**
Total Deposits	10,956.0	12,303.6	12,709.0	14,636.5	15,361.8
Liquidity Ratio (%)	54.3	55.8	42.0	42.9	44.0
Notes and Coins	741.0	741.6	726.5	708.0	734.3
Net Balances Due from Banks in Lesotho	170.2	11.7	-369.2	-2.7	-4.2
Net Balances Due from Banks in SA	3,992.9	4,766.2	2,671.0	3,197.4	3,554.9
Surplus funds	41.0	-45.7	140.9	204.3	71.3
Government Securities	1,002.1	1,396.2	2,162.9	2,132.9	2,405.6
Total	**5,947.3**	**6,870.0**	**5,332.2**	**6,239.1**	**6,761.9**
Source	Central Bank of Lesotho				

Money and Capital Market Developments

Money Market

Interest Rates

In December 2021, the Central Bank of Lesotho (CBL) policy rate stood at 3.75 per cent, reflecting a 25 basis points rise from the rate registered in December 2020. At this rate, the CBL policy rate continued to be in alignment with developments within the CMA. The average prime lending rate also increased from 8.19 per cent to 8.44 per cent, while the one-year deposit rate declined by 59 basis points and stood at 3.20 per cent in the review period. The 91-day Treasury bill rate increased from 3.20 per cent to 4.06 per cent, remaining within the desired range of +/- 200 basis points of the South African counterpart rate.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Table 7 Interest Rates	2017	2018	2019	2020	2021
Central Bank Rate	6.75	6.75	6.50	3.50	3.75
91-days TB Rate	6.27	6.47	6.44	3.20	4.06
Lombard Rate	10.27	10.47	10.44	7.20	8.06
Commercial Banks					
Call	1.06	1.19	1.17	0.99	1.05
Time					
31 days	0.36	0.36	0.70	0.67	0.67
88 days	1.31	1.39	1.65	1.88	1.64
6 months	2.45	2.25	3.25	3.00	3.18
1 year	3.73	4.3	4.32	3.79	3.20
Savings	0.76	0.72	0.70	0.70	0.70
Prime	11.44	11.35	11.33	8.19	8.44
South Africa					
Repo	6.75	6.75	6.50	3.50	3.75
T Bill Rate – 91 Days	7.6	7.29	7.18	3.87	3.85
Prime	10.25	10.25	10.13	7.00	7.25
Source: Central Bank of Lesotho					

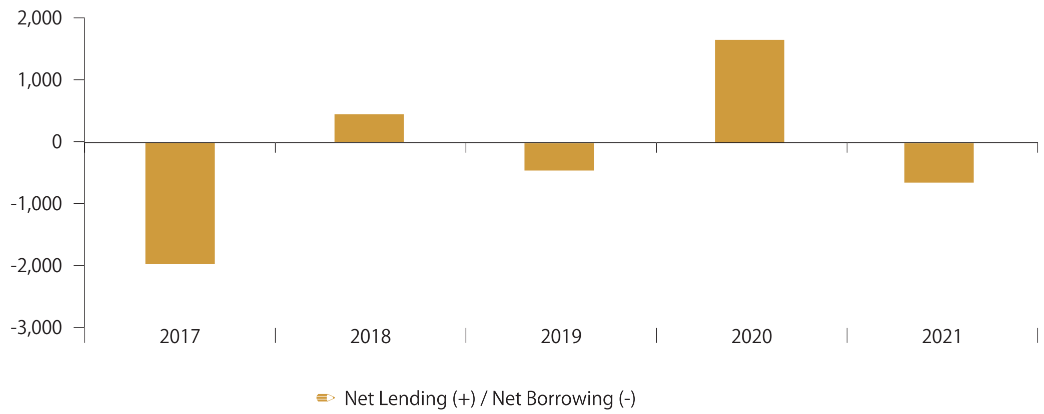
1.2.3 Government Finance Operations

Fiscal Performance in 2021

The Government budgetary operations for the calendar year ending in December 2021 registered a deficit equivalent to 1.8 per cent of GDP, reflecting a decline in government revenue and an increase in total expenditure. This contrasted with a revised surplus of 4.7 per cent of GDP in 2020. The deficit was financed, among others, through the issuance of Treasury securities, which led to a 5.0 per cent increase in public debt stock.

The total revenue declined marginally by 0.8 per cent in 2021 compared to an increase of 10.4 per cent in 2020.

Figure 9 **Fiscal Balance** (Million Maloti)

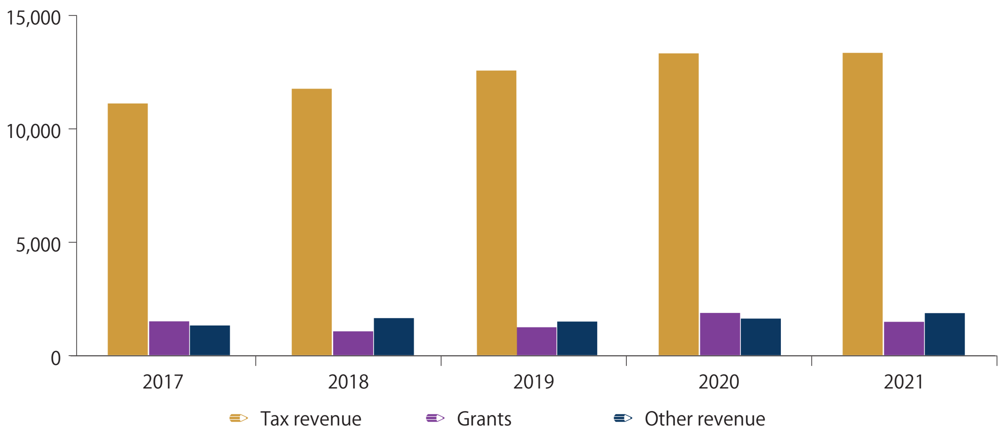


Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

Total Revenue

The total revenue declined marginally by 0.8 per cent in 2021 compared to an increase of 10.4 per cent in 2020. This was mainly attributed to a significant decline in SACU receipts, which decreased by 18.6 per cent in the current year, relative to a significant rise of 36.9 per cent in the previous year. In addition, tax revenue declined by 0.3 per cent, largely driven by personal income tax and petroleum levy. Furthermore, non-tax revenue declined by 2.7 per cent, reflecting the reduction in revenue collection solely due to dividends and interest earnings on property income. As a percentage of GDP, total revenue was estimated at 45.1 per cent in 2021, declining from 47.9 per cent in 2020.

Figure 10 Revenue (Million Maloti)

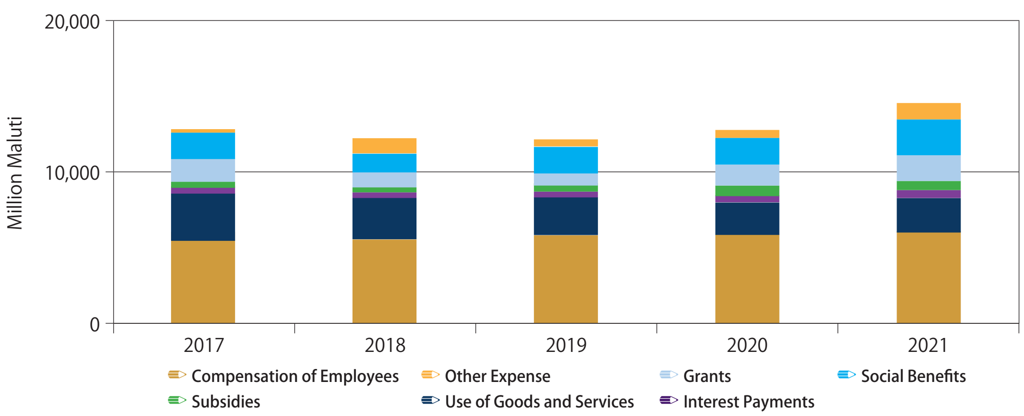


Source: Ministry of Finance (MoF) and CBL

Total Expenditure

Government expenditure was expected to increase by 14.4 per cent in 2021, following a 3.3 per cent decrease in 2020. The increase in expenditure was attributed to pressure in both recurrent and capital expenditures. The recurrent expenditure increased by 13.5 per cent following an increase of 5.7 per cent in 2020. The expense component with the highest expenditure was other expense, with 66.6 per cent increase, owing mainly to the increase in student grants and insurance premiums. Similarly, capital expenditure increased by 18.7 per cent compared to 34.2 per cent reduction in 2020. The increase was on account of spending towards buildings and structures, as well as development projects. As a percentage of GDP, total expenditure was estimated at 46.9 per cent in 2021 from a revised 43.1 per cent in 2020.

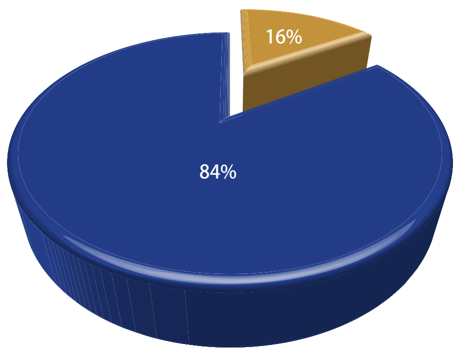
Figure 11 Total Expense (Million Maloti)



Source: Ministry of Finance (MoF) and CBL

Government expenditure was expected to increase by 14.4 per cent in 2021, following a 3.3 per cent decrease in 2020.

Figure 12 Total Expenditure (Million Maloti)

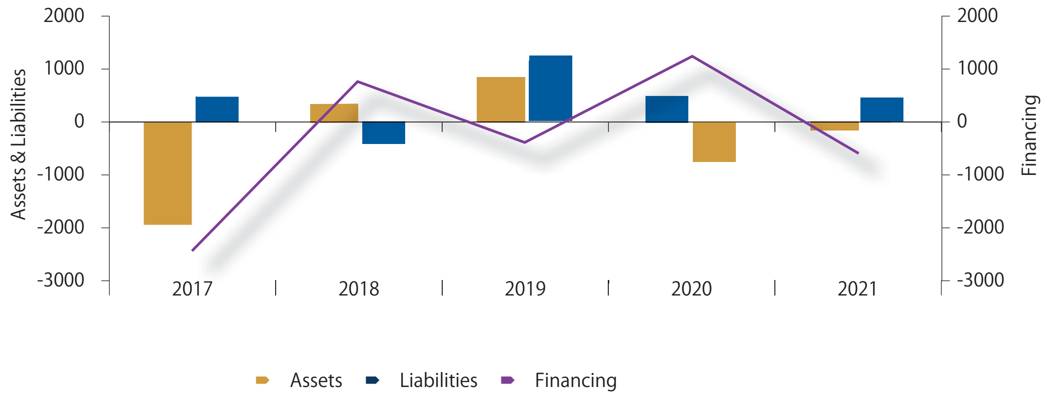


Source: MOF and CBL

Financial Assets and Liabilities[1]

The fiscal operations for the year 2021 led to a rise in domestic and foreign liabilities that were needed to finance the budget deficit. In addition to the issuance of Treasury securities, the deficit was partly financed from external debt. Furthermore, government deposits with the banking system were used to close the deficit financing gap.

Figure 13 Total Financing (Million Maloti)



Source: Ministry of Finance (MoF) and CBL

[1] All categories are on net terms.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Table 8 Statement of Government Operations (Millions of Maloti)	2017	2018	2019	2020	2021
Revenue	**14,198.11**	**14,860.38**	**15,452.27**	**17,053.92**	**16,914.96**
Tax revenue	11,192.05	11,772.34	12,564.30	13,348.46	13,308.29
Social Contributions	0.00	0.00	0.00	0.00	0.00
Grants	1,560.20	1,239.55	1,332.65	1,968.93	1,568.39
Other revenue	1,445.86	1,848.50	1,555.33	1,736.53	2,038.27
Expense	**12,656.16**	**12,377.66**	**12,302.23**	**13,005.29**	**14,766.42**
Compensation of Employees	5,879.93	5,600.81	5,775.31	5,863.82	6,075.94
Purchases of goods and services	2,956.24	2,746.08	2,642.43	2,182.65	2,308.56
Interest Payments	414.40	303.46	392.15	338.54	497.24
Subsidies	434.48	363.38	338.12	646.92	634.74
Grants	1,183.78	820.28	826.01	1,508.75	1,599.43
Social benefits	924.92	1,519.09	1,668.62	1,742.22	2,446.88
Other expense	862.41	1,024.56	659.60	722.39	1,203.64
Gross Operating Balance	**1,541.95**	**2,482.73**	**3,150.04**	**4,048.63**	**2,148.53**
Nonfinancial Assets	**1,899.72**	**1,994.71**	**3,593.06**	**2,364.43**	**2,811.74**
Fixed Assets	**1,899.72**	**1,994.71**	**3,583.27**	**2,364.43**	**2,811.74**
Buildings and structures	1,764.52	819.42	1,689.62	937.78	1,018.11
Machinery and equipment	135.20	218.91	234.07	112.90	83.50
Unidentified	0.00	956.39	1,659.57	1,313.75	1,710.14
Non-Produced Assets	0.00	0.00	9.79	0.00	0.00
Net lending (+) / Net borrowing (-)	**-357.77**	**488.02**	**-443.01**	**1,684.19**	**-663.21**
Financing	**563.59**	**770.49**	**-371.10**	**1,238.37**	**-579.35**
Financial assets	**1,915.58**	**374.38**	**886.38**	**477.66**	**-143.67**
Domestic	1,915.58	374.38	886.38	477.66	-143.87
Foreign	0.00	0.00	0.00	0.00	0.21
Liabilities	**1,351.99**	**-396.11**	**1,257.49**	**-760.71**	**435.68**
Domestic	954.16	-383.09	-52.72	-476.98	178.29
Foreign	397.83	-13.01	1,310.21	-283.72	257.39
Statistical Discrepancy	**-921.36**	**-282.47**	**-71.91**	**445.82**	**-83.86**
Memo Items					
SACU receipts	**5,745.39**	**5,695.23**	**6,055.22**	**8,291.95**	**6,750.95**
Total Expenditure	14,555.88	14,372.36	15,895.29	15,369.73	17,578.17
Annual GDP (current prices)	31,205.72	33,248.85	37,465.80	35,630.18	37,501.39

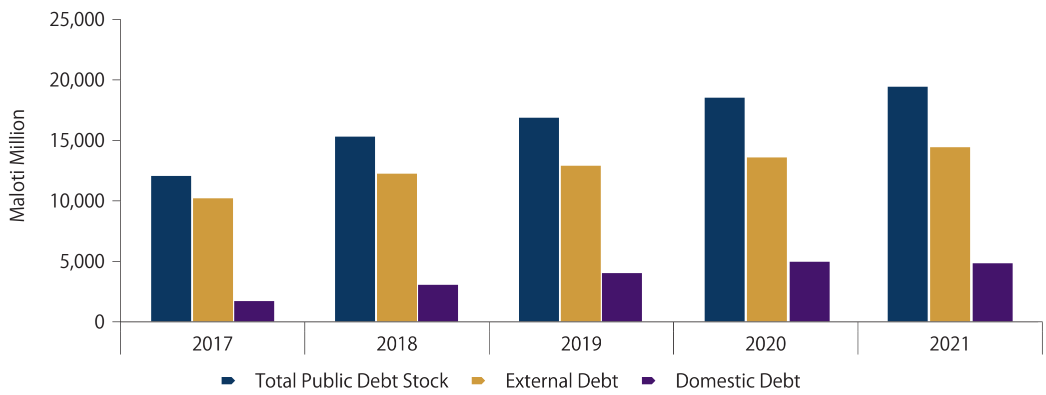
Source: CBL and MOF, *Figures in this column refer projected outturn.

The outstanding public debt increased by 5.0 per cent by end 2021 compared to 9.1 per cent at end of 2020.

Total Public Sector Debt[2]

The outstanding public debt increased by 5.0 per cent by end 2021 compared to 9.1 per cent at end of 2020. Contributing to the growth in public debt was a rise in both external debt and domestic debt. External debt increased by 5.8 per cent mainly due to disbursements from active loans including IDA, ADF and OPEC[3]. Similarly, domestic debt increased by 2.8 per cent as Government continued with expansion of securities' issuance. The share of external debt to total debt stood at 73.8 per cent in 2021 from 73.2 per cent in 2020.

Figure 14 Outstanding Public Sector Debt (Million Maloti)



Source: Ministry of Finance (MoF) and CBL

[2] All categories are on net terms.
[3] International Development Association, African Development Fund and The OPEC Fund for International Development.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Table 9	Public Sector Debt Stock (Millions of Maloti)				
	2017	2018	2019	2020	2021
Total Public Debt Stock	**11,446.21**	**15,500.20**	**17,057.40**	**18,609.44**	**19,542.61**
External Debt	**10,224.63**	**12,328.61**	**13,013.53**	**13,631.19**	**14,426.60**
Bilateral Loans (concessional)	864.91	961.92	1,044.28	975.64	953.90
Multilateral Loans	**8,678.89**	**10,674.92**	**11,001.83**	**11,090.74**	**11,488.80**
Concessional	7,053.90	9,079.29	9,459.91	9,620.03	10,004.40
Non-concessional	1,624.99	1,595.63	1,541.92	1,470.71	1,484.40
Financial Institutions (non-concessional)	0.60	0.54	0.23	0.00	0.00
Suppliers' Credit (non-concessional)	0.54	0.23	0.00	0.00	0.00
Domestic Debt	**680.29**	**691.54**	**967.42**	**1,564.81**	**1,983.90**
Banks	1,221.58	3,171.60	4,043.87	4,978.25	5,116.01
Treasury Bonds	1,221.58	2,120.69	2,658.36	3,215.15	3,251.85
Treasury Bills	0.00	787.54	963.96	1,096.06	1,118.18
Central Bank (IMF-ECF)	743.70	712.27	517.49	1,105.89	866.90
Non-bank	477.88	620.88	1,176.91	1,013.21	1,266.77
Treasury Bonds	0.00	1,050.90	1,385.51	1,763.09	1,864.15
Treasury Bills	0.00	798.54	1,080.71	1,464.18	1,668.13
Total debt as % of GDP	38.9	46.6	45.5	52.2	52.1
External debt as % of GDP	32.8	37.1	34.7	38.3	38.5
Domestic debt as % of GDP	6.1	9.5	10.8	14.00	13.6
External debt as % of total	84.3	79.5	76.3	73.2	73.8
Domestic debt as % of total	15.7	20.5	23.7	26.8	26.2
Concessional as % of External debt	0.8	81.4	80.7	77.7	76.0
Source	Ministry of Finance (MoF) and Central Bank of Lesotho (CBL)				

1.2.4 Foreign Trade and Payment

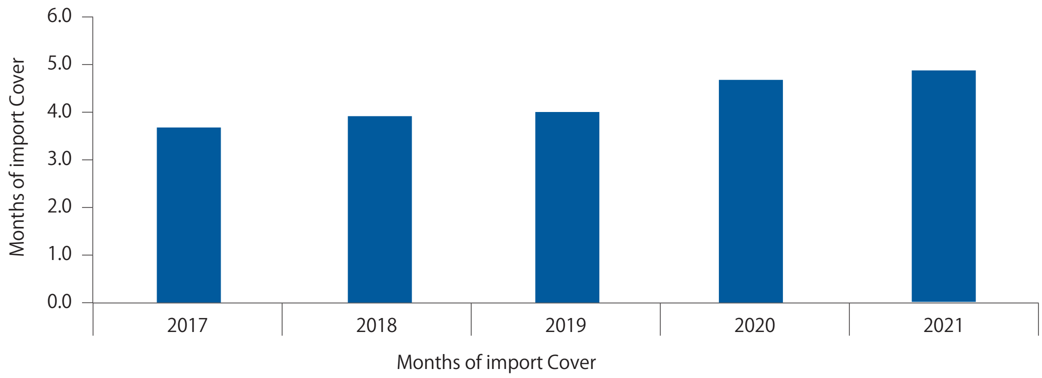
Overall Balance

Lesotho's balance of payments recorded a surplus amounting to 2.6 per cent of GDP in 2021, following a surplus of 5.0 per cent of GDP in the previous year. The contraction in the overall balance of payments was mainly driven by the worsening current account deficit due to an expansion on the services account deficit, coupled with, a declining surplus on the secondary income balance. The deterioration of overall balance was somewhat cushioned by the sizeable capital account inflows during the year, following a pick-up in LHWP activities as managers and workers in the construction industry got accustomed to the COVID-19 protocols put in place to curb further spread of the COVID-19 pandemic. Meanwhile, gross reserves as expressed in months of import cover grew by a modest 20 basis points from 4.7 months in the previous year to 4.9 months in 2021.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Merchandise imports grew by 2.7 per cent in 2021, following a 1.3 per cent increase in the previous year.

