2020 ANNUAL REPORT

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

CENTRAL BANK OF LESOTHO

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March 30, 20**21**

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 2020 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, 2020 certified by the auditors Moteane, Quashie & Associates and SNG Grant Thornton.

    b) A report on the operations and activities of the Bank during 2020.

Yours sincerely,

A. R. Matlanyane (Ph.D)
GOVERNOR

CENTRAL BANK OF LESOTHO 2020 ANNUAL REPORT

for the year ended December 31, 2020

The contents of this 2020 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:

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GOVERNANCE, MISSION & OBJECTIVES

Ownership and Governance

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

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

Mission Statement

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

Objectives

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

Other statutory functions of the Bank are:

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

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Board of Directors & Executive Management

BOARD OF DIRECTORS


Dr. Retšelisitsoe Matlanyane
Executive Chairman


Dr. Masilo Makhetha
Executive Director


Ms. 'Mathabo Makenete
Executive Director


Mrs. Neo Phakoana-Foulo
Non-Executive Director


Mr. Retšelisitsoe Thamae
Non-Executive Director


Mrs. Sophia Mohapi
Non-Executive Director


Mr. Matooane Letsoela
Non-Executive Director


Adv. Kuena Thabane
Non-Executive Director

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

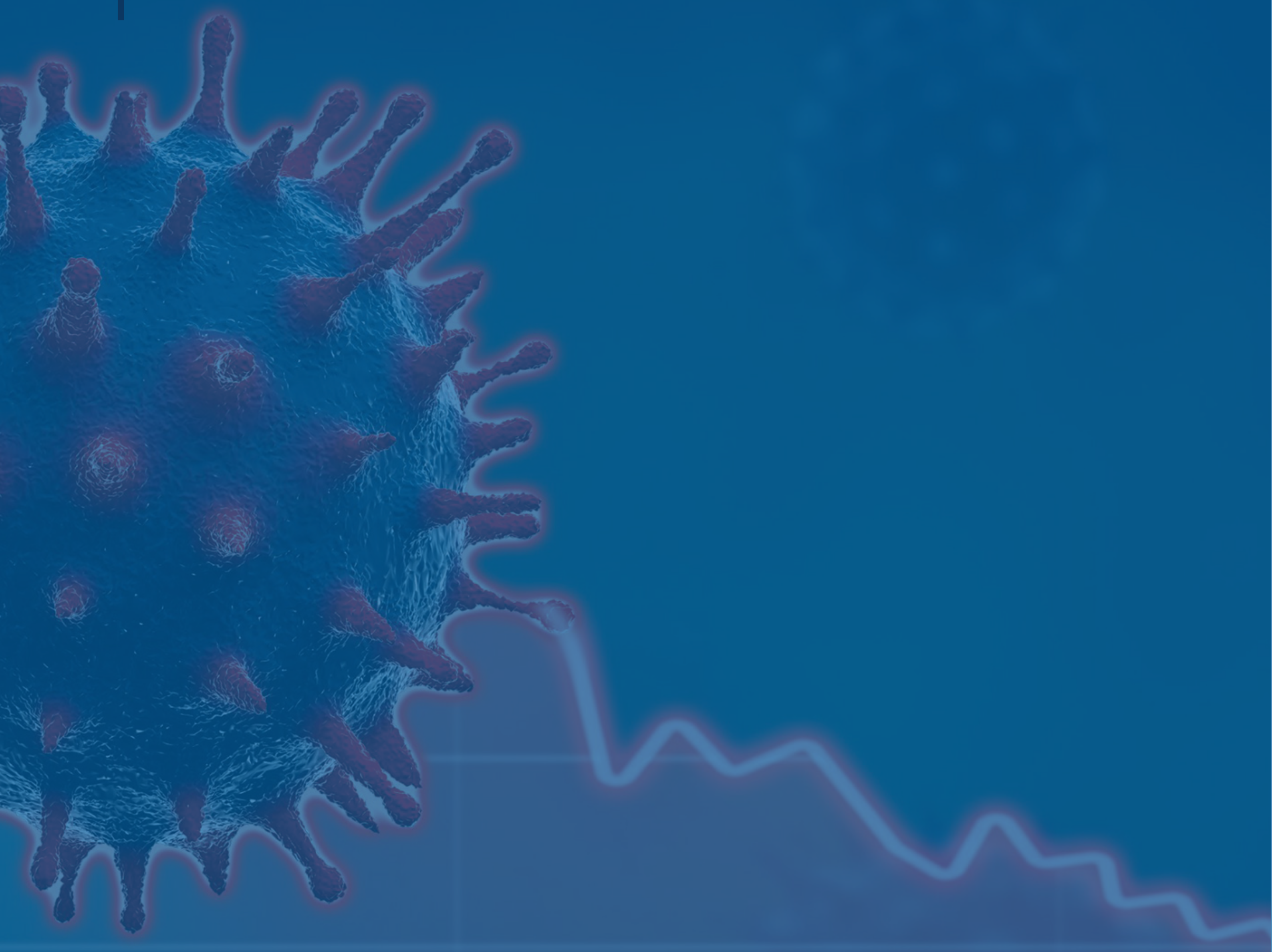
Mr. Napo Rantsane
Director of Corporate Affairs Department

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



Foreword by the Governor

FOREWORD BY THE GOVERNOR

Dr. Retšelisitsoe Matlanyane
Governor

THE YEAR 2020 WAS DEFINED by the outbreak of the Covid-19 pandemic and the associated spread containment measures, better known as lockdowns. The outbreak of the COVID-19 pandemic led countries to impose travel and movement restrictions through lockdown measures with the aim to control the rapid spread of the disease and reduce the burden on the health systems. These negatively impacted on the business activity, disrupted supply chains and forced businesses to close leading to high job and income losses among others.

The global economy, the regional economies and individual economies were adversely affected by the lockdowns as they mostly brought to a halt all manner of economic activities in punctuated intervals in one region after another. The world economy is estimated to have contracted by 3.5 per cent in 2020, compared with a 2.8 per cent increase in 2019. The contraction was broad based as there were declines in consumption, industrial production, trade and investment spending. The impact of Covid-19 was felt in both the advanced, as well as, the emerging and developing economies.

Monetary policy around the world had to be part of the response to the global health crisis that has morphed into an economic crisis of epic proportions. The key policy rates were cut dramatically, where scope to do so existed, to support economies in the great lockdown period and to preserve global financial stability. Unconventional measures such as asset purchase programmes were intensified where they were already in place and in some countries introduced to keep the economies going despite the extreme difficulties posed by the pandemic.

During the year, domestic economic developments were characterised by decline in economic growth, rising unemployment and rising debt level. Economic activity measures by real GDP is estimated to have further contracted by 6.1 per cent in 2020, following a 0.4 per cent decline recorded in 2019. The contraction was broad-based in all sectors of the economy. The year 2020 marked the fourth consecutive year of economic contraction that started in 2017. The economy last grew in 2016. The cumulative contraction of the past four years is 10.9 per cent. The design and rollout of an economic recovery plan is not only imperative but urgent.

The Bank was part of the national response to the adverse effects of Covid-19. The CBL Rate was cut five times by a total of 300 basis points to 3.50 per cent per annum. This lead to other rates in the economy to follow suit. The prime lending rate dropped to an average of 8.2 per cent from that of 11.3 per cent recorded in 2019. Several directives were issued to the industry aimed at alleviating the burden both on the sector itself and on the consumers so that all could be able to navigate the economic and financial difficulties posed by the pandemic.

In the regulatory and supervisory space, the Bank continues to improve and modernise the sector legislative coverage. The *Security Interests in Movable Property Act, 2020* was enacted together with its regulations. In addition, the implementing regulations of the *Pensions Act* and *Insurance Act* were also gazetted. On consumer protection, the *Financial Consumer Protection Bill* was approved by Cabinet for presentation be Parliament.

FOREWORD BY THE GOVERNOR

Like many organizations, the Bank had to adjust to the new realities of 2020. The Bank was one of the first organizations in the country to adopt extreme caution of ceasing to operate from its offices, invoking its business continuity management protocols. Initially, only the critical functions would continue to be carried out. Shortly thereafter a full adjustment was made where all services became available with the vast majority of our staff enabled to work from home.

We have over the years endeavoured to build the Bank into a model of professionalism. The events and the resulting transition occasioned by Covid-19 have afforded us the opportunity to witness the fruits of those efforts. I take this opportunity to commend our management teams and staff who ensured that our work, our deliverables and our stakeholders contract were not adversely affected in any way by the transition.

I keep emphasising, at every opportunity, that the operating environment is uncertain and complex, and will continue to be more so with each passing year. The economic and financial difficulties emanating from the effects of Covid-19 are going to make the coming year extremely tricky from a resources point of view. This is true, not only for the economies, but for organizations as well. The Bank is not going to be spared. We will need to find the motivation and the resilience to continue to do our best in the circumstances. It is the sense of responsibility to our work, coupled with a selfless spirit of service that will enable us to persevere ❑

A. R. Matlanyane (PhD)
Governor • Mookameli oa Banka

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The outbreak of the Covid-19 pandemic led to the imposition of worldwide lockdown measures to control the rapid spread of the disease.

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THE ECONOMIC REPORT

1.1 INTERNATIONAL ECONOMIC DEVELOPMENTS

1.1.1 The World Economy

The global economy contracted deeply in 2020; a dip that was comparable to the great depression of the 1930s and the first contraction since the Global Financial Crisis of 2008-2009. The outbreak of the Covid-19 pandemic led to the imposition of worldwide lockdown measures to control the rapid spread of the disease. This presented a negative shock to the global economy as it inhibited the normal interaction of economic agents. The pandemic and measures to control it had extremely adverse effects on the economy, through job and income losses among others. Contraction in the global economy was estimated at 3.5 per cent in 2020, compared with a 2.8 per cent increase in 2019. The contraction was broad based as there were declines in consumption, industrial production, trade and investment spending. The sharp decline in output in the first half of the year was moderated in the second half of the year as lockdown measures were partially lifted in most countries. The unemployment rate was relatively high in 2020. It spiked in the second quarter of the year, but subsided in the subsequent quarters.

The impact of Covid-19 was felt in both the advanced, as well as, the emerging and developing economies. In advanced economies, economic activity contracted by 4.9 per cent in 2020, from a growth of 1.6 per cent in 2019. Consumption, which is a major driver of growth in the advanced economies declined in 2020. Relative to advanced economies, the declines of output in the emerging and developing economies was smaller. The largest decline was recorded in India, while China recorded growth that moderated the decline in emerging economies. In Sub-Saharan Africa, real GDP declined by 2.6 per cent in 2020 from an increase of 3.2 per cent in 2019. Commodity prices, especially crude oil, and global trade were under pressure due to Covid-19, and they affected industrial production in most countries in the emerging and developing countries group.

Monetary policies were generally accommodative in 2020. The key policy rates were cut dramatically to support economies in the great lockdown period and to preserve global financial stability. The rates were cut close to zero in advanced economies and asset purchases were expanded in terms of both magnitude and duration. Central banks in the emerging and developing economies also embarked on cutting key policy rates to historic lows. Monetary policies were supplemented by expansionary fiscal policies. Individuals and businesses which were negatively affected by Covid-19 pandemic were given support in the form of cash handouts, subsidies to businesses as well as tax holidays in some countries. The generally low interest rates in advanced countries let to increased capital flows to emerging economies in search for higher yields, hence supporting their exchange rates especially in the second half of 2020. This, coupled with improving market sentiment in the second half of the year, led to increased risk appetite, hence higher demand for financial assets from emerging market economies.

Global trade volumes fell sharply in the second quarter of 2020 and continued to decline throughout the year, although at a moderate pace in the last quarter of the year. Global trade declined by 9.6 per cent in 2020 compared to an increase of 1.0 per cent in 2019. It declined by 10.1 per cent in the advanced economies and by 8.9 per cent in the emerging and

The US economy contracted for the first time since the financial crisis of 2009, in 2020.

developing economies advanced in 2020. Both exports and imports declined during the review year as the global trading system was disrupted by the outbreak of Covid-19 pandemic. However, the declines were moderated by a rebound in goods trade in the last quarter of the year mainly associated with protective equipment for Covid-19 pandemic. There was also increasing orders for other goods due to partial reopening of the economies in the second half of 2020. The other major global events with economic significance in 2020 included the signing of the trade deal between the US and China in January 2020.

1.1.2 Selected Advanced Economies

The United States (US)

The US economy contracted for the first time since the financial crisis of 2009, in 2020. Real GDP declined by 3.5 per cent compared to an increase of 2.2 per cent in 2019. The fall was driven by a decline in investment and trade, as well as, a fall in contact intensive industries output and subdued consumption spending. The unemployment rate rose to 6.7 per cent in 2020, from 3.5 per cent in 2019. This was in line with economic hardships inflicted by Covid-19 and general lockdowns, which left many without jobs.

The annual inflation rate was 1.4 per cent in 2020, a deceleration from 2.3 per cent in the previous year. This was mainly driven by the costs of food and gasoline, which eased during the year. The Federal Open Market Committee (FOMC) cut the Fed funds rate from 1.50 - 1.75 per cent in 2019 to the range of 0 - 0.25 per cent in 2020. The committee also continued with expanded asset purchases programmes, including emergency purchases program during the year. It maintained accommodative monetary policy stance to support the economy and to limit the impact of the Covid-19 pandemic on the economy and financial system.

The Euro Area

The year 2020 was a challenging one for the Euro Area, economically. Real GDP suffered a sharp decline of 6.81 per cent, due to the Covid-19 pandemic and subsequent worldwide lockdowns. Hence, industrial production, consumption and investment spending, trade and services, especially in contact intensive non-essential services, declined during the review year. The unemployment rate for the Euro Area was recorded at 8.3 per cent in 2020, rising from 7.4 per cent in 2019.

The annual inflation rate for the Euro Area was recorded at -0.3 per cent in 2020, falling from an increase of 1.4 per cent in 2019. The decline was driven by energy and non-energy industrial goods prices, which fell during the year. The European Central Bank kept the key policy rate unchanged at zero percent in 2020. The Bank also maintained its asset purchases programme and introduced an emergency asset purchases program, to mitigate the negative effects of the Covid-19 pandemic. The monetary policy stance was accommodative to support the economy and ensure that inflation increased to the official target in a sustainable manner. The measures taken by the Bank also ensured stability in the region's financial system.

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Japan

Economic activity weakened in Japan in 2020, and remained under pressure throughout the year, due to the Covid-19 pandemic outbreak and world-wide lockdowns which dealt a blow to the economy. Japan's economy contracted by 4.8 per cent in 2020, following a growth of 0.3 per cent in 2019. The decline in activity was explained by a decline in consumption and investment spending, trade and activity in the services sector. The unemployment rate rose to 2.9 per cent in 2020, from 2.2 per cent in 2019, driven by strict lockdown measures, as more workers lost their jobs.

Japan experienced deflationary pressures in 2020, as annual inflation rate fell to -1.2 per cent from 0.8 per cent in 2019. The decline was mainly driven by the fall in the prices of food, utilities, transport and communications. The Bank of Japan kept the key policy rate unchanged at -0.1 per cent in 2020. The Bank continued with the yield curve control through asset purchases programs to lower long-term rates. The Bank expanded its programs to mitigate the effects of Covid-19 on the economy and financial system. The monetary policy stance was accommodative in order to support economic activity and driving inflation to the official target rate of 2.0 per cent.

United Kingdom (UK)

The UK economy was adversely affected by the Covid-19 pandemic and the uncertainty brought by the delayed settlement of the Brexit deal in 2020. Real GDP contracted by 9.9 per cent relative to a growth of 1.4 per cent in 2019. The decline was mainly driven by a fall in consumption and investment spending, industrial production and trade. The unemployment rate for the UK increased to 5.1 per cent in 2020, from 3.8 per cent in 2019, driven by high job losses associated with Covid-19 and nationwide lockdowns.

The inflation rate increased by 0.6 per cent year on year in 2020, a slowdown from the increase of 1.3 per cent in 2019. Inflation was driven by easing costs of transport, clothing and footwear, as well as, recreation and culture. The Bank of England lowered the key policy rate to 0.1 per cent in 2020, from 0.75 per cent in 2019. The Bank also expanded its asset purchases programmes in 2020, to mitigate the negative effects of Covid-19. The monetary policy stance was taken to support the economy and try to increase inflation towards the official target of 2.0 per cent.

1.1.3 Selected Emerging Market Economies

China

China was the only major economy to register positive growth in 2020, albeit slower relative to the previous year. Real GDP increased by 2.3 per cent, the slowest growth in three decades, compared with a 6.0 per cent growth in 2019. There was a decline in consumption spending, and a slowdown in the investment spending, industrial production and trade. The unemployment rate rose to 5.2 per cent in 2020, from 3.6 per cent in the previous year. The increase in the rate of unemployment reflected weakened economic activity due to Covid-19.

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South Africa's economic performance deteriorated substantially in 2020.

The annual inflation rate for China slowed down to 0.2 per cent in 2020, from 4.5 per cent in the previous year. It was driven by easing food prices, as well as, falling transport, housing and utilities costs. The People's Bank of China cut the key policy rate by 50 basis points to 3.85 per cent in 2020, from 4.35 per cent in the previous year. The monetary policy stance was accommodative to support economic recovery amid the Covid-19 pandemic.

India

India's economy experienced a deep decline in output in 2020. Real GDP was estimated to have declined by 8.0 per cent after increasing by 4.2 per cent in the previous year. As with the rest of the world, India was negatively affected by Covid-19 pandemic. Therefore, there was generally a decline in all major industries and sectors of the economy. Specifically, there was a decline in the industrial output, investment and consumption spending, agriculture, as well as, travel and tourism sectors.

Inflationary pressures subsided significantly as prices of most commodities fell amid Covid-19 induced lockdowns. The annual inflation rate decelerated to 4.6 per cent in 2020, from 7.4 per cent in 2019. It was mainly driven by slowdown in the food prices and fuel costs. The Reserve Bank of India cut the repo rate by 1.15 percentage points to 4.0 per cent in 2020, from 5.15 per cent in the preceding year. The RBI adopted accommodative monetary policy stance to support the economic activity.

South Africa (SA)

South Africa's economic performance deteriorated substantially in 2020. Real GDP fell at an estimated annual rate of 7.5 per cent, compared with a marginal increase of 0.2 per cent in 2019. There was a decline in multiple sectors including manufacturing, mining, tourism and services sector. Consumption spending and exports also contracted, due to the widespread lockdowns and unstable electricity supply in the country. The unemployment situation worsened in 2020. The unemployment rate increased to 32.5 per cent, compared to 29.1 per cent in 2019. The economy struggled to create more jobs to absorb increased labour supply, as the lockdowns and Covid-19 pandemic hurt the economy.

Inflationary pressures subsided in 2020 in South Africa owing to negative effects of the pandemic. The annual inflation rate for South Africa was 3.1 per in 2020, falling from 4.5 per cent in 2019. The easing in the inflationary pressures was mainly driven by falling food and energy prices. The lower inflation was a result of weak demand in 2020. The Reserve Bank of South Africa reduced the repo rate by 300 basis points to 3.50 per cent in 2020 to support economic activity, which was adversely affected by the Covid-19 pandemic.

