Central Bank of Lesotho

ANNUAL REPORT 2015

CENTRAL BANK OF LESOTHO
BANKA E KHOLO EA LESOTHO

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March 31, 20**15**

The Honourable Dr. 'Mamphono Khaketla,
Minister of Finance
Office of Minister of Finance
P.O. Box 395
Maseru l00
Lesotho

Dear **Honourable Minister**,

I have the honour to submit the Annual Report of the Central Bank of Lesotho for the year 2015.

(a) It includes a review of economic developments during the year.

(b) And, in accordance with Section 53 (1) of the Central Bank of Lesotho Act No. 2 of 2000, it also includes:

i) the Bank's annual financial statements for the year ended December 31,2015 certified by the auditors Deloitte and Touche and Lettac; and

ii) a report on the operations of the Bank during 2015.

Yours faithfully,

A. R. Matlanyane (PhD)
Governor - Mookameli

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

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Central Bank of Lesotho
2015 Annual Report

for the year ended December 31, 2015

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 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 related objectives which are supportive to this mission 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

Governors & Non-Executive Directors

Dr. Retšelisitsoe Matlanyane
Governor & Chairperson

Dr. Masilo Makhetha
Deputy Governor I

Ms. 'Mathabo Makenete
Deputy Governor II

Mrs. Neo Phakoana-Foulo
Director

Mrs. Octavia Letebele
Director

Dr. Maluke Letete
Director

Mrs. Sophia Mohapi
Director

Mr. Sekake Malebanye KC
Director

Management

Executive Management

Dr. Retšelisitsoe Matlanyane
Governor

Dr. Masilo Makhetha
Deputy Governor I

Ms. 'Mathabo Makenete
Deputy Governor II

Mr. Seabata Ntelo
Operations Department

Mr. Mokotjo Mphaka
Supervision Department

Mr. Bohlale Phakoe
Financial Markets Department

Mrs. 'Mateboho Morojele
Administration Department (a.i.)

Mr. Samuel Mahooana
ICT Department

Mr. Lehlomela Mohapi
Research Department

Mr. Napo Rantsane
Corporate Affairs Department

Mrs. 'Mapheko Mohapi
Finance Department (a.i.)

Mr. Pesha Shale
Enterprise Risk Management Department

Mrs. 'Mamakhaola Mohale
Internal Audit Department

Dr. Sephooko Motelle
Deputy Director of Supervision Department (a.i.)

Management

Middle Management - Heads of Divisions

Governor's Office	
Mr. B. Matobo	Security Services
Internal Audit Department	
Ms. M. Ntšoereng	Operational and Financial Audits
Mrs. L. Rantšo	IT Audits
Information and Communications Technology Department	
Mr. M. Sekoati	Business Solutions Development
Mr. T. Makula	Infrastructure and Operations
Mr. R. Motjolopane	EA & IT Governance
Operations Department	
Mr. F. Morokole	Banking Operations
Mr. M. Lechesa	National Payments System
Mr. J. Ntšekhe	Currency Operations
Administration Department	
Mrs. M. Morojele	Human Resources
Mr. T. Malataliana	General Services
Financial Markets Department	
Mrs. M. Mochebelele	Reserves Management
Mr. M. Thamae	Market Development and Risk
Supervision Department	
Mrs. P. Tau (acting)	Bank Supervision
Mr. B. Noosi (acting)	Non-Bank Financial Institutions
Mr. Q. Tšoafo	Insurance and Investment Schemes
Mr. N. Seeiso (acting)	Financial Stability Unit
Research Department	
Ms. L. Lephoto	International Economics
Mr. M. Fuma	Statistics
Dr. M. Seleteng	Studies & Analysis
Mr. T. Molise (acting)	Modelling & Forecasting

Management

Middle Management - Heads of Divisions

Corporate Affairs Department	
Mr. T. Ntlhakana	Corporate Governance
Mr. T. Ramoseme	Legal Services
Mr. E. Moremoholo	Public Relations

Finance Department	
Mrs. M. Mohapi	Accounts & Budgets
Mr. L. Khaka	Treasury Operations

Enterprise Risk Management Department	
Mr. T. Mpheteng	Risk Management
Mrs. M. Motebang	Business Continuity Management

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The El Niño-Induced Drought and Above Normal Temperature Conditions in Lesotho: The Effects and Policy Responses

1.1 Introduction

The Southern African region has experienced devastating drought and high temperature conditions associated with the El Niño weather phenomenon during the 2015/2016 agricultural season. El Niño is a climatological phenomenon characterized by a warming in sea temperatures across the central and east-central Equatorial Pacific that causes a large scale ocean-atmosphere climate interaction . It usually results in below-normal rainfall in Southern Africa as was the case with the 2015/2016 El Niño. In addition to the drought, the 2015/2016 El Niño was also characterized by very high temperatures. Scientists around the world have forecasted the 2015/2016 El Niño to be one of the most severe in 30 years. The El Niño and its accompanying adverse climatological conditions are disastrous for the Southern African region. As a consequence of the 2015/2016 El Niño's devastating effects, the Food and Agricultural Organization (FAO) of the United Nations has identified Lesotho, Malawi, Mozambique, Swaziland and Zimbabwe, as high priority countries in need of humanitarian relief.