Figure 15 Reserves in Months of Imports



Source: Central Bank of Lesotho

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

	2017	2018	2019	2020	2021*
Current Account	**-6.21**	**-2.29**	**-3.41**	**-1.83**	**-3.83**
Goods	-34.65	-28.07	-29.33	-31,23	-28,14
Services	-18,22	-18,22	-17.53	-16.46	-16.88
Primary Income	20.72	19.97	19.43	17.80	18.13
Secondary Income	25.94	24.01	24.01	28.07	23.05
Capital Account	**1.71**	**1.48**	**3.54**	**4.04**	**4.85**
Financial Account	**-3.32**	**5.51**	**-1.93**	**8.82**	**4.56**

Source Central Bank of Lesotho

Current Account

The deficit on the current account expanded more than twofold to M1, 514.06 billion in 2021 following a 43.1 per cent fall or a downwardly revised deficit of M686.58 million in the previous year. The current account deficit deteriorated on account of increased payments for services together with a declining surplus on the secondary income account during the period. However, the contraction on the goods account deficit coupled with increased surplus on the primary income account, slightly moderated the observed deficit. As the share of GDP, the current account deficit accounted for 3.8 per cent, relatively slightly higher than a 1.8 per cent share in the preceding year.

The deficit on the goods account fell by 5.3 per cent during the year under review, following a 13.0 per cent increase in the previous year, as merchandise exports increased at a higher percentage than merchandise imports. Four out of six major exports categories, namely, textiles and clothing, diamonds, water exports and re-exports increased markedly. Meanwhile, notable declines in exports were observed for agriculture and other exports. Exports benefited from easing of COVID-19 restrictions across the globe, amid faster vaccination rollout. Textiles exports in particular, rose at the backdrop of higher orders that were relocated to Lesotho, due to the suspension of some countries from the Africa Growth and Opportunity Act (AGOA). In addition, textile exports also benefitted from the USAID Southern Africa Trade and Investment Hub initiative of connecting manufacturing companies in Southern Africa with potential buyers in the US. Diamond exports were buoyed by favourable international market conditions coupled with continued discovery of rare and high valued diamonds during the period. Generally, diamond prices were reported to have risen considerably due to strong demand and constrained supply in the aftermath of the COVID-19 pandemic. As a percentage of GDP, exports accounted for 39.74 per cent, a minimal increase from 38.3 per cent in 2020.

Merchandise imports grew by 2.7 per cent in 2021, following a 1.3 per cent increase in the previous year. They comprised mainly food and live animals; chemicals and related products; machinery and transport equipment; and miscellaneous manufactured products. Chemicals and related products comprised mostly medicaments, building materials (cement, glue) and agriculture related products (fertilisers). These were reflective of government's commitment towards the fight against COVID-19 pandemic, and enhancing domestic agriculture through subsidised input materials. Alternatively, a rise in imports of machinery and transport equipment together with increased building materials were reflexive of robust construction activities related to the Lesotho Highlands Water Project – Phase II project. Expressed as a ratio of GDP, merchandise imports accounted for 67.9 per cent, decreasing from a share of 69.5 per cent in the previous year.

During the year under review, the deficit on the services account widened by 7.7 per cent, following a 0.3 per cent fall in the prior year. This was mainly due to increased freight, business travel and telecommunication services acquired from abroad. Freight services rose in line with increased imports during this period. Alternatively, a rise in travel services was bolstered by comparatively relaxed COVID-19 related restrictions globally. As a proportion of GDP, the deficit accounted for 16.9 per cent, relatively unchanged from 16.5 per cent in the prior year.

Primary Income Account

The surplus on the primary income account expanded by 6.8 per cent, recovering from a 2.8 per cent drop in the previous year. It was buoyed mostly by increased compensation of employees, rising returns on commercial banks' short-term investments held abroad, as well as a fall in interest payments for government foreign loans during this period. Compensation of employees, specifically from migrant workers (both mineworkers in SA and migrant workers abroad), rose amid easing COVID-19 restrictions, which have seen most sectors operating close to normalcy in 2021 compared to 2020 where restrictions were tight throughout the year. Alternatively, returns on the central bank and commercial banks' investments held abroad, together with the receipts related to the operational and maintenance costs for LHWP – Phase I project declined, thus moderating the impact. Expressed as a percentage of GDP, the surplus on the primary income accounted for 18.1 per cent from 17.8 per cent in the previous year.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

During the year under review, Lesotho continued to attract more capital account inflows from its development partners.

Secondary Income Account

The secondary income account balance dropped by 13.7 per cent during the period under review, easing from a 24.1 per cent increase in 2020. Significant decline was observed for SACU receipts and the rand compensation, which contracted by 18.6 per cent and 58.9 per cent, respectively. The decline was however moderated by a decrease in government subscriptions to international organisations. As a proportion of GDP, the surplus on the primary income account constituted 23.1 per cent, from 28.1 per cent in 2020.

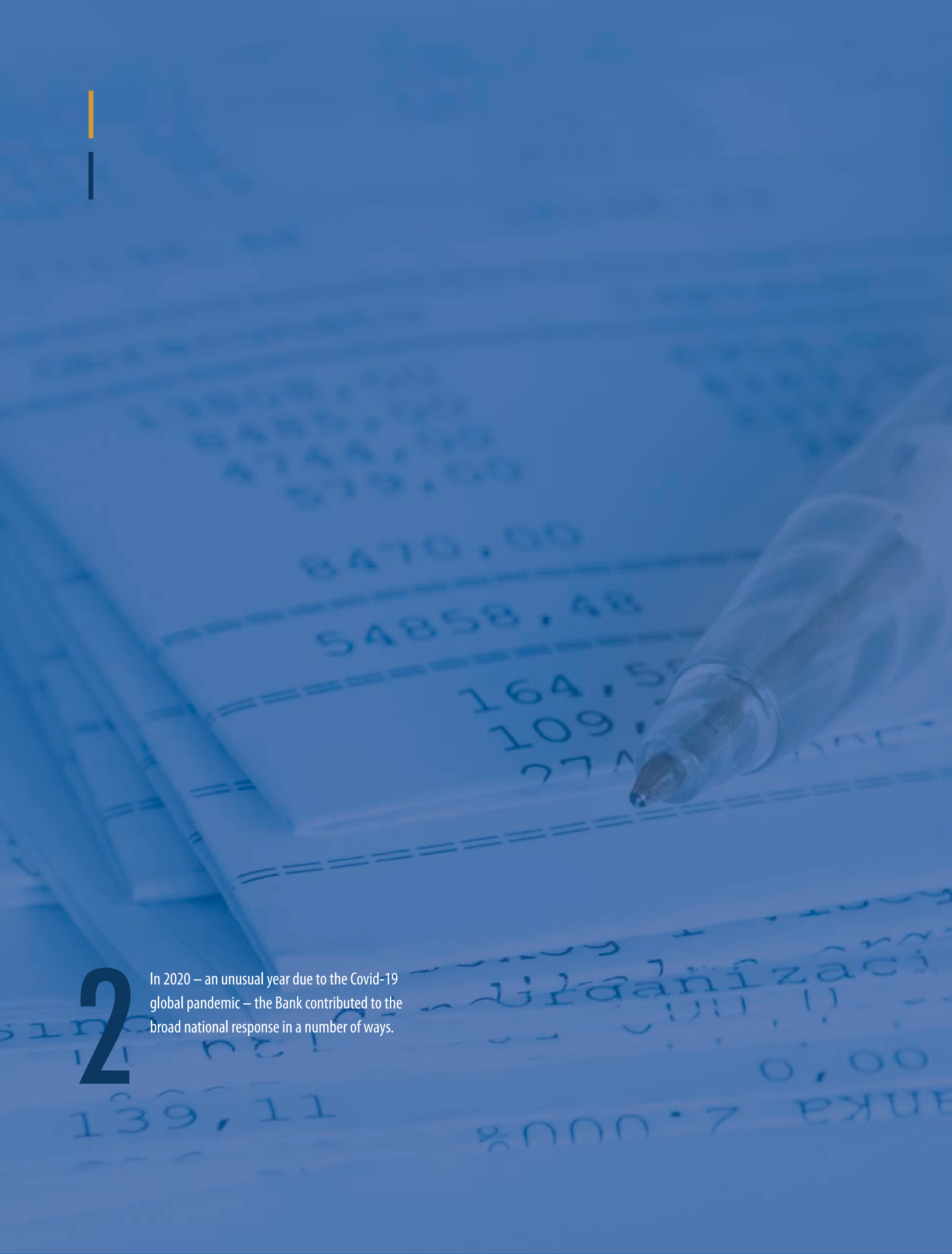
Capital Account

During the year under review, Lesotho continued to attract more capital account inflows from its development partners. The capital account balance surged by 26.3 per cent following an increase of 21.1 per cent in 2020. The capital account inflows were buttressed by increased transfers related to advance infrastructure for LHWP -Phase II ahead of the construction of the dam and tunnel. Despite the continued challenges posed by the COVID-19 pandemic, companies were able to make up for the lost time, following the relaxation of measures that were put in place, as the vaccine rollout gained momentum in the country. As a ratio of GDP capital account inflows accounted for 4.9 per cent in 2021 compared to 4.0 per cent recorded in 2020.

Financial Account

The financial account balance recorded an outflow amounting to M404.48 million, equivalent to 2.6 per cent of GDP in 2021, compared to an outflow of M3.3 billion or 5.0 per cent of GDP realized in 2020. The narrowing of the financial account outflow mainly reflected the decline in currency and deposits held abroad. Although Commercial bank's continued to maintain a significant buffer of foreign assets, the amount of foreign assets held abroad was affected by the need to meet domestic liquidity requirements. In addition, there was a significant decline in foreign loans in 2021 after a substantial increase in the previous year. In 2020, Lesotho contracted the RCF/RFI loan which was meant to fight the scourge of the COVID-19 pandemic, by boosting the reserve position of the country and providing liquidity for intervention in fiscal policy. The financial account balance was further affected by the decline in government deposits following the substantial fall in SACU receipts in 2021. SACU receipts plummeted by 18.58 in 2021 following a significant growth of 36.9 per cent in 2020. Thus, the country's ability to raise official reserves was severely affected in this regard. Lesotho, together with other IMF member countries received an SDR allocation in 2021. The decision to allocate SDRs was made by the IMF in its endeavour to support its member countries through provision of a buffer that would cushion economies against adverse economic effects in the aftermath of the COVID-19 pandemic ❑

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls



2

In 2020 – an unusual year due to the Covid-19 global pandemic – the Bank contributed to the broad national response in a number of ways.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

REPORT ON THE ACTIVITIES OF THE BANK

2.1 MONETARY AND FINANCIAL STABILITY

2.1.1 Financial Stability

The purpose of financial stability surveillance is to identify risks and vulnerabilities in the financial system and assess resilience of the financial system to domestic and external shocks. This is tracked through the financial soundness indicators (FSIs). In the review period the banking system, which forms the biggest part of the financial system, scored well on all fronts as shown by the following FSIs.

2.1.2 Financial Soundness Indicators

Capital adequacy

The banking sector's capital position remains robust. The ratio of total regulatory capital to risk-weighted assets stood at 22.2 per cent, 0.8 percentage points lower than the level observed in the same period in the previous year. Similarly, the ratio of tier-1 capital to risk-weighted assets decreased slightly from 24.9 per cent in 2020 to 24.1 per cent in 2021. The banking industry continued to maintain core capital buffers higher than the prudential minimum requirements[4], which was an indication that banks are in a better position to absorb expected or unexpected shocks that could arise, hence resilient.

Earnings and profitability

The industry's profitability deteriorated further during the year 2021, showing that the banks were still recovering from the impact of the Covid-19 pandemic crisis. During the review period, ROA decreased by 1.4 percentage points to 0.6 per cent. Likewise, ROE dropped by 12.1 percentage points to 5.0 per cent. In contrast, the ratio of net interest margin to gross income increased marginally in 2021, recording 57.4 per cent relative to 56.1 per cent recorded in 2020. At that level, over half of the banks' income came from their core business, which is intermediation. Similarly, the ratio of non-interest expense to gross income increased from 65.6 per cent in 2020 to 77.6 per cent in 2021. The ratio indicates that over half of the income generated during the year went into administrative expenses as opposed to expenses on income-earning assets.

Asset quality

Credit risk continued to moderate during the review period despite the slow economic recovery and elevated debt levels. Concentration risk in certain loan types and exposures to single or group of borrowers remained a concern. The ratio of NPLs to total loans decreased from 4.2 per cent in December 2020 to 4.1 per cent in December 2021.

Liquidity

Banks liquidity positions remained relatively unchanged during the review period. The ratio of liquid assets to total assets increased by 0.9 percentage points from 28.2 per cent that was observed in 2020. Similarly, the ratio of liquid assets to short-term liabilities increased from 41.9 per cent in 2019 to 43.2 per cent in 2021. The decline was primarily driven by an improvement in liquid assets (cash and cash items and transferable deposits).

[4] Minimum regulatory requirement for tier 1 and total regulatory capital to RWA are 4 and 8 per cent, respectively.

Sensitivity to market risk

Banks' sensitivity to market risk, measured by the ratio of net open position in foreign exchange to capital, improved during the review period. The ratio of a net open position in foreign exchange to capital decreased from 42.2 per cent in 2020 to 38.4 per cent in 2021, implying a decrease in Banks' exposure to revaluation risk in case of revaluation gains. In addition, by maintain a long position in foreign currency assets, as a result of an increase in foreign currency denominated assets, banks stand a better position to benefit when the loti depreciates.

Table 11 Financial Soundness Indicators (Per cent)

		2017	2018	2019	2020	2021
		Dec	Dec	Dec	Dec	Dec
Capital Adequacy	Regulatory capital to risk-weighted assets	17.8	17.9	19.2	23.0	22.2
	Regulatory Tier 1 capital to risk-weighted assets	21.2	20.2	21.5	24.9	24.1
	Nonperforming loans net of provisions to capital	6.4	5.8	4.7	4.6	5.7
Assets Quality	Nonperforming loans to total gross loans	4.4	3.7	3.3	4.2	4.1
	Large exposures to capital	80.7	82.1	83.0	69.2	58.4
Earnings & Profitability	Return on assets	2.4	3.4	3.1	2.0	0.6
	Return on equity	18.0	28.6	24.8	17.1	5.0
	Interest margin to gross income	59.6	60.4	58.5	56.1	57.4
	Noninterest expenses to gross income	62.2	60.7	41.5	65.6	77.6
Liquidity	Liquid assets to total assets	36.3	36.1	22.6	28.2	29.1
	Liquid assets to short-term liabilities	52.8	52.9	34.0	41.9	43.2
	Customer deposits to total (non-interbank) loans	184.6	179.8	170.7	195.1	192.8
Sensitivity to Market Risk	Net open position in foreign exchange to capital	24.5	23.6	28.3	42.2	38.4

Source Central Bank of Lesotho

2.2 RESEARCH AND ADVISORY SERVICES

The Bank, as an economic and financial advisor to the Government of Lesotho, continued to play its advisory role. This was accomplished through periodic economic reports, research and policy papers, and brief analytical and advisory notes.

2.2.1 Economic Research and Reports

In 2021, the Bank produced ten full research papers, six of which have gone through the internal clearing processes, and two presented at international economic conferences. Highlights of the research papers included the assessment of the impact of COVID-19 on Lesotho's Consumer Price Index; and the evaluation of the size of Lesotho's fiscal multipliers, to help understand the effectiveness of government expenditure. Moreover, two analytical notes were produced, and some thematic advisory pieces and technical studies to inform policy discretion amid the evolving COVID-19 pandemic.

The Bank, as an economic and financial advisor to the Government of Lesotho, continued to play its advisory role.

Work on the Bank's flagship reports was improved. In line with schedule, four (4) issues of the *Quarterly Economic Review*; the monthly economic reviews, with emphasis on the fiscal operations to facilitate monitoring of budget execution; and the *Annual Economic Report* for the year 2020 were produced. In addition, extra effort was channelled to more frequent updates of the evolving macroeconomic environment, with four (4) reports of the *Lesotho Economic Outlook* published during the review period.

2.2.2 Advisory Work

The Bank collaborated with the Ministry of Finance and the International Monetary Fund to put together a comprehensive economic diagnostic report that would form the basis for an IMF-supported adjustment programme. The Bank further advised the MOF on the optimal deployment of the new allocation of Special Drawing Rights by the IMF. In addition, the Bank continued to advise other national structures on areas of its competence. The Minimum Wage Advisory Board is a regular recipient of the Bank's assessment of the economy in preparation for its wage setting exercise. Furthermore, the Bank availed resources that provided inputs on the proposed economic sector reforms through the National Reforms Authority.

The Bank gets many invitations to deliver talks and make presentations in various for a. Some of the talks the Bank was invited to make include:

- *"Financial Intermediation in Lesotho: Indicators and Policy Options"*. This was delivered at the Access to Finance Roundtable organized by the Office of the Right Honourable the Prime Minster.
- *"Personal Finance: Economic and Behavioural Perspectives"* delivered to the National Assembly Staff.