THE ECONOMIC REPORT

Table 1 Selected Economic Indicators, 2016 - 2020*

Indicators	2016	2017	2018	2019	2020
World Output	**3.2**	**3.2**	**3.6**	**2.8**	**-3.5**
Advanced Economies	2.1	1.7	2.2	1.6	-4.9
Of which:					
United States	**2.6**	**1.5**	**2.9**	**2.2**	**-3.5**
Euro Area	2.0	1.8	1.9	1.3	-6.8
Japan	0.5	0.9	0.3	0.3	-4.8
United Kingdom	2.2	1.9	1.3	1.4	-9.9
Emerging and Developing Economies	4.0	4.4	4.5	3.6	-2.4
Of which:					
Africa					
Sub Saharan Africa	**3.4**	**1.4**	**3.2**	**3.2**	**-2.6**
South Africa	1.3	0.3	0.8	0.2	-7.5
Emerging & Developing Asia	6.6	6.4	6.4	5.4	-1.1
China	6.9	6.7	6.6	6.0	2.3
India	7.6	7.1	6.8	4.2	-8.0
Consumer prices					
Advanced Economies					
Of which:					
United States	0.7	2.1	1.9	2.3	1.4
Euro Area	0.0	0.3	1.6	1.4	-0.3
Japan	0.8	-0.2	1.0	0.8	-1.2
United Kingdom	0.1	0.7	3.0	1.3	0.6
Emerging and Developing Economies					
Of which: Africa					
Sub Saharan Africa	7.0	11.3	8.5	8.5	10.6
South Africa	4.6	6.4	5.3	4.5	3.1
Emerging & Developing Asia	**2.7**	**2.8**	**2.6**	**3.3**	**3.2**
China	1.4	2.0	2.1	4.5	0.2
India	4.9	3.4	3.4	7.4	4.6
India	2.6	2.5	3.6	1.0	-10.4
World Trade Volume	**3.8**	**2.6**	**2.5**	**3.6**	**1.1**
(Goods and Services)					
Exports					
Advanced Economies	3.6	2.6	3.1	1.3	-11.6
Emerging and Developing Countries	1.3	2.3	3.9	0.9	-7.7
Imports					
Advanced Economies	4.2	2.4	3.0	1.7	-11.5
Emerging and Developing Countries	-0.6	2.3	5.1	-0.6	-9.9

Source IMF World Economic Outlook, October 2020, IMF World Economic Outlook Update, January 2021 * IMF Projections

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The price of gold increased by 27.1 per cent to US$1769.95 an ounce in 2020, from US$1392.32 in 2019.

1.1.4 Commodities Price Developments

Gold

The price of gold increased by 27.1 per cent to US$1769.95 an ounce in 2020, from US$1392.32 in 2019. Gold prices were bolstered by risks and uncertainties surrounding the global economy and financial markets, induced by the Covid-19 pandemic. The economic slump led to a fall in risky assets sentiment, hence sending the demand for the safe haven asset soaring. This was coupled with lower bond yields in major advanced economies including the US and key policy rates which were close to zero in many advanced economies. On the supply side, there were production disruptions caused by lockdowns. Nonetheless, demand for other gold consuming sectors such as jewellery was weak in 2020 and partly offset the observed increase in gold prices.

Platinum

The price of platinum rose by 5.9 per cent to US$916.00 per ounce, in 2020, compared with US$865.00 in 2019. It hit its 4-year high figure in 2020 amid production disruptions in South Africa, the world's largest platinum producer. There were temporary mine closures in line with Covid-19 induced lockdown restrictions in an effort to curb the virus spread. This was coupled with higher global investment demand in the third quarter of 2020. The other key driver of platinum prices was increased demand for automobile industries for auto catalyst manufacturing, especially to meet strict emission standards.

Oil

The price of oil declined at the steep rate of 36.4 per cent to US$41.00 per barrel in 2020, from US$64.00 a year earlier. Oil prices were dragged lower by the Covid-19 led lockdown restrictions, which amongst others, restricted travel. These developments weighed negatively on the demand for the commodity, as businesses were closed and motor fuel consumption was lower. High oil production and inventories in the US, coupled with geopolitical tension between two of the largest oil producers -Russia and Saudi Arabia- contributed to the slump in prices. Saudi Arabia cut its oil prices through increased production after Russia refused to join OPEC+ plan to further cut output and boost prices in March 2020. The slash to the oil prices by Saudi Arabia hit OPEC and allies' revenues hard enough to drag the oil market lower in early 2020. In general, the global oil market was in excess supply in 2020.

Maize

White and yellow maize prices fell by 5.1 per cent and 4.4 per cent to US$186.00 and US$178.00 per tonne, respectively, in 2020, relative to the preceding year. This followed a supply glut driven by inventory build-ups and a bumper harvest in the Southern hemisphere key producing countries such as South Africa, Argentina and Brazil. The maize production forecast for 2020/2021 for these countries were also high and would therefore increase supply in in the near term, exerting more pressure on the prices.

Wheat

The price of wheat increased by 0.8 per cent on average to US$314.00 a ton in 2020, from US$312.00 in the previous year. The wheat price developments were influenced by both demand and supply side factors. On the demand side, wheat prices rose in line with increased demand from the food industry during 2020. On the supply front, the wheat market

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suffered, especially in April 2020 in response to disruptions from the Covid-19 pandemic, which led to lower production, hence, supply, and therefore, pushed wheat prices higher.

1.1.5 Currency Movements

The Rand, hence, the Loti weakened against the major global trading currencies in 2020, compared to a year earlier. Particularly, the Rand depreciated by; 13.9 per cent against the US dollar, 14.3 per cent against the Pound and 15.7 per cent against the Euro. The Covid-19 induced world-wide lockdown measures in early 2020 and its associated risk factors weighed heavily on the Rand. During the same period, the rating agency Moody's downgraded South Africa's debt to junk status, while the South African Reserve Bank eased its monetary policy, dragging the Rand lower. However, the Rand began to regain momentum in the second half of the year with the partial removal of most lockdown measures and elevated hopes of a vaccine roll-out.

1.2 DOMESTIC ECONOMIC DEVELOPMENTS

1.2.1 Real Sector Developments

Trends in Output and Income

Real GDP was estimated to have contracted significantly by 6.1 per cent in 2020, relative to a marginal decline of 0.4 per cent recorded in 2019. The contraction was broad-based in all sectors of the economy. The secondary sector was the hardest hit compared with the primary and tertiary sectors. The developments in the secondary sector mainly reflected the poor performance by the construction, manufacturing, and electricity and water subsectors, as a result of the severity of the impact of the Covid-19 control measures imposed to curb the spread of the virus.

Gross National Income (GNI) was estimated to have contracted by 2.4 per cent in 2020 after declining slightly by 0.6 per cent in 2019. The decline in GNI was attributed to, amongst others, a slump in migrant mineworkers' remittances and other migrant workers in SA, interest earnings from investments by commercial banks and Central Bank of Lesotho. However, interests payable to the rest of the world declined in the review year moderating the fall in GNI.

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

	2016	2017	2018	2019	2020+
GDP	3.6	-3.2	-1.2	-0.4	-6.1
GNI	4.4	-2.3	-0.9	-0.6	-2.4
GDP Per Capita	-0.4	-3.6	-1.7	-0.8	-6.5
GNI Per Capita	0.3	-2.8	-1.4	-1.1	-2.9

Source Bureau of Statistics, +CBL Estimates

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The primary sector was estimated to have performed poorly in 2020.

Sectoral Developments

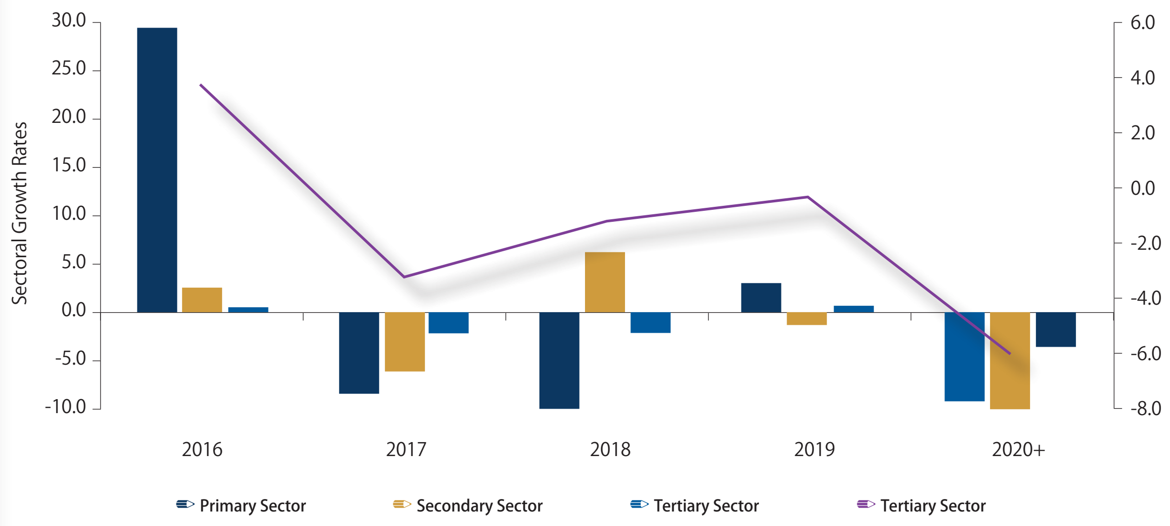
a) Developments in the Primary Sector

The primary sector was estimated to have performed poorly in 2020. The sector declined by 9.2 per cent in 2020 compared to the 3.6 per cent growth recorded in 2019. The poor sectoral performance was attributed to a subdued performance by the mining and quarrying subsector even though the agriculture, forestry and fishing subsector remained strong despite the negative effects of the Covid-19 pandemic.

The performance of the agriculture, forestry and fishing subsector was estimated to have remained resolute in 2020 with growth of 2.3 per cent, even though this was a slower rate compared to the 6.1 per cent growth in 2019. The slowdown in the rate of growth emanated mainly from decline in growing of crops, gardening and horticulture. Access to farm inputs, which are mainly imported from SA, was limited as movement across the borders was restricted. Farming of animals, forestry, as well as, fishing and aquaculture, however, boosted the performance of the subsector.

The mining and quarrying subsector suffered adversely the negative effects of the pandemic in 2020. The subsector, which is mostly export oriented, declined further by a sharp 24.7 per cent in 2020 after a 0.7 per cent decline in 2019. The combination of international supply shocks, coupled with closure in international markets, led to some of the mines being temporarily placed under care and maintenance.

Figure 1 Sectoral Real Growth Rate (Percentage)



Source: Bureau of Statistics, *CBL Projections

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b) Developments in the Secondary Sector

The secondary sector was the hardest hit in 2020, with the sector estimated to have declined by 11.5 per cent after contracting by only 1.4 per cent in 2019. The textiles and clothing manufacturing industry was estimated to have declined further by 12.3 per cent in the review year, after contracting by 3.0 per cent in the preceding year. The industry, which is an import and export-oriented business, suffered tremendously due to both domestic and international supply shocks as movement was restricted. Food and other manufacturing, however, remained resolute during the review year.

The electricity and water subsector also contracted in the review year. The subsector was estimated to have declined by a slower rate of 3.5 per cent in 2020 from the 4.7 per cent decline in 2019. Both electricity supply and water were under pressure since most major industries closed operations, at least for the first half of the year owing to the pandemic.

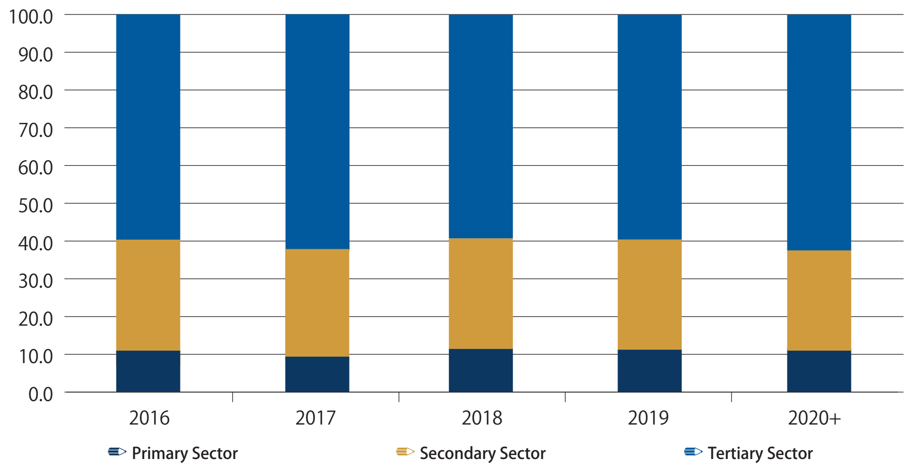
The construction subsector was estimated to have registered a sharp contraction of 24.9 per cent in the review year after registering a decline of 3.7 per cent in the preceding year. The industry was affected negatively by halt of operations in major construction sites including construction of Phase II of the Lesotho Highlands Water Project (LHWP) and the Mpiti to Sehlabathebe road.

c) Developments in the Tertiary Sector

The tertiary sector was estimated to have contracted by 3.6 per cent in 2020, in comparison to the 0.6 per cent growth recorded in 2019. Almost all services were under pressure in the year, dominated mostly by restricted movements and supply of non-essential services. Three subsectors, namely; wholesale and retail trade; repair of motor vehicles, transportation and storage, and accommodation and food service activities were the most negatively affected by lockdown restrictions with declines of 10.0 per cent, 15.4 per cent, and 31.9 per cent, respectively. The decline in the sector was moderated by strong performance by the human health and social work activities subsector, which was estimated to have grown further by 20.8 per cent in 2020, from 2.8 per cent growth in 2019. The health subsector was boosted mainly by government's efforts in boosting health care in the fight against the pandemic.

Gross national savings as percentage of GNI was estimated at 24.1 per cent in 2020.

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

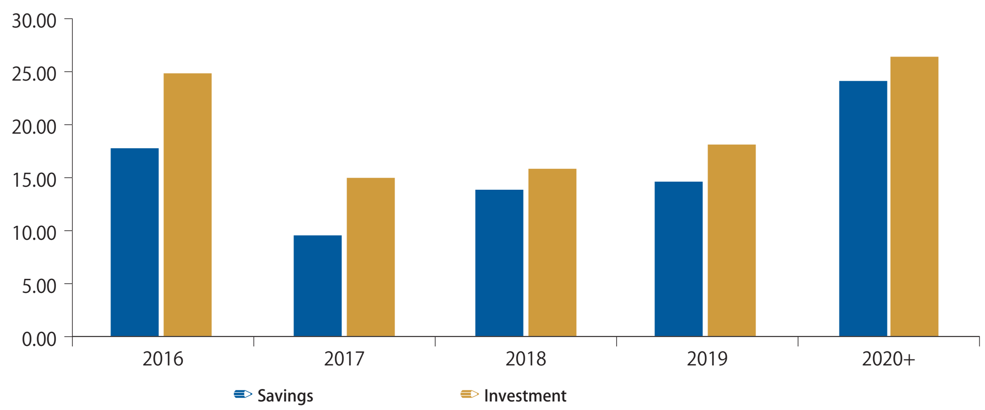


Source: Bureau of Statistics, *CBL Projections

Savings and Investments

Gross national savings as percentage of GNI was estimated at 24.1 per cent in 2020, which is higher than the 14.6 per cent registered in the previous year, while the ratio of total investment to GNI was estimated at 26.4 per cent in 2020 relative to 18.1 per cent registered in 2019. The private sector savings and investment, as a share of GNI, supported the increase in the share of gross national savings and investment in GNI, respectively. The savings-investment gap narrowed from negative 3.6 per cent in 2019 to reach an estimate of negative 2.3 per cent in 2020.

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



Source: Bureau of Statistics

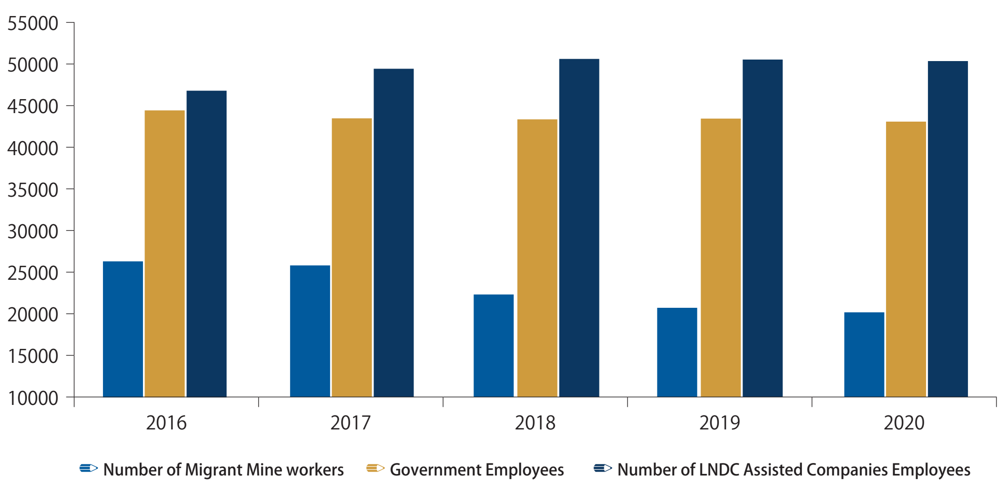
Employment, Wages and Prices

a) Employment Trends

Labour market conditions in Lesotho are gauged using three employment indicators in the economy. All employment categories, namely government, manufacturing and migrant mineworkers declined in 2020 relative to their 2019 levels. Employment by LNDC-assisted companies fell from 50,450 employees in 2019 to 50,107 employees in 2020, an equivalence of 0.7 per cent decline. This was mainly due to shutdown of some companies and a scaling down of operations by some firms as they were forced to operate below capacity, as well as, weak external demand during the year. This was at the back of Covid-19 mobility restrictions and stay-at-home regulations that were intended to curb the spread of the virus. However, the Government of Lesotho, through LNDC provided relief funds to firms for workers' wages in order to protect jobs during the strict Covid-19 containment phase.

Employment by Government also declined by 0.3 per cent from 43,231 employees in 2019 to 43,107 employees in 2020. Lesotho exports its labour to South Africa (SA), mainly in the form of migrant mineworkers. In 2020, the number of Basotho migrant mineworkers also declined by 2.6 per cent from 20,635 people in 2019 to 20,101 employees in 2020. The SA labour market was severely affected by the Covid-19 pandemic and consequent measures to stem it, both locally and internationally. In 2020 a drop in global commodity prices and demand from SA major trading partners, such as China and India have severely disrupted operations in the mining sector, hence leading to massive job losses by most Basotho.

Figure 4 Employment Trends



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

Annual inflation rate (measured as the year-on-year percentage change in consumer price index), decelerated to 5.0 per cent in 2020 from 5.2 per cent recorded in 2019.

b) Wages

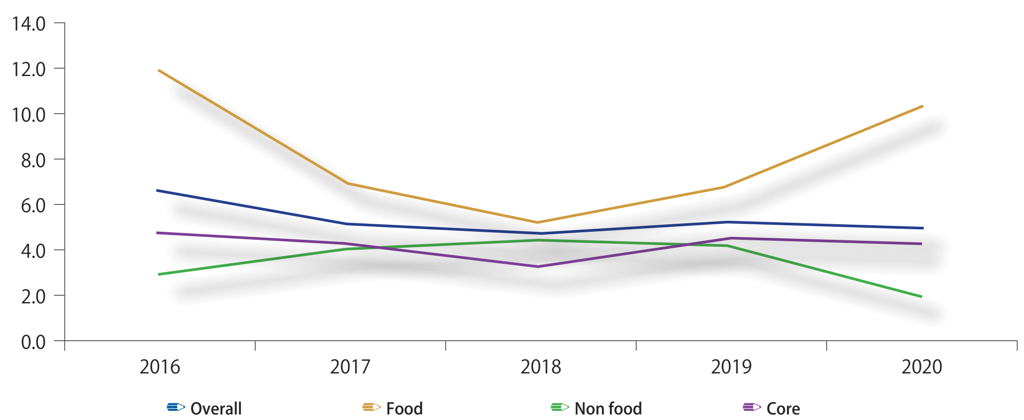
In the 2020/2021 period, the general minimum wage was not increased and remained at M1, 768.00 per month compared to an increase of 8.0 per cent in the preceding year, including in the manufacturing sub-sector where expectations are usually high. The Government of Lesotho increased public sector wages and salaries by 5.0 per cent in 2020/2021 period relative to no wage adjustment in the preceding year.

c) Price Developments

Annual inflation rate (measured as the year-on-year percentage change in consumer price index), decelerated to 5.0 per cent in 2020 from 5.2 per cent recorded in 2019. The 0.2 percentage points decline in inflation was mainly due to nonfood inflation while food inflation moderated the slowdown. Nonfood inflation decelerated from 4.5 per cent in 2019 to 2.0 per cent in 2020, whereas food inflation accelerated from 6.5 per cent in 2019 to 10.3 per cent in 2020. Underlying inflationary pressures as measured by core inflation also abated in an environment of weak domestic demand during the year. Core inflation decelerated from 4.5 per cent in 2019 to 4.3 per cent in 2020.