According to the Disaster Management Authority (DMA), the 2015/2016 El Niño started in February 2015 and culminated into predominantly dry conditions in Lesotho from October to December in the same year and the devastating heat wave, with temperatures in excess of 40 degrees Celsius, during the months of November and December. The drought and high temperature coincided with the crops planting season in Lesotho. El Niño and its accompanying weather conditions are not a new phenomenon and Lesotho has suffered its dire consequences in the past. According to the Lesotho Meteorological Service (LMS), very strong El Niño years were 1972/1973, 1982/1983, 1991/1992 and 1997/1998 while 2002/2003 and 2009/2010 were moderate. The 2015/2016 is regarded as one of the strong ones, the consequences of which have started manifesting while more effects are expected to unfold as the year 2016 progresses.

1.2 The Effects of the Drought and Above Normal Temperature Conditions

Adverse weather conditions could have a number of devastating direct and indirect socio–economic ramifications. The disastrous effects of the drought and high temperature conditions in Lesotho include, inter alia, water shortages and a rise in specific diseases, poor agricultural production, increased unemployment, deterioration of the external sector position, acceleration in inflation, food insecurity, deterioration in economic growth and reallocation of government funds from development projects.

[1] See: http://oceanservice.noaa.gov/facts/ninonina.html.

1 The drought and heat wave intensified during the planting season (September to December 2015).

a) Water Shortages and Health: Widespread water shortages were experienced as rivers from which water is sourced and treated to supply some areas had dried up. This resulted in water rationing and long queues. In some areas people had to resort to unprotected wells and others had to walk long distances to access clean borehole water. The shortage of water has resulted in a number of health effects on the communities. The Ministry of Health (MoH) reported high increases in diarrheal diseases between August and December 2015. Unavailability of water at health clinics discouraged patients from accessing these facilities. The MoH reported that pregnant women were not giving birth at health clinics in some areas due to lack of water at the facilities. Cases of elderly people who had died due to dehydration were also reported. Emergence of abandonment of anti-retroviral treatment by HIV/AIDS patients due to lack of food and resultant death cases were also reported.

b) Poor Agricultural Production: The severe drought and heat conditions could be even more devastating in economies that are more dependent on agriculture and where agricultural production is mostly rain fed, as is the case in Lesotho. The drought and heat wave intensified during the planting season (September to December 2015). Consequently, many farmers in Lesotho were not able to plant. Some farmers residing in the mountain areas and the foothills, where the planting season starts a bit earlier, and some residing in the lowlands, encouraged by isolated rains had planted. However, the seeds did not germinate or where they had germinated, the crops wilted and died due to drought and heat stress. The loss of crops was aggravated by the frost that occurred in the mountain areas in early November 2015. The 2015/2016 drought and high temperature conditions follow a year of poor agricultural production associated with adverse weather conditions. As a result of a long dry spell that ensued mid-season and hampered crop growth and maturity during the 2014/2015 agricultural year, production of food crops declined compared to the previous year despite above average rainfall.

Regarding livestock production, a decline in herd sizes of cattle, sheep and goats was reported in a number of districts. This loss was attributable to, amongst other things, unavailability of grass and other vegetation for animal consumption coupled with shortage and in some cases unavailability of drinking water. The United Nations indicated that as at mid-November 2015 the vegetation conditions were at their lowest in 15 years, reflecting the stressed state of pastures in most parts of Lesotho.

c) Loss of Household Income due to Unemployment: According to the Labour Force Survey 1999 and the 2008 Integrated Labour Force Survey, the agricultural sector, which is mainly subsistence in nature, is the largest employer of the Basotho nation at 62.8 per cent in 2008 compared with 68.6 per cent in 1999. The performance of the agricultural sector in Lesotho as measured by land area cultivated and harvests, varies from year-to-year depending on the weather and climatological conditions because it is mainly rain-fed. Labour opportunities for weeding and harvesting change from year-to-year in the same manner. The 2015/2016 drought and high temperature conditions discouraged cultivation of fields and destroyed

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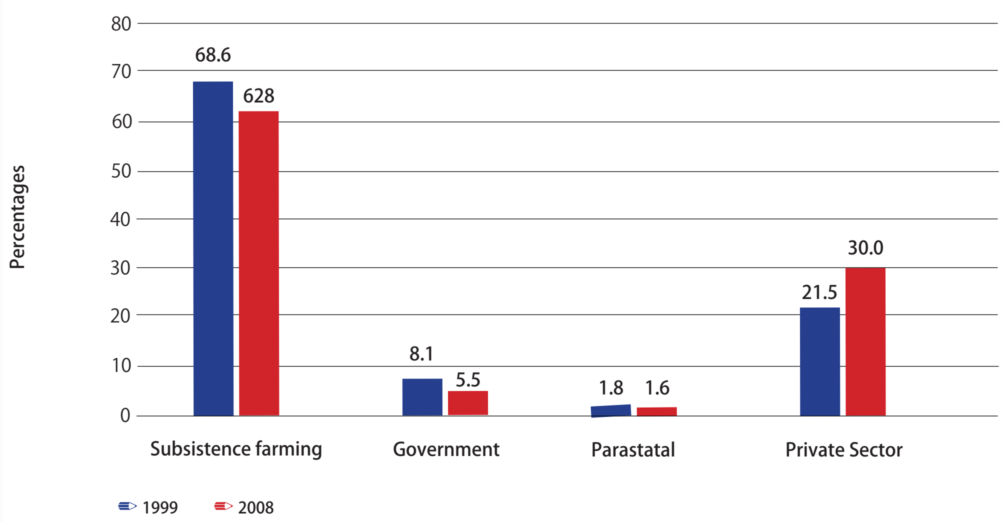
crops in some places where cultivation had taken place. This is expected to have resulted in below normal demand for labour for hoeing and weeding, which usually peaks between November and February. This means reduced access to income, albeit meager, to the poor who usually rely on this source to survive before the next harvest. Further loss of income resulted from low wool and mohair production and sales due to low productivity of animals and animal deaths due to the adverse climate.