2.3 REGULATORY AND LEGISLATIVE DEVELOPMENTS

2.3.1 Regulatory Advances

Progress towards Basel II.5 Migration

The parallel run continued in 2021, which comprised of submission of returns in accordance with the incumbent Base I accord and the new Basel II.5 accord. The stage involved monitoring of the banking system's readiness to ease the banks migration to the new accord, which was planned for January 2022. The project to develop Pillar 1 regulations on computation of capital charges for credit, operational and markets risk continued in 2021 and the regulations would be shared with the industry in the first half of 2022 as part of consultation process and before being gazetted. The regulations would assist to smoothly migrate to Basel II.5 planned for January 2023.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

The Bank also continued to assess reports on Internal Capital Adequacy Assessment Program (ICAAP), Stress testing and Basic Disclosure Requirements as part of readiness assessment.

2.3.2 Legislative Developments

As the Regulator of the financial sector, the Bank continually reviews existing laws and proposes new ones in order to address the changing needs of the sector. The following pieces of legislation were gazetted during the Financial Year 2021:

- *Insurance (Registration and Licensing Requirements for insurers) Regulations, 2021*. This law outlines the application process and requirements for obtaining a licence to carry on insurance or re-insurance business in Lesotho under the Insurance Act, 2014. It was published on 28 May, 2021.

- *Financial Institutions (Know your Customer) Guidelines, 2021*. This law repeals the earlier Financial Institutions (Know Your Customer) Guidelines, 2007, which were outdated. Money laundering and financing of terrorist activities are now regulated under a more modern regime, namely; the Money Laundering and Proceeds of Crime Act, 2008, as amended in 2016, and the Money Laundering and Proceeds of Crime Regulations, 2019. The law was published on 17 September, 2021.

- *Insurance (Qualification Requirements for Insurance Intermediaries) Notice, 2021*. This law prescribes the minimum qualifications which insurance intermediaries and principal officers should hold in order to qualify to lawfully conduct insurance business in Lesotho. It applies to insurance agents, insurance brokers, and principal officers. It was published on 26 March, 2021.

- *Security Interest in Movable Property Act (Commencement) Notice, 2021*. This Notice appoints 6 August, 2021 as the commencement date for the Security Interest in Movable Property Act, 2020. The Notice was published on 6 August, 2021

Financial Institutions (Processing and Licensing Fees) Regulations, 2021. These Regulations prescribe fees payable by the banks for processing and licensing purposes. All Banks licensed to operate in Lesotho. The regulations were published on 12 November, 2021.

Enhancement of supervisory frameworks in the Anti-Money Laundering and Combatting of Financing of Terrorism (AML/CFT) space continued during the period under review.

2.4 FINANCIAL SURVEILLANCE AND INTEGRITY

2.4.1 Anti-money laundering and combatting of financial terrorism (AML/CFT)

Enhancement of supervisory frameworks in the Anti-Money Laundering and Combatting of Financing of Terrorism (AML/CFT) space continued during the period under review. Administrative sanctions framework was developed, for the breach of the Money Laundering and Proceeds of Crime Act (MLPCA) by the Financial Institutions, which are under the supervisory purview of the CBL. The aim of the sanctions regime is to facilitate the imposition of proportionate and dissuasive sanctions on deficiencies identified by supervisors in alignment with recommendation 35 of the FATF Recommendations.

2.4.2 Exchange Controls

Following the successful roll-out of the Cross Border Transactions Monitoring System (C-BTRS) in 2020, which implementation was finalised in March 2021, a number of benefits have been achieved. These include:

- Improved data that is key to identifying risks within the Exchange Control space;
- Increased level of reporting. Over 200 per cent number of transactions per quarter compared to the previous system are now being reported; and
- Ability of the new system to integrate with other modern technology systems. This will pave way to the planned upgrades such as integrating with the Lesotho Revenue Authority, Ministry of Trade and Industry and Financial Intelligence Unit.

2.4.3 Performance of the Microfinance Institutions (MFIs) Sub-sector

Regulation and Supervision

The Non-Banks Financial Institutions (NBFIs) in general remained resilient to the impact of COVID-19 on the Sector in general as they were also negatively affected by the pandemic. Many businesses closed shop and households lost jobs, which led to high non-performing loans and bad debts. Despite this setback many institutions are slowly recovering. While this recovery is notable, it must be highlighted that it is slow and it will take time for the industry to revert to where it was before the crisis.

From the supervision point of view, the Bank has had to adjust the regulatory tools and supervisory instruments in order to accommodate emerging risks mainly driven by digitization and shall do so in tendon with the market. In doing so, the Bank will ensure that all market players are on board and that no financial institution is left behind.

Microfinance Institutions

Following the amendment of the Financial Institutions (Credit-Only and Deposit Taking Microfinance) Regulations in 2018, the Bank embarked on a transition to move to this new dispensation. This migration has since been concluded in the year under review and the year closed with a total of 110 legally licensed MFIs. There were still no deposit taking (Tier I) MFIs, while there was a total of 8 Tier II credit-only MFIs.

In terms of growth in assets, the MFIs industry rebounded from a dip encountered in 2020. The recovery was largely in line with the reopening of the economy in the year under review coupled with the demand for credit in the aftermath of the COVID-19 pandemic. Despite this growth, challenges of indebtedness remain prevalent.

2.4.4 Credit Information Bureau

Despite the prolonged impact of the COVID-19 pandemic, the Bank continued to intensify its efforts towards increasing coverage and improving data quality. As at the end of 2021, coverage of credit information for individuals or households was almost fully exhausted across Banks, MFIs, Retailers and other credit providers. However, issues of data accuracy, usage of credit information, consistency in reporting and data security remained the biggest challenges in 2021. The Bank has been closely monitoring these indicators, the result of which a plan of action has been drawn in order to deal with these issues together with the market through the Credit Providers Association of Lesotho (CPAL).

In as far as coverage for credit information for businesses is concerned, the Bank together with the registered Bureau undertook some ground work in the year under review. As it has been done with the credit information for households, the plan is to start with commercial banks and roll it out to the rest of the credit providers in a phased approach. The Bank will also support the development of other value added services like credit scoring and tools aimed at improving accessibility of credit reports online or via mobile phones.

2.4.5 Development of the Secured Transactions Regime and Collateral Registry

Following the enactment of the Security Interest in Movable Property Act 2020 and the publication of its implementing Regulations in the same year, the Bank embarked on the process of implementation. To that effect, the Lesotho Electronic Registry in Movable Assets (LERIMA) was upgraded and tested rigorously and training on the system was undertaken for credit providers ahead of the launch. As a result, the LERIMA was officially launched by the Minister of Finance together with the Governor of the Central Bank of Lesotho in July 2021.

Despite the prolonged impact of the COVID-19 pandemic, the Bank continued to intensify its efforts towards increasing coverage and improving data quality.

These developments represented a key milestone in the development of the financial infrastructure in Lesotho. This reform would unlock access to finance in Lesotho, particularly, for MSMEs and the unbanked population. As at the end of the review period, there were 2 Banks and 5 MFIs making use of the full services of the collateral registry.

2.4.6 Financial Inclusion

As far as financial inclusion is concerned, the Bank together with the Ministry of Finance and other key stakeholders, continued to advance the financial inclusion agenda in Lesotho. In the year under review, the following undertakings are worth noting:

- Development of the Microfinance Policy (Zero Draft)
- Development of the Financial Inclusion Strategy (Zero Draft)
- FinScope Consumer Survey 2021 (Launched in 2021)

The draft microfinance policy has been developed with the support of AfDB for a vibrant, innovative, ethical and sustainable microfinancing, targeting mainly the excluded and offered across the entire financial sector.

FinScope Consumer Survey was last undertaken in 2011 and the launch of the 2021 edition was key in assessing the countries progress towards financial inclusion in Lesotho and the impact of reforms undertaken in recent years. The results indicate that the country has made significant progress in financial inclusion and in reversing the gender gap. The improvements were mainly due to the adoption of mobile money in Lesotho. The result point to the continuing challenge in expanding access to finance in Lesotho.

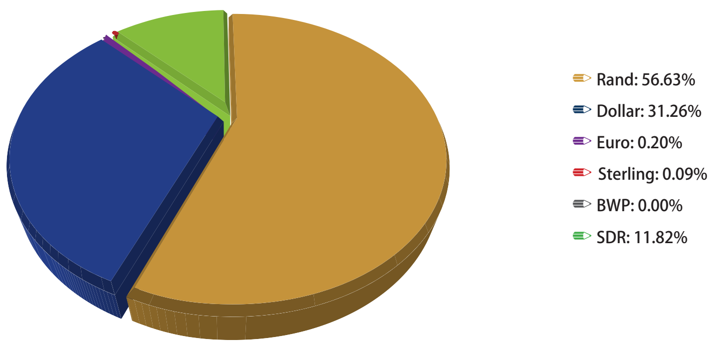
2.5 FINANCIAL MARKETS

2.5.1 Reserves Management

The Bank continued to manage reserves in line with the objectives set out in the Investment Policy. As a result, prudent efforts in reserves management were deployed to ensure strict adherence to the approved strategic currency composition and risk parameters set out in the investment guidelines. Figure 1 below shows the strategic currency composition of the Bank as at December 31st, 2021.

The Bank also embarked on and achieved significant milestones on its efforts to improve its reserves management processes and process flows. The Bank also introduced new structured notes to enhance returns amid record low global yields in an effort to ensure that it continues to make sufficient revenues from investment of reserves to sustain its operations.

Figure 16 Portfolio Currency Composition as at 31st December 2021 in LSL



Source: Central Bank of Lesotho

2.5.2 Domestic Capital Markets Operations

The Bank continued to manage liquidity in the system through open market operations. This was, in addition to, the issuance of government securities of different tenures, either to deep the financial market, or to raise the required funds to meet fiscal operations. To that effect, a new five-year bond was issued to complement re-opening of the existing bonds. All auctions had 100 per cent uptake with notable over subscriptions from mostly new retail investors. The success of the auctions was attributable to relatively favourable yields amidst COVID-19 investment climate and vigorous investor educational campaigns conducted. The Bank also embarked on project that will assist potential investors living out of Maseru to easily access bond market through electronically based platform.

2.5.3 Maseru Securities Markets

Despite the mounting challenges associated with COVID-19 pandemic that affected economies, businesses and above all ended the precious lives of many, 2021 became a historic year in the existence of Maseru Securities Market (MSM). The biggest highlight of the year was MSM registering its ever first listing since inauguration on 22 January 2016. Monday 6th December saw RNB Properties Ltd (RNB) – a property development and management company floating its equities on the platform after its successful initial public offering. This development positioned and pronounced the role of the platform as relevant to the country, its people and the economy at large in facilitation of capital markets reforms and encouraging public participation in the broader economy.

In 2021, the Bank printed upgraded Maloti banknotes to replenish diminishing stock levels across all denominations.

In the course of the year, MSM increased its visibility to the market by actively engaging with different stakeholders at diverse forums. These efforts to sensitise potential issuers, institutional investors and retail investors contributed to raising the profile of the exchange, yielding the already mentioned maiden listing. This success was a result of concerted efforts by both the management of MSM and exchange members, to be more specific, Katleho Securities that is a sponsor for RNB listing transaction.

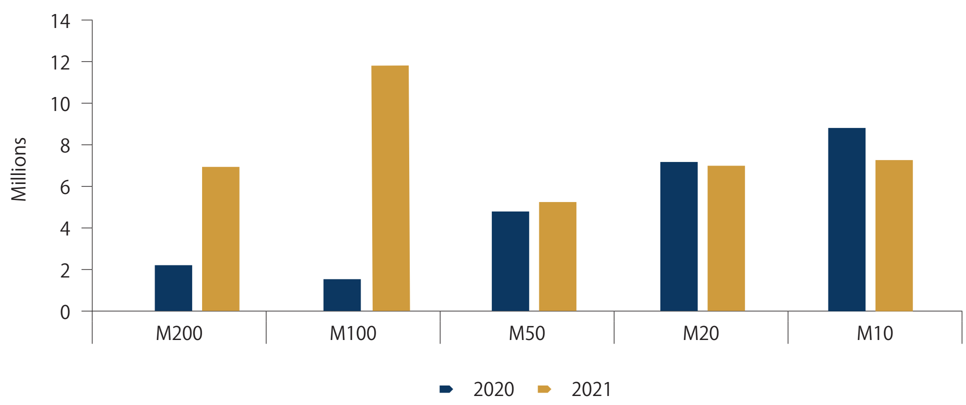
2.6 PAYMENTS SYSTEMS PERFORMANCE

2.6.1 Currency Management

Stock Replenishment

In 2021, the Bank printed upgraded Maloti banknotes to replenish diminishing stock levels across all denominations. Figure17 show that the value and volume of stock levels on high denominations increased at least more than three times relative to actual size of stock levels in 2020. The re-order stock levels were determined based on projected economic activity levels or trends before the advent of COVID-19 pandemic. The increased money demand due to heightened inflation rate offset an increase in stock levels on low denominations (M20 and M10).

Figure 17 Vault (New Banknotes) Balance -Volume

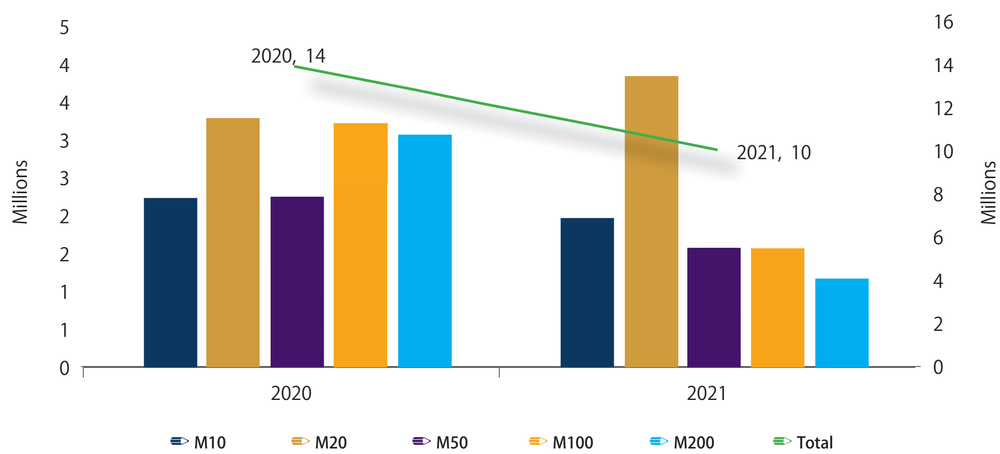


Source: Central Bank of Lesotho

New Banknotes issued to circulation

In 2021, the value and volume of new banknotes issued were decreased by half compared to the actual amount of new banknotes issued into circulation in the previous year. The Bank substituted the re-issuable notes with the new notes to accommodate increased money demand due to rising inflation.

Figure 18 New Banknotes Issued to Circulation (Quantity)



Source: Bureau of Statistics

Maloti and Rand Repatriation

Since the emergence of COVID-19 pandemic in 2019-year end, the world was forced to implement movement restrictions and the lockdowns as way of curbing the spread of COVID-19 infections worldwide. The lockdowns and movement restrictions impacted on the trade between Lesotho and South Africa, which resulted in the decline in Maloti circulated in the South African economy. Maloti banknotes repatriated declined significantly by 43.42 per cent between 2020 and 2021.

Between 2020 and 2021, Rand repatriated declined by 25.73 per cent. this was mainly due to reduced movement following COVID-19 induced restrictions, coupled with relative appreciation of electronic financial transactions.

2021 Milestones

In 2021, the Bank launched upgraded Maloti Banknotes featuring some new security features to accommodate the general public, including visually impaired people.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

In 2021, the Bank launched upgraded Maloti Banknotes featuring some new security features to accommodate the general public, including visually impaired people.

2.6.2 Lesotho Wire

Lesotho Wire (LSW) provided real time and intraday settlement of financial transactions on a continuous and gross basis. The transaction volumes and values processed and settled by LSW increased by 18 per cent and 0.3 per cent, respectively, from the preceding year. In terms of the uptime, this system generally maintained an uptime of 99 per cent in 2021, which was above the tolerance level of 98 per cent. Therefore, the system generally remained operational and available to settle all large value and time-critical payments during the reporting year.

Table 12 LSW Transactions between 2014 and 2021

Year	Volumes	Change (%)	Values	Change(%)
2014	19 916	-	30 754 988 595	-
2015	25 683	29.0	28 058 854 748	-8.8
2016	23 917	-7.0	34 257 297 169	22.1
2017	29 968	25.0	43 046 062 473	25.7
2018	25 880	-14.0	51 466 286 357	19.6
2019	33 047	28.0	66 901 041 540	30.0
2020	32 474	-2.0	77 581 732 255	16.0
2021	38,450	18.0	77 794 364 791	0.3
Source	Central Bank of Lesotho			

Automated Clearing House

The transaction volumes and values associated with the cheque clearing system declined in the reporting year. Both transaction volumes and values decreased by 60 per cent, from the preceding year. Table 13 below depicts cheque and electronic funds transfer (EFT) transactions between 2014 and 2020. Prolonged stoppage in the issuance of cheque as a payment instrument by the government and phasing out of cheque contributed to the decrease in cheque transaction volumes and values in the reporting year.

Table 13 Cheque and EFT Transactions between 2014 and 2021

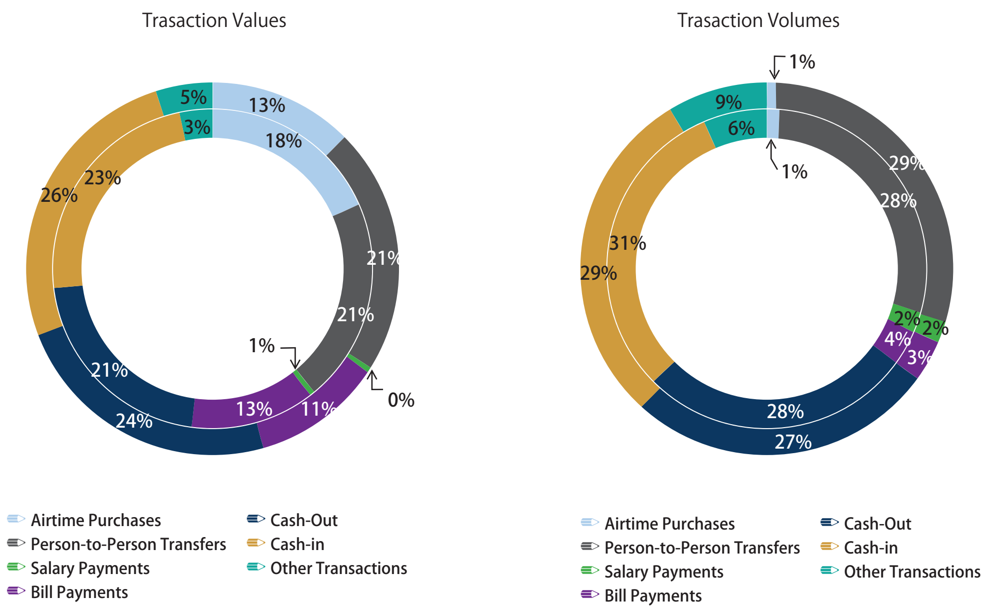
	Cheque		Electronic funds transfer	
Year	Volumes	Values	Volumes	Values
2015	127 682	1 719 989 779	224 924	1 811 830 586
2016	144 743	1 560 718 211	431 671	3 401 141 406
2017	60 355	881 532 856	557 916	4 424 643 963
2018	56 901	826 170 076	666 541	5 321 027 584
2019	44 727	713 239 309	776 441	6 049 474 412
2020	21 749	412 190 144	877 151	6 605 769 732
2021	8 652	164 951 871	1 032 070	7 974 835 986
Source	Central Bank of Lesotho			

On the other hand, the EFT transaction volumes and values increased in 2021. The transaction volumes and values grew by 18 per cent and 21 per cent, respectively, from the previous year. Similar upward transaction trajectory was also observed previous years. The growth in EFT transactions was driven by the halt in cheque issuance by the government, the growing appetite of consumers to use efficient and safe electronic payments, as well as, the phasing-out of cheque as a payment instrument contributed to the increase in EFT transactions.