The major drivers of the deceleration in non-food inflation was the Covid-19 induced negative demand shock, which negatively affected prices of energy for consumers in Lesotho. The shock resulted from lower demand for most service in Lesotho and lower demand for energy by economies such as China and India as they moved to curb the effect of the pandemic amid over-supply of oil. Nonetheless, the negative supply shock that mostly affected the goods sector moderated the disinflation during the review period. The disruptions in the supply chain, from packaging to distribution affected the supply of food during the year as measures to contain Covid-19 spread were put in place across the globe. Food hoarding caused by uncertainty about the extent of the lockdown period also exerted upward pressure on food prices.

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



Source: Bureau of Statistics

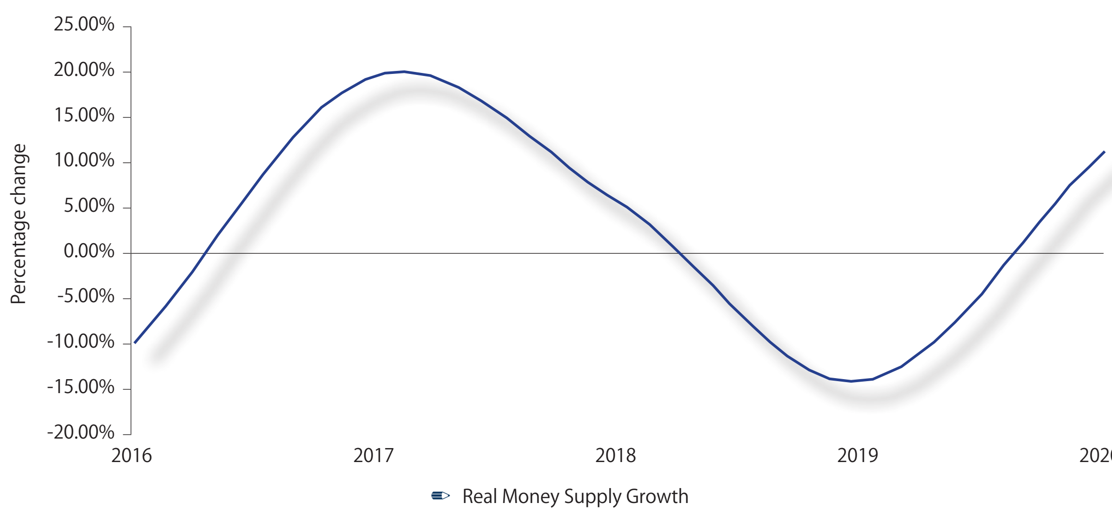
1.2.2 Monetary and Financial Sector Developments

Money Supply

The year-on-year growth in broad money supply (M2) recovered in 2020. Broad money increased by 17.1 per cent during the year under review, reflecting a rebound from a 9.0 per cent decline experienced in the previous year. The recovery was brought about by a significant increase in net foreign assets while a fall in net domestic claims moderated the growth in M2. Expressed in real terms, M2 grew substantially by 11.4 per cent in 2020, in contrast to a drop of 14.2 per cent observed in 2019.

Considering the components of M2, a notable increase was observed in the most liquid form of money (M1), as it grew by 30.3 per cent, from a fall of 13.2 per cent recorded in 2019. The improvement in M1 was underpinned by growth in demand deposits held by business enterprises and households by 40.0 per cent and 19.2 per cent, respectively. In addition, M1 benefited from a notable increase in usage of mobile money financial services. This follows the CBL's decision to increase transactions limits for mobile money financial services users during the Covid-19 pandemic. Similarly, quasi money, rose by 6.9 per cent, in contrast to a fall of 5.3 per cent registered in 2019. Growth in quasi money was supported by strong expansion in individuals and business enterprises savings and call deposits, while growth in fixed deposits was muted. Generally, depositors preferred more liquid forms of deposits, as interest rates declined drastically during the year under review. The decline in deposit rates reflected a loosened monetary policy, as the Central Bank of Lesotho's Monetary Policy Committee cut the policy rate cumulatively by more than 300 basis points in 2020.

Figure 6 Real Money Supply Growth



Source: Central Bank of Lesotho

During the year under review, domestic claims fell by 3.7 per cent, in contrast to a steeper decline of 13.8 per cent realised in the previous year.

Domestic Claims

During the year under review, domestic claims fell by 3.7 per cent, in contrast to a steeper decline of 13.8 per cent realised in the previous year. Behind this fall was a 16.0 per cent decrease in overall net claims on government. This mainly resulted from a significant improvement of 19.3 per cent in government deposits held with the central bank, which reduced the central bank's net claims by 10.0 per cent. The rise in government deposits was supported by higher SACU revenue received during the 2020/21 fiscal year. The overall increase in domestic claims was, however, lessened by increases in claims on private sector, public nonfinancial corporations, as well as, other financial corporations.

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

	2016	2017	2018	2019	2020
Claims on Government (Net)	-2,584.0	-770.5	-665.5	-2,117.4	-2,455.5
Claims on Central Government	*1,953.9*	*1,844.3*	*2,126.0*	*2,678.5*	*2,988.2*
Liabilities to Central Government	*4,537.9*	*2,614.8*	*2,791.5*	*4,795.9*	*5,443.7*
Claims on Public NFCs (Official entities)	0.0	0.0	0.0	38.2	87.0
Claims on OFCs	79.7	78.0	256.7	231.4	266.8
Claims on Private Sector	5,664.6	6,131.0	6,807.7	7,365.1	7,414.2
Claims on Other Resident Sector (Households)	*3,697.9*	*4,147.8*	*4,710.1*	*5,192.8*	*5,398.7*
Claims on Other NFCs (Enterprise)	*1,966.7*	*1,983.2*	*2,097.6*	*2,172.3*	*2,015.5*
Domestic Claims	**3,160.3**	**5,438.5**	**6,398.8**	**5,517.3**	**5,312.4**

Source: Central Bank of Lesotho

Net Foreign Assets

Total net foreign assets (NFA) expanded notably by 20.7 per cent in 2020, relative to a negligible growth recorded in 2019. This was on the back of an improvement in both the Central Bank's and commercial banks' NFA by 12.4 per cent and 38.5 per cent, respectively. The main factor behind the observed increase in Central Bank's NFA was a rise in SACU revenue in the 2020/21 fiscal year. In addition, the exchange rate gains realised in investments abroad in 2020 boosted the NFA as the domestic currency depreciated during the review period. Commercial banks' NFA benefitted from an increase in foreign placements as a result of higher banks deposit liabilities. Moreover, a low demand for credit enabled banks to increase their investments abroad.

Table 4 Banking System's Net Foreign Assets (Millions of Maloti)

	2016	2017	2018	2019	2020
Commercial banks	2,992.5	4,523.7	5,200.7	4,603.9	6,374.2
Assets	*3,330.0*	*5,010.8*	*5,700.4*	*5,026.7*	*6,679.4*
Liabilities	*-337.6*	*-487.1*	*-499.8*	*-422.8*	*-305.2*
Central Bank	10,024.0	8,094.5	9,135.2	9,734.8	10,937.6
Assets	*11,509.0*	*9,427.3*	*10,485.5*	*10,849.6*	*12,680.2*
Liabilities	*-1,485.0*	*-1,332.8*	*-1,350.3*	*-1,114.8*	*-1,742.6*
Net Foreign Assets	**13,016.5**	**12,618.2**	**14,335.9**	**14,338.7**	**17,311.8**

Source: Central Bank of Lesotho

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Credit Extension

Trends of Credit to Business Enterprises

The yearly growth in total credit granted to business enterprises contracted in 2020, albeit, at a slower rate than in 2019. Total credit extended to business enterprises fell by 7.2 per cent in 2020 compared to a steeper decline of 50.6 per cent recorded in the preceding year. The fall in credit extended to business enterprises was observed across most sectors with an exception of Agriculture and NBFIs, Real Estate & Business Services sectors. The overall drop in demand for credit was consistent with a decline in economic activity as a result of nationwide lockdowns imposed to contain the spread of Covid-19.

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

	2016	2017	2018	2019	2020
Agriculture	25.3	17.0	30.3	29.2	47.2
Mining	363.8	284.1	379.7	419.9	359.2
Manufacturing	319.4	252.1	174.1	58.0	29.7
Electricity, gas and water	38.5	41.2	46.2	6.46	2.4
Construction	313.5	284.0	301.8	328.1	321.9
Transport, Storage and Communication	185.7	370.9	349.6	423.7	357.5
Wholesale, Retail, Hotel & Restaurant	184.7	167.1	261.7	387.5	354.4
NBFIs, Real Estate and Business Services	509.5	522.9	553.2	504.6	530.0
Community, Social & Personal Service	26.4	43.9	0.9	15.0	13.4
Total	1,966.7	1,983.2	2,096.6	2,172.5	2,015.7

Source Central Bank of Lesotho

Distribution of Credit Extended to Business Enterprises

With regards to distribution of credit extended to business enterprises, NBFIs, Real Estate & Business Services sector remained the largest recipients of credit, during the year under review. The second largest portion of credit to businesses was taken by the mining sector, while Community, Social & Personal Service and Electricity, gas & water sectors received the smallest shares.

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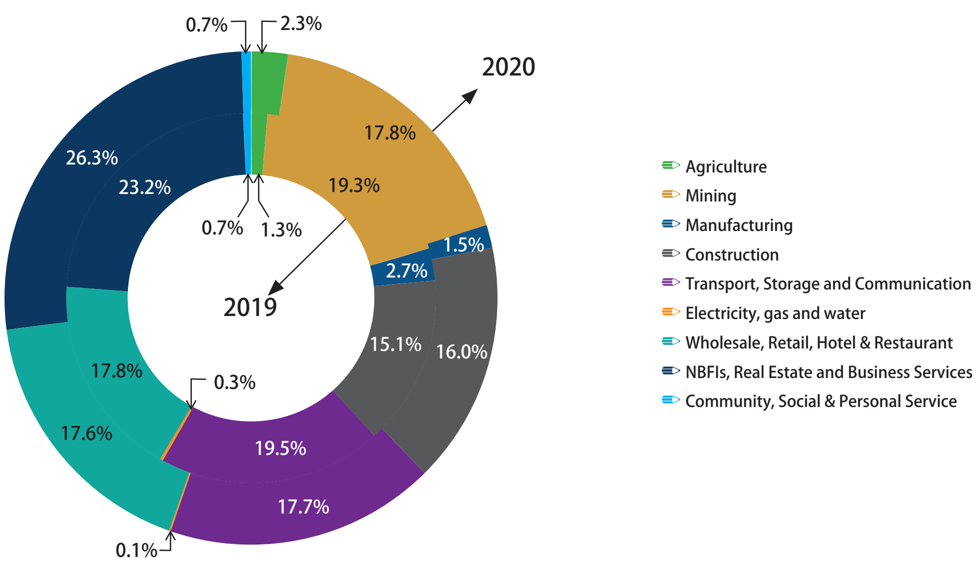
Growth in total credit extended to households decelerated in 2020, chiefly as a result of low economic activity during the year, due to nationwide Covid-19 related restrictions.

Figure 7 Distribution of Credit (Percentage Shares)

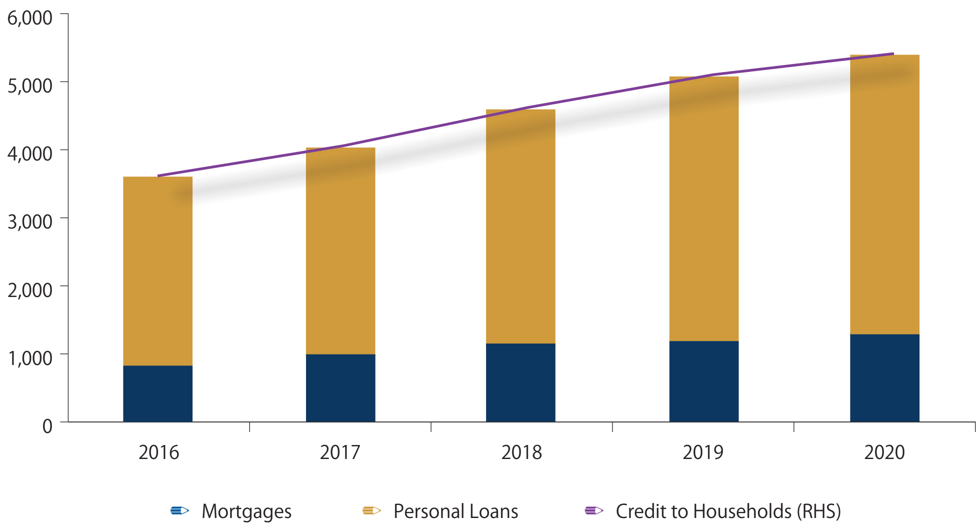


Source: Central Bank of Lesotho

Credit Extension to Households

Growth in total credit extended to households decelerated in 2020, chiefly as a result of low economic activity during the year, due to nationwide Covid-19 related restrictions. Total households credit improved by 4.0 per cent during the year under review, following a higher improvement of 10.3 per cent in the previous year. Both the components of household credit improved in 2020, with mortgages expanding by an impressive 7.9 per cent, compared to an increase of 3.5 per cent in 2020. In addition, personal loans only increased by 2.8 per cent, which is significantly lower than the 12.4 per cent increase registered in the previous year. During the year under review, the share of personal loans to total households' credit declined to 75.9 per cent, from 76.3 per cent observed in the previous year. In contrast, the share of mortgages improved to 24.1 per cent, from 23.7 per cent during the same period.

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 liquidity ratio[1] was 42.9 per cent as at end of December 2020, which was much lower than 49.0 per cent registered in 2019. The decline was brought about by a huge increase in commercial banks deposit liabilities, which grew by 17.1 per cent. During the review period, credit to deposit ratio fell significantly by 9.2 percentage points to 56.8 per cent. This was due to a modest growth in private sector credit, in addition to an upsurge in commercial banks deposit liabilities.

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

During the review period, commercial banks liquidity stood at 70.83 per cent compared to 71.70 per cent in 2018.

Table 6 Components of Liquidity (Millions of Maloti)	2016	2017	2018	2019	2020
Private Sector Credit	5,584.6	6,045.5	6,713.0	7,257.3	7,309.7
Liquidity Ratio	**4,127.1**	**5,947.3**	**6,870.0**	**5,383.5**	**6,292.6**
Notes and Coins	582.4	741.0	741.6	726.5	708.0
Net Balances Due from Banks in Lesotho	125.1	170.2	11.7	-369.2	-2.7
Net Balances Due from Banks in SA	2,402.3	3,992.9	4,766.2	2,671.0	3,197.4
Surplus funds	170.4	41.0	-45.7	192.3	257.0
Government Securities	847.0	1,002.1	1396.2	2,162.9	2,132.9
Total Deposits	8,651.2	10,956.0	12,303.6	10,996.5	14,636.53
Credit to Deposit Ratio (%)	**64.6**	**55.2**	**54.6**	**66.0**	**56.8**
Liquidity Ratio (%)	**47.7**	**54.3**	**55.8**	**49.0**	**42.9**
Source Central Bank of Lesotho					

Money and Capital Market Developments

Interest Rates

Most economies experienced an unprecedented decline in interest rates in 2020, and Lesotho was no exception. The CBL Rate fell to 3.50 per cent, from 6.50 per cent between 2019 and 2020. This followed the decision by the Bank's Monetary Policy Committee (MPC) to cut the policy rate as one of the efforts undertaken by the Bank to ease the economic impacts of Covid-19, as well as, to align the short-term rates with those in the Common Monetary Area (CMA). The 91-day T-Bill rate declined by 324 basis points to 3.20 per cent from 6.44 per cent. Furthermore, the commercial banks' prime lending rate dropped to 8.19 per cent from 11.33 per cent recorded in 2019. All other short-term rates declined although they remained broadly aligned with those in the CMA.

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Table 7 Interest Rates	2016	2017	2018	2019	2020
Central Bank Rate	7.00	6.75	6.75	6.50	3.50
91-days TB Rate	6.58	6.27	6.47	6.44	3.20
Lombard Rate	10.58	10.27	10.47	10.44	7.20
Commercial Banks					
Call	1.19	1.06	1.19	1.17	0.99
Time					
31 days	0.44	0.36	0.36	0.70	0.67
88 days	1.12	1.31	1.39	1.65	1.88
6 months	2.53	2.45	2.25	3.25	3.00
1 year	3.52	3.73	4.3	4.32	3.79
Savings	0.56	0.76	0.72	0.70	0.70
Prime*	11.69	11.44	11.35	11.33	8.19
South Africa					
Repo	7.00	6.75	6.75	6.50	3.50
T Bill Rate – 91 Days	7.61	7.6	7.29	7.18	3.87
Prime	10.5	10.25	10.25	10.13	7.00

Source Central Bank of Lesotho and South African Reserve Bank (SARB)

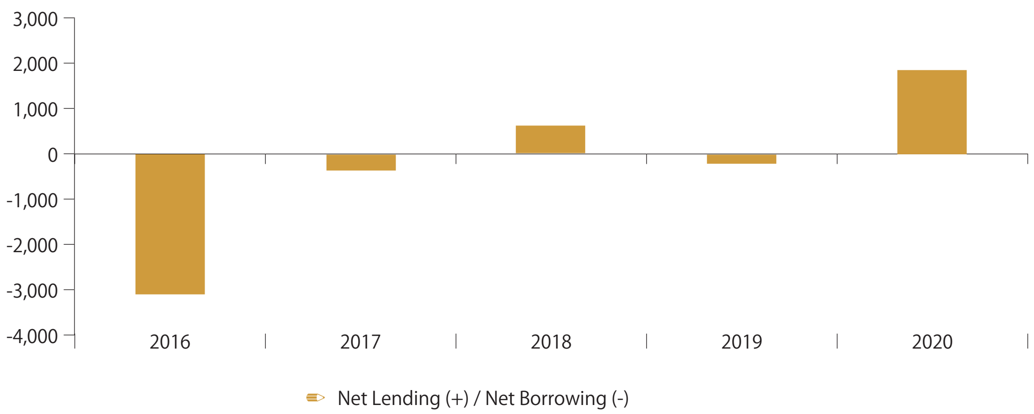
1.2.3 Government Finance Operations

Fiscal Performance in 2020

The Government budgetary operations registered a surplus equivalent to 6.0 per cent of GDP by the end of 2020, following a revised marginal deficit of 0.6 per cent of GDP in 2019. This surplus was used to accumulate Government deposits within the banking system, which accounted for 1.9 per cent of GDP. Public sector debt stock was estimated at 69.6 per cent of GDP in 2020, from the revised 49.9 per cent of GDP in 2019, owing to new loans from the IMF, valuation losses and increased auction amount of Treasury securities.

The Government revenue increased by 8.8 per cent during the year under review following 4.7 per cent rise in the previous year.

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



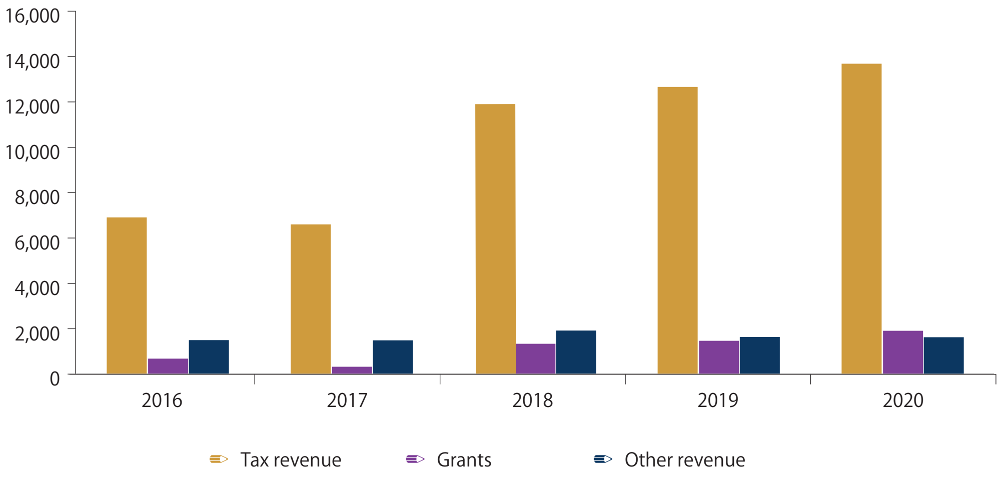
Source: Central Bank of Lesotho (CBL) and Ministry of Finance (MOF)

Total Revenue

The Government revenue increased by 8.8 per cent during the year under review following 4.7 per cent rise in the previous year. This increase was mainly driven by huge receipts of SACU revenue, royalties on naturally occurring assets, together with water royalties from LHWP project. However, the fall in most categories of domestic revenues, including income tax and VAT, moderated the increase. The domestic revenues included an introduction of small business taxation regime[2] whose collection accounted for 0.1 per cent of GDP.