Figure 1 Employment by Sector in Lesotho



Source: 1999 Labour force Survey and the 2008 Integrated Labour Force Survey

d) Deterioration of the External Sector Position: More food would have to be imported in 2016 to meet the shortfall caused by low production due to the 2015/2016 El Niño related adverse weather conditions. The cost of these imports would be higher than in the previous years. This is because food production in South Africa (SA), the main source of Lesotho's imports of food, was adversely affected by the drought and high temperatures. Consequently, SA would have to close its own shortfall and that of its neighbours like Lesotho through higher imports. In this regard, the SA Drought Relief Update delivered in January 2016 indicated that 5 to 6 tonnes of maize would be imported to meet SA's needs up to May 2016. Taking the needs of other countries in the region, including Botswana, Lesotho, Namibia, Swaziland and Zimbabwe would increase the import needs to 10.9 million tonnes. This would be at a higher cost despite the generally low global food prices due to the significant depreciation of the rand against the major currencies. On average, the rand depreciated by 19.8 per cent against the US dollar in 2015. As a result, the current account balance and the overall balance of payments position of Lesotho would deteriorate.

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On average, the rand depreciated by 19.8 per cent against the US dollar in 2015.

e) Higher Inflation: As depicted in Table 1 below, in 2015, Lesotho's inflation had been on a downward path until August when it started to rise. The trajectory changed thereafter when it started rising at an accelerating rate, closing the year at 5.1 per cent in December. This acceleration mainly reflected the upsurge in food inflation from 5.2 per cent in July to 9.4 per cent in December. Amongst the food items, the bulk of the upward pressure appears to have been exerted by the price of maize meal, a staple food in Lesotho. On average, the price of maize meal rose by 19.0 per cent in December. The price of wheat meal also increased while those of bread, sorghum meal and meat decelerated.

Poor households spend the bulk of their income on food and expenditure on food increases in periods of poor harvest. High inflation, particularly high food inflation erodes the purchasing power of households' incomes, making it difficult for them to afford all their food needs. This exacerbates food insecurity and hunger for poor households.

Table 1 Consumer Inflation and Selected Food Items

		Annual Average					2015 (Annualised Monthly Rate)					
	CPI weight %	2011	2012	2013	2014	2015	July	Aug	Sep	Oct	Nov	Dec
Overall CPI	34.1	5.0	6.1	5.0	5.3	3.2	3.2	3.3	3.8	4.4	4.8	5.1
Food	7.6	7.1	10.0	5.4	5.4	6.2	5.2	6.7	8.2	8.9	9.2	9.4
Bread and cereals	-6.4	5.9	11.2	4.4	4.4	6.0	3.5	6.7	10.4	11.6	12.4	12.9
Bread	**1.2**	**4.1**	**9.1**	**9.9**	**5.3**	**6.2**	**8.9**	**5.4**	**1.8**	**1.7**	**1.6**	**2.8**
Wheat meal	34.1	6.4	3.2	9.2	6.6	4.7	3.9	4.2	4.7	4.8	5.8	5.7
Maize meal	7.6	6.5	16.2	2.5	3.3	7.1	2.8	8.5	15.4	17.2	18.3	19.0
Sorghum meal	-6.4	6.5	13.2	7.2	8.7	5.4	4.7	4.6	4.2	4.5	4.3	4.1
Meat	7.6	7.4	8.5	8.3	6.4	7.8	8.2	7.9	7.2	7.2	5.9	5.0
SA CPI	-6.4	5.0	5.7	5.8	6.1	4.6	5.0	4.6	4.6	4.7	4.8	5.2
Food	-21.9	7.3	7.4	5.9	7.8	5.1	4.4	4.4	4.4	4.9	4.8	5.8

f) Food Insecurity: The low agricultural production, increased unemployment, hence loss of income by poor households and the high cost of food due to the 2015/2016 El Niño and adverse weather conditions do not augur well for food security and hunger and poverty eradication in Lesotho. It is projected that 2016 is going to be a second consecutive year of bad harvest. The 2014/2015 adverse weather conditions contributed to a decline of 21.0 per cent in domestic cereal production in 2015 compared with the previous season. The situation is expected to be worse in 2016, intensified by, amongst other things, the fact that this time the loss is not only on crops but livestock as well. The United Nations estimated that, as a consequence of these negative developments, 534 502 people in Lesotho would be at risk of food insecurity up to June 2016.

g) Lower Economic Growth: The agricultural sector contributed an average of 7.0 per cent to Lesotho's gross domestic product (GDP) over the past six years (2010 – 2015). The sector's contribution to GDP is expected to have fallen from 7.6 per cent in 2014 to 7.1 per cent in 2015. It is estimated to have contracted

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by 3.8 per cent in 2015 due to the declines of 17.2 per cent and 3.9 per cent in the crops sub-sector and animal sub-sector, respectively. The poor performance of the agricultural sector in 2015 was mainly attributable to the long mid-season dry spell that destroyed crops and caused low production. Another contraction of the sector is expected in 2016 due to low production of crops and loss of animals because of the El Niño related adverse weather conditions. Consequently, its contribution to GDP is expected to dwindle further and contribute to the deterioration in economic growth in 2016.

h) The Fiscal Implications: Government of Lesotho (GoL) has estimated the funding requirement for short to medium-term mitigation and relief interventions, including provision of water, food, nutrition support, medication for the most vulnerable and measures to prevent further loss of livestock at M584.0 million. To this amount, GoL has allocated M150.0 million from its own resources and has requested development partners to assist with the balance. The M150.0 million was mainly raised through budget reallocations mostly from the capital budget, particularly from projects that had been allocated funds for implementation during the 2015/2016 fiscal year but would, for whatever reason, not be implementable during that fiscal year. Nonetheless, had there not been a need for relief efforts, these funds would be available for funding developmental initiatives, such as infrastructure development in the following fiscal year.