2.6.3 Mobile Money

The most dominant mobile money transactions in 2021, in terms of transaction volumes, were cash-in, followed by cash-out, person-to-person (P2P) transfers, airtime purchases and bill payments. In terms of transaction values, the most dominant mobile money transactions were cash-in and P2P transfers, followed by cash-out and other transactions[5]. Figure 16 below, presents the mix of mobile money transactions between 2020 and 2021.

Figure 19 Mobile Money Transactions between 2020 and 2021



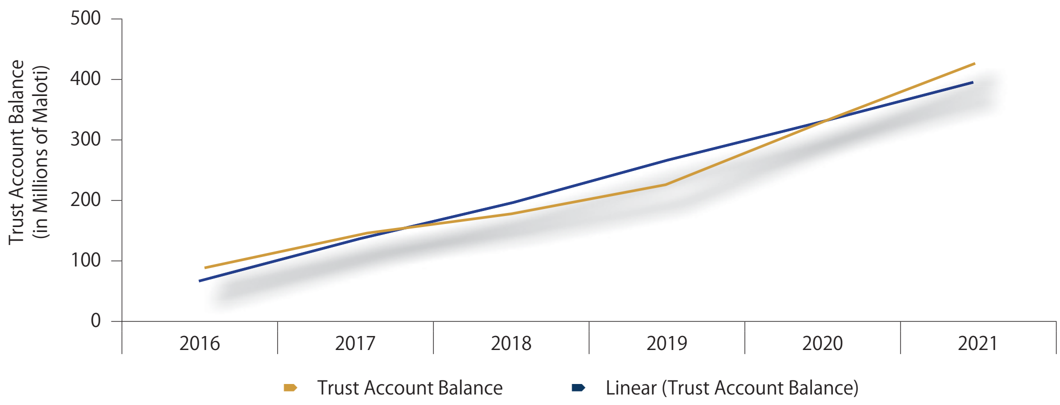
Note: The innermost and outermost doughnuts correspond to 2020 and 2021, respectively. Other transactions denote the sum of merchant purchases, cross border transactions, bank-to-wallet, wallet-to- bank, nano loans and other services (sending money to unregistered customers).

[5] Other transactions denote the sum of merchant purchases, cross border transactions, bank-to-wallet, wallet-to- bank, nano loans and other services (sending money to unregistered customers).

Mobile money service in Lesotho has continued to evolve to offer innovative financial services and products, with high transaction volumes and values in the reporting year.

Mobile money service in Lesotho has continued to evolve to offer innovative financial services and products, with high transaction volumes and values in the reporting year. In accordance with this, overall trust account balance also grew. Figure 2 depicts overall mobile money trust account balance between 2016 and 2021. It shows that the overall trust account balance grew by 32 per cent to M431.69 million in 2021. Therefore, this is a testimony of continued growth in mobile money usage in Lesotho in the reporting year.

Figure 20 Overall Mobile Money Trust Account Balance between 2016 and 2021



Source: Central Bank of Lesotho

2.6.4 Payment Systems Initiatives

The national payment system plays an important role in processing of payments and smooth circulation of funds within the country. to that effect, the Bank introduced the national payment switch, reviewed the payment system legislation, phased out cheque as a payment instrument, migrated LSW to the new SWIFT messaging standard, as well as, separation of mobile money issuance business of the mobile network operators from their telecommunication business.

Implementation of the National Payment Switch

In 2021, the Bank procured and appointed the national payment switch solution provider, which was introduced to the broader financial sector. Subsequently, the solution provider conducted stakeholder sensitisation workshops, infrastructure requirements analysis, external interface and specifications. In addition, the legal framework and procedures was done to accommodate the national payment switch. In terms of the timeframes, the go-live of the national payment switch was planned for June 2022.

Review of the Payment Systems Legislation

In 2021, the Bank, in collaboration with all relevant stakeholders, reviewed the Payment Systems Act (PSA) 2014, and drafted the Payment Systems Bill 2021. Moreover, the Bank initiated the review of the payment systems regulations.

Separation of mobile money issuance business of the mobile network operation from their telecommunication business

The Bank working together with mobile network operators, completed separation of mobile money issuance business from communication business. Consequently, the Bank licensed new entities as mobile money issuers in the country. Separation of this function from telecommunication businesses was meant to improve oversight and regulation of mobile money by the Bank, in order to ensure financial stability in the country.

2.7 FINANCIAL CONSUMER PROTECTION AND MARKET CONDUCT

2.5.1 Anti-money laundering and combatting of financial terrorism (AML/CFT)

During the year under review significant progress was achieved in setting up the legal framework for consumer protection in Lesotho. The Financial Consumer Protection Bill was tabled before the National Assembly in April, 2021. The rationale for the Bill is to have an over-arching structure that adequately protects financial consumers with clear enforcement mechanisms by the CBL as the proposed Regulator. Market Conduct Supervision of regulated financial service providers, such as commercial banks, insurance companies, microfinance institutions (MFIs), pensions, payments services providers, Credit Bureau, and CBL- Maseru Securities Market (MSM) focuses on protection of consumers from unfair treatment. This is undertaken in pursuit of promoting and maintaining trust and confidence on the financial system. This function was carried out through complaints handling, off-site analysis and examinations in 2021.

Complaints Handling and Redress

CBL through Financial Consumer Protection (FCP) Division monitors financial consumer complaints handled by the regulated financial service providers for identification of FCP risk factors to inform scope of examinations and regulatory interventions. The Bank also investigates and facilitates the resolution of complaints lodged to it when internal mechanisms of regulated financial service providers have been exhausted.

Complaints Brought by Consumers to CBL for Mediation

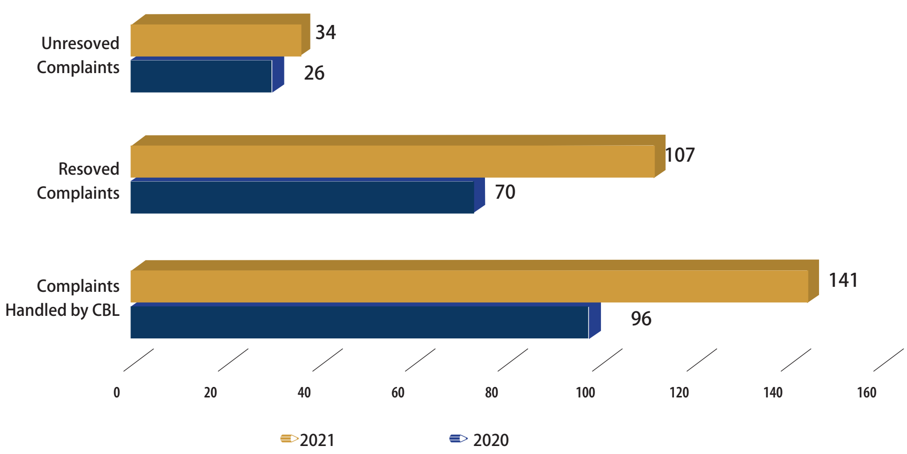
During the year under review, 141 complaints were handled by CBL compared with 96 complaints handled in 2020. These were complaints received from consumers who were dissatisfied with the responses they had received from commercial banks, insurance companies, microfinance institutions and others. Out of the total volume of complaints mediated by CBL

During the year under review significant progress was achieved in setting up the legal framework for consumer protection in Lesotho.

in 2021, 76 per cent of the complaints were resolved and closed, compared with 73 per cent in the previous year. This demonstrates improvement in the effectiveness of complaints handling and mediation mechanisms. The remaining and unresolved complaints were still under investigation and will continue to be handled in 2022 (see Figure 25).

Complaints against the commercial banks continued to lead, constituting 53 per cent of the mediated complaints. This was followed by complaints against insurance companies and MFIs with an equal share of 21 per cent of the total complaints. The remainder were complaints against other financial service providers, which contributed 5 per cent.

Figure 21 The Number of Complaints Handled in 2020-2021



Source: Central Bank of Lesotho

Examinations

The preliminary assessment phase of the examination cycle on financial consumer protection and market conduct issues in the banking industry was undertaken in 2021. Three banks were assessed. The level of inherent financial consumer protection risk was considered to be moderate, the quality of risk management systems was considered acceptable, resulting in moderate composite financial consumer protection risk and increasing direction of risk. A number of issues emerged from the assessments including (1) disclosure of product information with respect to investment early redemption fees and loan early settlement fees was inadequate; (2) product information, including contracts, was not written in Sesotho, rather only in English and (3) Speedy handling of consumer complaints.

2.7.1 Consumer Financial Empowerment

During the year under review the Central Bank of Lesotho in collaboration with the financial sector continued to drive the financial consumer education and awareness programme through the Money Month Campaigns. The theme of the 2021 Money Month Campaign was "Take care of yourself, Take care of your money". Due to the continuing COVID-19 restrictions the campaign was held virtually. This resulted in a wider attendance of local and international participants as it was broadcasted via Zoom and social media platforms such as Facebook, and local radio stations.

The Money Month Campaign was intended to contribute towards improving financial inclusion by enhancing the financial literacy of consumers and increasing access to finance in order to achieve accelerated, sustainable economic transformation in Lesotho. Consumers were made aware of financial scams, fraud types and mechanisms and preventive measures as well.

2.8 INTERNATIONAL COOPERATION

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

2.9 CORPORATE AND ASSURANCE SERVICES

2.9.1 Risk and Business Continuity Management

The Central Bank of Lesotho manages risk, enterprise wide and aligns itself with international standards and best practice in an effort to remain resilient. Risk management is integrated and embedded throughout. While the Bank emphasises on risk management being every member of staff business, each business unit has a risk champion that is responsible for such a unit's risk management. At the organizational level, these champions are supported by risk experts to do a thorough risk assessment. The risk assessments are performed periodically or as and when there is an emerging risk that could impede the achievement of the Bank's objectives.

The Central Bank of Lesotho manages risk, enterprise wide and aligns itself with international standards and best practice in an effort to remain resilient.

In 2021, the Bank had a risk profile and continued to manage its risks within the appetite and tolerance levels stipulated by the Board. The defined risk categories for the Bank within its profile were: financial; reputational; commercial crime; information technology and systems; third party; business continuity; legal and compliance; human resources; security; facilities and physical assets; monetary policy; financial sector stability; projects; and financial reporting. Risks identified within these categories were mitigated to ensure that their likelihood of occurrence was minimised. Periodic monitoring and reporting was undertaken to facilitate strategic decision making and to ensure that the Board remained informed to perform its fiduciary duty. The risks that remained on the radar throughout the reporting period were market, credit, cyber-attack, ergonomics and communicable diseases.

Mitigating the communicable diseases risks brought with it a fundamental shift in the working arrangements of the Bank. A hybrid working model was adopted by the Bank such that the likelihood and the impact of the COVID–19 pandemics on the Bank's operations were lessened. The Bank put more effort in ensuring continuity and recovery of business processes thus safeguarding the reputation and image of the Bank in the case disruptions occurred.

In order to ensure that the Bank had an in-depth understanding of its obligations and that it attained the right level of business continuity planning, a business impact analysis was undertaken. This analysis resulted in identification of the critical, important, and needed processes, thereby, allowing for prioritisation of recovery in the case of disruptions. Recovery plans and business continuity plan were, therefore, revised accordingly.

The health and safety of the staff members continued to be the priority, and the Bank endeavoured to align itself with best practices and standards. Strict protocols that were to be followed by both members of staff, as well as, visitors to the Bank were put in place. Personal protective equipment was made available to members of staff of the Bank and considerations on ergonomic matters for telecommuting were made.

Project Management

In order to support the attainment of its strategic objectives, the Bank continued to implement existing and new projects during 2021.In an effort to improve the overall management of its portfolio, the Bank developed its projects management policy and reviewed several frameworks which included integrated project evaluation selection and prioritization, and project sizing.

2.9.2 GRC Assurance by Internal Audit

The Internal Audit Department (IAD) continued to provide objective independent assurance on the adequacy and effectiveness of the Bank's governance, risk management and control processes. The purpose, authority and responsibility of the internal audit function was formally defined in the Internal Audit Charter approved by the Audit Committee. IAD followed risk-based approach to auditing that aligns and conforms to the Institute of Internal Auditors' (IIA) International Professional Practice Framework.

Audit Plan Coverage

On the basis of audit engagements performed during the course of the year, the Bank's processes were found to be satisfactory and improving in as far as system of internal controls, risk management and governance were concerned. Remedial action plans to address identified deficiencies were drawn and followed up. IAD as a strategic partner and advisor continued to provide value adding contributions on the implementation of two critical Bank projects, namely National Payments Switch (NPS) and Reserves Management System (RMS). IAD also provided independent self-assessments on the selected IT processes and BCM Maturity Model as required by the SADC Committee of Central Bank Governors (CCBG). Another independent self-assessment conducted, was on the CBL local SWIFT infrastructure under SWIFT Customer Security Program (CSP) as a facilitation for the Bank's attestation for compliance with mandatory SWIFT security controls.

2.9.3 A Cyber Resilient Digital Workplace

Overview

The ICT Department continually enabled the Bank through provision and upkeep of technical infrastructures, business application systems, enterprise architectural advisory, Information and Technology Governance, and cyber resilience measures.

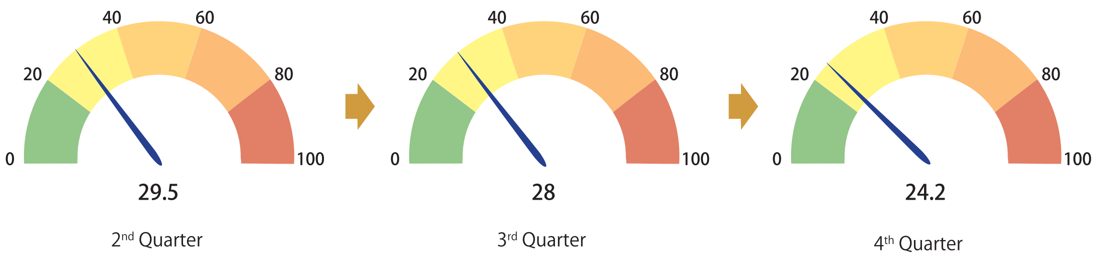
The Department upheld and improved the work from home initiative, and drove adoption of a hybrid office/home work environment approach as a 'New Normal' for the Bank. While the pandemic has been a menace to human life, it has also show-cased the reality of working effectively and efficiently with digital technologies as a great enabler, from anywhere.

Cyber Resilience

Cyber risk indicator

The Bank's Cybersecurity Framework is the guiding tool to managing cyber risk. The financial year 2021, saw significant efforts and improvement being made in respect of raising and measuring awareness of staff members to cyber threats. This improvement was achieved through a combination of People-Centric Security (PCS) training campaigns and simulated phish assessments.

The Bank's Cybersecurity Framework is the guiding tool to managing cyber risk.



There is also an initiative to engage collaboration throughout the industry to raise awareness and share information and experiences beyond the Bank. The initiative is overseen by the Payments Council of Lesotho.

Cybersecurity Maturity Assessment

The Department conducted cybersecurity maturity assessment in 2021. The assessment used a regionally adopted cyber assessment tool (CAT) based on the Federal Financial Institutions Examination Council (FFIEC) and National Institute of Standardization and Technology (NIST) frameworks. The tool is adopted by the SADC CCBG[6] – ICT Sub-committee.

It is important to note that 'minimal inherent risk' posture of the Bank implies that the Bank's maximum achievable maturity level is 'Intermediate'. It is also worth noting that the same inherent risk posture is subject to change in line with on-going digitization efforts of the Bank ❑

[6] Southern Africa Development Community Committee of Central Bank Governors.

3

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

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Financial Statements
for the year ended 31 December 2021

General Information

Nature of business and principal activities
Statutory body duly continuing in existence in terms of the Central Bank of Lesotho Act No. 2 of 2000.

Registered office
Cnr Airport & Moshoeshoe Roads Maseru 100 Lesotho

Postal address
P.O. Box 1184 Maseru 100 Lesotho

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

Secretary
Mr. Napo Rantsane (Adv.)

Lawyer
Webber & Newdigate

Contents

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Corporate Governance Report

This report sets out 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 governance and best practice. The Board of Directors is committed to ensuring that the Bank adheres to the principles of high performance, ethical leadership, accountability, transparency and integrity in all its dealings and interactions with its stakeholders.

Report for the year

The Bank has a unitary Board, which comprises five (5) Non-Executive Directors and three (3) Executive Directors. The Non-Executive directors are independent of the Executive Management and free of any business or other relationship with the Bank that could materially affect their unfettered and independent judgment in the 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 stated in the Central Bank of Lesotho Act. No. 2 of 2000 (the Act). The Board sets the Bank's Strategy, oversees its execution and provides leadership for the successful delivery of the statutory mandate and for the long-term sustainability and success of the Bank.

In order to assist the Board to carry out its responsibilities, the Board has established the Audit Committee, the Risk and IT Governance Committee, and the Human Resources and Remuneration Committee. The Committees have charters in terms of which they perform their respective roles as delegated by the Board. Matters that have been dealt with by the Committees are referred to the Board with clear recommendations for consideration and decision. Each Committee provides periodic reports to the Board on the matters that it dealt with.

Apart from 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 also plays an active role to provide regular training to capacitate the Board as a whole on issues of central banking and corporate governance to enhance its efficiency and effectiveness. The Board has access to the services and advice of the Board Secretary.

In line with section 13 (2) of the Act, the Board meets as frequently as possible and not less than once in every two months. The Board convened thirteen (13) meetings during the 2021 Financial Year.