[2] The small business taxation regime refers to a new income tax collection method, which was basically introduced on informal businesses beginning April 2020. It involved piloted taxi businesses and street vendors, whose owners did not have to follow formal tax filing process.

Figure 10 **Revenue** (Million Maloti)



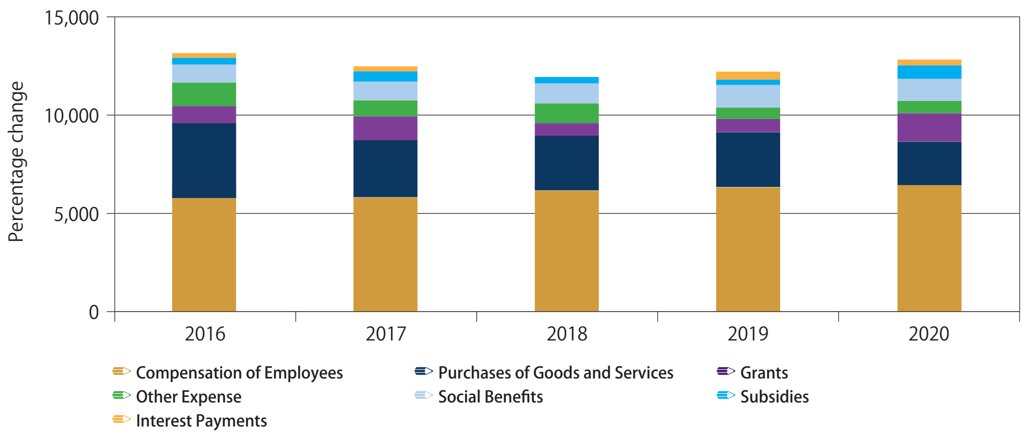
Source: Ministry of Finance (MoF) and CBL

Total Expenditure

The Government expenditure decreased by 4.3 per cent during the year under review, in contrast to a 10.6 per cent growth in the previous year. The decline in spending was observed in all components of non-financial assets except dwellings, and other expense categories. This followed reallocation budget from some components of non-financial assets towards combating Covid-19. However, other spending items moderated the fall in Government expenditure. The expenses categories included use of goods and services, unfunded employer contributions, wages and salaries in kind, interest payments, school feeding program, and African Pioneer Corps Pension. Thus, the wages and salaries in cash went up owing to the 5.0 per cent salary adjustment coupled with the 3.0 per cent of notch increment.

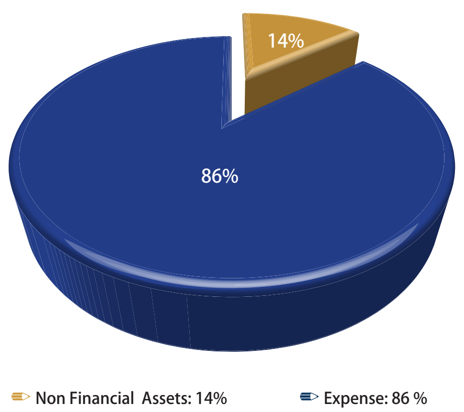
The surplus for the year 2020 expanded the Government deposits with the banking system.

Figure 11 Total Expense (Million Maloti)



Source: Ministry of Finance (MoF) and CBL

Figure 12 Total Expenditure (Million Maloti)



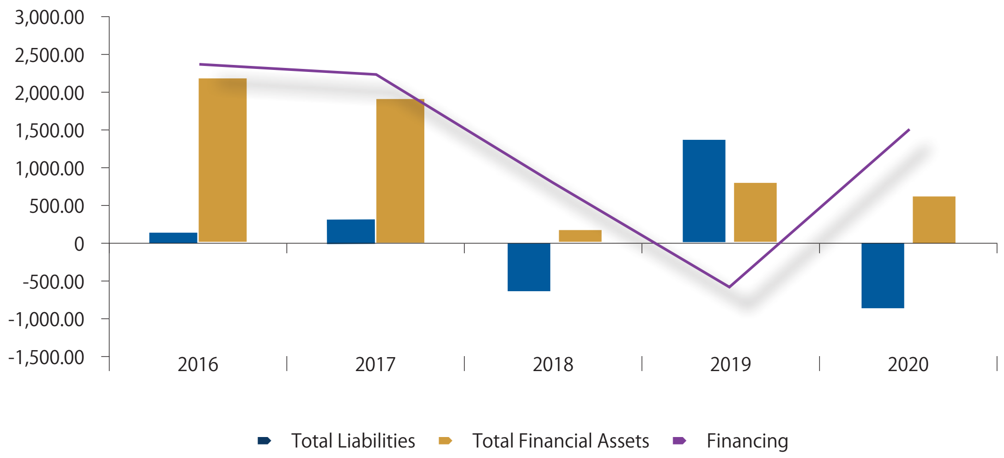
Source: MOF and CBL

Financial Assets and Liabilities[3]

The surplus for the year 2020 expanded the Government deposits with the banking system. Apart from the positive contribution of surplus, the increase in financial assets was also due to new loans (including IMF lending facility instruments), and issuance of Treasury securities. The liabilities, nonetheless, declined following the redemption of fiscal-financing securities and retirement of arrears on goods and services from past years.

[3] All categories are on net terms.

Figure 13 **Total Financing** (Million Maloti)



Source: Ministry of Finance (MoF) and CBL

The public sector debt stock was estimated to have increased by 26.3 per cent at the end of 2020, following a rise of 10.0 per cent in 2019.

Table 8 **Statement of Government Operations** (Millions of Maloti)

	2016/17	2017/18	2018/19	2019/20	2020/21
Revenue	**14,078.91**	**14,198.11**	**14,995.28**	**15,694.55**	**17,080.77**
Tax revenue	6,883.54	6,697.13	11,813.28	12,667.71	13,553.52
Grants	717.46	309.73	1,354.63	1,408.99	1,882.44
Other revenue	1,511.63	1,445.86	1,827.37	1,617.85	1,644.81
Expense	**-13,674.27**	**-12,656.15**	**-12,373.65**	**-12,302.18**	**-13,011.15**
Compensation of Employees	-5,825.06	-5,879.93	-6,171.25	-6,462.78	-6,516.47
Purchases of goods and services	-3,921.51	-2,956.24	-2,746.08	-2,642.43	-2,182.65
Interest Payments	-263.77	-414.40	-299.59	-392.15	-336.46
Subsidies	-376.45	-434.48	-363.38	-338.12	-646.92
Grants	-862.63	-1,183.78	-820.14	-825.97	-1,516.70
Social benefits	-937.01	-924.92	-948.65	-981.15	-1,089.57
Other expense	-1,126.73	-862.41	-1,024.56	-659.60	-722.39
Net Operating Balance	**404.64**	**1,541.95**	**2,621.63**	**3,392.36**	**4,069.62**
Nonfinancial Assets	**-3,478.24**	**-1,899.72**	**-1,994.71**	**-3,593.06**	**-2,203.52**
Fixed Assets	**-3,478.24**	**-1,899.72**	**-1,994.71**	**-3,583.27**	**-2,203.52**
Buildings and structures	-2,271.11	-1,764.52	-819.42	-1,689.62	-937.78
Machinery and equipment	-191.11	-135.20	-218.91	-234.07	-112.90
Non-Produced Assets	0.00	0.00	0.00	-9.79	0.00
Net lending (+) / Net borrowing (-)	**-3,073.61**	**-357.77**	**626.93**	**-200.70**	**1,866.09**
Financing	**2,343.05**	**2,217.56**	**814.52**	**-566.92**	**1,483.46**
Financial assets	**2,195.31**	**1,915.58**	**178.37**	**818.61**	**611.28**
Domestic	2,195.31	1,915.58	178.37	818.61	611.28
Foreign	0.00	0.00	0.00	0.00	0.00
Liabilities	**147.74**	**301.98**	**-636.15**	**1,385.53**	**-872.19**
Domestic	-47.14	204.16	-623.14	75.32	-588.46
Foreign	194.89	97.83	-13.01	1,310.21	-283.72
Statistical Discrepancy	**-730.55**	**1,859.79**	**-187.60**	**366.23**	**382.63**
Memo Items	**-730.55**	**1,859.79**	**-187.60**	**366.23**	**382.63**
SACU receipts	4,966.28	5,745.39	5,695.23	6,055.22	8,291.95
GDP (current prices)	32,717.17	33,105.41	33,271.97	34,187.99	30,945.58

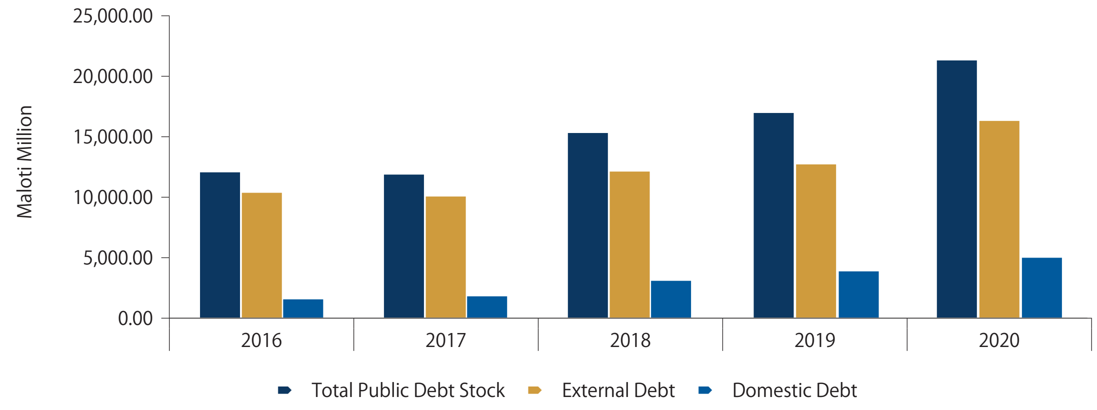
Source: Ministry of Finance (MoF) and CBL, *Figures in this column refer projected outturn.

Total Public Sector Debt[4]

The public sector debt stock was estimated to have increased by 26.3 per cent at the end of 2020, following a rise of 10.0 per cent in 2019. This accumulation was driven by both external and domestic debt. The external debt, with a share of 76.7 per cent of total, was largely driven by loans from multilateral and bilateral creditors, suppliers' credit, and exchange rate effect. The concessional debt accounted for 77.8 per cent of external debt, thus depicting a decline under IDA blended borrowing terms. Growth in domestic debt was on account of Treasury securities issued to deepen the market and finance Government operations.

[4] All categories are on net terms.

Figure 14 Outstanding Public Sector Debt (Million Maloti)



Source: Ministry of Finance (MoF) and CBL

Table 9 Public Sector Debt Stock (Millions of Maloti)

	2016	2017	2018	2019	2020
Total Public Debt Stock	**12,367.89**	**12,124.99**	**15,500.20**	**17,057.40**	**21,544.83**
External Debt	**10,612.19**	**10,224.63**	**12,328.61**	**13,013.53**	**16,515.41**
Bilateral Loans (concessional)	972.95	864.91	961.92	1,044.28	1,119.44
Multilateral Loans	**8,875.80**	**8,678.89**	**10,674.92**	**11,001.83**	**13,307.91**
Concessional	7,222.81	7,053.90	9,079.29	9,459.91	11,726.14
Non-concessional	1,652.99	1,624.99	1,595.63	1,541.92	1,581.77
Financial Institutions (non-concessional)	0.60	0.54	0.23	0.00	0.00
Suppliers' Credit (non-concessional)	762.83	680.29	691.54	967.42	2,088.06
Domestic Debt	**1,755.70**	**1,900.36**	**3,171.60**	**4,043.87**	**5,029.42**
Banks	1,276.04	1,221.58	2,120.69	2,721.48	3,364.07
Treasury Bonds	0.00	0.00	787.54	963.96	1,096.06
Treasury Bills	395.20	477.88	620.88	1,240.04	1,045.63
Central Bank (IMF-ECF)	880.84	743.70	712.27	517.49	1,222.39
Non-bank	0.00	0.00	0.00	600.00	430.00
Treasury Bonds	211.16	246.82	252.37	241.67	261.60
Treasury Bills	479.66	678.78	1,050.90	1,322.38	1,665.35
Total debt as % of GDP	37.8	36.6	46.6	49.9	69.6
External debt as % of GDP	32.4	30.9	37.1	38.1	53.4
Domestic debt as % of GDP	5.4	5.7	9.5	11.8	16.3
External debt as % of total	85.8	84.3	79.5	76.3	76.7
Domestic debt as % of total	14.2	15.7	20.5	23.7	23.3
Concessional as % of External debt	77.2	77.4	81.4	80.7	77.8

Source Ministry of Finance (MoF) and Central Bank of Lesotho (CBL)

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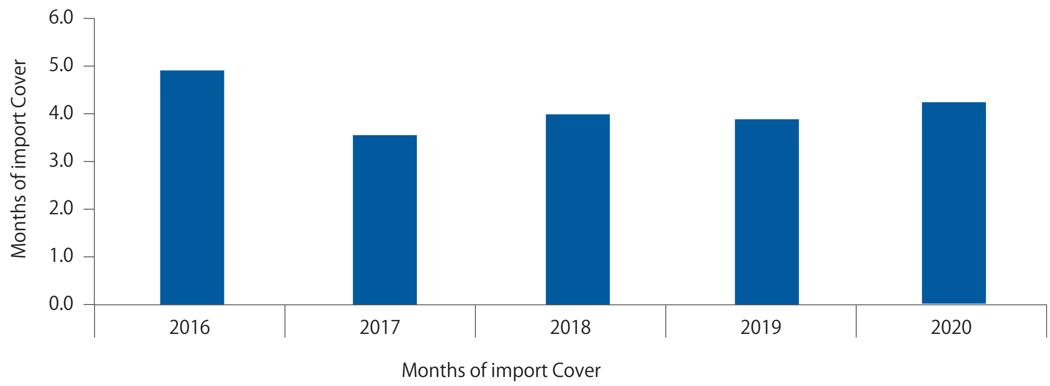
In 2020, Lesotho' external position continued to record a surplus, albeit, lower than in 2019.

1.2.4 Foreign Trade and Payment

Overall Balance

In 2020, Lesotho' external position continued to record a surplus, albeit, lower than in 2019. The overall balance of payments was equivalent to 2.0 per cent of GDP in 2020, lower than 3.9 per cent of GDP in the previous year. The improved external sector position was a result of the reduced deficit on the current account balance together with increased capital flows to Lesotho. The combination of higher capital account inflows and the significant contraction in the current account deficit enhanced the Central Bank's ability to accumulate resources, which resulted in higher reserves assets in 2020 compared to the previous year. Thus, gross official reserves rose from 3.9 months of import cover in 2019 to 4.3 months of import cover in 2020.

Figure 15 Reserves in Months of Imports



Source: Central Bank of Lesotho

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

	2016	2017	2018	2019	2020*
Current Account	**-8.51**	**-7.06**	**-0.25**	**-4.05**	**-2.88**
Goods	-31.49	-30.97	-26.80	-30.36	-37.77
Services	-10.56	-11.97	-17.12	-16.61	-18.29
Primary Income	12.90	12.82	20.82	18.08	19.24
Secondary Income	20.63	23.06	22.81	24.83	33.95
Capital Account	**2.09**	**1.53**	**1.41**	**3.66**	**4.88**
Financial Account	**-10.52**	**-2.53**	**8.23**	**-0.81**	**6.19**

Source Central Bank of Lesotho

Current Account

In 2020, the deficit in the current account contracted by 35.5 per cent to M893.71 million, easing from an upwardly revised M1,386.05 billion in the previous year. The improvement in the current account balance benefited predominantly from a surge in the secondary income account surplus. The increase was however moderated by the reduced surplus in the primary income account together with the increased deficit in the goods account. As a share of GDP, the current account deficit accounted for 2.88 per cent in 2020, relatively lower than 4.05 per cent recorded in the previous year.

During the review year, the goods account deficit expanded by 13.1 per cent, following 11.1 per cent gain in 2019, due to a decline in merchandise exports and an increase in merchandise imports during the same year. Merchandise exports continued on a downward trajectory during 2020, falling by 6.6 per cent following a 4.3 per cent decline in the previous year. Exports were negatively affected by Covid-19 lockdowns across the globe, with major declines observed for diamonds and textiles and clothing as production in these sectors was halted by lockdown and travel restrictions imposed in the country in 2020. However, water sales by the LHWP and agriculture rose significantly as supply and delivery of water was not affected by lockdown restrictions, while agricultural exports were deemed essential services. As a share of GDP, merchandise exports constituted 46.3 per cent, slightly higher than 45.0 per cent in 2019.

Merchandise imports rose by 1.3 per cent in 2020, following a 1.4 per cent rise in 2019. It was boosted mostly by increased imports of food and live animals; textiles and clothing; machinery and transport equipment; as well as, manufactured products classified chiefly by material. Imports of food and live animals rose significantly as they were considered most essential commodities during lockdown, and were generally not affected by any cross-border restrictions. Alternatively, increase in machinery and transport equipment acquired abroad is reflective of a pickup in increased activities related to advanced infrastructure development for the LHWP–Phase II. Expressed as a ratio of GDP, merchandise imports accounted for more than 84.0 per cent, increasing from a share of 75.4 per cent in the previous year.

The services account deficit remained relatively unchanged during this period, registering a minimal decline of 0.04 per cent, after increasing by 3.0 per cent in 2019. While tourism receipts declined in 2020 relative to 2019, due to intercountry travel restrictions imposed to curb the spread of the Covid-19 virus, payments for freight services continued to rise. The increase in freight services was in line with a rise in imports during the same year. In addition, there was a reduction in telecommunications payments which therefore partly offset the increase in freight services. As a ratio of GDP, the deficit accounted for 18.3 per cent, compared to 16.6 per cent in the previous year.

Primary Income Account

The primary income account balance fell by 3.3 per cent during the period under review, following a 4.9 per cent increase in 2019. Significant declines were observed for compensation of employees, returns on the Central Bank and commercial banks' investments held abroad, as well as, a decline in receipts related to the operational and maintenance costs for

The surplus in the secondary income account continued on an upward trajectory in 2020.

LHWP – Phase I project. Compensation of employees, particularly from migrant workers in SA declined due to suspension of operations at some of the mines and various economic sectors as a result of total lockdowns and subsequent stringent and limited operations in the country, amid heightened concerns on Covid-19 pandemic. Meanwhile, interest receipts on investments held abroad by both the commercial banks and the Central Bank suffered a loss at the backdrop of a stream of Covid-19 induced lockdowns, which adversely affected the global economy. The situation was, however, moderated by a decline in interest payments for government foreign loans during the same year. As a proportion of GDP, the surplus on the primary income account amounted to 19.2 per cent from a share of 18.1 per cent in the previous year.

Secondary Income Account

The surplus in the secondary income account continued on an upward trajectory in 2020. It expanded by a marked 24.2 per cent, following a 6.4 per cent growth in the preceding year, buoyed exclusively by increases in SACU receipts. The increase was however moderated by a surge in government subscriptions to international organisations, together with a decline in receipts on rand compensation in 2020 compared to 2019. As a ratio of GDP, the surplus accounted for 34.0 per cent, relatively higher than 24.8 per cent in 2019.

Capital Account

The capital account flows into Lesotho rose by 21.2 per cent in 2020 to M1.52 billion from M1.25 billion in the previous year. The capital inflows were underpinned by increased disbursements for activities relating to advance infrastructure of the LHWP – Phase II in 2020 compared to 2019. Nonetheless, there was a reduction in capital transfers to the government for government related capital projects, which therefore, partly offset the observed increase of the inflows to the LHWP. Expressed as a share of GDP, the capital inflows accounted for 4.9 per cent compared to 3.7 per cent in the previous year.