1.3 The Policy Responses

The GoL declared a state of emergency on 22nd December 2015 and appealed for humanitarian assistance from development partners and friends of Lesotho in mitigating the effects of the drought. As mentioned above, the financial resources needs for immediate relief of the most vulnerable people from the effects of the drought and high temperature was estimated at M584.0 million and the GoL has allocated M150.0 million towards it, leaving a financing gap of M434 million. An action plan for mitigating the effects of the adverse weather conditions was developed and shared with development partners and friends of Lesotho so as to solicit their response towards the needed short term mitigation efforts and closing the financing gap. The GoL's and humanitarian responses would focus on three main areas of agriculture, livestock and food security, health and nutrition, and water, sanitation and hygiene.

The GoL responded to the most urgent need, water availability, in areas faced with dire water shortages. The Ministry of Water Affairs undertook a number of measures to alleviate the water shortages. These included opening up of dams, for example, the 'Muela Dam was opened to replenish the Ts'ehlanyane River to supply Butha-Buthe and Leribe districts. Water tankers were used to supply drinking water to areas with dire water shortages. Further initiatives included drilling of boreholes and refurbishment of water treatment plants to improve their efficiency.

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The Ministry of Water Affairs undertook a number of measures to alleviate the water shortages.

Humanitarian assistance would amongst others focus on initiatives including:

- Providing support in the adoption of climate smart agriculture technologies such as conservation agriculture.
- Address the impact on livestock for example, by implementing strategies to reduce the number of animals on overgrazed range and improving the integration of crop production and livestock rearing.
- Enhancing early warning and monitoring systems.
- Providing cash or in-kind aid tied to water harvesting projects.
- Continuing with the school feeding programme for both pre- and primary school children.
- Providing therapeutic and specialized nutrition supplements to malnourished and other vulnerable groups of society.
- Facilitate access to safe water and sanitation at health facilities and to critical health services.
- Support and strengthen water quality monitoring and disease surveillance systems.

This article has benefited from the following publications:

Bureau of Statistics (2015), 2014/2015 Crop Forecasting Report, Statistical Report No. 19:2015, Maseru, Lesotho.

Disaster Management Authority. (2015). Agromet Scenario Implications for 2015/16 Agriculture Season. *Food Security Early Warning Bulletin*. December. Maseru, Lesotho.

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United Nations Office of the Resident Coordinator. (2016). Lesotho: El Niño-related Drought. *Country Emergency Situation Update No. 01.* January. United Nations. Available on www.unlesotho.org.

United Nations Office of the Resident Coordinator. (2016). Lesotho: El Niño-related Drought. *Country Emergency Situation Update No. 02*. February. United Nations. Available on www.unlesotho.org.

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World Economic Developments and their Implications for the Economy of Lesotho

2.1 Introduction

Global economic activity was subdued during 2015, with a modest recovery in advanced economies while growth slowed in emerging and developing economies. Global growth is expected to increase by 3.1 per cent in the period under review, lower than the 3.4 per cent realized in the previous year. The slight decline reflected the slowdown in emerging markets due to weaker growth in oil exporters; a slowdown in China, as the pattern of growth becomes less reliant on investment; and a weaker outlook for exporters of other commodities following price declines. The Chinese economic performance had spillovers to other economies through trade channels and weaker commodity prices, as well as through diminishing confidence and increasing volatility in financial markets. However, the pickup in advanced economies was supported by the decline in oil prices and accommodative monetary policy.

Global inflation developments showed mixed signals in the review period. On the one hand, inflation is projected to have declined in 2015 in advanced economies, reflecting primarily the impact of lower oil prices. On the other hand, for emerging and developing countries the large nominal exchange rate depreciations are putting upward pressure on consumer prices. The pass-through of lower oil prices into core inflation is expected to remain moderate, in line with recent episodes of large changes in commodity prices.

Financial conditions within advanced economies remain very accommodative. Monetary easing in the Euro Area and Japan continued as expected, while in December 2015 the United States (US) Federal Reserve lifted the federal funds rate from 0.25 per cent to 0.50 per cent. China and India reduced their key interest rates, whereas South Africa raised its repurchase rate.

2.2 Industrialized Countries

2.2.1 The United States (US)

Real GDP growth rate remained at 2.4 per cent in 2015, as in the previous year. The moderation reflected a fall in non-residential fixed investment and exports. This was offset by increases in personal consumption expenditures, residential fixed investment, private inventory investment and in government spending.

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The US federal open market committee (FOMC) decided to raise the key interest rate by 25 basis points to 0.50 per cent in December 2015.

Growth remained resilient supported by accommodative financial conditions, low energy prices and strengthening housing and labor markets.

The consumer inflation decelerated to 0.7 per cent in 2015 from 1.6 per cent in 2014. The slowdown in the inflation rate was attributed to the decline in energy prices, which fell by 12.6 per cent in 2015. A smaller increase in food prices of 0.8 per cent in 2015 compared to 3.4 per cent in 2014, also contributed to the observed decline. The US federal open market committee (FOMC) decided to raise the key interest rate by 25 basis points to 0.50 per cent in December 2015. This was informed by substantial progress in the labour market toward achieving the Committee's objective of maximum employment and their reasonable confidence that inflation would move to 2 per cent over the medium term.