As at 31st December 2021, the terms of office of the Governor, Dr. A. R. Matlanyane, the First Deputy Governor, Dr. M. P. Makhetha, and the Second Deputy Governor, Ms. M. G. Makenete, ended. On 1st January 2022, Mr L. Mohapi was appointed as the Acting Governor.

Adv. N. Rantsane
Secretary to the Board

Audit Committee Report

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

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

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

During the financial year under review, the Committee convened eleven meetings, which considered the following: IMF Safeguards Assessment Report, Internal Audit Department Annual Plan for 2022, as well as the reports of the Internal Audit Department on identified areas of internal control. The Committee also considered and approved the External Auditors Plan for 2021. Further, the Committee considered the revised Engagement Letter and recommended it for approval by the Board of Directors. The Committee also considered and recommended for approval the audited Financial Statements for the Year Ended 31st December 2021.

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

The Committee is satisfied with the independence of the external auditors of the Bank. This assessment was made after considering the representations of independence from the external auditors and a formal partner rotation process.

The Committee is satisfied with the formal procedures that govern the provision of audit services by the external auditors. This is monitored through the reporting and approval of such activities at the Audit Committee meetings. The Committee is also satisfied that the Bank implemented appropriate processes and controls to ensure compliance with all applicable laws and regulations as they relate to financial reporting. This is based on the Committee's review of reports received from both internal and external auditors, as well as from Management.

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

As of 1st May and 16th June 2021, the term of office of the two members of the committee, namely Mr. Setsoto Ranthocha and Mrs. Kuena Thabane expired and were reappointed effective from 01st and 17th June 2021 respectively.

On behalf of the Audit Committee.

Mrs. R. Tlali
Chairperson Audit Committee

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Directors' Responsibilities and Approval

In accordance with the CBL Act No. 2 of 2000, the Directors are responsible for the preparation of the annual financial statements. These financial statements are prepared in accordance with the Central Bank of Lesotho Act No. 2 of 2000 and in line with the policies set out in note 1 of the financial statements. The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates, and fairly present the affairs of the Bank as at 31 December 2021,and the results of its operations, net loss and cash flows for the year then ended.

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

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

The Directors are of the opinion, based on the information and explanations given by Management that the systems of internal control provide reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, not absolute, assurance against material misstatement of loss. Nothing has come to the attention of the Directors to indicate that a breakdown in the functioning of these controls, resulting in material loss to the Bank, has occurred during the year and up to the date of this report.

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

The financial statements were approved by the Board of Directors on 30 March 2022 and are signed on its behalf by:

Mr. P.L. Mohapi
Acting 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 2021. The annual financial statements are expressed in Maloti, the local currency of Lesotho and the functional currency of the Bank that is at par with the South African Rand. These financial statements were prepared on a going concern basis taking into account that the Bank is a lender of last resort and continues to be the banker of the Government of Lesotho.

1. Review of financial results and activities

Nature of business

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

Financial results

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

The financial results of the Bank are set out in the statement of profit or loss and other comprehensive income on page 66. TThe gains and losses arising from any changes in the valuation of the Bank's assets or liabilities in, or denominated in, gold or foreign currencies, or Special Drawing Rights as a result of changes in the exchange rate for the Maloti or of any change in the values, parities or exchange rates of such assets with respect to the Maloti shall be carried to a special account called the Revaluation Reserve Account, and after appropriations have been allocated to the general and other reserves, are paid over to the Government of Lesotho Consolidated Fund as dividends in accordance with Section 21(5) of the Act. These appropriations have been fully disclosed in the statement of changes in equity on page 68. Amounts paid and due in terms of the Act were as follows:

	M '000
31 December 2021	11,646
31 December 2020	46, 999

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 56.

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.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

4. Directorate

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

Name	Date of appointment	Position held	Changes
Dr. A. R. Matlanyane	January, 2017	Governor and Chairman	Term ended on 31 December 2021
Dr. M. P. Makhetha	January, 2017	First Deputy Governor	Term ended on 31 December 2021
Ms. M. G. Makenete	January, 2017	Second Deputy Governor	Term ended on 31 December 2021
Mrs. K. Thabane (Adv)	June, 2021	Non-Executive Director	Re-appointed June 2021
Mr. M. Letsoela	July, 2019	Non-Executive Director	
Mr. R. Thamae	September, 2020	Non-Executive Director	
Mrs. R. Tlali	February, 2021	Non-Executive Director	Appointed Thursday, 25 February 2021
Mr. O. 'Nete	February, 2021	Non-Executive Director	Appointed Thursday, 25 February 2021

5. Secretary

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

6. Events after the reporting period

The global economy is threatened by ongoing geopolitical risks, coronavirus variants and rising living costs. Increased geopolitical tensions caused by Russia's invasion of Ukraine in the past few weeks which led to a surge in gas prices in Europe leading to hightened inflation.

Coronavirus (COVID-19) continues to mutate and the recent variant (Omicron) is found to be mild relative to other previous variants despite being more contagious. Globally, omicron spread is slowing down and governments are responding by reopening economies. The risk of emerging new variants is significantly high as economies reopen, coupled with slow vaccination rates in some countries.

The COVID-19 pandemic continued to burden South Africa's economic performance, however the pandemic is unlikely to have serious impact on the country's creditworthiness going forward as the country continues to vaccinate its population. This, however, does not mean overlooking the impact that slow vaccination progress has had on the economy. The one repreive for South Africa will come from unexpetedly strong fiscal performance in 2021, as well as improvements to GDP-based credit matrics following review of GDP calculations for 2021. Eskom rolling blackouts will continue to hurt the economy due to maintenance programmes and inadequate supply of power relative to the demand. In spite of that, a key obstacle in the form of a lawsuit against Eskom and government, has been removed by a South African court by dismissing an application against a state emergency power tender to supply 2,000 megawatts of power to the grid.

The U.S. economic recovery, rising fuel prices and supply distruptions due to the pandemic resulted in a massive surge in inflation in the U.S. Following a strong economic recovery, the U.S. Treasury trimmed its quartely sale of longer term debt for the second time, reflecting declining borrowing needs after a record ramp-up in debt to fund pandemic relief spending. The cost of borrowing will likely be moderated in the short to medium term as demand is expected to outweigh supply leading to depressed yields. This is because demand for U.S. treasuries has increased significantly since 2008 financial crises.

The COVID-19 continues to pose a health risk but has since subsided due to increased vaccination in 2021. The restrictions have been slightly eased. Staff continue to work on a hybrid basis as some work remotely and some are gradually returning onsite to the premises. COVID-19 protocols and social distancing are still in place and vaccination certificates are mandatory for entry into the Bank.

7. Auditors

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

8. Financial Reporting Framework

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

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

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

8.1. Revaluation Reserve Account

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

The Act further continues to prescribe that "The profits or losses arising from such change shall not be included in the computation of the annual profits and losses of the Bank". The gains and losses arising from any changes in the valuation of the Bank's assets or liabilities in, or denominated in, gold or foreign currencies, or Special Drawing Rights as a result of changes in the exchange rate for the Maloti or of any change in the values, parities or exchange rates of such assets with respect to the Maloti shall be carried to a special account called the Foreign Exchange Revaluation Reserve Account and SDR Revaluation Reserve Account without affecting the Bank's profit or loss account.. The amount is then reversed under the note for Dividend Payable where the gain/(loss) on foreign exchange activities is either deducted or added back to Profit after tax. This is done so that the distribution of profits between the revaluation reserve and Government Consolidated account is based on profit which has not been affected by the Gain/Loss on foreign exchange activities.

8.2. Rand Compensation Reserve

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

8.3. Profits and General Reserves

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

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

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

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

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

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

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

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

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

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

(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".

Mr. P.L. Mohapi
Governor
30 March 2022

Mrs. R. Tlali
Director
30 March 2022

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 64 to 134, which comprise the statement of financial position as at 31 December 2021, 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 2021 are presented, in all material respects, in accordance with the accounting policies described in note 1 to the financial statements and the requirements of the Central Bank Act No.2 of 2000.

Basis for Opinion

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

Emphasis of matter

Basis of preparation

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

Other Information

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

Moteane, Quashie & Associates Chartered Accountants & Management Consultants
Plot 582 Hoohlo, Cnr Kingsway Rd. / Maseru Bypass, Private Bag A169, Maseru 100 Lesotho
Tel: (+266) 22 316 490, VAT NO: 1519433 TIN NO:1028676-4. Please see www.mqa.ls for further details.

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

SizweNtsalubaGobodo Inc., 20 Morris Street East, Woodmead, 2191, PO Box 2939, Saxonwold, 2132
T: +27 (11) 231 0600, F: +27 (11) 234 0933, E: info@sng.za.com
SNG Grant Thornton are a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered independently by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see www.sng-grantthornton.co.za for further details.

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

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

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

Responsibilities of directors for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

- 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
Plot 582 Hoohlo
Maseru
100

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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2021

Statement of Financial Position as at 31 December 2021

	Note(s)	2021 M '000	2020 M '000
Assets			
Cash and cash equivalents	2	4 677 700	6 824 837
Deposit Floaters	3	1 265 635	613 650
Accrued interest due from Banks	4	10 674	15 614
Investment in Swift	5	328	506
Treasury notes and bonds	6	5 849 863	4 822 015
Treasury bills at amortised cost	7	80 464	73 425
IMF Subscription Account	8	1 484 227	1 467 398
IMF Holding of Special Drawing Rights (SDR)	9	1 519 373	45 785
IMF Funded PRGF Advances	10	139 332	317 730
IMF Rapid Credit Facility	11	-	245 127
Lesotho Government Securities	12	-	4 329
Currency Inventory expenditure	13	44 456	10 782
Loans and advances	14	110 642	106 773
Other assets	15	154 385	6 089
Property, plant and equipment	16	986 988	853 076
Intangible assets	17	20 521	25 063
Current tax receivable	24	18 253	27 640
Deferred tax	29	53 050	21 972
Total Assets		**16 415 891**	**15 481 811**

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2020

Statement of Financial Position as at 31 December 2021

	Note(s)	2021 M '000	2020 M '000
Equity and Liabilities			
Liabilities			
Notes and coins issued	18	1 830 228	1 819 028
Deposits	19	568 257	686 524
Lesotho Government Deposits		3 622 150	4 057 873
IMF Maloti Currency Holding	20	1 708 138	1 689 268
IMF Special Drawing Rights Allocation	21	2 227 462	695 850
IMF-PRGF Facility	22	139 332	317 730
IMF Rapid Credit Facility	23	247 938	245 127
Due to Government of Lesotho Consolidated Fund	25	11 646	46 999
Trade and other payables	26	137 503	306 421
Long-term employee benefit obligation	27	122 790	107 117
Post Employment Retirement Fund Benefits	28	-	78 801
Total Liabilities		**10 615 444**	**10 050 738**
Equity			
Share capital	30	100 000	100 000
General reserve		322 615	329 712
Rand compensatory reserve		996 339	901 494
SDR revaluation reserve		185 421	161 584
Foreign exchange revaluation reserve		3 933 060	3 618 842
Property revaluation reserve		222 581	188 758
Bond/unit trust revaluation reserve		40 431	130 683
		5 800 447	**5 431 073**
Total Equity and Liabilities		**16 415 891**	**15 481 811**

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2021

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2021 M '000	2020 M '000
Interest income	31	457 925	503 186
Interest expense	32	(31 874)	(17 141)
Net interest income		**426 051**	**486 045**
Other income	33	18 653	64 827
Total Income		**444 704**	**550 872**
Impairment losses on financial assets		(19 486)	(24 460)
Operating costs and expenses	34	(444 672)	(453 566)
Operating (loss) /profit		**(19 454)**	**72 846**
Actuarial gains and losses on employee benefits	27	6 449	-
(Loss)/profit before taxation		**(13 005)**	**72 846**
Taxation	35	2 026	(21 468)
(Loss) /profit for the year		**(10 979)**	**51 378**
Other comprehensive income:			
Bond/ unit trusts fair values			
(Decrease)/Increase in bond/unit trusts fair values		(128 138)	74 214
Tax effect		37 886	26 417
Net movement		**(90 252)**	**100 631**
Property revaluation reserve			
(Decrease)/Increase in property revaluations		80 779	30 274
Tax effect		(46 956)	8 696
Net movement		**33 823**	**38 970**
Rand compensation reserve			
Increase in reserve		94 845	79 044
Tax effect		-	-
Net movement		**94 845**	**79 044**
Actuarial gains and losses on employee benefits			
Actuarial gain for the year		-	6 695
Tax effect		-	(1 674)
Net movement		**-**	**5 021**
Other comprehensive income for the year net of taxation		**38 416**	**223 666**
Total comprehensive income for the year		**27 437**	**275 044**

*During the year there was a change in classification of actuarial gain and loss on the long-term benefits from Other Comprehensive Income into Statement of Profit and Loss.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2021

Statement of Change in Equity

	Share capital	General reserve	Rand compensatory reserve	SDR revaluation reserve	Foreign Exchange revaluation reserve	Property revaluation reserve	Bond revaluation reserve	Accumulated profit/(loss)	Total equity
	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000
Balance at 01 January 2020	**100 000**	**320 312**	**822 450**	**56 704**	**3 539 513**	**149 788**	**30 052**	**-**	**5 018 819**
Profit for the year	-	-	-	-	-	-	-	51 378	51 378
Foreign exchange translation to designated reserve	-	-	-	104 880	79 329	-	-	-	184 209
Movement in bond/unit trust fair values	-	-	-	-	-	-	100 631	-	100 631
Asset revaluation for the year	-	-	-	-	-	38 970	-	-	38 970
Rand compensatory receipts	-	-	79 044	-	-	-	-	-	79 044
Transfer to General Reserve	-	9 400	-	-	-	-	-	(9 400)	-
Actuarial fair value gain	-	-	-	-	-	-	-	5 021	5 021
Dividends	-	-	-	-	-	-	-	(46 999)	(46 999)
Total changes	**-**	**9 400**	**79 044**	**104 880**	**79 329**	**38 970**	**100 631**	**(51 378)**	**360 876**
Balance at 01 January 2021	**100 000**	**329 712**	**901 494**	**161 584**	**3 618 842**	**188 758**	**130 683**	**-**	**5 431 073**
Loss for the year	-	-	-	-	-	-	-	(10 979)	(10 979)
Foreign exchange translation to designated reserve	-	-	-	23 837	314 218	-	-	-	338 055
Movement in bond/unit trust fair values	-	-	-	-	-	-	(90 252)	-	(90 252)
Asset revaluation for the year	-	-	-	-	-	33 823	-	-	33 823
Rand compensation receipts	-	-	94 845	-	-	-	-	-	94 845
Transfer to General Reserve	-	(7 097)	-	-	-	-	-	10 979	3 882
Total changes	**-**	**(7 097)**	**94 845**	**23 837**	**314 218**	**33 823**	**(90 252)**	**10 979**	**380 353**
Balance at 31 December 2021	**100 000**	**322 615**	**996 339**	**185 421**	**3 933 060**	**222 581**	**40 431**	**-**	**5 800 447**

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Explanatory notes

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

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

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

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

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

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

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

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

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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2021

Statement of Cash Flows

	Notes	2021 M '000	2020 M '000
Cash flows from operating activities			
Cash used in operations	36	(1 505 534)	2 614 881
Interest received	31	446 134	448 399
Interest expense	32	(4 564)	(3 767)
Tax paid	24	-	(105 756)
Rand compensation reserve		94 845	79 044
Payments to Government of Lesotho Consolidated Fund	25	(46 999)	(117 840)
Increase/(decrease) in Other assets		(148 295)	4 654
Decrease /(increase) in Lesotho Government Securities		4 329	(3 808)
(Purchase) of Treasury notes, bonds and unit trust		(953 928)	(800 406)
Movements in notes and coins	18	11 200	206 150
Decrease/ (increase) in staff loans		(3 869)	174
Net cash from operating activities		**(2 106 681)**	**2 321 725**
Cash flows from investing activities			
Purchase of property, plant and equipment	16	(115 781)	(59 045)
Purchase of other intangible assets	17	(749)	-
Sale of investment in SWIFT	5	178	-
Net cash from investing activities		**(116 352)**	**(59 045)**
Cash flows from financing activities			
Movement in IMF Funded PRGF	22	(100 511)	(123 618)
Movement in Rapid Credit Facility	23	-	274 340
Net cash from financing activities		**(100 511)**	**150 722**
Total cash movement for the year		**(2 323 544)**	**2 413 402**
Cash at the beginning of the year		6 824 837	4 364 889
Effect of exchange rate movement on cash balances		176 407	46 546
Total cash at end of the year	2	**4 677 700**	**6 824 837**

1. Presentation of financial statements

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies should be read together with the financial reporting framework on page 58.

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

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

1.1 Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

1.1 Property, plant and equipment (continued)

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

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

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

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

1.2 Intangible assets

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years with the exception of SAGE and Quantum Central Banking System (QCBS) which have useful lives of 10 years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software costs recognised as assets are amortised over their estimated useful lives for a minimum of three years.

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

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

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

1.3 Current and deferred income tax

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

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

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

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

1.3 Current and deferred income tax (continued)

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused credits can be utilised.

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

1.4 Share capital

(a) Share capital is classified as equity.

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

(b) Dividends on ordinary shares

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

1.5 Employee benefits

(a) Post employment benefits

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

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The expected costs of post-employment defined benefits are charged to profit or loss over the expected service life of the employees entitled to these benefits according to the projected unit credit method.

Costs are actuarially assessed, and expense adjustments and past-service costs resulting from plan amendments are amortised over the expected average remaining service life of the employees. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past-service costs.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high- quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in OCI in the period in which they arise. Remeasurements are not classified to profit or loss in subsequent periods. Past service costs are recognised in profit or loss at the earlier of the following dates: (i) when the plan amendment or curtailment occurs or, (ii) when the entity recognises related restructuring costs or termination benefits. The Bank is responsible for any shortfall of the defined benefit.

1.5 Employee benefits (continued)

(b) Other long-term employee benefits

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

Long-term employee benefits include:

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

(c) Actuarial gains/losses

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

(d) Accrual for leave pay

Employee benefits in the form of 25% of annual leave entitlements are provided for when they accrue to employees with reference to services rendered up to the statement of financial position date.

1.6 Provisions

Contingent liabilities are not disclosed because the Bank believes that they may not become an actual liability therefore may not be incurred due to a result of uncertain future event..

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

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

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

1.7 Revenue

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

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

1.8 Translation of foreign currencies

(a) Functional and presentation

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

(b) Transactions and balances

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

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

1.9 Impairment of non-financial assets

The carrying amounts of the Bank's property, plant and equipment are reviewed at every five years to determine whether there is any indication of impairment, in which case their recoverable amount is estimated.

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

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

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

1.10 Claims on staff

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

1.11 Currency inventory expenditure

During prior years the Bank accounted for expenditure related to minting and printing of currency by armortising it over three years on a straight line basis because the Bank held a belief that the benefit of distribution to the public is not realised over a period of one year.