Financial Account

The financial account balance recorded an outflow amounting to M1.92 billion in 2020 from an inflow of M278.10 million in 2019. The financial account outflows rose as a result of an increase in foreign assets held by both commercial banks and the central bank. Commercial banks increased their deposits abroad as a measure to manage excess liquidity, resulting from amongst others, lack of demand for credit. Foreign assets held by the Central Bank were buttressed mainly by higher government deposits in 2020, resulting from higher SACU inflows. These developments were coupled with a reduction in government disbursements of foreign loans, which boosted the financial account outflows further. However, during the same year, the Central Bank contracted an RCF/RFI loan from the IMF for BOP support, which partly offset the observed financial outflows. Relative to GDP, the financial account outflows constituted 6.2 per cent compared to an inflow amounting to 0.8 per cent in 2019 ❑

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.

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REPORT ON THE ACTIVITIES OF THE BANK

The activities of the Bank can broadly be grouped into two categories - central banking activities that comprise functions of the Bank that implement CBL Act No2 of 2000 and corporate services activities that comprise cross-cutting organizational activities that are common to modern organizations. The bulk of this part of the report contains central banking activities undertaken in 2020. Notable developments in corporate services are also highlighted.

2.1 THE BANK'S COVID-19 RESPONSE

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. The Covid-19 response by the Bank consisted of interventions at three levels – at the level of the economy, at the level of the industry and at the level of the consumers.

2.1.1 Monetary Policy Response

Between January and July 2020, the Bank has reduced its key rate five times from 6.50 per cent per annum to 3.50 per cent per annum. The aim has been to stimulate economic activity even under the difficult conditions brought about by the spread containment measures of the virus.

2.1.2 Regulatory Forbearance

Regulatory forbearance refers to temporary relaxation of the prudential requirements that the financial institutions should comply with. Two such relaxations were afforded the banking sector so that it can cope better with the crisis.

First, in view of the liquidity pressures that were expected to ensue on account of closing businesses, loss of jobs and uncertain lockdowns and other epercussions of the pandemic, Basel 2.5 capital compliance requirements that were to commence from January 2021 were postponed to January 2022. These would free up money that had been set aside as capital buffers to be available for lending.

Second, the credit limit exposure requirements were temporarily amended to allow the banks to refer applications that would cause them to breach the limits to the Bank for concurrence. In the normal course of events, such applications are automatically refused. These allowed the big borrowers (usually the mining, manufacturing and such like sectors) to continue to access funding they would otherwise not be eligible to access.

2.1.3 Lightening the Burden on Financial Consumers

The third level of the Bank intervention focused on financial consumers. The objective was to lighten the burden they were facing to the extent possible. These were the borrowers with the banking sector and the insurance policyholders.

Bank Loans

The Bank issued a directive to the commercial banks requiring them to grant payment holidays to borrowers whose financial position deteriorated purely due to Covid-19 pandemic.

Insurance Policyholders

The Bank issued a directive to the insurance companies that contained three elements. With respect to policyholders, the insurers were directed to:

- Provide a three months' premium holiday.
- Allow the policyholders to renegotiate the policy contracts.
- Continue to process claims during the lockdown.

2.1.4 Payment Systems and Channels

With limited mobility and interpersonal contact brought about by the measures to prevent the spread of Covid-19, the Bank promoted the use of contactless payment channels. Following the outbreak of Covid-19, the Bank revised mobile money transaction thresholds on tiers 2 and 3 of the know your customer (KYC) requirements. This was done in an effort to promote usage of mobile money. The application of these revised transaction thresholds was extended for the further period of six months starting in January 2021.

2.2 MONETARY AND FINANCIAL STABILITY

Central banks around the world have a dual mandate of price (or monetary) stability and financial system stability. The Bank is no different in this regard.

2.2.1 Monetary Stability

Price stability is the ultimate goal of monetary policy in many jurisdictions around the world. In environments of free capital flows, such as the Common Monetary Area (CMA), fixed exchange rate has been used as an anchor of monetary policy. The peg between the Loti and the Rand is attained by maintaining net international reserves (NIR) at a level that is sufficient to guarantee that for every Loti issued there is basket of foreign currency equivalent reserves.

The banking sector in Lesotho maintained CAR above the minimum requirement during 2020.

The Bank operationalizes the monetary policy decisions through conduct of open market operations (OMO)which influences the short term interest rates with a view to align them with those in the CMA albeit with an allowable deviation margin.

In the review period the Bank had six scheduled monetary policy committee meeting and two special meetings that were largely a result of the need to respond to the anticipated effects of Covid-19 on the economy.

2.2.2 Financial Soundness Indicators

Financial stability is tracked and monitored through a set of indicators commonly known as the financial soundness indicators (FSIs). In the review period the FSIs were as follows:

Capital adequacy

The banking sector in Lesotho maintained CAR above the minimum requirement during 2020. The ratio of total regulatory capital to risk-weighted assets stood at 23.0 percent, higher than 19.4 percent observed in the same period in the previous year. Similarly, the ratio of tier-1 capital to risk-weighted assets increased slightly from 21.7 percent in 2019 to 24.9 percent in 2020. The banking industry continued to maintain core capital buffers higher than the prudential minimum requirements[5], which is an indication that banks are in a better position to absorb expected or unexpected shocks that may arise, hence resilient.

Earnings and profitability

The industry's profitability deteriorated during the year 2020, largely as a result of the Covid-19 pandemic crisis. During the review period, ROA decreased by 1.1 pps to 2.0 percent. Likewise, ROE decreased by 7.7 pps to 17.1. The ratio of net interest margin to gross income decreased marginally in 2020, recording 56.1 percent relative to 58.5 percent recorded in 2019. At this level, the ratio shows that 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 58.0 percent in 2019 to 65.6 percent in 2020. 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 moderated during the review period but concentration risk in certain loan types and exposures to single or group of borrowers remains a concern. The ratio of NPLs to total loans increased from 3.3 percent in December 2019 to 4.2 percent in December 2020.

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

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Liquidity

Banks liquidity positions improved during the review period. The ratio of liquid assets to short-term liabilities increased from 34.0 percent in 2019 to 41.9 percent in 2020. Liquid assets (cash and cash items and transferable deposits) declined significantly in the review period. The decline was primarily driven by withdrawals of deposits by large corporations. Similarly, the ratio of liquid assets to total assets increased by 6.4 pps from 22.6 percent that was observed in 2019.

Sensitivity to market risk

During the review period, the banks' maintained a long position in foreign currency assets as a result of an increase in foreign currency denominated assets. Consequently, the ratio of a net open position in foreign exchange to capital increased from 28.3 percent in 2019 to 42.2 percent in 2020. This exposes banks to revaluation risk in an instance where the loti appreciates against foreign currencies but would benefit the banks when the loti depreciates.

Table 11 Financial Soundness Indicators (%)

		2016	2017	2018	2019	2020
		Dec	Dec	Dec	Dec	Dec
Capital Adequacy	Regulatory capital to risk-weighted assets	18.9	17.8	17.9	19.2	23.0
	Regulatory Tier 1 capital to risk-weighted assets	17.9	21.2	20.2	21.5	24.9
	Nonperforming loans net of provisions to capital	5.8	6.4	5.8	4.7	4.6
Assets Quality	Nonperforming loans to total gross loans	3.7	4.4	3.7	3.3	4.2
	Large exposures to capital	107.1	80.7	82.1	83.0	69.2
Earnings & Profitability	Return on assets	3.3	2.4	3.4	3.1	2.0
	Return on equity	28.4	18.0	28.6	24.8	17.1
	Interest margin to gross income	58.0	59.6	60.4	58.5	56.1
	Noninterest expenses to gross income	54.7	62.2	60.7	41.5	65.6
Liquidity	Liquid assets to total assets	31.9	36.3	36.1	22.6	28.2
	Liquid assets to short-term liabilities	47.3	52.8	52.9	34.0	41.9
	Customer deposits to total (non-interbank) loans	154.6	184.6	179.8	170.7	195.1
Sensitivity to Market Risk	Net open position in foreign exchange to capital	31.9	24.5	23.6	28.3	42.2

Source Central Bank of Lesotho

2.3 RESEARCH AND ADVISORY SERVICES

The Bank's advisory work emanates from the research work that form an important part of its activities. The Bank is an economic and financial advisor to the Government of Lesotho. Additionally, the Bank is a trusted authority on economic matters by other institutions and other structures of Government.

The 2020 research output consists of seven (7) full research papers, ten (10) short analytical notes and another ten (10) advisory pieces.

2.3.1 Economic Research and Reports

The 2020 research output consists of seven (7) full research papers, ten (10) short analytical notes and another ten (10) advisory pieces. Sizable resources in terms of man hours were devoted to Covid-19 related work in addition to other research work that the Bank carries out. Very early in the year, a research paper was prepared on "Contextualizing the Likely Economic Impact of Covid-19 on Lesotho." As the pandemic unfolded and more information became available, another research paper titled "Assessment of Macroeconomic Impact of Covid-19: Potential Costs and Policy Responses" was produced.

Four (4) issues of the *Quarterly Economic Review* were published in the review year. In addition to the customary two (2) issues of the *Macroeconomic Outlook*, more frequent reviews of the forecasts were undertaken in an effort to better understand the unfolding effects of the pandemic. Periodic reporting of the economic affairs to the office of the Minister of Finance was improved with the introduction of a special purpose report titled *Periodic Report on the State of the Economy* or PROSE for short.

2.3.2 Advisory Work

The Bank worked closely with the Ministry of Finance in the negotiations of, and ultimately securing, the Covid-19 relief financing from the International Monetary Fund. Assessment of the impact of Covid-19 on the economy as well as proposals on the economic recovery strategies post-Covid-19 are some of the advisory briefs that made their way into the GOL conversations in dealing with the pandemic.

The Bank receives invitations to advise or apprise on economic matters by other structures. The Minimum Wage Advisory Board is a regular recipient of the Bank's view on the economy in preparation for its wage setting exercise. Invited talks include the one on "Governance, Stability and the Economy" delivered to the National Reforms Authority. "The World in 2020: A Pandemic and A Recession" was another special address that was delivered to the United Nations Country Team in the review year.

2.4 REGULATORY AND LEGISLATIVE DEVELOPMENTS

2.4.1 Regulatory Advances

Progress towards Basel II.5 Migration

The parallel run, comprising of submission of returns in accordance with the Basel I accord and the new Basel II.5 accord continued in 2020. The intention for this was to monitor the banking system's readiness for implementation of the new accord planned for January 2022. The Bank developed the Pillar 1 Regulations on computation of capital charges for credit, operational and markets risk, to be shared with the industry in early 2021 as part of consultative process and before they are gazetted. Further to this, the Bank continued to assess reports on Internal Capital Adequacy Assessment Program (ICAAP), Stress testing and Basic Disclosure Requirements as part of readiness assessment for banks.

Credit Information Bureau

On the part of the credit bureau, the Bank intensified efforts towards increasing coverage and improving data quality. These efforts were however hampered to a large degree by the Covid-19 pandemic. Since all Banks, Tier II MFIs and Insurance Companies were all providing data to the Bureau, the focus in 2020 switched to Tier III MFIs who were still lagging behind. As at the end of December 2020, data for about 22 per cent of Tier III MFIs was live while data for 74 per cent of Tier III MFIs was still in the testing phase. In terms of usage of credit information, there were lower number of credit checks in 2020 as compared to 2019. This was at the back of lower credit market activity brought about by the lockdown due to the Covid-19 pandemic. Furthermore, the total number of borrowers and accounts in the bureau fell in the year under review mainly because of lower demand for credit and disruptions in credit information reporting. As far as indebtedness is concerned, data from the bureau depicts an increase in NPLs and prominence of indebtedness in general although the picture improved in the second half of the year as the restrictions were being lifted.

Implementation of the digital financial identity pilot project

In 2020, the Bank also collaborated with the Ministries of Finance and Home Affairs, and other financial sector stakeholders in the implementation of the digital identity (ID) pilot project. The main aim of the project is to put in place online electronic verification and authentication of know-your-customer (KYC) profiles in the financial sector. The successful implementation of this pilot project will pave way for the permanent use of digital financial ID in the financial sector. This will, among others, consequently reduce the costs associated with due diligence (CDD) in the financial sector while ensuring compliance with AML/CFT frameworks. The pilot project is anticipated to end at the end of March 2021, with the roll-out of the project on permanent basis to follow afterwards.

Development of FinTech Strategy for Lesotho

The Bank identified FinTech as instrumental in the provision of various innovative financial services and products via non-traditional business models as well as to facilitate financial inclusion and the move towards cash-lite society. At the same time, the Bank recognised the significant risks associated with it and therefore the need to use coordinated approach in order to maximise its benefits while simultaneously minimising its risks. In light of this, the Bank developed the Concept Note on FinTech Strategy for Lesotho. The Concept Note was approved by the Lesotho National Payment Systems Council (LNPSC) as the tool that can be used to engage all relevant stakeholders in the FinTech space regarding the need to develop FinTech Strategy for Lesotho. Therefore, the Bank plans to start boarder stakeholder’s engagement in the FinTech sector in order to develop the FinTech Strategy for Lesotho.

Security Interests in Movable Property Act was enacted and the implementing regulations were published in 2020.

2.4.2 Legislative Developments

There is constant need to develop new laws and review existing ones to ensure that they are responsive to changing environment. In the review year, the following pieces of legislation were passed;

- Subsequent to the enactment of the Pension Funds Act, the *Pension Funds Regulations* were promulgated in order to implement the Act. Their publication completed the legal framework for the regulation of the pension funds operating in the country which were not regulated before the publication of this legal framework.

- *Security Interests in Movable Property Act* was enacted and the implementing regulations were published in 2020. The Act and the regulations, in essence, lay down a legal framework which is intended to make it possible for registration of movable assets as collateral for borrowing. This will improve access to finance for both households and businesses, and has a huge potential to reduce the costs of borrowing.

- In response to regulatory gaps in insurance regulation and supervision, the *Micro Insurance Regulations* were published.

2.5 FINANCIAL SURVEILLANCE AND INTEGRITY

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

In order to ensure integrity of the financial systems, the Bank continued to enhance the AML/CFT supervisory frameworks. In particular, the Bank issued the AML/CFT Risk Management Guidelines for Banks to provide appropriate guidance for banks in implementing the risk based approach. The guidelines also assist banks to design and implement AML/CFT control measures.

2.5.2 Exchange Controls

The year 2020 saw the successful roll-out of the new cross border reporting system. On 05th October 2020, the Bank successfully migrated to the new version (version 3) of cross-border reporting system. The need to migrate to this new version was prompted by deficiencies that existed with the older version (version 2) of the system.

The new version, referred to as the Cross-Border Transaction Reporting System (C-BTRS), houses three reporting qualifiers: The BOPCUS module, the BOPCARD non-resident module and the BOPCARD resident module. The BOPCUS module contains granular categories that enriches the data. BOPCARD non-resident module represents non-residents swiping their cards on Lesotho banks' devices (e.g. ATMs, POS machines), while BOPCARD resident module represents transactions of Basotho swiping abroad on foreign banks' devices.

2.6 FINANCIAL MARKETS

2.6.1 Reserves Management

To uphold the purpose of holding foreign reserves, the Bank continued to manage reserves in line with the objectives set in the investment policy approved by the Board. This mandate was brought under significant challenges emanating from emergence and the spread of Covid-19, heightened risk climate and historically low yields across the globe. Significant efforts were deployed to ensure prudent management of reserves through adherence to the approved strategic asset allocation and risk parameters set in the investment guidelines.

Various initiatives were also undertaken to improve process flows for management of reserves throughout the year. The Bank extended its long longstanding relationship with the World Bank's Reserves Advisory Management Program for another three years. This relationship will enable the Bank to enhance internal capacity at various levels of reserves management. The Bank also made strides in its efforts to acquire the treasury management system to fully automate its reserves management processes. In an effort to harmonize process with current global best practices and standards, the Department of Financial Markets began efforts to migrate its payments system messages to ISO 20022 messages; the new standard for electronic data interchange between financial institutions. All these efforts will ensure that the Bank continues to manage reserves in line with set mandates of preservation of value of reserves, preservation of liquidity for reserves to enable payment of the country's foreign obligations and generation of sufficient returns.

2.6.2 Domestic Capital Markets Operations

The Bank, acting as an agent of the Government of Lesotho, successfully conducted four auctions of Treasury bonds for fiscal purposes and bi-weekly auctions of Treasury bills for monetary policy purposes. Of the four auctions of treasury bonds, three auctions were conducted through re-opening already existing bonds while the Bank rolled out the new three-year bond in another auction held in October 2020. The new instrument was highly successful and added an integral point on the yield curve that would form a basis for pricing of other instruments by potential private issuers. The sale of treasury bonds ranged between 70 and 100 percent take up, suggesting that despite the ravaging impact of Covid-19, the vigorous investor educational campaigns carried throughout the year on various platforms such as the radio, newspapers and CBL website produced positive and commendable results. The issuances continued to attract mostly new retail investors.

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The banking system balance sheet size increased by 13.7 percent, from M17.6 billion in December 2019 to M20.0 billion in December 2020.

2.6.3 Maseru Securities Markets

MSM persevered in mobilizing potential issuers - highlighting the benefits of raising funds in the capital markets and using the exchange to increase liquidity in their issued financial instruments. Emphasis on the benefits of the exchange in providing an exit strategy to existing shareholders who may want to release their holdings were indicated. As way to inform the exchange strategy going forward, MSM also carried out a survey on factors and issues that could be hindering companies from accessing domestic capital markets. Among others, the study revealed that more work needs to be done in terms of providing investor and issuer education in order to enable companies to access domestic markets, issue securities and list on MSM. Despite challenges faced in 2020, one company began working hand in clove with MSM to initiate its much-anticipated Initial Public Offering (IPO) for equity securities with a prospect to enlist on the stock exchange at a later stage. The Bank also received one application for registration of programme memorandum from the company that intents to issue series of medium term notes.

2.7 FINANCIAL SECTOR PERFORMANCE

The Bank oversee the entirety of the financial sector from the banks to all forms of non-bank financial institutions. This section outlines how the entire financial sector, through its various sub-sectors performed in 2020.

2.7.1 Banking Sub-sector Performance

The banking industry in Lesotho comprised of four banks, and it was dominated by three subsidiaries of foreign banks which accounted for 92.2 percent of the banking sector's total assets. The three banks had a total of 35 branches out of 49 branches in the country. Needless to say, the only state-owned bank in the economy tends to have a stronger presence in remote areas due to its more pro-poor strategy. In December 2020, subsidiaries of foreign banks operated 183 ATMs, 1,881 point of sale (POS) devices and had a total number of 1,287 employees, representing a significant 81.5 percent of the industry's workforce.

The banking system balance sheet size increased by 13.7 percent, from M17.6 billion in December 2019 to M20.0 billion in December 2020, driven by a combination of two key factors, placements and government securities. Placements with local banks increased by 45.7 percent, from M1.1 billion in December 2019 to M1.6 billion in December 2020, while placements with banks in South Africa increased by 12.3 percent, from M2.9 billion in December 2019 to M3.3 billion in December 2020. Government securities remained virtually unchanged compared to the previous year and stood at M2.1 billion in December 2020. Credit portfolio was largely affected by low demand and elevated default risk, as repercussions

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of the pandemic surfaced over the year. Hence, credit portfolio declined slightly by 1.0 percent, from M7.1 billion in December 2019 to M7.0 billion in December 2020.

A year-on-year trend on Non-Performing loans (NPLs) and past-due loans revealed growth of 28.2 percent and 4.8 percent, from M244.5 million in December 2019 to M313.5 million in December 2020, and from M955.8 million in December 2019 to M1.0 billion in December 2020, respectively. In response to an increasing credit risk, provisioning increased by 35.3 percent, from M346.7 million in December 2019 to M469.1 million in December 2020. The economic effects of the pandemic remained key to explain the deteriorations. It was noted that some of the households and business borrowers struggled to meet their debt obligations due to the challenging business environment. As the mortality rate increased due to pandemic, it also contributed to increase in loan defaults. Mining, transport, construction, hotels, restaurants, wholesales and retails sub-sectors were the mostly affected sectors.