The strong consumer demand in the US augurs well for Lesotho's exports as the domestic exports of manufactured goods, in particular clothing and textiles, are destined to the US market.

2.2.2 The Euro Area

According to the International Monetary Fund (IMF) projections, the Euro Area[2] was expected to have grown by 1.5 per cent in 2015 up from 0.9 per cent registered in the previous year. The tepid recovery was sustained by stronger private consumption supported by lower oil prices, easy financial conditions and the Euro depreciation. Stronger-than-expected growth was registered in Italy, Ireland and Spain sustained by recovering domestic demand which offset weaker-than-expected growth in Germany. However, the region's moderate growth faced increasing headwinds, from slower growth in emerging markets such as China, to weak global trade and geopolitical tensions in Europe's neighbourhood. The employment conditions improved in the Eurozone, as shown by the unemployment rate which declined from 11.4 per cent in 2014 to 10.4 per cent in the review period. The lowest unemployment rates were realized in the Czech Republic, Germany and Malta.

The annual consumer inflation rate declined to 0.2 per cent in the review year relative to 0.4 per cent in 2014 due to a sharp fall in oil prices. The Governing Council of the European Central bank maintained its key interest rate constant at 0.05 per cent and also introduced the purchasing of bundled bank loans in an effort to stimulate the economy alongside boosting lending to consumers and companies. The Governing Council noted that the low commodity prices, movements in the exchange rate and the lower than expected economic growth had increased the downside risks to achieving a sustainable path of inflation towards 2 per cent. The recovery in the Euro Zone bodes well for Lesotho through its trade links with South Africa, since most of SA's commodities are destined for the region.

[2] Euro Zone comprises: Austria, Belgium, Cyprus, Estonia, Germany, Greece, Finland, France, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

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2.2.3 Japan

Growth in Japan was expected to have firmed in 2015, on the back of fiscal support as well as lower oil and commodity prices. Real GDP is expected to have increased by 0.6 per cent in 2015 relative to a zero growth in 2014. The gradual pickup would also be supported by rising real incomes and higher equity prices due to the Bank of Japan's additional quantitative and qualitative easing. The unemployment rate remained more or constant in 2015.

The consumer inflation rate dropped to 0.7 per cent in the review year down from 2.7 per cent in 2014. The deflationary pressures were due to the declining commodity and food prices. The Bank of Japan left its monetary policy unchanged in the review period. However, the Bank continued with its quantitative and qualitative easing with the aim of achieving the price stability target of 2.0 per cent.

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Japan: The consumer inflation rate dropped to 0.7 per cent in the review year down from 2.7 per cent in 2014.

Table 2 **Selected Economic Indicators, 2011 – 2015*** (Percentage changes unless otherwise)

Indicators	2011	2012	2013	2014	2015*
World Output	3.9	3.4	3.3	3.4	3.1
Advanced Economies	1.7	1.2	1.4	1.8	1.9
Of which:	6.7	10.4	11.6	12.4	12.9
United States	**1.8**	**2.3**	**2.2**	**2.4**	**2.4**
Euro Area	1.5	-0.7	-0.4	0.9	1.5
Japan	-0.6	1.5	1.5	0.0	0.6
United Kingdom	1.1	0.3	1.7	2.9	2.2
Emerging and Developing Economies					
Of which:					
Africa					
Sub Saharan	5.5	5.1	2.8	5.3	3.5
South Africa	**3.5**	**1.9**	**-1.7**	**1.5**	**1.3**
Developing Asia					1.5
China	9.3	7.7	7.7	7.3	6.8
India	6.3	4.7	5.0	7.3	7.3
Consumer Prices					
Of which:					
United States	2.9	2.1	2.2	1.6	0.7
Euro Area	**2.1**	**2.5**	**-0.4**	**0.4**	**0.2**
Japan	0.0	0.0	1.5	2.7	0.7
United Kingdom	2.3	2.8	1.7	1.5	0.1
United Kingdom	1.1	0.3	1.7	2.9	2.2
Emerging and Developing Economies					
Of which:					
Africa					
Sub Saharan	6.8	9.0	6.6	6.4	6.9
South Africa	**7.1**	**5.7**	**5.8**	**6.1**	**4.8**
Developing Asia					
China	4.8	2.6	2.6	2.0	1.5
India	6.4	10.4	9.5	5.9	5.4
World Trade Volume	6.1	2.9	3.0	3.3	3.2
(Goods and Services)					
Exports					
Advanced Economies	5.7	2.0	2.4	3.4	3.1
Emerging and Developing Economies	6.8	4.6	4.4	2.9	3.9
Imports					
Advanced Economies	4.7	1.2	1.4	3.4	4.0
Emerging and Developing Countries	8.8	6.0	5.3	3.6	1.3
Source	IMF World Economic Outlook, October 2015; and IMF World Economic Outlook Update, January 2016. *IMF Projections				

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2.3 Emerging Market Economies

2.3.1 South Africa (SA)

According to the IMF, economic activity in South Africa is estimated to have declined in 2015, amid electricity supply constraints as well as declining business and consumer confidence. Real GDP decelerated from 1.5 per cent in the previous year to 1.3 per cent in 2015. The deterioration in the growth was due to a slump in commodity prices, weakening demand from China, severe drought and reversal of capital inflows. Mining sector remained under pressure in the face of declining commodity prices and weak demand. Despite a recovery in the third quarter, the manufacturing sector outlook remained negative, while the agricultural sector contracted due to severe drought conditions.