The currency was accounted as a non current asset but Management has concluded that the currency will be accounted for as Inventory per IAS 2 as it is held for distribution to the public and therefore by definition meets the definition of inventory. It is best practice for a Central Bank to carry the cost relating to the deferred currency as an inventory item on the Statement of Financial Position. Classifying these costs as inventory aligns the cost to the benefit when it is ultimately received, this is assuming that this benefit is received when the notes are issued into circulation as opposed to over a set period of time.

During the current year the Bank has classified currency out of intangible assets into other assets per IAS 2 inventories.

1.12 Dividend distribution

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

1.13 Notes and coins

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

1.14 IMF Holding of Special Drawing Rights and IMF subscription account

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

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

1.15 IMF Funded PRGF Advances

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

1.16 General Reserve

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

In terms of the Central Bank of Lesotho Act No.2 of 2000, in the case of any year at the end of which the general reserve of the Bank does not exceed the minimum paid-up capital of the Bank, one third of the net profits of the Bank for the financial year in the case of any year of which the general reserve exceeds minimum paid-up capital of the Bank but does not exceed four times the paid up capital of the Bank, one sixth of the net profits of the Bank will be allocated to general reserve. However, where the general reserve of the Bank exceeds four times the paid-up capital, with the approval of the Minister, further allocations may be made from time to time to the general reserve to increase it beyond four times the minimum paid-up capital

1.17 Rand Compensation Reserve

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

1.18 Foreign Exchange Revaluation Reserve Account

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

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

1.19 SDR Revaluation Reserve

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

1.20 Property Revaluation Reserve

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

1.21 Bond/Unit Trust Revaluation Reserve

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

1.22 Financial Risk Management

(a) Market Risk

(i) Foreign Exchange Risk

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

In order to manage the foreign exchange risk exposure, the Bank holds functional currencies in which its obligations are denominated in the ratio of their historic cash flows. As of 31st December 2021, if the currency had weakened/strengthened by 5% against the functional currencies, the Bank's foreign assets would have been 2.31% (2020: 2.12%) higher/lower as a result of foreign exchange losses/gains on valuation of foreign currency denominated assets.

(ii) Interest Rate Risk

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

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

(iii) Price risk

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

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

(b) Credit risk

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

(c) Liquidity risk

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

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

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

1.23 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the No.1 and No.2 accounts which total SDR 57 214 433 (2020: SDR 57 214 433) in favour of the IMF. GOL chose to substitute non-interest bearing notes for a portion of the balance held in its Fund's No. 1 account and the securities substituted for currency are recorded in the Securities Account. GOL's holding in IMF SDR Department is posted in the No.1 account and is used tor the Fund's operational transactions e.g. purchases and repurchases, whereas the No. 2 account is used for the payment of operational expenses incurred by the Fund in Maloti. The Bank revalues the IMF accounts in its Statement of Financial Position in accordance with the practices of the IMF Treasury Department. The revaluation of the SDR rates by the IMF is effected annually on 30 April, and whenever there are IMF transactions using the Maloti. The IMF accounts have been revalued using the latest prevailing SDR rates in IMF website.

1.24 Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

(a) Employee benefits

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

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

The assets and liabilities relating to the employees of the Bank participating in the post retirement Corporate Bodies Pension Scheme (CBPS) cannot be separated due to the fact that it is a multi-employer plan. The liability recognised in the statement of financial position in respect of defined benefit pension plans (Corporate Bodies Pension Scheme (CBPS)) is the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past-service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Refer to further disclosure in note 28.

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

(b) Fair values

The following bases are used in determining fair value:

(i) Balances due to and from banks

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

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

Estimates have been used for the implementation of the ECL model, Refer to Accounting policy 1.27

1.25 Memorandum Accounts

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

1.26 Financial Instruments

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

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

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

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

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

1.26 .1 Financial assets

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

Specifically:

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

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

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

Instruments at amortised cost or at FVTOCI

Instruments at amortised cost
Cash and cash equivalents

Treasury bills.

1.26.1 Financial assets (continued)

Instruments at FVTOCI

Self managed bonds

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

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

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

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

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

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

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

Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

Reclassifications

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

1.26.1 Financial Instruments (continued)

Foreign exchange gains and losses

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

- For financial assets measured at amortised cost exchange differences are recognised in other comprehensive income the 'other income' line item;
- For debt instruments measured at FVTOCI exchange differences on the amortised cost of the debt instrument are recognised ia a special account called the Foreign Exchange Revaluation Reserve Account Other exchange differences are recognised in OCI in the investments revaluation reserve;
- For financial assets measured at FVTPL exchange differences are recognised ia a special account called the Foreign Exchange Revaluation Reserve Account either in 'net trading income', if the asset is held for trading, or in 'net income from other financial instruments at FVTPL' if otherwise held at FVTPL; and
- For equity instruments measured at FVTOCI, exchange differences are recognised in OCI in the investments revaluation reserve.

Impairment of financial assets

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

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

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

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

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

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

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

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

Credit-impaired financial assets

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

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

1.26.1 Financial Instruments (continued)

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

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

Definition of default

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

- The borrower is unlikely to pay its credit obligations to the Bank in full. Borrower is past due more than 90 days on any material credit obligation to the Bank; or
- The borrower is unlikely to pay its credit obligations to the Bank in full.

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

Significant increase in credit risk

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

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

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

The PDs used are forward looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL. Qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly.

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

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

Modification and derecognition of financial assets

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

1.26.1 Financial Instruments (continued)

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

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

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

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

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

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

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

Write-off

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

1.26 Financial Instruments (continued)

1.26.2 Financial liabilities and equity

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

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

Equity instruments

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

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised..

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

Derecognition of financial liabilities

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

1.26 Financial Instruments (continued)

Derecognition of financial liabilities (continued)

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

1.27 Standards and interpretations not yet effective

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

Standard	New and Amended Standard:	Effective for Annual Period beginning on or after
Amendments to IAS 1 Presentation of Financial Statements (IAS 1)-Classification of Liabilities as Current or Non-Current	*The amendments clarify that liabilities are classified as either current or non-current liabilities, depending on the rights that exist at the end of the reporting period as well as clarify what IAS 1 means in reference to the "settlement" of a liability.*	*Annual periods beginning on or after 1 January 2023*
Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	*The amendments require an entity to recognise deferred tax on certain transactions (eg leases and decommissioning liabilities) that give rise to equal amounts of taxable and deductible temporary differences on initial recognition.*	Annual periods beginning on or after 1 January 2023

1.28 Related Parties

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

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

		2021	2020
		M '000	M '000
2.	**Cash and balances with Banks**		
	Cash and cash equivalents consist of:		
	Cash and cash equivalents		
	Cash on hand	1 137	1 052
	Bank balances	254 867	111 365
	Short-term deposits	2 650	4 661
	Total cash in hand and cash at bank	258 654	117 078
	Current and Call Accounts:		
	Foreign Banks	44 415	56 878
	South African Banks	2 248 167	3 119 843
	Total Current and Call Accounts	2 292 582	3 176 721
	Fixed Deposits:		
	Foreign Banks	2 027 045	1 702 294
	South African Banks	100 000	1 830 000
	Expected credit loss for cash and cash equivalents	(581)	(1 256)
	Total Fixed deposits (with maturity shorter than 3 months)	2 126 464	3 531 038
	Total cash and cash equivalents	**4 677 700**	**6 824 837**

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

3.	**Deposit Floaters**		
	SA Banks Deposits	1 200 000	400 000
	Foreign Banks Deposits	65 635	213 650
		1 265 635	**613 650**

4.	**Accrued interest due from Banks**		
	Accrued interest receivable:		
	ZAR fixed deposits	10 329	15 142
	Foreign call and fixed deposit accounts	345	472
		10 674	**15 614**

	2021 M '000	2020 M '000
5. Investment in Swift		
Investment in SWIFT	328	506

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

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

6. Treasury notes and bonds

2021

	Fair value through Profit and loss	Fair value through OCI	Total
US Bonds at fair value	1 703 622	771 878	2 475 500
ZAR Bonds at fair value	-	3 388 022	3 388 022
US Bonds accrued interest	5 692	2 513	8 205
ZAR Bonds accrued interest	-	71 290	71 290
Expected Credit Loss	-	(93 154)	(93 154)
	1 709 314	**4 140 549**	**5 849 863**

2020

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

	2021	2020
	M '000	M '000
7. Treasury bills at amortised cost		
US Treasury Bills		
Treasury Bills at amortised cost	80 464	73 425

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

8. IMF Subscription Account

	2021	2020
Balance at beginning of year	1 467 398	1 357 310
Exchange revaluation	16 829	110 088
Balance at end of year	**1 484 227**	**1 467 398**

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

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

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 69,800,000 in 2021. The local currency equivalent of the subscription account in the statement of financial position is converted at the year-end rate of 0.0405208 (2020: SDR 69,800,000 at 0.05509372).

9. IMF Holding of Special Drawing Rights (SDR)

	2021	2020
Balance at beginning of year	45 785	226 909
Net transactions - (decrease) / increase in rights	1 447 251	(123 618)
Exchange revaluation	26 337	(57 506)
Balance at end of year	**1 519 373**	**45 785**

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

The value of SDR 68,059,766 (2020: SDR 21,852,390) allocated by the International Monetary Fund less utilisation is converted at 0.0405208 (2020: 0.05509372).

		2021 M '000	2020 M '000
10.	**IMF Funded PRGF Advances**		
	Balance at beginning of year	317 730	475 535
	Paid during the year	(100 511)	(123 618)
	Exchange revaluation	(77 887)	(34 187)
	Balance at end of year	**139 332**	**317 730**

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.

		2021 M '000	2020 M '000
11.	**Rapid Credit Facility**		
	Balance at beginning of year	245 127	-
	Advance during the year	-	274 340
	Exchange revaluation	-	(29 213)
	Reversal during the year	(245 127)	-
	Balance at end of year	-	**245 127**
	Contract assets		245 127

The Rapid Credit Facility (RCF) provides rapid concessional financial assistance with limited conditionality to low-income countries (LICs) facing an urgent balance of payments need. The RCF was created under the Poverty Reduction and Growth Trust (PRGT) as part of a broader reform to make the Fund's financial support more flexible and better tailored to the diverse needs of LICs, including in times of crisis. The RCF places emphasis on the country's poverty reduction and growth objectives. The amounts were disclosed as on lent to the Government of Lesotho in the previous year but a decision was made that they should be kept by the Bank to boost reserves. The translation will be shown in note 23 of the liability. The Bank inadvertently recorded the funds relating to the treatment of the RCF disbursement as budget support.

		2021 M '000	2020 M '000
12.	**Lesotho Government Securities**		
	Maturing within 1 month	-	4 329

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.

		2021 M '000	2020 M '000
13.	**Currency Inventory**		
	Balance at beginning of year	10 782	19 498
	Expenditure incurred	(10 820)	-
	Amortised during the year	-	(8 716)
	Re-instatement at beginning of the year	15 527	-
	Valuation of currency	28 967	-
	Balance at end of year	**44 456**	**10 782**

The accounting policy relating to the cost of currency printing and minting changed in the current year. The costs incurred were initially capitalised as an intangible asset and amortised over three years. The deferred currency is now being disclosed as Currency Inventory, as it is held to be distributed to the public as per the Bank's mandate of providing currency. The costs (Currency Printing and Minting) are now expensed upon issuance into circulation from the vaults on the first-in first-out basis.

Impact of the change of the accounting policy was on due to government and general reserve as it was relating to periods before those presented.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

		2021	2020
		M '000	M '000
14.	**Loans and advances**		
	Housing loans	52 229	48 244
	Car loans	27 010	27 092
	Furniture loans	1 632	1 307
	Other loans and advances	29 771	30 130
		110 642	**106 773**

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 37 and risk management note 40 for further details.

15.	**Other assets**		
	Other prepayments	150 717	2 421
	Other receivables	189	189
	Commemorative coins	3 479	3 479
		154 385	**6 089**

16. Property, plant and equipment

	2021 M '000			2020 M '000		
	Cost or revaluation M '000	**Accumulated depreciation M '000**	**Carrying value M '000**	**Cost or revaluation M '000**	**Accumulated depreciation M '000**	**Carrying value M '000**
CBL buildings	657 891	(33 933)	623 958	620 860	(24 260)	596 600
CBL and Lehakoe Land	10 225	-	10 225	10 225	-	10 225
Lehakoe buildings	143 737	(30 807)	112 930	144 600	(28 872)	115 728
Residential land and buildings	15 682	(3 517)	12 165	20 177	(3 251)	16 926
Housing furniture	569	(498)	71	498	(427)	71
Office furniture	22 679	(11 507)	11 172	20 599	(9 057)	11 542
Motor vehicles	20 632	(15 249)	5 383	20 864	(13 482)	7 382
Office equipment	60 334	(50 177)	10 157	53 968	(41 885)	12 083
Office computers	37 299	(19 313)	17 986	25 350	(15 199)	10 151
Lehakoe furniture	5 097	(3 685)	1 412	4 598	(3 598)	1 000
Sports/music equipment	13 034	(9 523)	3 511	11 502	(9 357)	2 145
Housing equipment	311	(273)	38	273	(234)	39
Security equipment	30 418	(24 786)	5 632	26 879	(20 836)	6 043
Work in progress	172 348	-	172 348	63 141	-	63 141
Total	**1 190 256**	**(203 268)**	**986 988**	**1 023 534**	**(170 458)**	**853 076**

16. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation on disposal	Revaluations	Other changes, movements	Depreciation	Total
	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000
CBL buildings	596 600	283	-	-	36 747	-	(9 672)	623 958
Land	10 225	-	-	-	-	-	-	10 225
Lehakoe buildings	115 728	70	-	-	(932)	-	(1 936)	112 930
Residential land and buildings	16 926	-	-	-	(4 495)	-	(266)	12 165
Housing furniture	71	-	-	-	70	-	(70)	71
Office furniture	11 542	877	-	-	1 204	-	(2 451)	11 172
Motor vehicles	7 382	-	(1 889)	1 574	1 657	-	(3 341)	5 383
Office equipment	12 083	308	-	-	6 658	(600)	(8 292)	10 157
Office computers	10 151	4 741	(45)	45	883	6 370	(4 159)	17 986
Lehakoe furniture	1 000	-	-	-	530	(31)	(87)	1 412
Sports/music equipment	2 145	295	-	-	1 530	(293)	(166)	3 511
Housing equipment	39	-	-	-	-	-	(1)	38
Security equipment	6 043	-	-	-	3 539	-	(3 950)	5 632
Work in progress	63 141	109 207	-	-	-	-	-	172 348
	853 076	**115 781**	**(1 934)**	**1 619**	**47 391**	**5 446**	**(34 391)**	**986 988**

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

16. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Transfers	Revaluations	Depreciation	Total
					M '000	
	M '000	M '000	M '000	M '000		M '000
CBL buildings	79 745	520 330	-	-	(3 475)	596 600
Land	10 225	-	-	-	-	10 225
Lehakoe buildings	117 825	68	-	-	(2 165)	115 728
Residential land and buildings	17 229	-	-	-	(303)	16 926
Housing furniture	69	-	-	72	(70)	71
Office furniture	2 652	9 358	-	1 149	(1 617)	11 542
Motor vehicles	7 836	1 204	-	1 681	(3 339)	7 382
Office equipment	11 116	1 010	-	7 213	(7 256)	12 083
Office computers	9 204	3 646	-	1 146	(3 845)	10 151
Lehakoe furniture	1 021	32	-	1 559	(1 612)	1 000
Sports/music equipment	1 946	5	-	1 829	(1 635)	2 145
Housing equipment	39	-	-	-	-	39
Security equipment	6 290	696	-	2 944	(3 887)	6 043
Work in progress	540 446	52 972	(530 277)	-	-	63 141
	805 643	**589 321**	**(530 277)**	**17 593**	**(29 204)**	**853 076**

	2021	2020
	M'000	M'000

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 statement during the financial period in which they are incurred.

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

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

Unrealised surpluses or deficits arising on revaluation of buildings are transferred to a Revaluation Reserve Account. The most recent independent valuation for buildings was performed in the current year.

17. Intangible assets

	2021			2020		
	Cost / Valuation M '000	Accumulated amortisation M '000	Carrying value M '000	Cost / Valuation M '000	Accumulated amortisation M '000	Carrying value M '000
Computer software	88 705	(68 184)	20 521	102 265	(77 202)	25 063

Reconciliation of intangible assets - 2021

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

Reconciliation of intangible assets - 2020

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

		2021 M'000	2020 M'000
18.	**Notes and coins issued**		
	Notes	1 795 314	1 788 503
	Coins	30 525	21 257
		1 830 228	**1 819 028**

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

		2021 M'000	2020 M'000
19.	**Deposits**		
	Current liabilities	568 257	686 524
	Deposits from Banks - Non-interest bearing		
	Banks	560 088	676 947
	Other Deposits - Non-interest bearing		
	International Institutions	321	4 375
	Parastatals and others	7 848	5 202
		568 257	**686 524**
20.	**IMF Maloti Currency Holding**		
	Securities account	705 661	697 660
	General resources account	1 002 477	991 608
		1 708 138	**1 689 268**

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

		2021 M'000	2020 M'000
21.	**IMF Special Drawing Rights Allocation**		
	Balance at beginning of year	695 850	637 140
	Allocated during the year	1 447 251	-
	Exchange revaluation	84 361	58 710
	Balance at end of year	**2 227 462**	**695 850**

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

Lesotho's allocation by IMF of SDR99,778,347 is converted at 0.048391300000 (2020: 32,878,186 0.040520800000).

		2021 M'000	2020 M'000
22.	**IMF-PRGF Facility**		
	Balance at beginning of year	317 730	475 535
	Paid during the year	(100 511)	(123 618)
	Exchange revaluation	(77 887)	(34 187)
	Balance at end of year	**139 332**	**317 730**

This IMF loan was secured under the Poverty Reduction and Growth Facility. The Ministry of Finance tranche is accounted for through the Bank's records to present the amount due to the IMF. So far, five tranches have been disbursed and the last tranche has been disbursed in 2013.

IMF. The balance due to the IMF amounted to SDR 15,113,500, converted at 0.048391300000 as at 31 December 2021 (2020: SDR 42 992 500.00 at 0.040520800000). The loan has been on-lent as per note 9. Interest expense and exchange rate differences are borne by the Government of Lesotho.The corresponding interest receivable and exchange gains are recognised.

		2021 M'000	2020 M'000
23.	**IMF Rapid Credit Facility**		
	Balance at beginning of year	245 127	-
	Advance during the year	-	274 340
	Exchange revaluation	2 811	(29 213)
	Balance at end of year	**247 938**	**245 127**

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

The value of RCF 11,660,000 (2020: SDR 11,660,000) allocated by the International Monetary Fund is converted at 0.048391300000 (2020:0.040520800000).