Total liabilities increased significantly by 14.3 percent, from M15.1 billion in December 2019 to M17.2 billion in December 2020, mainly due to increased deposits from businesses. Total deposits increased by 15.3 percent, from M12.8 billion in December 2019 to M14.7 billion in December 2020. In addition, balances due to local banks increased by 9.3 percent, from M1.5 billion in December 2019 to M1.6 billion in December 2020, mainly due to influx of funds in the interbank market as banks restructured their balance sheets to contain liquidity risk. During the period under review, liquidity risk remained elevated as lower levels of liquidity were anticipated in banks due to repercussions of Covid-19, such as loss of jobs, closing of businesses and anticipated deposit withdrawals from the government and businesses. However, non-payment of dividends in 2020 played a critical role to boost liquidity levels.

The major sources of income continued to be interest income on loans, commission income and interest income from placements, while interest expenses, staff salaries and other operating expenses, continued to represent a large share of total expenses. Over a one-year horizon, net income after tax declined by 40.7 percent, from M537.6 million in December 2019 to M318.7 million in December 2020, largely influenced by a decline in interest income from loans and placements. Commission income declined as banks' charges on digital platforms decreased to encourage consumers to use digital channels to reduce the spread of the pandemic. Increased provisions and net losses recorded by some banks continued to strain net income significantly. In general, the banking sector recorded acceptable liquidity and capital adequacy levels. However, some of the banks reported year to date losses. Credit, liquidity and compliance risks continued to pose some concerns and are aggravated by the pandemic. The pandemic remained the key factor that might bring sessions of strains on the capital base and it continues to put earnings under severe pressure; thus, highly challenging and threatening the resilience of banking system. However, new developments on vaccine have raised some hopes for recovery.

2.7.2 Insurance Sub-sector Performance

The Insurance Sector remained under pressure for the year 2020 in line with the economic performance that was affected by the Covid-19 pandemic. The largest impact was observed in the short-term insurance sub-sector, which is normally sensitive to economic fluctuations, while the long-term subsector remained afloat despite the difficult year. For the short-

As at the end of 2020, there were 98 licensed MFIs from 42 MFIs licensed by the end of 2019.

term subsector, the worse performance was observed during the first quarter of the year when lock downs became eminent. Collected premiums for this subsector dropped by about 66 per cent compared to the same period a year ago, as consumers and business hoarded cash in anticipation of the worst. Premium collections by the sub sector continued to drop to the third quarter of the year with marginal recovery of about 1 per cent in the last quarter. For the subsector, this led to the over poor overall performance in comparison to the year 2019 as claims spiked during the same quarters that premium collections were under pressure.

On the other hand, performance for the long-term subsector was better that expected, with improved premium collections through the year for every quarter. The best performance for the subsector was observed in the 4th quarter with about 13 per cent improvement in premium collections. This was followed by the 1st quarter performance, which saw an improvement of about 4 per cent compared to the same period in the previous year. Although the subsector was marred by an increase in claims paid particular as a result of loss of insured life, as Covid-19 pandemic took toll, the subsector remained resilient. It observed comparatively better performance in the 2nd and 4th quarters of 2020 with the worse performance in terms in the 3rd quarter in terms of profitability.

However, signs of the recovery were noticeable in the insurance sector as evidenced by the improved overall performance both on a quarter-on-quarter and year-on year basis in the 4th quarter of 2020. Overall, the long-term sector collected premiums to the tune of M1.65 billion, compared to the previous year's collections of M1.56 billion (5.6 per cent increase, while Premium collections for the short-term sector fell significantly by 32.6 per cent in 2020, as major contributing economic sectors were affected by the pandemic. Total premium collection for the year by this subsector were to the tune of M349 million.

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

The transition to move from the Financial Institutions (Credit Only and Deposit Taking MFIs) Regulations of 2014 to the Financial Institutions (Credit Only and Deposit Taking MFIs) (Amendment) Regulations of 2018 continued in 2020 while the process of repealing the Money Lenders Act of 1993 ensued. These processes were however hampered by the Covid-19 pandemic and the national lockdown.

As at the end of 2020, there were 98 licensed MFIs from 42 MFIs licensed by the end of 2019. In terms of growth, the MFIs subsector remained stagnant due to the impact of Covid19 and closed the year under review at around M982 million in assets. Furthermore, the subsector recorded higher NPLs and bad debts. This resulted in some reducing operations and closing some branches.

In general, the impact of Covid19 pandemic on both the demand and supply side do not augur well for the gains and progress that was being made in terms of access to finance and financial inclusion through the MFIs. Despite the picture painted above, it is worth noting that there has been some recovery as the economy was slowly opening up even though the recovery is still below pre-covid-19 levels.

2.7.4 Pensions and Securities Sub-sector Performance

The number of licensed asset managers remained at two (2) at the end of 2020, although one was active. The number of active and registered collective investment schemes were four (4). As at the end of the review period, there were three (3) licensed broker dealers and four (4) licensed investment advisors, whose objective is to facilitate activity on the Maseru Securities Market.

The only active asset manager controlled the entire market in terms of total assets under management and number of funds being managed. These funds were placed in various types of investment categories including call deposits, fixed deposits, negotiable certificates of deposits, Bonds and other collective investment schemes.

The overall performance of the collective investment schemes has shown a stable and sound financial position though subdued compared to previous reporting periods. This this is attributable to the prevalence of several lockdowns due to covid-19 as in other segments of the economy. The total assets under management grew from M2.4 billion as at the end of 2019 to M2.55 billion at the end of 2020.

The consolidated funds operating profits totaled M 1 million at the end of the review period, hence, improved net assets attributable to the unit holders. The combined income comprised interest received and dividends.

2.7.5 Payments Systems Performance

Lesotho wire

Lesotho Wire (LSW), is the only large value payment system, which provides real time and intraday settlement of financial transactions on a continuous and gross basis. It has five participants consisting of Lesotho's four commercial banks and the Banking Division of the Central Bank of Lesotho. It is the backbone of the payment and settlement system in Lesotho.

Despite the marginal decline in transaction volumes, the transaction values settled by LSW increased in 2020. The transaction volumes declined by 2 per cent while the transaction values increased by 16 per cent. Table 1 below depicts LSW transactions between 2014 and 2020. The growth in LSW transaction values was largely driven by huge number of government and interbank payments processed during year. In terms of system availability, LSW generally maintained an uptime of 98.9 per cent in 2020, 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 year. This provided a conducive environment for efficient circulation of funds, conduct of monetary policy, supported monetary and financial stability as well as overall economic activity in the country.

During review year, the transaction volumes and values associated with the cheque clearing system declined.

Table 12	LSW transactions between 2014 and 2020			
Year	Volumes	Change (%)	Values	Change(%)
2014	19 916	-	30 754 988 595	-
2015	25 683	29	28 058 854 748	-8,8
2016	23 917	-7	34 257 297 169	22,1
2017	29 968	25	43 046 062 473	25,7
2018	25 880	-14	51 466 286 357	19,6
2019	33 047	28	66 901 041 540	30,0
2020	32 474	-2	77 581 732 255	16,0
Source	Central Bank of Lesotho			

Automated clearing house (cheques and electronic funds transfers)

During review year, the transaction volumes and values associated with the cheque clearing system declined. The transaction volumes and values decreased by 51 per cent and 42 per cent, respectively, from the 2019. Similar transaction trajectory was observed in the previous years. Table 2 below depicts cheque and electronic funds transfer (EFT) transactions between 2014 and 2020.The pause in the issuance of cheques by the government and overall growing preference for digital payment methods contributed to the decrease in cheque transaction volumes in the reporting period.

Table 13	Cheque and EFT transactions between 2014 and 2020			
	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
Source	Central Bank of Lesotho			

On the other hand, the EFT transaction volumes and values increased in the year under review. The transaction volumes and values grew by 13 per cent and 9.2 per cent, respectively, from 2019. This upward transaction trajectory was also observed in the preceding years. The growth in halt in cheques issuance by the government, and the growing appetite of consumers to use efficient and safe electronic payments contributed to the increase in EFT transactions. The growth in the usage of electronic payment methods, requires implementation of effective cybersecurity management systems and frameworks as well as intensification of public awareness campaigns by financial service providers. This should be done with a view to minimise cybersecurity threats and scams

[6] In the absence of government cheques, the government used bank cheques from the Central Bank of Lesotho, in order to pay claims emanating from various government ministries. However, these were 'on-us' cheques, which are not usually processed through ACH.

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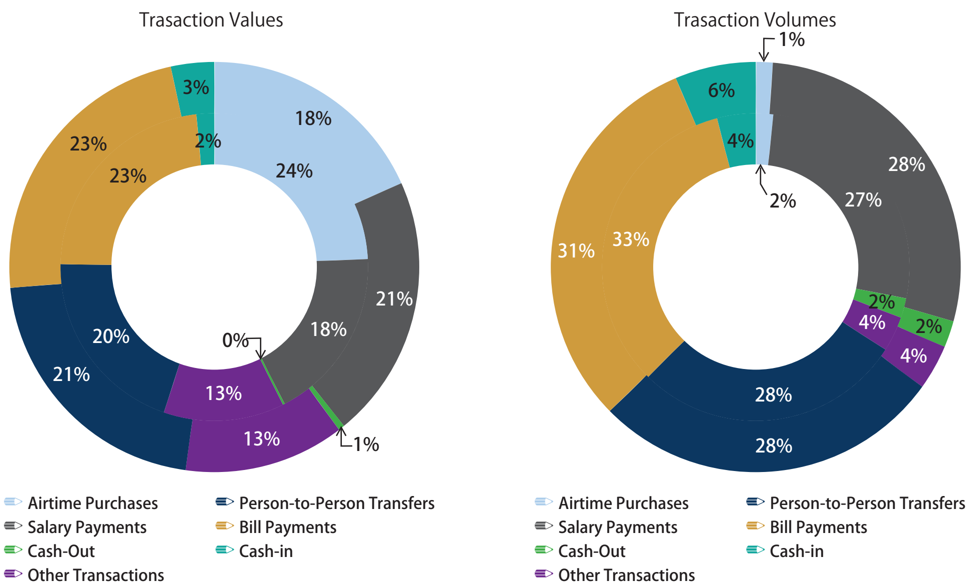
Mobile money

The most dominant mobile money transactions in 2020, 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, followed by P2P transfers, cash-out and other transactions[7]. Figure 1 below, presents the mix of mobile money transactions between 2018 and 2020.

Figure 16 Mobile money transactions between 2019 and 2020



Note: The innermost doughnut corresponds to 2019 while the outermost doughnut corresponds 2020. 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).

Source: Central Bank of Lesotho

Mobile money service in Lesotho has evolved to offer innovative financial services and products beyond P2P transfers and airtime purchases. These services include community savings, group savings, nano loans, bank-to-wallet and wallet-to-bank services. Mobile money transaction volumes and values, as well as the overall trust account balance also grew in 2020. Figure 2 depicts overall mobile money trust account balance between 2016 and 2020. It shows that the overall trust account balance grew by 42 per cent to M327.29 million in 2020. Therefore, this attests to the growing usage of the service, especially during the outbreak of COVID-19 pandemic.

[7] 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).

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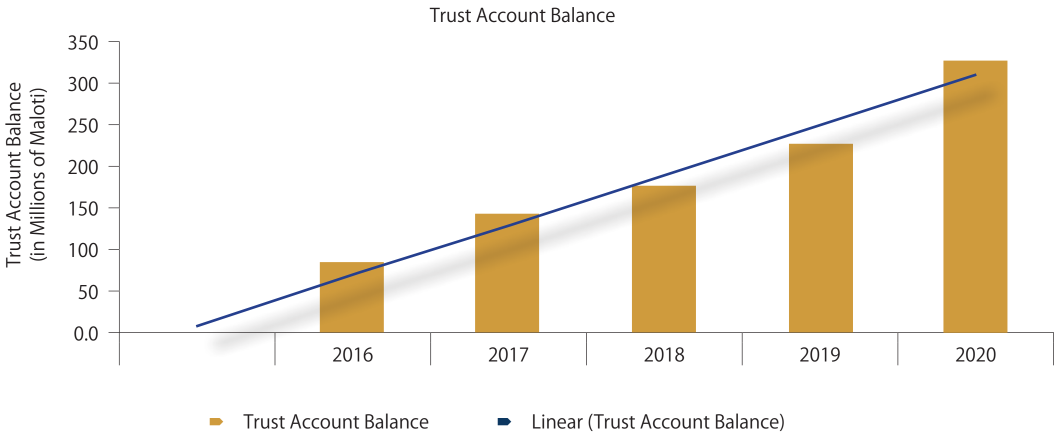
The National Payment System forms an important part for smooth circulation of the payments and funds.

Figure 17 Overall Mobile Money Trust Account Balance Between 2016 and 2020



Source: Central Bank of Lesotho

Payment systems initiatives

The National Payment System forms an important part for smooth circulation of the payments and funds. Therefore, during the course of 2020, the Bank undertook several initiatives in an effort to ensure smooth flow of payments, promote safety and efficiency and to foster financial integrity in the payments systems. These initiatives are the upgrade and modernisation of the payment system infrastructure, as well as, implementation of the digital financial identity pilot project and review of the payment system legislation.

Upgrade and modernisation of the payment systems infrastructure

During the course of 2020, the Bank upgraded both Lesotho Wire and automated Clearing House (ACH) with a view to enhance their performance and enable seamless settlement of payments. In addition, the upgrade was meant to ensure compliance with the relevant international standards.

Beside this, the Bank also procurement of the payment switch provider which will facilitate interoperability among payment system participants, and create opportunities for payments systems in the country and yield benefits to consumers, as well as, contribute towards financial inclusion. In addition, it is also expected to enable effective oversight and supervision of the payments systems by the Bank.

Implementation of the digital financial identity pilot project

In 2020, the Bank also collaborated with the Ministries of Finance and that of Home Affairs, and other financial sector stakeholders in the implementation of the digital identity (ID) pilot project. The main aim of the project is to put in place online electronic verification and authentication of know-your-customer (KYC) profiles in the financial sector. The successful implementation of this pilot project will pave way for the permanent use of digital financial ID in the financial sector. This will, among others, consequently reduce the costs associated with due diligence (CDD) in the financial sector while ensuring compliance with anti-money laundering and countering financing of terrorism (AML/CFT) frameworks. The pilot project is anticipated to end at the end of March 2021, with the roll-out of the project on permanent basis to follow afterwards.

Review of the payment systems legislation

During the course of 2020, the Bank started the review of the Payment Systems Act (PSA) 2014. The objective of the review is to align the PSA 2014 with the SADC Payment Systems Model Law, and to accommodate and level the playing field for the provision of various payment services and innovative financial services and products by various financial technology (FinTech) players through different non-traditional business models. In addition, the review is meant to align the Act with recent developments in the payment systems landscape in Lesotho.

In connect with this, the Bank also reviewed the cheque and electronic funds transfer (EFT) payment streams rules. The review of these rules was meant to align them with current operational procedures.

2.8 CORPORATE AND ASSURANCE SERVICES

2.8.1 Risk and Business Continuity Management

The Covid-19 pandemic brought these functions to the fore as the Bank had to manage the health, operational and financial risks posed by the pandemic. More importantly, critical functions of the Bank had to continue even in the wake of strict lockdowns. It was the robustness and responsiveness of the Bank's business continuity systems that this was not only done successfully, but also that the full spectrum of the Bank's functions were phased back into operation with the majority of the staff working remotely. The Bank's resilience, its capacity to adapt to Covid – 19 and to remain functioning optimally proved to be robust. Adapting to the new environment of a combination of telecommuting and on-site operations happened with very little challenges that were addressed with ease.

In an effort to manage all risk exposures that the Bank may have, risk profile for 2020 was reviewed to incorporate the effects of the pandemic and to closely monitor the implementation of mitigations and raise red flags whenever there was need. The Bank also reviewed the enterprise risk management policy and framework to align with the evolution in international standards and best practices.

The Bank's internal audit provides objective independent assurance on the adequacy and effectiveness of the governance, risk management and control processes.

2.8.2 GRC Assurance by Internal Audit

The Bank's internal audit provides objective independent assurance on the adequacy and effectiveness of the governance, risk management and control processes. The internal audit function follows a risk-based approach that aligns and conforms to the Institute of Internal Auditors' (IIA) International Professional Practice Framework.

Based on 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 though there is still room for improvement in certain areas. 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 some of the critical Bank projects such as the Human Resources Information System. In the coming year increased focus is going to be placed on the IT environment (applications, processes and network infrastructure). The commercial audit tool has been acquired to implement this.

2.8.3 A Cyber Resilient Digital Workplace

The rapid changes in the operating environment are driven by digital transformation. Therefore, one of the Bank's ongoing priorities is the ability to adapt into a being a digital workplace that is cyber resilient. The Bank's ICT function had a busy year in 2020. Below are some of the year's highlights:

a) Delivering on Strategic Projects

The following strategy aligned projects were delivered, while others are in the pipeline:

- Cross Boarder Transaction and reporting system.
- Upgrade of RTGS system and integration with ACH.
- Portfolio management software.
- Commercial Audit tool.

b) Updating and Modernizing Governance Instruments

The following IT governance instruments were reviewed and improved to ensure that they continue to be fit-for-purpose in light of among others the heightened cyber security risks. Reviews to the following instruments were approved:

- IT Governance Framework.
- Cyber Security Framework.
- Information Security Policy.
- Access Rights Procedure Manual.
- Project Advisory and Rationalization Instruments.
- Computing Hardware policy.

c) Cyber Resilience

Several risks continue to be managed with cyber threats topping the list. A framework that advocates for a holistic approach to achieving cyber resilience was reviewed and approved, and its implementation is on-going. There were no successful breaches in the reporting period, although attempts are a daily phenomenon.

d) Agility and Responsiveness

The outbreak of Covid-19 pandemic necessitated a rapid enablement of processes and systems to facilitate Staff to work from home. The Department responded with the necessary speed and agility. Most Staff members successfully delivered their priorities remotely, save for those whose processes were deemed impossible to be performed outside of the Bank's premises.

e) Value Delivery

The Bank continued to uphold set levels of tolerance limits with respect to availability and integrity of systemic and critical systems. A scientific assessment was made to determine technical and business fitness of such systems, and it forms the basis for continued investment on those that perform optimally, as well as necessary upgrades to those that were found lacking in one aspect or the other ❑

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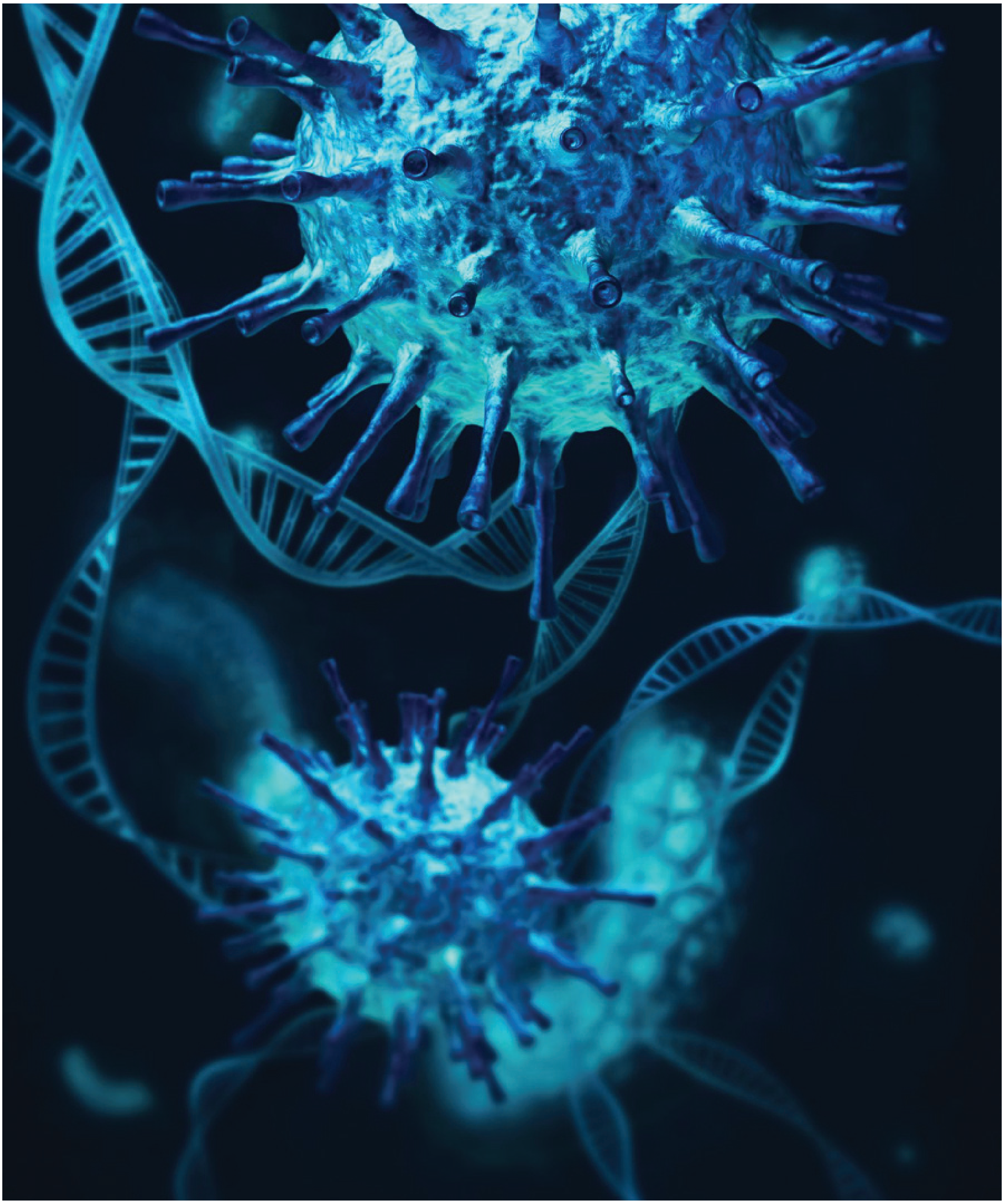
The outbreak of Covid-19 pandemic necessitated a rapid enablement of processes and systems to facilitate Staff to work from home.