Average annual consumer price inflation was 4.6 per cent in 2015, which was 1.5 percentage points lower than the corresponding average of 6.1 per cent in 2014. The South African Reserve Bank Monetary Policy Committee (MPC) decided to raise its repurchase rate by a cumulative 50 basis points to 6.25 per cent. The MPC noted that the upside risks to inflation were more pronounced and driven by external factors including the depreciation of the rand and the commencement of the US monetary policy tightening. However, the MPC decided to act to keep inflation expectations anchored and somehow influence the possible second round effects on inflation.

The fragility of the South African economy is likely to have negative implications on Lesotho's economy given the degree of integration between the Lesotho economy and the South African economy. The poor performance of the mining sector coupled with declining commodity prices may result in migrant worker layoffs, and hence increased unemployment, a decline in remittances and adversely affect the Lesotho's external position.

2.3.2 China

The Chinese economy continued on a gradual slowdown and transition of the economy away from investment and manufacturing towards consumption and services. The annual growth rate registered 6.8 per cent in 2015, which was lower than 7.3 per cent realized in the previous year. The slowdown reflected moderation in the growth rates of investment, credit and real-estate. The ongoing implementation of structural reforms and lower oil and other commodity prices expanded consumer-oriented activities, partly buffering the slowdown. The decline in stock market valuations had only a modest effect on consumption, reflecting modest household holdings.

The annual rate of inflation remained positive at 1.5 per cent in 2015 relative to 2.0 per cent in 2014, on account of low energy prices. The People's Bank of China reduced the key policy rate by 1.25 basis points to 4.35 per cent, in an effort to support growth and combat deflationary pressures.

2

Economic activity in **India** remained robust in 2015, largely supported by the oil price collapse as India is the main oil importer.

2.2.3 India

Economic activity in India remained robust in 2015, largely supported by the oil price collapse as India is the main oil importer. The lower oil prices boosted the spending power of individuals, companies and the government. Real GDP is expected to grow by 7.3 per cent in 2015, same as the previous year. Growth remained strong in the manufacturing and agricultural sectors which increased by 9.5 per cent and 1.1 per cent, respectively.

Inflation rate fell from 5.9 per cent in 2014 to 5.4 per cent in the review year. The fall was attributed to lower commodity prices. The Reserve Bank of India raised it repurchase rate by 1.25 percentage points to 6.75 per cent. The RBI's stance was that the Bulk of conditions for further monetary accommodation have been met. The January 2016 6.0 per cent inflation target was likely to be achieved while growth was envisaged to remain resilient, supported by higher productivity and fiscal stimulus.

Box 1 Employment by Sector in Lesotho

The U.S. economy has rebounded quite strongly after slipping into recession from 2008 to 2009. Over the past 6 years, the U.S. economy has shown a healthy and consistent performance and has grown at an average growth rate of 2.0 per cent. Growth over that period was mostly underpinned by a right mix of macroeconomic policies pursued by the U.S. government encompassing aggressive monetary stimulus and strong countercyclical fiscal policy. The heightened pace of implementation of these policies has therefore hauled the U.S. economy out of recession contrary to their European counterparts who were very modest in reacting to the financial crisis. As at end-2015, the U.S. economy had reclaimed its position as the dominant economy in the world and accounted for about 16.0 per cent of the entire world economy. As a result of its dominance, it continues to dictate the trajectory of global economy (see Figure 2). It also remains the major trading partner of a number of countries around the world and a major receipt of exports from the rest of the world. In Lesotho, there is a general assertion that a growing U.S. economy is positive news for Lesotho; however that has hardly been proved. Therefore, this raises a number of important questions; has the post-crisis U.S. growth impacted positively on Lesotho or could it be a double-edged sword?

2

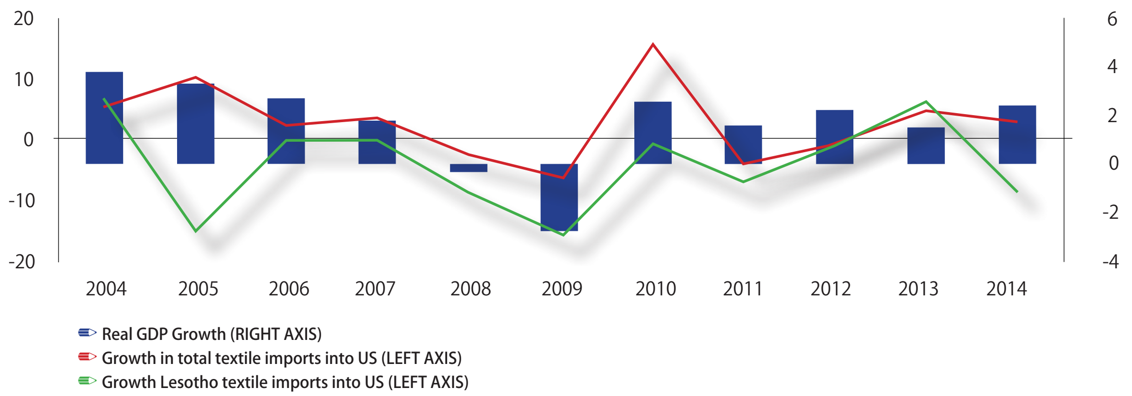
Figure 2 US GDP Growth vis-à-vis World Output Growth (Percentage)

The Nature of Lesotho's ties with the U.S. Economy

Lesotho's strong ties with the U.S. economy trace as far back as 2000 when Africa Growth Opportunity Act (AGOA) came into force. The enactment of AGOA offered Lesotho (and other sub-Saharan African countries) an opportunity to export certain goods including textile and clothing products to the U.S. market duty and quota free. As a result, Lesotho experienced a rise in foreign direct investment into the textile and clothing industry as Asian Investors targeted Lesotho an investment destination given its relatively cheap Lesotho labour and proximity to the South African ports. As at end-September 2015, Lesotho's textile and clothing exports to the U.S. accounted for the largest share of exports at 44. 9 per cent. Lesotho also has an indirect relationship with the U.S. through its economic integration with South Africa. Developments in the U.S. have heavily been impacting the emerging market economies such as South Africa. In turn the impact has also extended to Lesotho given the strong economic ties between Lesotho and South Africa.