		2021 M'000	2020 M'000
24.	**Taxation(receivable)/ payable**		
	Balance at beginning of year	(27 640)	21 624
	Paid during the year	-	(72 285)
	Current year charge	9 387	23 021
	Balance at end of year	**(18 253)**	**(27 640)**
25.	**Dividend payable**		
	Balance at beginning of year	46 999	117 840
	Paid during the year	(46 999)	(117 840)
	Profit appropriations for the current year	-	46 999
	Prior year correction of change in Accounting policy activities that mistated due to GOL	11 646	-
	Balance at end of year	**11 646**	**46 999**

	2021 M'000	2020 M'000
25. Dividend payable (continued)		

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.

The accounting policy relating to the cost of currency printing and minting changed in the current year. The costs incurred were initially capitalised as an intangible asset and amortised over three years. The deferred currency is now being disclosed as Currency Inventory, as it is held to be distributed to the public as per the Bank's mandate of providing currency. The costs (Currency Printing and Minting) are now expensed upon issuance into circulation from the vaults on the first-in first-out basis.

Impact of the change of the accounting policy was on due to government and general reserve as it was relating to periods before those presented.

	2021 M'000	2020 M'000
Profit after tax appropriates as follows:		
Profit/(Loss)/ after tax (after actuarial (loss)/gain on employee benefits)	(10 979)	56 399
Profit after tax net of gain on foreign exchange activities	(10 979)	56 399
Transfer to Government	11 646	(9 400)
Loss to be tranferred to General Reserve	10 979	-
Balance at end of year	**11 646**	**46 999**

26. Trade and other payables

	2021 M'000	2020 M'000
Various accruals	105 938	11 215
Divisional cheques accounts	107	272 350
Other	28 976	20 753
Accrued leave pay	**2 482**	**2 103**
	137 503	**306 421**

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

Various accruals relate to accrued expenses as at year end.

27. Retirement benefits

	2021 M'000	2020 M'000
Provision for severance pay	24 391	25 397
Opening obligation	3 138	2 560
Interest cost	3 247	3 454
Current service cost	(2 046)	(1 526)
Actuarial (gain)/ loss on employee benefits	(1 472)	(5 494)
Benefits paid	**27 258**	**24 391**

	2021 M'000	2020 M'000
27. Retirement benefits (continued)		
Provision for gratuity		
Opening obligation	82 726	86 182
Interest cost	10 673	8 737
Current service cost	14 344	14 568
Actuarial (gain)/ loss on employee benefits	(4 403)	(6 276)
Benefits paid	(7 808)	(20 485)
	95 532	**82 726**
	122 790	**107 117**

The Bank's liability is valued using the Projected Unit Credit Method by the independent Actuarial Valuer. The Valuer has used assumptions based on Statistics South African market data. The valuer has determined the discount rate to be equal 12,42% p.a., general inflation rate to be 7,24% p.a. The valuer has used the discount rate assumption of high quality corporate bond. The valuer has set the discount rate by using the best fit discount rate at 30 November 2021 based on yields from the zero coupon South African government bond curve. The computation has been determined taking into consideration the cash-flow weighted duration of the liabilities which is approximately 10 years. The recommended discount rate is 12.42%.

	2021	2020
Net expense recognised in profit or loss		
Current service cost	17 591	18 022
Interest cost	13 811	11 297
Actuarial (gains)/Loss	(6 449)	(7 802)
	24 953	**21 517**
Key assumptions used		
Discount rates used	11,92 %	10.49%

Sensitivity Analysis 2021	**Current Assumption**	**1% decrease**	**1% increase**
	11,92%	**10,92%**	**12,92%**
Bank	122 790	136 199	138 654

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

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

	2021 M'000	2020 M'000
28. Post-employment retirement fund benefits		
Opening balance	78 801	-
Post- employment retirement fund benefits	-	78 801
Liability paid during the year	(78 801)	-
	-	**78 801**

In terms of the rules and regulations of the Defined Benefit Plan of the Fund, the Fund Manager is required to perform actuarial valuation assessment every three years. The next valuation report is due in the financial year ended 2022. The Bank remains party to the pension plan.The previous year liability was paid during the year and estmated liability as at 31 December 2021 was paid. Also starting January 2022 the Bank has increased its employee contributions to 10%.

	2021 M'000	2020 M'000
Financial position of the scheme		
Value of assets	**137 508**	**137 508**
Value of liabilities	**(257 857)**	**(257 857)**
Active member liabilities	(149 481)	(149 481)
Pensioner liabilities	(105 299)	(105 299)
Deferred liabilities	(3 077)	(3 077)
Surplus/(deficit)	**(120 349)**	**(120 349)**
Funding level	**53,00 %**	**53,33 %**
Surplus/(deficit) attributable to the contributors	**(63 785)**	**(240 645)**

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

	2021 M'000	2020 M'000
Investment		
Property	60 341	60 341
Lesotho Bank 24 Hour Call Account	4 291	4 291
RMB Asset Management	30	30
Stanlib Income Fund	18 683	18 683
Standard Bank Short Term Deposits	23 000	23 000
Nedbank Short Term Deposits	10 000	10 000
FNB Short Term Deposits	10 657	10 657
Government Bonds	15 000	15 000
Accrued Interest	1 837	1 837
Creditors	(6 783)	(6 783)
Bank Account	452	452
Total	**137 508**	**137 508**

	2021 M'000	2020 M'000

28. Post-employment retirement fund benefits (continued)

Assumptions

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

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

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

Discount rate is considered to be the only significant assumption.

29. Deferred tax

Deferred tax liability

	2021	2020
Property plant and equipment	53 050	21 972

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:

	2021	2020
Deferred tax liability	53 050	21 972

Reconciliation of deferred tax asset / (liability)		
At beginning of year	21 972	(13 019)
Movements in profit and loss	1 734	(1 513)
Movement in equity - current year	29 344	36 504
	53 050	21 972

	2021 M'000	2020 M'000
29. Deferred tax (continued)		
Reconciliation of deferred tax asset / (liability)		
Accelerated capital allowance for tax purposes	9 766	5 341
Liabilities for Health care benefits accrued	31 318	28 055
Deferred expenses	653	3 066
Bond/unit trust revaluation reserve	86 254	45 531
Property revaluation reserve	(74 941)	(60 021)
	53 050	**21 972**
30. 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.

	2021 M'000	2020 M'000
31. Investment income		
Interest income		
Foreign currency deposits (Armotised cost)	202 325	285 866
Interest treasury bills and SDR holdings (Armortised cost)	1 637	2 882
Debt instrument at fair value through Other Comprehensive Income and Profit and Loss	253 963	214 438
Total interest income	**457 925**	**503 186**
32. Interest expense		
Interest on non-financial Public Enterprises	104	57
Accrued premium amortisation	27 311	13 374
IMF SDR allocation account	4 459	3 710
Total interest expense	**31 874**	**17 141**

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

		2021 M'000	2020 M'000
33.	**Other income**		
	Profit on sale of bonds	2 747	34 003
	Interest on staff loans (Armotised cost)	2 008	1 951
	Lehakoe income	3 663	1 924
	Other income	9 008	4 123
	Gain on instruments designated as fair value through profit and loss	1 227	22 826
		18 653	**64 827**

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

		2021 M'000	2020 M'000
34.	**Operating costs and expense per nature**		
	Administration and other expenses	66 867	74 926
	Auditors remuneration	3 723	2 944
	Deferred currency expenses amortised	7 048	8 716
	Deferred computer software amortisation	10 299	11 081
	Depreciation and impairment	34 391	28 243
	Property, plant and equipment maintenance expenses	13 141	12 905
	Loss on sale of other instruments	7 146	(12 963)
	Loss on fair valuation of treasury notes and bonds	23 301	23 904
	Personnel costs:		
	Staff welfare expenses	26 256	23 833
	Non-executive directors' fees	2 200	1 088
	Executive directors' salaries	10 202	9 554
	Key management (heads of departments)	14 446	12 128
	Staff salaries and expenses	176 313	138 370
	Pension fund contributions	9 129	85 406
	Gratuity and severance pay (interest and service cost)	40 210	33 431
		444 672	**453 566**
35.	**Taxation**		
	Major components of the tax expense		
	Current		
	Local income tax - current period	(2 026)	21 468
	Tax on actuarial gain(loss)	**1 568**	**1 674**

	2021 M'000	2020 M'000
35. Taxation (continued)		
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate.		
Chargeable profit (before foreign exchange gain/loss and after actuarial gain/loss)	(12 170)	72 846
Statutory tax rate	25,00 %	25,00 %
Permanent differences:		
Donations	0,03 %	0,01 %
Other	0,02 %	0,03 %
Effective tax rate	**25,05 %**	**25,04 %**
Accounting profit (loss)	(13 005)	72 846
Add: Permanent differences disallowed for tax purposes	11 838	6 972
Add: Temporary differences disallowed for tax purposes	38 713	12 265
Taxable profit	**37 546**	**92 083**
Taxation @ 25% (2020: 25%)	9 387	23 021
Add:Tax expense	(11 413)	(1 553)
Total Tax due	**(2 026)**	**21 468**

		2021 M'000	2020 M'000
36.	**Cash (used in)/generated from operations**		
	Profit before taxation	(13 007)	72 850
	Adjusted for:		
	Depreciation	34 391	28 243
	Deferred computer software amortised	10 299	11 081
	Interest income	(457 925)	(503 186)
	Interest paid	4 564	3 767
	Currency Printing and Minting	(33 674)	8 716
	Movement in Deposits	(553 988)	490 334
	Treasury bills at amortised cost	(7 039)	(4 231)
	Movement in IMF Maloti Currency Holding	18 870	578 206
	Movement in securities as at FV through profit (loss)	(101 661)	(87 262)
	Trade and other payables	(168 910)	292 389
	Movement in securities held at fair value through other comprehensive income	(1 129 811)	181 124
	Movement in IMF Special Drawing Rights Allocation	1 531 611	58 711
	Movements in Long-term employee benefit obligation	15 673	(4 462)
	Deposit Floaters	(651 985)	1 406 558
	Impairment	19 486	24 460
	Expected credit loss for cash and cash equivalents	581	(1 256)
	Profit on sale of bonds	(2 747)	(34 003)
	Gain on instruments designated as FVTPL	(1 227)	(22 826)
	Movement in Post-employment benefit liability	(78 801)	78 801
	(Gain)/Loss on sale of other instruments	7 146	12 963
	Loss on fair valuation of treasury notes and bonds	23 301	23 904
	Accrued premium amortisation	27 311	-
	Interest on staff loans	2 008	-
		(1 505 534)	**2 614 881**

37. Related parties

		2021 M'000	2020 M'000
Gross advances made during the year to:			
Heads of Departments	Car loans	2 388	933
	Furniture loans	50	-
	Housing loans	-	1 000
	Personal loans	2 482	-
	Comprehensive insurance	44	-
Balances due at end of the year:			
Heads of Departments	Car loans	2 387	861
	Furniture loans	46	-
	Housing loans	-	949
	Personal loans	2 483	-

		2021 M'000	2020 M'000
37. Related parties (continued)			
Interest charged for the year:			
Heads of Departments	Car loans	16	5
	Housing loans	-	8
	Personal loans	9	-

During the year ended 31 December 2021 a personal loan was advanced to the Governor and was settled with terminal benefits after year end. The loans issued to Executive Directors (Governors) and other key management (Heads of Departments) personnel during the year are repayable monthly and have interest rates of 3% per annum.

The Bank, however, requires and accordingly has the following as collateral:

- terminal benefits
- title deeds and registered mortgages in relation to housing loan

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

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

	2021 M'000	2020 M'000
Executive Directors' salaries	10 202	9 558
Key management salaries	14 446	12 128
	24 648	**21 686**
Non-Executive Directors emoluments		
Directors fees	1 868	1 088

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.

	2021 M'000	2020 M'000
Government Deposits	3 622 150	4 057 873

38. Financial assets by category

The financial assets have been categorised as follows:

2021

	Armortised Cost M'000	Fair value through OCI M'000	Assets at fair value through profit and loss M'000	Total M'000	Fair value M'000
Cash and cash equivalents	4 677 700	-	-	4 677 700	4 677 700
Deposit Floaters	1 265 635	-	-	1 265 635	1 265 635
Accrued interest due from Banks	10 674	-	-	10 674	10 674
Investment in Swift	328	-	-	328	328
Treasury notes and bonds	(669)	4 141 218	1 709 314	5 849 863	5 849 863
Treasury bills at amortised cost	80 464	-	-	80 464	80 464
IMF Subscription Account	1 484 227	-	-	1 484 227	1 484 227
IMF Holding of Special Drawing Rights (SDR)	1 519 373	-	-	1 519 373	1 519 373
IMF Funded PRGF Advances	139 332	-	-	139 332	139 332
Trade and other receivables	110 642	-	-	110 642	110 642
	9 287 706	**4 141 218**	**1 709 314**	**15 138 238**	**15 138 238**

2020

	Armortised Cost M'000	Fair value through OCI M'000	Assets at fair value through profit and loss M'000	Total M'000	Fair value M'000
Cash and cash equivalents	6 824 837	-	-	6 824 837	-
Deposit Floaters	613 650	-	-	613 650	613 650
Accrued interest due from Banks	15 614	-	-	15 614	15 614
Investment in Swift	506	-	-	506	506
Treasury notes and bonds	-	3 213 759	1 608 256	4 822 015	4 822 015
Treasury bills at amortised cost	73 425	-	-	73 425	73 425
IMF Subscription Account	1 467 398	-	-	1 467 398	1 467 398
IMF Holding of Special Drawing Rights (SDR)	45 785	-	-	45 785	45 785
IMF Funded PRGF Advances	317 730	-	-	317 730	317 730
Lesotho Government Securities	4 329	-	-	4 329	4 329
Trade and other receivables	106 773	-	-	106 773	106 773
IMF Rapid Credit Facility	245 127	-	-	245 127	245 127
	9 715 174	**3 213 759**	**1 608 256**	**14 537 189**	**7 712 352**

38. Financial liabilities by category (continued)

Gains and losses per financial instrument category 2021	Armortised cost M'000	FV through P/L M'000	FV through OCI M'000	Total M'000
Interest Income	202 325	-	253 963	456 288
FV Gains	-	1 637	-	1 637
Subtotal	202 325	1 637	253 963	457 925
Interest expense	(31 874)	-	-	(31 874)
	170 451	**1 637**	**253 963**	**426 051**

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

39. Financial liabilities by category

The financial liabilities have been categorised as follows:

2021

	Financial liabilities at amortised cost M '000	Total M '000
Notes and coins issued	1 830 228	1 830 228
Deposits	568 257	568 257
Lesotho Government Deposits	3 622 150	3 622 150
IMF Maloti Currency Holding	1 708 138	1 708 138
IMF Special Drawing Rights Allocation	2 227 462	2 227 462
IMF-PRGF Facility	139 332	139 332
IMF Rapid Credit Facility	247 938	247 938
	10 343 505	**10 343 505**

2020

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

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

40. Financial instruments and risk management

Financial risk management

General risk management

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

Management structures

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

Risk elements

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

Operational risk

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

Human resource risk

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

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

Legal risk

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

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

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

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

40. Financial instruments and risk management (continued)

Financial risk management (continued)

General risk management

Reputational risk

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

Foreign currency risk

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

The foreign currency risk is reported on daily, monthly and quarterly basis to the Bank's Management and different Committees. The below tables discuss impact of different risk exposures that the Bank is exposed to.

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

40. Financial instruments and risk management (continued)

Currency 2021	**Value of Currency M'000**	**Exchange Rate**	**Maloti Equivalent M'000**
Currency risk			
Cash and balances with Banks			
South Africa	7 353 669	1,0000	7 353 669
United States	259 437	15,9505	4 138 141
Botswana	186	1,3574	253
England	502	21,5036	10 792
European Union	424	18,0671	7 668
IMF	71 792	22,3241	1 602 695

Treasury notes and bonds	**Value of Currency M'000**	**Exchange Rate**	**Maloti Equivalent M'000**
South Africa	2 845 126	1,0000	2 845 126
United States	157 476	15,9505	2 313 969

Treasury Bills	**Value of Currency M'000**	**Exchange Rate**	**Maloti Equivalent M'000**
United States	5 000	15,9505	79 753
South Africa	50 000	1,0000	50 000

Currency 2020

Cash and balances with Banks	**Value of Currency M'000**	**Exchange Rate**	**Maloti Equivalent M'000**
South Africa	5 823 229	1,0000	5 823 229
United States	109 431	14,6941	1 607 995
Botswana	387	1,3592	526
England	687	20,0692	13 796
European Union	168	18,0635	3 030
IMF	2 163	21,1635	45 785

Treasury notes and bonds	**Value of Currency M'000**	**Exchange Rate**	**Maloti Equivalent M'000**
South Africa	2 644 843	1,0000	2 644 843
United States	153 063	14,0139	2 145 014

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

Foreign exchange risk

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

40. Financial instruments and risk management (continued)

Credit risk

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

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

Quantitative information

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

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

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

Implementation of ECL model- Central Bank of Lesotho

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

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

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

40. Financial instruments and risk management (continued)

Assumptions of the CBL MODEL

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

Probability of Default (PD)

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

Credit risk analysis

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

40. Financial instruments and risk management (continued)

2021

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

Current and call accounts	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	45	45	ZAR	none	Baa2/P-2
ABSA Maloti Repatriation	31 992	31 992	ZAR	none	Ba2/P-2
ABSA Credit Card	878	878	ZAR	none	Ba2/P-2
B.I.S	6	6	GBP	none	Supranational
B.I.S	105	105	USD	none	Supranational
B.I.S	17	17	EUR	none	Supranational
Bank of England	6 427	6 427	GBP	none	Aa3/P-1
Bank of N.Y	1 341	1 341	USD	none	A1/P-1
Bank of N.Y	2	2	ZAR	none	A1/P-1
Bank of N.Y (RAMP}	28 711	28 711	USD	none	Aa/P-1
Crown Agents	198	198	GBP	none	BB
Crown Agents	89	89	USD	none	BB
Deutsche Bankers trust	19 380	19 380	USD	none	A2/P-1
Deutsche Bundersbank	7 591	7 591	EUR	none	A3/P-2
Federal Reserve Bank of N.Y	473	473	USD	none	Aaa
First Rand	95	95	ZAR	none	Ba2/P-2
International Monetary Fund Holdings	1 519 373	1 519 373	ZAR	none	Supranational
Investec Bank	91	91	ZAR	none	Ba2/P-2
NedBank	32	32	ZAR	none	Ba2/P-2
SIRESS	39 733	39 733	ZAR	none	Ba2/P-2
Special Rand Deposit	84	84	ZAR	none	Ba2/P-2
Standard Bank	64	64	ZAR	none	Ba2/P-2
Standard Chartered Botswana	253	253	BWP	none	A2
Standard Chartered London	3 404	3 404	GBP	none	A3/P2
South African Reserve Bank	2 175 683	2 175 683	ZAR	none	Ba2/P-2
	3 836 067	**3 836 067**			