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REPORT ON THE ACTIVITIES OF THE BANK

The Bank is a statutory corporate body. It is, as a result, subject to contemporary corporate services, control and governance functions that are characteristic of modern and well-run organisations ❑

3

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

Financial Statements
for the year ended 31 December 2020

General Information

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

Registered office
Cnr Airport & Moshoeshoe Roads Maseru 100 Lesotho

Postal address
P.O. Box 1184 Maseru 100 Lesotho

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

Secretary
Mr. Napo Rantsane (Adv.)

Lawyer
Webber & Newdigate

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Central Bank of Lesotho

Financial Statements for the year ended 31 December 2020

Corporate Governance Report

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

Report for the year

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

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

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

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

Apart from these Committees, there is the Executive Committee, which comprises of the Governor, who is also the Chairperson, the Deputy Governors, and Heads of respective Departments. The Executive Committee acts with delegated authority from the Board and is responsible for dayto-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 01 issues of central banking and corporate governance trends to enhance its efficiency and effectiveness. In addition, the Board also has access to the services and advice of the corporate secretary.

In line with section 13 (2) of the Act, which requires the Board to meet as frecuently as possible and not less than once in every two months, the Board of Directors convened eleven meetings during the 2020 Financial Year.

Adv. N. Rantsane
Secretary to the Board

Audit Committee Report

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

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

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

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

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

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

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

The Committee is also satisfied that the Bank implemented appropriate processes and controls to ensure compliance with all applicable laws and regulations as they relate to financial reporting. This is based on the Committee's review of reports received from both internal and external auditors, as well as from Management.

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

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

On behalf of the Audit Committee:

Mrs. R. Tlali
Chairperson of the Audit Committee

Directors' Responsibilities and Approval

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

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

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

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

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

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

The financial statements were approved by the Board of Directors on 29 March 2021 and are signed on its behalf by:

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

Directors' Report

The Directors present their annual report, which forms part of the audited annual financial statements of Central Bank of Lesotho for the year ended 31 December 2020. The annual financial statements are expressed in Maloti, the local currency of Lesotho and the functional currency of the Bank that is at par with the South African Rand. These financial statements were prepared on a going concern basis taking into account that the Bank is a lender of last resort and continues to be the banker of the Government concerning foreign exchange transactions.

1. Review of financial results and activities

Nature of business

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

Financial results

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

The financial results of the Bank are set out in the statement of profit or loss and other comprehensive income on page 66. The residual profits, after a transfer of the foreign exchange currency translation to the designated foreign currency translation reserves, and after appropriations have been allocated to the general and other reserves, are paid over to the Government of Lesotho Consolidated Fund as dividends in accordance with Section 21(5) of the Act. These appropriations have been fully disclosed in the statement of changes in equity on page 13 14. Amounts paid and due in terms of the Act were as follows:

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

2. Amounts due to Government of Lesotho

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

4. Directors

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

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

5. Secretary

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

6. Events after the reporting period

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

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

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

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

Impact of COVID 19 on revenue

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

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

7. Auditors

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

8. Financial Reporting Framework

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

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

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

1. Revaluation Reserve Account

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

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

2. Rand Compensation Reserve

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

3. Profits and General Reserves

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

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

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

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

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

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

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

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

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

(8) "If in any financial year there are accumulated losses carried forward from previous years and which losses have not yet been replenished by the Government in the manner indicated in subsection (8), the final profit of that year shall be allocated in priority to the cancellation of such accumulated losses".
(9) "The allocations stipulated in subsections (2), (3), (4) and (5) shall refer only to the balance of profits which remains after the cancellation of accumulated losses carried forward from previous years".

Dr. A.R. Matlanyane
Governor
29 March 2021

Mrs. R. Tlali
Director
29 March 2021

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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 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of matter

Basis of preparation and restriction of distribution and use

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

Reclassification of prior year figures

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

Moteane, Quashie & Associates Chartered Accountants & Management Consultants
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Tel: (+266) 22 316 490, VAT NO: 1519433 TIN NO:1028676-4. Please see www.mqa.ls for further details.

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

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

Other Information

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

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

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

Responsibilities of directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

Moteane Quashie & Associates

Kobla Quashie
Moteane, Quashie & Associates
Chartered Registered Auditor
Director

31 March 2021

Plot 582 Hoohlo
Maseru
100

SizweNtsalubaGobodo Grant Thornton Inc.

Agnes Dire
SizweNtsalubaGobodo Grant Thornton Inc.
Chartered Registered Auditor
Director

31 March 2021

20 Morris Street East
Woodmead
2109

Statement of Financial Position as at 31 December 2020

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

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Central Bank of Lesotho

Financial Statements for the year ended 31 December 2020

Statement of Financial Position as at 31 December 2020

	Note(s)	2020 M '000	2019 M '000
Equity			
Share capital	31	100 000	100 000
General reserve		329 712	320 312
Rand compensatory reserve		901 494	822 450
SDR revaluation reserve		161 584	56 704
Foreign exchange revaluation reserve		3 618 842	3 539 513
Property revaluation reserve		188 758	149 788
Bond/unit trust revaluation reserve		130 683	30 052
		5 431 073	**5 018 819**
Total Equity and Liabilities		**15 481 811**	**13 387 585**

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Central Bank of Lesotho

Financial Statements for the year ended 31 December 2020

Statement of Profit or Loss and Other Comprehensive Income

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

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Statement of Changes in Equity

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

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.

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Central Bank of Lesotho

Financial Statements for the year ended 31 December 2020

Statement of Cash Flows

	Notes	2020 M '000	2019 M '000
Cash flows from operating activities			
Cash used in operations	37	2 614 881	14 198
Interest received	32	448 399	478 911
Interest expense	33	(3 767)	(9 587)
Tax paid	25	(105 756)	(39 595)
Rand compensatory reserve		79 044	77 393
Payments to Government of Lesotho Consolidated Fund	26	(117 840)	(24 337)
Increase/(decrease) in Other assets		4 654	(2 969)
Decrease /(increase) in Lesotho Government Securities		(3 808)	3
Purchase) of Treasury notes, bonds and unit trust		(800 406)	(551 947)
Movements in notes and coins	19	206 150	92 661
Net cash from operating activities		**2 321 551**	**34 731**
Cash flows from investing activities			
Purchase of property, plant and equipment	17	(59 045)	(63 093)
Purchase of other intangible assets	18	-	(6 119)
Sale/(purchase) of investment in unit trust		-	750 487
Sale of investment in SWIFT	6	-	603
Decrease/(increase) in staff loans	16	174	(12 988)
Net cash from investing activities		**(58 871)**	**668 890**
Cash flows from financing activities			
Movement in IMF Funded PRGF	23	(123 618)	-
Movement in Rapid Credit Facility	24	274 340	-
Net cash from financing activities		**150 722**	**-**
Total cash movement for the year		**2 413 402**	**703 621**
Cash at the beginning of the year		4 364 889	3 746 860
Effect of exchange rate movement on cash balances		46 546	(85 592)
Total cash at end of the year	2	**6 824 837**	**4 364 889**

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

1. Presentation of financial statements

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

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

1.1 Property, plant and equipment

Owner-occupied properties

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

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

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

Other property, plant and equipment are subsequently carried at cost less accumulated impairment losses. Work in progress consists of items under construction and is measured at cost. Work in progress is transferred to the related category of assets and depreciated accordingly when the asset is completed and available for use. Subsequent costs are included in the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Items under construction are not used and thus not depreciated.

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

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

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

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

Item	Depreciation method	Rates
CBL 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	20%
Sports/ Music equipment	Straight line	20%
Housing equipment	Straight line	20%
Security equipment	Straight line	20%

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

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

1.1 Property, plant and equipment (continued)

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

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

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

1.2 Intangible assets

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

Computer software

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

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

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

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

1.3 Current and deferred income tax

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

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

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

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

1.3 Current and deferred income tax (continued)

Deferred tax assets and liabilities

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

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

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

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

1.4 Leases

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

1.5 Share capital

(a) Share capital is classified as equity.

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

(b) Dividends on ordinary shares

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

1.6 Employee benefits

(a) Post employment benefits

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

(b) Other long-term employee benefits

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

Long-term employee benefits include:

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

1.6 Employee benefits (continued)

(c) Actuarial gains/losses

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

(d) Accrual for leave pay

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

(e) Defined benefit plans

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

1.7 Provisions

Contingent assets and contingent liabilities are not recognised.

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

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

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

1.8 Revenue

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

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

1.8 Translation of foreign currencies

(a) Functional and presentation

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

(b) Transactions and balances

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

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

1.9 Impairment of non-financial assets

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

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

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

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

1.10 Claims on staff

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.

1.11 Deferred currency expenditure

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

1.12 Dividend distribution

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

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1.13 Notes and coins

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

1.14 IMF Holding of Special Drawing Rights and IMF subscription account

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

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

1.15 IMF Funded PRGF Advances

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

1.16 Comparative figures

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

1.17 General Reserve

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

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

1.18 Rand Compensation Reserve

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

1.19 Foreign Exchange Revaluation Reserve Account

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

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

1.20 SDR Revaluation Reserve

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

1.21 Property Revaluation Reserve

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

1.22 Bond/Unit Trust Revaluation Reserve

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

1.23 Bond/Unit Trust Revaluation Reserve

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

1.24 Financial Risk Management

(a) Market Risk

(i) Foreign Exchange Risk

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

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

(ii) Interest Rate Risk

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

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

(iii) 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.

1.24 Financial Risk Management (continued)

(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.

1.24 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the No.1 and No.2 accounts which total SOR 57 214 433 (2019: SOR 57 214 433) in favour of the IMF. GOL chose to substitute non-interest bearing notes for a portion of the balance held in its Fund's No. 1 account and the securities substituted for currency are recorded in the Securities Account. GOL's holding in IMF SOR Department is posted in the No.1 account and is used tor the Fund's operational transactions e.g. purchases and repurchases, whereas the No. 2 account is used for the payment of operational expenses incurred by the Fund in Maloti. The Bank revalues the IMF accounts in its Statement of Financial Position in accordance with the practices of the IMF Treasury Department. The revaluation of the SOR rates by the IMF is effected annually on 30 April, and whenever there are IMF transactions using the Maloti. The IMF accounts have been revalued using the latest prevailing SOR rates in IMF website.

1.25 Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

(a) Employee benefits

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

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

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

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

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1.25 Critical accounting estimates and judgements (continued)

(b) Fair values

The following bases are used in determining fair value:

i) Balances due to and from banks

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

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

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

1.26 Memorandum Accounts

The Bank holds various amounts of monies on behalf of the Government of Lesotho on a restricted basis in a fiduciary capacity only. These monies are controlled by Government and any gains or losses related to these amounts accrue to the Government. All memorandum account balances are kept off the Balance Sheet as they do not belong to the Bank and do not meet the definition of an asset of the Bank. Refer to note 40 which provides further details of the memorandum accounts.

1.27 Financial Instruments

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

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

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

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

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

1.27 .1 Financial assets

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

Specifically:

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

1.27.1 Financial assets (continued)

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

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

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

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

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

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

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

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

Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

Reclassifications

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

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

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

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

ECLs are required to be measured through a loss allowance at an amount equal to:
12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

1.27 Financial Instruments (continued)

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

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

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

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

Credit-impaired financial assets

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

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

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

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

Significant increase in credit risk

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

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

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

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

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

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).

1.27 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.

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1.27 Financial Instruments (continued)

1.27.2 Financial liabilities and equity

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

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

Equity instruments

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

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

Other financial liabilities

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

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

Derecognition of financial liabilities

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

1.27 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.

1.28 Standards and interpretations effective and adopted in the current year

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

Standard	New and Amended Standard:	Effective for Annual Period beginning on or after
IAS 1, Presentation of Financial Statements & IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.	*Definition of Material: The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.* *The amendments aim to align the definition of "material" across the standards and to clarify certain aspects of the definition. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments must be prospectively.*	*1 January 2020*
The Conceptual Framework for Financial Reporting.	*It sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.*	1 January 2020

1.28 Standards and interpretations effective and adopted in the current year

Standard	New and Amended Standard:	Effective for Annual Period beginning on or after
IFRS 7, Financial Instruments:	*The amendments to IFRS 9, IAS 39 and IFRS 7 amend requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting.* *The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. Application of the reliefs is mandatory.* *The first three reliefs provide for:* *The assessment of whether a forecast transaction (or component thereof) is highly probable.* *Assessing when to reclassify the amount in the cash flow hedge reserve to profit and loss.* *The assessment of the economic relationship between the hedged item and the hedging instrument.* *For each of these reliefs, it is assumed that the benchmark on which the hedged cash flows are based (whether or not contractually specified) and/or, for relief three, the benchmark on which the cash flows of the hedging instrument are based, are not altered as a result of IBOR reform. The fourth relief provides that, for a benchmark component of interest rate risk that is affected by IBOR reform, the requirement that the risk component is separately identifiable need be met only at the inception of the hedging relationship.In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.*	*1 January 2020*

1.29 Standards and interpretations not yet effective

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

1.29 Standards and interpretations not yet effective (continued)

Standard	New and Amended Standard:	Effective for Annual Period beginning on or after
IAS 39, FinancialInstruments:Recognition and Measurement.	*Interest Rate Benchmark Reform Phase 2: The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 amend requirements relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities, hedge accounting and disclosures. The amendments to IFRS 9 enable a company to apply a practical expedient to account for a change in the contractual cash flows that are required by IBOR reform by updating the effective interest rate to reflect any change arising from the reform (for example, the change in an interest rate benchmark from IBOR to an alternative benchmark rate).* *The amendments enable (and require) companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the reform. Companies are required to amend their hedging relationships to reflect: designating an alternative benchmark rate as the hedged risk; changing the description of the hedged item, including the designated portion, or of the hedging instrument; or changing the description of how the entity would assess hedge effectiveness (IAS 39 only).* *The Board amended IFRS 7 to require a company to make additional disclosures in its financial statements so that investors can better understand the reform's effects on that company. The ad disclosure requirements are designed to balance the benefits to investors with a company's costs to provide the additional information. These objective-based disclosure requirements limit the costs of applying the amendments by allowing companies to choose their own methods for disclosing the required information.*	*Annual periods beginning on or after 1 January 2021.*
IAS 37, Provisions, Contingent Liabilities and Contingent Assets	*The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.*	*Annual periods beginning on or after 1 January 2022.*

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1.29 Standards and interpretations not yet effective (continued)

Standard	New and Amended Standard:	Effective for Annual Period beginning on or after
IAS 1, Presentation of Financial Statements.	*Classification of Liabilities as Current or Non-current: Narrow-scope amendments to IAS 1to clarify how to classify debt and otherliabilities as current or non-current.The amendments clarify:What is meant by a right to defer settlementThat a right to defer must exist at the end of the reporting periodThat classification is unaffected by the likelihood that an entity will exercise its deferral rightThat only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. The amendments must be applied retrospectively.*	
IFRS 17, Insurance Contracts.	*The IASB issued IFRS 17 in May 2017 as a replacement for the IFRS 4: Insurance Contracts.The new IFRS 17 standard is effective for reporting periods beginning on or after 1 January 2022. The new rules will affect thefinancial statements and key performance indicators of all entities in the group that issue insurance contracts or investment contracts with discretionary participation features.*	*Annual periods beginning on or after 1 January 2023.*

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

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

	2020 M '000	2019 M '000
3. Deposit Floaters		
SA Banks Deposits	400 000	1 810 000
Foreign Banks Deposits	213 650	210 209
	613 650	**2 020 209**
4. Accrued interest due from Banks		
Accrued interest receivable:		
ZAR call accounts	-	102
ZAR fixed deposits	15 142	35 998
Foreign call and fixed deposit accounts	472	3 073
	15 614	**39 173**

	2020	2019
	M '000	M '000

5. Investment in unit trusts

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

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

6. Investment in Swift

	Fair Value through OCI	Total
Investment in SWIFT	506	399

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

	2020	2019
	M '000	M '000

7. Treasury notes and bonds

2020

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

2019

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

8. Treasury bills at amortised cost

US Treasury Bills

	2020	2019
Treasury Bills at amortised cost	73 425	69 194

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

9. IMF Subscription Account

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

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

		2020	2019
		M '000	M '000
10.	**IMF Holding of Special Drawing Rights (SDR)**		
	Balance at beginning of year	226 909	437 554
	Net transactions - (decrease) / increase in rights	(123 618)	(204 324)
	Exchange revaluation	(57 506)	(6 321)
	Balance at end of year	**45 785**	**226 909**

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

11. IMF Funded PRGF Advances

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

These are funds secured under the IMF Poverty Reduction and Growth Facility (PRGF) and on-lent to the Government of Lesotho. The SDR equivalents and translation thereof are shown in note 23.

12. Rapid Credit Facility

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

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

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

13. Lesotho Government Securities

	2020	2019
Maturing within 1 month	4 329	521

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

14 Deferred currency expenditure

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

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

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

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

		2020	2019
16.	**Other assets**		
	Other prepayments	2 421	5 968
	Other receivables	189	1 297
	Commemorative coins	3 479	3 479
		6 089	**10 744**

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

17. Property, plant and equipment

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

17. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation on disposal	Revaluations / Useful life reassessment	Depreciation	Total
	M '000	M '000	M '000	M '000	M '000	M '000	M '000
CBL buildings	79 745	520 330	-	-	(3 475)	596 600	75 257
Land	10 225	-	-	-	-	10 225	10 225
Lehakoe buildings	117 825	68	-	-	(2 165)	115 728	122 313
Residential land and buildings	17 229	-	-	-	(303)	16 926	17 229
Housing furniture	69	-	-	72	(70)	71	69
Office furniture	2 652	9 358	-	1 149	(1 617)	11 542	2 652
Motor vehicles	7 836	1 204	-	1 681	(3 339)	7 382	7 836
Office equipment	11 116	1 010	-	7 213	(7 256)	12 083	11 116
Office computers	9 204	3 646	-	1 146	(3 845)	10 151	9 258
Lehakoe furniture	1 021	32	-	559	(612)	1 000	1 021
Sports/music equipment	1 946	5	-	1 829	(1 635)	2 145	1 937
Housing equipment	39	-	-	39	(39)	39	39
Security equipment	6 290	696	-	2 944	(3 887)	6 043	6 290
Work in progress	540 446	52 972	(530 277)	-	-	63 141	540 446
	805 643	**589 321**	**(530 277)**	**16 632**	**(28 243)**	**853 076**	**805 688**

17. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

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

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	2020 M '000	2019 M '000

17. Property, plant and equipment (continued)

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

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

Revaluations

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.