2 The U.S. economy had reclaimed its position as the dominant economy in the world and accounted for about 16.0 per cent of the entire world economy.

Figure 3 Correlation between US Real GDP Growth and Lesotho's Textile Exports to the US



How has the US recovery impacted on Lesotho?

The U.S. economy rebound has had a positive and negative impact on the Lesotho economy. The rebound has been accompanied by a fall in the unemployment rate in the U.S. At the peak of financial crisis, the U.S. unemployment rate had soared to 10.0 per cent from a low of 4.6 per cent at the beginning of 2007. Since 2010, when the US economy showed early signs of recovery, the unemployment rate has been steadily been declining. About 221 000 jobs were created each month in 2015 and the unemployment rate had reverted to 5.0 per cent pre-crisis level in December 2015, reflective of the rebound in the economy post the financial crisis. The improvement in employment level has led to an increase in private consumer demand. As Figure 3 shows, the growth in the US economy in 2010 was followed by the overall increase in imports of textiles and clothing by the U.S. including those sourced from Lesotho. However, it is important to indicate that there is a host of factors that influence Lesotho's exports to the U.S. other than just the US growth performance. These factors include Lesotho's competitiveness relative to other textile exporters, domestic and international developments, and movements in the rand exchange rate. It can be concluded that the performance of U.S economy does have a positive effect on the Lesotho economy viewed from that angle. However, the benefit could be diluted by developments in the SA economy as a result of the U.S. economic recovery.

The rebound by the U.S economy has had a negative impact on emerging market economies including South Africa; there is been an outflow of capital from the emerging economies since the rebound of the US economy, in anticipation of higher yields in the U.S. That has put pressure on the value of South African rand vis-à-vis the US dollar. While that on the one has amplified the benefits accruing to the Lesotho's export sector, invariably it has also acted as the double edged Sword. Despite the lowest levels in crude oil prices experienced since 2014 Lesotho has not fully enjoyed that benefit since the US dollar (in which the commodities are quoted) has been appreciating over the same period. The majority of industries in Lesotho that use petroleum products as an input in the production process have not fully benefited the historic drop in the petroleum prices. The general appreciation of the dollar (and depreciation of the rand) has also propagated the increase in the price levels as prices of imported materials increase. Therefore the recovery in the U.S. economy has not only yielded positive results for Lesotho, it has also come at the cost. Prices of imported goods and services still remain elevated. In reaction to the deterioration in the inflation outlook, central banks in emerging market economies have responded by also hiking interest rates so as to tame their exchange rates from getting out control. This has the overall effect of increasing the cost of borrowing by the business sector, and thus diluting prospects of higher growth.

2

How has the US recovery impacted on Lesotho? (continued)

Conclusion

The U.S. economy has become an important partner to Lesotho since the enactment of AGOA. Notwithstanding the challenges within the Lesotho textile and clothing industry which has diluted some of the benefits under AGOA, the performance of the U.S. economy remains important in sustaining demand textile and clothing exports to the U.S. Recent data shows that the rebound in the U.S. economy has had a positive on Lesotho's textile and clothing industry which still remains the second largest employer after Government. Nonetheless, there have negative implications on Lesotho economy driven the post-crisis developments in the U.S. The rebound in the U.S has also impacted on emerging market economies including South Africa. The depreciation of the rand has moderated the benefit to Lesotho of the decline in commodities such as crude oil prices. It also put upward pressure on prices of imported goods and services.

2.4 Lesotho in the Context of Regional Economic Integration

Lesotho continued to show strong commitment to economic cooperation throughout 2015 by actively participating in activities of regional economic organizations such as the Southern African Customs Union (SACU), and SADC.

During the review year, SACU continued to negotiate various free trade agreements with the major trading blocs. Bilateral tariff negotiations between SACU and the East African Community as well as Egypt were ongoing while the Continental Free Trade Agreement (CFTA) was still at its preparatory stage. The SACU tariff offer to Ethiopia and other Tripartite Member States has been finalized and is in a position to exchange tariff offers once these Member/Partner States are ready. The continental free trade agreement negotiations were launched in June 2015. The CFTA is based on three pillars being: trade in goods, industrial development and infrastructure. It is envisaged that the preparatory phase of the CFTA would be completed by March 2016. This would be followed by the phase I of the agreement, mainly focusing on trade in goods, trade in services and movement of business persons.

The SADC Industrialization Strategy and Roadmap, 2015-2063, was approved by the Extra-Ordinary Summit in Harare, Zimbabwe, in April 2015. The Strategy is anchored on three pillars namely; industrialization as champion of economic and technological transformation; competitiveness as an active process to move from comparative advantage to competitive advantage; and regional integration and geography as the context for industrial development and economic prosperity. During the period 2015-2063, SADC economies are expected to overcome their binding development constraints and progressively move through the growth stages – from factor-driven to investment and efficiency-driven and ultimately to the high growth trajectory driven by knowledge, innovation and business sophistication. SADC region will thus be fully transformed and become an important player in the continental and global landscape.