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

40. Financial instruments and risk management (continued)

Fixed deposits	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	400 000	400 000	ZAR	none	Ba2/P-2
African Import-Export Bank	511 099	511 099	USD	none	Baa1/P-2
Federal Reserve Bank of NY	143 555	143 555	USD	none	Aaa
Firstrand	200 000	200 000	ZAR	none	Ba2/P-2
ICBC ASIA	459 675	459 675	USD	none	A1/P-1
Investec	400 000	400 000	ZAR	none	Ba2/P-2
NedBank	100 000	100 000	ZAR	none	Ba2/P-2
Standard Bank	200 000	200 000	ZAR	none	Ba2/P-2
Standard Bank PLC	219 290	219 290	USD	none	Baa1/P-2
Standard Bank PLC	650 000	650 000	ZAR	none	Baa1/P-2
Sumitomo Mitsui USD	80 351	80 351	USD	none	A1
	3 363 970	**3 363 970**			

Accrued interest due from Banks	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	2 0554	2 055	ZAR	none	Ba2/P-2
African Import-Export Bank	191	191	ZAR	none	Baa1/P-2
Firstrand	1 200	1 200	ZAR	none	Ba2/P-2
ICBC ASIA	88	88	USD	none	A1/P-1
Investec	2 978	2 978	ZAR	none	Ba2/P-2
NedBank	267	267	ZAR	none	Ba2/P-2
Standard Bank	848	848	ZAR	none	Ba2/P-2
Standard Bank PLC	2 981	2 981	ZAR	none	Baa1/P-2
Standard Bank	54	54	USD	none	Ba2/P-2
Sumitomo Mitsui	11	11	USD	none	A1
	10 673	**10 673**			

40. Financial instruments and risk management (continued)

Treasury bills	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
Federal Reserve Bank of New York	31 901	31 901	USD	none	Aaa
ZAR Tbills	50 000	50 000	ZAR	none	Ba2/P-2
	81 901	**81 901**			

Treasury notes, bonds and unit trusts	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
South Africa	2 845 126	2 845 126	ZAR	none	Ba2/P-2
United States-RAMP	1 600 573	1 600 573	USD	none	Aaa
United States	713 396	713 396	USD	none	Aaa
	5 159 095	**5 159 095**			

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

2020

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

40. Financial instruments and risk management (continued)

Current and call accounts

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

40. Financial instruments and risk management (continued)

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

Accrued interest due from Banks	**Carrying amount M '000**	**Maximum exposure M '000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	2 754	2 754	ZAR	none	Ba2/P-2
African Import-Export Bank	280	280	ZAR	none	Baa1/P-2
Firstrand	1 399	1 399	ZAR	none	Ba2/P-2
ICBC ASIA	128	128	USD	none	A1/P-1
Investec	3 983	3 983	ZAR	none	Ba2/P-2
NedBank	2 595	2 595	ZAR	none	Ba2/P-2
Standard Bank PLC	48	48	ZAR	none	Baa3/P-3
Standard Bank	3 675	3 675	USD	none	Baa3/P-3
Sumitomo Mitsui	16	16	USD	none	Baaa3/P-3
Standard Bank PLC	725	725	USD	none	A-
	15 603	**15 603**			

Treasury bills	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Federal Reserve Bank of New York	73 425	73 425	USD	none	Aaa

Treasury notes, bonds and unit trusts	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
South Africa	2 644 843	2 644 843	ZAR	none	Ba2/P-3
United States-RAMP	1 608 255	1 608 255	USD	none	Aaa
United States	641 918	641 918	USD	none	Aaa
	4 895 016	**4 895 016**			

40. Financial instruments and risk management (continued)

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

All financial assets were fully performing at year end.

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

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

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

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

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

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

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

Staging per class of financial assets - 2021	Stage 1 M'000	Stage 1 12- month ECL M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Treasury notes and bonds	771 878	3 388 022		-	4 159 900
FVOCI Instruments	**771 878**	**3 388 022**		**-**	**4 159 900**

	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Cash and cash equivalents	4 678 281	-		4 678 281
Deposit Floaters	1 265 635	-		1 265 635
Accrued interest due from Banks	10 674	-		10 674
Treasury bills at amortised cost	80 464	-		80 464
IMF Subscription Account	1 484 227	-		1 484 227
IMF Holding of Special Drawing Rights (SDR)	1 519 373	-		1 519 373
IMF Funded PRGF Advances	139 332	-		139 332
Trade and other receivables	110 643	-		110 643
Instruments at amortised cost	**9 288 629**	**-**	**-**	**9 715 926**
Balance as at 31 December 2021	**10 060 507**	**3 388 022**	**-**	**13 448 529**

40. Financial instruments and risk management (continued)

Staging per class of financial assets - 2020	Stage 1 M'000	Stage 1 12- month ECL M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Treasury notes and bonds	1 408 038	-	2 593 128	-	4 001 166
FVOCI Instruments	**1 408 038**	**-**	**2 593 128**	**-**	**4 001 166**

	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Cash and cash equivalents	6 826 094	-	-	6 826 094
Deposit Floaters	613 650	-	-	613 650
Accrued interest due from Banks	15 614	-	-	15 614
Treasury bills at amortised cost	73 425	-	-	73 425
IMF Subscription Account	1 467 398	-	-	1 467 398
IMF Holding of Special Drawing Rights (SDR)	45 785	-	-	45 785
IMF Funded PRGF Advances	317 730	-	-	317 730
Lesotho Government Securities	4 329	-	-	4 329
Trade and other receivables	106 774	-	-	106 774
IMF Rapid Credit Facility	245 127	-	-	245 127
Instruments at amortised cost	**9 715 926**	**-**	**-**	**9 715 926**
Balance as at 31 December 2020	**11 123 964**	**-**	**-**	**13 717 092**

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

Expected credit loss per class of financial assets

2021	Stage 1 M'000	Stage 1 12-month ECL M'000	Stage 2 M'000	Stage 3 M'000	Stage 3 Lifetime ECL M'000	Total ECL M'000
FVOCI Instruments	771 878	669	18 236	-	-	18 905
Instruments at amortised cost	9 288 629	581	-	-	-	581
Balance as at 31 December 2021	**10 060 507**	**1 250**	**18 236**	**-**	**-**	**19 486**

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

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

40. Financial instruments and risk management (continued)

Reconciliation of the expected credit loss allowance

2021	**Stage 1 12-month ECL M'000**	**Stage 2 Lifetime ECL M'000**	**Stage 3 Lifetime ECL M'000**	**Total M'000**
Balance as at 01 January 2021	**1 336**	**23 122**	**-**	**24 458**
- Instruments at amortised cost	1 256	-	-	1 256
- FVOCI Instruments	80	23 122	-	23 202
Net charge for the year	**(17 654)**	**12 682**	**-**	**(4 972)**
- Instruments at amortised cost	582	-	-	582
- FVOCI Instruments	(18 236)	12 682	-	(5 554)
Balance as at 31 December 2021	**(16 318)**	**35 804**	**-**	**19 486**

2020	**Stage 1 12-month ECL M'000**	**Stage 2 Lifetime ECL M'000**	**Stage 3 Lifetime ECL M'000**	**Total M'000**
Balance as at 01 January 2020	**35 259**	**23 122**	**-**	**58 381**
Net charge for the year	**(2 208)**	**(31 715)**	**-**	**(33 923)**
- Instruments at amortised cost	(2 128)	-	-	(2 128)
- FVOCI Instruments	(80)	(31 715)	-	(31 795)
Balance as at 31 December 2021	**33 051**	**(8 593)**	**-**	**24 458**

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 2021

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

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

Table 1 provides a comparative view of holdings in original currency, along with the closing foreign exchange rates for 2020 and 2021 financial years.

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

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

40. Financial instruments and risk management (continued)

	31 December 2021		31 December 2020	
	Portfolio level M'000	Exchange rate M'000	Portfolio level M'000	Exchange rate M'000
South Africa	7 353 669	1,00	8 468 071	1,00
United States	267 495	15,95	267 495	14,69
Botswana	424	1,36	387	1,36
England	502	21,50	687	20,07
European Union	186	18,07	168	18,06
Switzerland	-	17,49	-	16,69
IMF	71 792	22,32	2 163	21,16

Base case Data for currency and foreign investment risk	31 December 2021			31 December 2020		
	Portfolio level	Portfolio level in %	Exchange Rate	Portfolio level	Portfolio level in %	Exchange Rate
Currency composition	**M'000**			**M'000**		
ZAR	7 353 669	57,89 %	1,00	8 468 071	67,95 %	1,00
USD	3 812 197	30,01 %	15,95	3 930 594	31,54 %	14,69
EUR	7 666	0,06 %	18,07	3 030	0,02 %	1,36
GBP	10 072	0,08 %	21,50	13 796	0,11 %	20,07
BWP	253	- %	1,36	526	- %	18,06
CHF	-	- %	17,49	-	- %	16,69
SDR	1 519 373	11,96 %	22,32	45 785	0,37 %	21,16
	12 703 230	**100 %**		**12 461 802**	**100 %**	

31 December 2021

5% Increase in exchange rate for currency and foreign investment risk	Portfolio level	Portfolio level in %	Level change	Exchange rate
Currency composition	**M'000**		**M'000**	
ZAR	7 353 669	56,69 %	-	1,0000
USD	4 002 807	30,86 %	(190 610)	15,9505
EUR	8 050	0,06 %	(384)	18,0671
GBP	10 576	0,08 %	(504)	21,5036
BWP	266	- %	(13)	1,3574
CHF	-	- %	-	17,4905
SDR	1 595 342	12,30 %	(75 969)	22,3241
	12 970 710	**100 %**		

40. Financial instruments and risk management (continued)

31 December 2020

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

31 December 2021

5% decrease in exchange rate for currency and foreign investment risk	Portfolio level	Portfolio level in %	Level change	Exchange rate
Currency composition	**M'000**		**M'000**	
ZAR	7 353 669	59,13 %	-	1,00
USD	3 621 587	29,12 %	190 610	15,95
EUR	7 283	0,06 %	383	18,07
GBP	9 569	0,08 %	503	21,50
BWP	240	- %	13	1,36
CHF	-	- %	-	17,49
SDR	1 443 404	11,61 %	75 969	22,32
	12 435 752	**100 %**		

31 December 2020

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

% Change -2.57%.

Interest rate risk

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

40. Financial instruments and risk management (continued)

31 December 2021

	Cash	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	M '000	M '000	M '000	M '000	M '000	M '000
ZAR	249 515	4 357 739	257 084	949 975	1 539 357	7 353 670
USD	1 913	1 890 354	279 869	1 640 062	-	3 812 198
EUR	59	7 608	-	-	-	7 667
GBP	37	10 035	-	-	-	10 072
Other	-	1 519 626	-	-	-	1 519 626
	251 524	**7 785 362**	**536 953**	**2 590 037**	**1 539 357**	**12 703 233**

31 December 2020

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

31 December 2021

Base case yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
	M '000	M '000	M '000	M '000
ZAR	3,96 %	4,18 %	7,60 %	8,00 %
USD	0,10 %	0,20 %	1,29 %	
EUR	(0,61)%			
GBP	0,09 %			

31 December 2020

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

40. Financial instruments and risk management (continued)

31 December 2021

100 Basis points increase in yields	**0 to 6 Months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**
	M '000	**M '000**	**M '000**	**M '000**
ZAR	4,96	5,18 %	8,60 %	9,00 %
USD	1,10 %	1,20 %	2,29 %	
EUR	0,39 %			
GBP	1,09 %			

31 December 2020

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

31 December 2021

100 Basis points decrease in yields	**0 to 6 Months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**
	M '000	**M '000**	**M '000**	**M '000**
ZAR	2,96%	2,96%	6,60 %	7,00 %
USD	(0,90)%	(0,80)%	0,29 %	
EUR	(1,61)%			
GBP	(0,91)%			

31 December 2020

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

31 December 2021

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

40. Financial instruments and risk management (continued)

31 December 2020

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

31 December 2021

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**
			M '000	**M '000**	**M '000**
ZAR	216 144	9 357	51 156	19 470	-
USD	20 73	(1 597)	(10 010)	-	-
EUR	30	-	-	-	-
GBP	109	-	-	-	-
	-	-	-	-	305 397

31 December 2020

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**
	M '000	**M '000**	**M '000**	**M '000**	**M '000**
ZAR	347 551	11 849	48 697	43 529	-
USD	28 032	(884)	(12 485)	-	-
EUR	15	-	-	-	-
GBP	157	-	-	-	-
	-	-	-	-	-
	-	-	-	-	466 459

31 December 2021

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**
	M '000	**M '000**	**M '000**	**M '000**	**M '000**
ZAR	129 028	12 118	93 241	226 827	-
USD	(17 068)	2 720	52 231	-	-
EUR	(122)	-	-	-	-
GBP	(91)	-	-	-	-
	-	-	-	-	498 883

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

40. Financial instruments and risk management (continued)

31 December 2020

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**
	M '000	**M '000**	**M '000**	**M '000**	**M '000**
ZAR	227 526	14 82	89 680	199 272	-
USD	(13 400)	5 257	42 925	-	-
EUR	(44)	-	-	-	-
GBP	(119)	-	-	-	-
	-	-	-	-	565 926

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

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

Liquidity Risk

Market liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments as they fall due.The Bank maintains sufficient short-term liquid funds to meet obligations or commitments as they fall due. It also has sufficient reserves to absorb losses arising from market fluctuations.

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

40. Financial instruments and risk management (continued)

31 December 2021

Financial assets	Redeemable on demand M'000	Maturing within 1 month M'000	Maturing after 1 but within 6 months M'000	Maturing after 6 but within 12 months M'000	Maturing after 1 but within 5 years M'000	Maturing after 5 years M'000	Total M'000
Cash and balances with banks	1 984 096	67 787	1 253 578	-	-	-	3 305 461
Accrued interest due from Banks	12 975	241	14 523	-	-	-	27 739
Expected interest cashflows from Bonds	-	-	130 590	115 978	627 143	18 000	891 711
Treasury Notes, Bonds and Unit Trust	748 012	-	607 789	583 904	2 446 319	450 000	4 836 024
	2 745 083	**68 028**	**2 006 480**	**699 882**	**3 073 462**	**468 000**	**9 060 935**

31 December 2021

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

40. Financial instruments and risk management (continued)

31 December 2020

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

31 December 2020

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

40. Financial instruments and risk management (continued)

Price risk

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

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

	2021 M'000	2020 M'000
41. Fair value information		
Levels of fair value measurements		
Level 1		
Fair value through profit or loss		
Treasury notes and bonds	1 709 314	1 613 107
Financial assets at fair value through OCI:		
Treasury notes and bonds	4 233 703	3 232 111
	5 943 017	**4 845 218**
Total	**5 943 017**	**4 845 218**

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

Level 2

Recurring fair value measurements

Assets	Note(s)	2021	2020
Financial assets at fair value through profit (loss)			
Cash		4 677 700	6 824 837
Deposit Floaters		1 265 635	613 650
Treasury bills		80 464	73 425
Total financial assets designated at fair value through profit (loss)		**6 023 799**	**7 511 912**
Total		**6 023 799**	**7 511 912**

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

	Notes	2021 M'000	2020 M'000

41. Fair value information (continued)

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

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

Level 3

Recurring fair value measurements		2021 M'000	2020 M'000
Assets	Note(s)		
Financial assets			
Investment in SWIFT		328	506
Non-financial assets			
Property, plant and equipment		432 760	402 009
Total		**433 088**	**402 515**

Note(s) Opening balance Closing balance

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

Valuation processes applied by the Bank

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

Inputs into the valuation:

For commercial buildings the valuer used the Gross Replacement Cost method. The Bank uses the price per square meter to determine the value of the buildings:

M22,311.01

For residential buildings the valuer used the Income Approach to value the building using the rentals earned from these buildings. The Bank uses the estimated rental for vacant land:

M410,448.75

	Notes	2021 M'000	2020 M'000

41. Fair value information (continued)

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

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

	2021	2020
Impact on the fair value of property, plant and equipment		
10% increase	559 350	559 350
10% decrease	(526 355)	(526 093)

42. Memorandum Accounts

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

	2021	2020
Amounts in USD		
Deutsche Bank Trust Company America	24 791 092	16 188 513
Amounts in Euro		
Deutsche Bundesbank	2 662 091	2 037 802

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

43. Events after the reporting period

The global economy is threatened by ongoing geopolitical risks, coronavirus variants and rising living costs. Increased geopolitical tensions caused by Russia's invasion of Ukraine in the past few weeks which led to a surge in gas prices in Europe leading to hightened inflation.

Coronavirus (COVID-19) continues to mutate and the recent variant (Omicron) is found to be mild relative to other previous variants despite being more contagious. Globally, omicron spread is slowing down and governments are responding by reopening economies. The risk of emerging new variants is significantly high economies reopen, coupled with slow vaccination rates in some countries.

The COVID-19 pandemic continued to burden South Africa's economic performance, however the pandemic is unlikely to have serious impact on the country's creditworthiness going forward as the country continues to vaccinate its population. This, however, does not mean overlooking the impact that slow vaccination progress has had on the economy. The one repreive for South Africa will come from unexpetedly strong fiscal performance in 2021, as well as improvements to GDP-based credit matrics following review of GDP calculations for 2021. Eskom rolling blackouts will continue to hurt the economy due to maintenance programmes and inadequate supply of power relative to the demand. In spite of that, a key obstacle in the form of a lawsuit against Eskom and government, has been removed by a South African court by dismissing an application against a state emergency power tender to supply 2,000 megawatts of power to the grid.

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

43. Events after the reporting period (continued)

The U.S. economic recovery, rising fuel prices and supply distruptions due to the pandemic resulted in a massive surge in inflation in the U.S. Following a strong economic recovery, the U.S. Treasury trimmed its quartely sale of longer term debt for the second time, reflecting declining borrowing needs after a record ramp-up in debt to fund pandemic relief spending. The cost of borrowing will likely be moderated in the short to medium term as demand is expected to outweigh supply leading to depressed yields. This is because demand for U.S. treasuries has increased significantly since 2008 financial crises.

The COVID-19 continues to pose a health risk but has since subsided due to increased vaccination in 2021. The restrictions have been slightly eased. Staff continue to work on a hybrid basis as some are work remotely and some are gradually returning onsite to the premises. COVID-19 protocols and social distancing are still in place and vaccination certificates are mandatory for entry into the Bank.

44. Going concern

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

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

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Notes

Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Central Bank of Lesotho
Corner Airport and Moshoeshoe Roads
Maseru Central • P. O. BOX 1184 • Maseru 100

For quiries, enquiries and comments, please contact:
Phone: (+266) 2223 2094 / 2223 2095
Fax: (+266) 2231 0051
E-mail: info@centralbank.org.ls