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

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

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

	2020	2019
	M'000	M'000

18. Intangible assets

	2020			2019		
	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	102 265	(77 202)	25 063	102 052	(70 624)	31 428

Reconciliation of intangible assets - 2020

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

Reconciliation of intangible assets - 2019

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

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

19. Notes and coins issued

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

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

20. Deposits

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

		2020 M'000	2019 M'000
21.	**IMF Maloti Currency Holding**		
	Securities account	697 660	240 937
	General resources account	991 608	870 126
		1 689 268	**1 111 063**
22.	**IMF Special Drawing Rights Allocation**		
	Balance at beginning of year	637 140	658 116
	Exchange revaluation	58 710	(20 976)
	Balance at end of year	**695 850**	**637 140**

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

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

This IMF loan was secured under the Poverty Reduction and Growth Facility. The Ministry of Finance tranche is accounted for through the Bank's records to present the amount due to the IMF. The balance due to the IMF amounted to SDR 15,113,500, converted at 0.0405208 as at 31 December 2020 (2019: SDR 42 992 500.00 at 0.0570636). The loan has been on-lent as per note 10. Interest expense and exchange rate differences are borne by the Government of Lesotho.

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

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

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

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

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

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

		2020 M'000	2019 M'000
27.	**Trade and other payables**		
	Various accruals	11 215	9 086
	Divisional cheques accounts	272 350	(11 224)
	Other	20 753	15 066
	Accrued leave pay	**2 103**	**1 098**
		306 421	**14 026**

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

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

Various accruals relate to accrued expenses as at year end.

		2020 M'000	2019 M'000
28.	Retirement benefits		
	Provision for severance pay	25 397	25 855
	Opening obligation	2 560	2 655
	Interest cost	3 454	3 070
	Current service cost	(1 526)	(3 551)
	Actuarial (gain)/ loss on employee benefits	(5 494)	(2 632)
	Benefits paid	**24 391**	**25 397**

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	2020 M'000	2019 M'000
28. Retirement benefits (continued)		
Provision for gratuity		
Opening obligation	86 182	78 725
Interest cost	8 737	8 166
Current service cost	14 568	13 377
Actuarial (gain)/ loss on employee benefits	(6 276)	(4 057)
Benefits paid	(20 485)	(10 029)
	82 726	**86 182**
	107 117	**111 579**

The Bank's liability is valued using the Projected Unit Credit Method by the independent Actuarial Valuer. The Valuer has used assumptions based on Statistics South African market data. The valuer has determined the discount rate to be equal 12,42% p.a., general inflation rate to be 7,24% p.a. The valuer has used the discount rate assumption of high quality corporate bond. The valuer has set the discount rate by using the best fit discount rate at30 November 2020 based on yields from the zero coupon South African government bond curve. The computation has been determined taking into consideration the cash-flow weighted duration of the liabilities which is approximately 10 years. The recommended discount rate is 12.42%.

	2020	2019
Net expense recognised in profit or loss		
Current service cost	18 022	16 447
Interest cost	11 297	10 821
	29 319	**27 268**
Key assumptions used		
Discount rates used	12,42 %	10.49%

Sensitivity Analysis 2019	**Current Assumption**	**1% decrease**	**1% increase**
	12,42%	**11,42%**	**13,42%**
Bank	107 117	119 350	121 492

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

	2020 M'000	2019 M'000

29. Post-employment retirement fund benefits

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

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

	2020 M'000	2019 M'000
Financial position of the scheme		
Value of assets	**137 508**	**-**
Value of liabilities	**(257 857)**	**-**
Active member liabilities	(149 481)	-
Pensioner liabilities	(105 299)	-
Deferred liabilities	(3 077)	-
Surplus/(deficit)	(120 349)	-
Funding level	**53,33 %**	**- %**
Surplus/(deficit) attributable to the Bank	**(78 801)**	**-**

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

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

	2020 M'000	2019 M'000

29. Post-employment retirement fund benefits (continued)

Assumptions

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

Assumption	2020	2019
Discount rate	9,90 %	- %
Price inflation	5,60 %	- %
Salary increases	6,60 %	- %
Pension increases	- %	- %
Pre-retirement real rate	3,10 %	- %
Post-retirement real rate	9,90 %	- %
Post-retirement mortality	125%*SA56/62	
Post-retirement mortality	a(55)	
Resignations	80% of the previously applied rates was assumed	
Commutation	25,00 %	- %

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

Discount rate is considered to be the only significant assumption.

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

30. Deferred tax

Deferred tax liability

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

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

	2020	2019
Deferred tax liability	21 972	(13 019)

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

		2020 M'000	2019 M'000
30.	**Deferred tax** (continued)		
	Reconciliation of deferred tax asset / (liability)		
	Accelerated capital allowance for tax purposes	5 341	5 508
	Liabilities for Health care benefits accrued	28 055	28 169
	Deferred expenses	3 066	(3 710)
	Bond/unit trust revaluation reserve	45 531	8 339
	Property revaluation reserve	(60 021)	(51 325)
		21 972	**(13 019)**
31.	**Share capital**		
	Authorised		
	Authorised capital	100 000	100 000
	Issued		
	Issued and fully paid	100 000	100 000

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

		2020 M'000	2019 M'000
32.	**Investment income**		
	Interest income		
	Foreign currency deposits (Armotised cost)	285 866	385 297
	Interest treasury bills and SDR holdings (Armortised cost)	2 882	8 129
	Debt instrument at fair value through other comprehensve income	214 438	131 287
	Debt instruments at fair value through profit or loss	-	33 697
	Total interest income	**503 186**	**558 410**
33.	**Interest expense**		
	Interest on non-financial Public Enterprises	57	51
	Accrued premium amortisation	13 374	2 739
	IMF SDR allocation account	3 710	6 797
	Total interest expense	17 141	9 587

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

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

	2020 M'000	2019 M'000
35. Operating costs and expense per nature		
Administration and other expenses	74 926	68 242
Auditors remuneration	2 944	2 348
Deferred currency expenses amortised	8 716	5 407
Deferred computer software amortisation	11 081	7 155
Depreciation and impairment	28 243	12 905
Property, plant and equipment maintenance expenses	12 905	20 617
Loss on sale of other instruments	(12 963)	1 240
Loss on fair valuation of treasury notes and bonds	23 904	12 011
Impairment	24 460	49 789
Personnel costs:		
Staff welfare expenses	23 833	24 609
Non-executive directors' fees	1 088	1 064
Executive directors' salaries	9 554	9 258
Key management (heads of departments)	12 128	12 520
Staff salaries and expenses	138 370	141 069
Pension fund contributions	85 406	5 978
Gratuity and severance pay (interest and service cost)	33 431	16 705
	478 026	**390**

	2020 M'000	2019 M'000
36. Taxation		
Major components of the tax expense		
Current		
Local income tax - current period	21 468	58 504
Tax on actuarial gain(loss)	**1 674**	**2 645**

	2020 M'000	2019 M'000

36. Taxation (continued)

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

	2020	2019
Chargeable profit (before foreign exchange gain/loss and after actuarial gain/loss)	72 846	149 366
Statutory tax rate	25,00 %	53
Permanent differences:		
Donations	0,01 %	0,50 %
50 % Entertainment	- %	0,09 %
Training expenses additional	- %	(0,84)%
Other	0,03 %	1,55 %
Effective tax rate	25,04 %	26,30 %

	2020	2019
Accounting profit	72 846	207 850
Add: Temporary differences disallowed for tax purposes	6 972	3 142
Add: Temporary differences disallowed for tax purposes	12 265	14 168
Taxable profit	92 083	225 160
Taxation @ 25% (2019: 25%)	23 021	56 290
Less: deferred tax expense	(1 553)	2 214
Total Tax due	**21 468**	**58 504**

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

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

38. Related parties

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

		2020 M'000	2019 M'000
38. Related parties (continued)			
Interest charged for the year:			
Heads of Departments	Car loans	5	129
	Furniture loans	-	11
	Housing loans	8	110

There were no loan advances made to the Governors in the current year, and previous loans were paid up as at 31 December 2020. No provisions have been recognised in respect of loans given to related parties.

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

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

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

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

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

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

The Bank is wholly owned by the Government of Lesotho.

These are related parties with the Government as the Bank also acts as banker to the Government

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

39. Financial assets by category

The financial assets have been categorised as follows:

2020

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

2019

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

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39. Financial liabilities by category (continued)

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**

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

40. Financial liabilities by category

The financial liabilities have been categorised as follows:

2020

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

2019

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

41. Financial instruments and risk management

Financial risk management

General risk management

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

Management structures

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

Risk elements

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

Operational risk

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

Human resource risk

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

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

Legal risk

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

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

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

41. 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.

41 Financial instruments and risk management (continued)

Currency 2020	Value of Currency M'000	Exchange Rate	Maloti Equivalent M'000
Currency risk			
Cash and balances with Banks			
South Africa	5 823 228,53	1,0000	5 823 229
United States	109 431,37	14,6941	1 607 995
Botswana	386,80	1,3592	526
England	687,41	20,0692	13 796
European Union	167,73	18,0635	3 030
IMF	2 163,39	21,1635	45 785

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

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

Currency 2019

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

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

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

Foreign ex-change 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 transac-tions executed in foreign currencies into the local currency (the Loti). The adverse movement of foreign currencies causes a rise in foreign exchange risk. To mitigate the effects of foreign exchange risk, the Bank stipulates, in its annual SAA eligible currencies and their allocations for asset and liability management.

41. Financial instruments and risk management (continued)

Credit risk

Credit risk exists where there is a possibility that a counterparty may default on its obligations when they fall due. The Bank's third objec-tive 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 obliga-tions 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 Commit-tee (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 anal-yses. 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 counter-party/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 con-siderations 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

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

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

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

41. 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 Transi-tion 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 in-stitutions.

41. Financial instruments and risk management (continued)

2020

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

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

41. 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	ZAR	none	Baa1/P-2
Federal Reserve Bank of NY	44 082	44 082	ZAR	none	Aaa
Firstrand	300 000	300 000	ZAR	none	Ba2/P-2
ICBC ASIA	422 916	422 916	ZAR	none	A1/P-1
Investec	480 000	480 000	ZAR	none	Ba2/P-2
NedBank	450 000	450 000	ZAR	none	Ba2/P-2
Standard Bank	600 000	600 000	ZAR	none	Ba2/P-2
Standard Bank PLC	201 539	201 539	ZAR	none	Baa3/P-3
Standard Bank PLC	350 000	350 000	ZAR	none	Baa3/P-3
Sumitomo Mitsui USD	73 902	73 902	ZAR	none	A-
	4 145 944	**4 145 944**			

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

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41. Financial instruments and risk management (continued)

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

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

Loans to staff	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Housing Loans	48 244	48 244	ZAR	Title deeds	n/a
Car loans	27 092	27 092	ZAR T	erminal benefits	n/a
Furniture loans	1 307	1 307	ZAR T	erminal benefits	n/a
Other loans and advances	30 130	30 130	ZAR T	erminal benefits	n/a
	106 773	**106 773**			

2019

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

41. 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	51	51	ZAR	none	Baa3/P-3
ABSA Maloti Repatriation	11 467	11 467	ZAR	none	Baa3/P-3
ABSA Credit Card	2 001	2 001	ZAR	none	Baa3/P-3
B.I.S	5	5	ZAR	none	Supranational
B.I.S	92	92	ZAR	none	Supranational
B.I.S	15	15	ZAR	none	Supranational
Bank of England	7 618	7 618	ZAR	none	Aa2/P-1
Bank of N.Y	648	648	ZAR	none	Aa2/P-1
Bank of N.Y	11	11	ZAR	none	Aa21P-1
Bank of N.Y (RAMP}	572	572	ZAR	none	Aa/P-1
Crown Agents	169	169	ZAR	none	B BB
Crown Agents	77	77	ZAR	none	B BB
Deutsche Bankers trust	9 929	9 929	ZAR	none	Baa11P-1
Deutsche Bundersbank	1 427	1 427	ZAR	none	Aaa
Federal Reserve Bank of N.Y	2 209	2 209	ZAR	none	Aaa
First Rand	84	84	ZAR	none	Baa3/P-3
International Monetary Fund Holdings	226 909	226 909	ZAR	none	Supranational
Investec Bank	84	84	ZAR	none	Baa3/P-3
NedBank	30	30	ZAR	none	Baa3/P-3
SIRESS	1 679 775	1 679 775	ZAR	none	Baa3/P-3
Special Rand Deposit	5 000	5 000	ZAR	none	Baa3/P-3
Standard Bank	95	95	ZAR	none	Baa3/P-3
Standard Chartered Botswana	559	559	ZAR	none	A2
Standard Chartered London	2 165	2 165	ZAR	none	A1/P-1
	1 950 992	**1 950 992**			

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41. 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	600 000	600 000	ZAR	none	Baaa3/P-3
African Import-Export Bank	140 139	140 139	ZAR	none	P-2/Baa1
BIS	70 070	70 070	ZAR	none	Supranational
Crown Agents	70 070	70 070	ZAR	none	A1/P-1
Federal Reserve Bank of NY	231 229	231 229	ZAR	none	Aaa
Firstrand	430 000	430 000	ZAR	none	Baa3/P-3
ICBC ASIA	400 239	400 239	ZAR	none	P1/A1
Investec	600 000	600 000	ZAR	none	Baa31P-3
NedBank	473 279	473 279	ZAR	none	Baa31P-3
Standard Bank	600 000	600 000	ZAR	none	Baa31P-3
Standard Chartered London	18 514	18 514	ZAR	none	A11P-1
Standard Chartered London	143 651	143 651	ZAR	none	A1/P-1
Standard Bank PLC	471 069	471 069	ZAR	none	Baa3/P-3
Standard Bank PLC	350 000	350 000	ZAR	none	Baa3/P-3
World Bank RAMP	23 824	23 824	ZAR	none	P1/Aa1
	4 622 084	**4 622 084**			

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

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

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

41. 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	47 499	47 499	ZAR	Title deeds	n/a
Car loans	30 805	30 805	ZAR	Terminal benefits	n/a
Furniture loans	1 511	1 511	ZAR	Terminal benefits	n/a
Other loans and advances	29 060	29 060	ZAR	Terminal benefits	n/a
	108 875	**108 875**			

All financial assets were fully performing at year end.

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

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

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

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

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

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

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

Staging per class of financial assets - 2020	Stage 1 M'000	Stage 1 12- month ECL M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Treasury notes and bonds	1 408 038	1 878 714	-	-	3 286 752
FVOCI Instruments	**1 408 038**	**1 878 714**	**-**	**-**	**3 286 752**

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

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41. Financial instruments and risk management (continued)

Staging per class of financial assets - 2019	**Stage 1 M'000**	**Stage 2 M'000**	**Stage 3 M'000**	**Total M'000**
Treasury notes and bonds	1 466 033	-	-	1 466 033
FVOCI Instruments	**1 466 033**	**-**	**-**	**1 466 033**

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

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

Expected credit loss per class of financial assets

2020	**Stage 1 M'000**	**Stage 1 12-month ECL M'000**	**Stage 2 M'000**	**Stage 3 M'000**	**Stage 3 Lifetime ECL M'000**	**Total 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**

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

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41. Financial instruments and risk management (continued)

Reconciliation of the expected credit loss allowance

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

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

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

Sensitivity Analysis for the year ended 31 December 2020

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

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

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

Table 2 translates the original currency holdings in Table 1 into the reporting cur-rency (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.

41. Financial instruments and risk management (continued)

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

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

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 %**		

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41. Financial instruments and risk management (continued)

31 December 2019

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	6 922 284	63,22 %	-	1,0000
USD	3 756 076	34,31 %	(178 860)	14,7145
EUR	1 568	0,01 %	(75)	16,5031
GBP	29 932	0,27 %	(1 425)	19,3481
BWP	587	0,01 %	(28)	1,3905
SDR	238 255	2,18 %	(11 346)	20,3277
	10 948 702	**100 %**		

31 December 2020

5% decrease in exchange rate for currency and foreign investment risk	**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 %**		

31 December 2019

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	6 922 284	65,52 %	-	1,00
USD	3 398 355	32,17 %	178 861	13,31
EUR	1 418	0,01 %	75	14,93
GBP	27 081	0,26 %	1 426	17,51
BWP	531	0,01 %	28	1,26
SDR	215 564	2,04 %	11 345	18,41
	10 565 233	**100 %**		

% Change -2.57%.

Interest rate risk

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

41. Financial instruments and risk management (continued)

31 December 2020

	Cash	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 2019

	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	178 387	4 999 744	-	1 397 763	351 389	6 927 283
USD	911	1 976 524	244 904	1 331 430	14 669	3 568 438
EUR	50	19 960	-	-	-	20 010
GBP	30	9 957	-	-	-	9 987
Other	-	227 468	-	-	-	227 468
	179 378	**7 233 653**	**244 904**	**2 729 193**	**366 058**	**10 753**

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 %	- %	- %	- %

31 December 2019

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	6,93 %	6,90 %	7,58 %	8,00 %
USD	2,04 %	2,04 %	2,87 %	- %
EUR	0,44 %	- %	- %	- %
GBP	0,75 %	- %	- %	- %

41. Financial instruments and risk management (continued)

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 2019

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	7,93 %	7,90 %	8,58 %	9,00 %
USD	3,04 %	3,04 %	3,87 %	1,00 %
EUR	0,56 %	- %	- %	- %
GBP	1,76 %	- %	- %	- %

31 December 2020

100 Basis points decrease in yields	**0 to 6 Months**	**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 2019

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	5,93 %	5,90 %	6,58 %	7,00 %
USD	1,04 %	1,04 %	1,87 %	- %

31 December 2020

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

41. Financial instruments and risk management (continued)

31 December 2019

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

31 December 2020

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

31 December 2019

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

31 December 2020

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

41. Financial instruments and risk management (continued)

31 December 2019

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

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

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

Liquidity Risk

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

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

41. Financial instruments and risk management (continued)

31 December 2020

Financial assets	Redeemable on demand M'000	Maturing within 1 month M'000	Maturing after 1 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
Financial liabilities							
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**

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41. Financial instruments and risk management (continued)

31 December 2019

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

31 December 2019

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
Financial liabilities							
Notes & coins issued	1 518 979	-	-	-	-	-	1 518 979
Deposits	342 136	-	-	-	-	-	342 136
Lesotho Government Deposits	2 751 480	-	-	-	-	-	2 751 480
IMF Accounts	2 494 433	-	-	-	-	-	2 494 433
	7 107 028	**-**	**-**	**-**	**-**	**-**	**7 107 028**
Net liquidity gap	**(751 555)**	**2 178 323**	**1 829 139**	**850 195**	**1 907 334**	**472 063**	**6 485 499**

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	2020 M'000	2019 M'000

41. 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.

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

42. Fair value information

Levels of fair value measurements

Level 1

	2020 M'000	2019 M'000
Fair value through profit or loss		
Treasury notes and bonds	1 613 107	1 474 911
Financial assets at fair value through OCI:		
Treasury notes and bonds	3 232 111	2 382 325
Treasury notes and bonds	4 845 218	3 857 236
	4 845 218	**3 857 236**

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

Level 2

Recurring fair value measurements

Assets	Note(s)	2020 M'000	2019 M'000
Financial assets at fair value through profit (loss)			
Cash		6 824 837	4 364 888
Deposit Floaters		613 650	2 020 209
Treasury bills		73 425	69 194
Total financial assets designated at fair value through profit (loss)		**7 511 912**	**6 454 291**
Total		**7 511 912**	**6 454 291**

	Notes	2020 M'000	2019 M'000

42. 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 de-termined 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 as-set.

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

Level 3

Recurring fair value measurements

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

Note(s) Opening balance Closing balance

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

Valuation processes applied by the Bank

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

Inputs into the valuation:

Commercial buildings

The Bank uses the price per square meter to determine the value of the buildings:
M14,259

Residential buildings

The Bank uses the estimated rental for vacant land:
M387,750

	Notes	2020 M'000	2019 M'000

42. Fair value information (continued)

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

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

Impact on the fair value of property, plant and equipment

	2020	2019
10% increase	526 355	526 093
10% decrease	(526 355)	(526 093)

43. Memorandum Accounts

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

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

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

44. Events after the reporting period

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

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

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

	2020 M'000	2019 M'000

44. Events after the reporting period (continued)

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

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

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

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 oc-cur in the ordinary course of business.

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

Notes

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