2

The annual average **price of gold** declined by 8.2 per cent to US$1 162 per ounce during the review year

Progress was made in the establishment of the SADC-EC Economic Partnership Agreement (EPA). The legal scrubbing exercise of the EPA between the European Union and the SADC EPA States was successfully concluded in the review year. Regarding the management of tariff rate quotas (TRQs), a temporary TRQ management system has been implemented in the SACU region. The Parties agreed to expedite the establishment of a permanent SACU-wide TRQ management system with financial support and expertise from the European Union.

2.5 Commodity Price Developments

2.5.1 Gold Prices

The annual average price of gold declined by 8.2 per cent to US$1 162 per ounce during the review year, compared with a decline of 10.3 per cent recorded in 2014. The observed fall mirrored the appreciation of the US Dollar and the interest rate hike by the US Federal Reserve. The interest rate hike reduced the investors' appetite for non-interest bearing assets like gold. On the demand side, the economic slowdown in China resulted in a fall in demand for gold. In Maloti terms, the annual average price of gold decreased by 2.1 per cent to M13 473 per ounce in 2015, from M13 763 per ounce registered in the previous year.

2.5.2 Platinum Prices

The annual average price of platinum dropped by 23.6 per cent to US$1 055 per ounce in 2015 compared with a 7.1 per cent fall in 2014. The platinum prices responded to the US Dollar appreciation, low demand especially in the key consumers being; China and Europe, which use the metal mainly in the production of cars. In maloti terms, the annual average price of platinum fell by 18.1 per cent to M12 283 per ounce in the period under review from M14 995 per ounce in the previous year.

2.5.3 Oil Prices

In 2015, the price of crude oil declined sharply as a result of resilient supply mainly in the US and Saudi Arabia and some members of Organization of Petroleum Exporting Countries. The increase in oil prices also reflected prospects of higher future output following the nuclear deal with the Islamic Republic of Iran, and weaker global demand. On an annual average, crude oil decreased by 58.2 per cent to US$40 per barrel in the review year, from US$97 per barrel observed in the 2014. On an annual average and in maloti terms, it fell by 44.1 per cent to M584 per barrel in 2015, following M1 045 per barrel recorded in the previous year.

2

Consistent with the decline in the international oil price, there were several revisions of fuel prices in the domestic economy during the year. Price of petrol in Lesotho closed the review year at M9.50 per litre, while that of diesel and illuminating paraffin closed the year at M9.95 per litre and M6.80 per litre, respectively. These prices compare with M10.60 per litre of petrol, M11.25 per litre of diesel and M8.30 per litre of illuminating paraffin in the previous year.

2.5.4 Maize Prices

In US dollar terms, the annual average spot price of white maize grew by 9.3 per cent to US$228.38 per tonne while that of yellow maize fell by 0.9 per cent to US$262.4 per tonne in 2015, compared with the respective declines of 12.2 per cent and 10.3 per cent, in prices of white and yellow maize in the previous year. The observed performance was underpinned by the rising consumer demand, negative production sentiments from Brazil due to unfavourable weather conditions as well as drought conditions, especially in Southern Africa. In maloti terms, white and yellow maize accelerated to an annual average spot price of M2 925.16 per tonne and M2 659.81 per tonne in 2015, from M2 269.67 per tonne and M2 279.90 per tonne in the previous year.

2.5.5 Wheat Prices

The annual average spot price of wheat decreased by 8.9 per cent to US$317.10 per tonne during the review period, from US$220.0 per tonne recorded in the previous year. Lower wheat prices reflected large harvests and tight completion in the exports markets. In maloti terms, the average spot price of wheat increased by 6.8 per cent to M4 039.69 per tonne in 2015, following a 14.8 rise per cent observed in the previous year ❒

3

Domestic Economic Developments

3.1 Real Sector Developments

3.3.1 Trends in Output and Income

The domestic output growth was estimated to have decelerated further in 2015. Real GDP growth was estimated to have grown at 2.8 per cent in 2015 compared with 3.6 per cent in 2014. The subdued overall economic performance was at the back of poor performance by the primary sector in the review year. The fall in the primary sector was attributed to contraction by the agriculture, forestry and fishing, and mining and quarrying subsectors. On the other hand, the secondary sector was estimated to have registered a robust growth in 2015 mainly because of improvements in manufacturing, and building and construction subsectors, while the tertiary sector was estimated to have registered a stable growth rate.

Real Gross National Income (GNI) is estimated to have grown significantly by 4.9 per cent in 2015 up from a growth of 1.0 per cent in 2014. The improvement in GNI was realized despite a slow growth in domestic output and this was attributable to improvement in factor income from abroad, which was driven by increases in migrant mine workers remittances, other income from workers in South Africa, interest earned by Central bank and commercial banks from abroad. Moreover, GNI per capita was estimated to have grown by 4.5 per cent in 2015 compared with a marginal increase of 0.6 per cent in 2014.

Table 3 **Aggregate Economic Indicators** (Percentage Change, 2004=100)

	2011	2012	2013	2014	2015*
GDP	4.0	5.0	4.5	3.6	2.8
GNI	-3.2	2.6	3.3	1.0	4.9
GDP Per Capita	3.8	4.7	4.1	3.2	2.4
GNI Per Capita	-3.5	2.2	3.0	0.6	4.5

Source: Bureau of Statistics, *CBL Projections

3.3.2 Sectoral Performances

(a) Developments in the Primary Sector

The primary sector was estimated to have contracted by 3.8 per cent in 2015 compared with 9.3 per cent growth registered in 2014. The contraction of the sector was at the back of weak performance by the agriculture, forestry and fishing, as well as the mining and quarrying subsectors.

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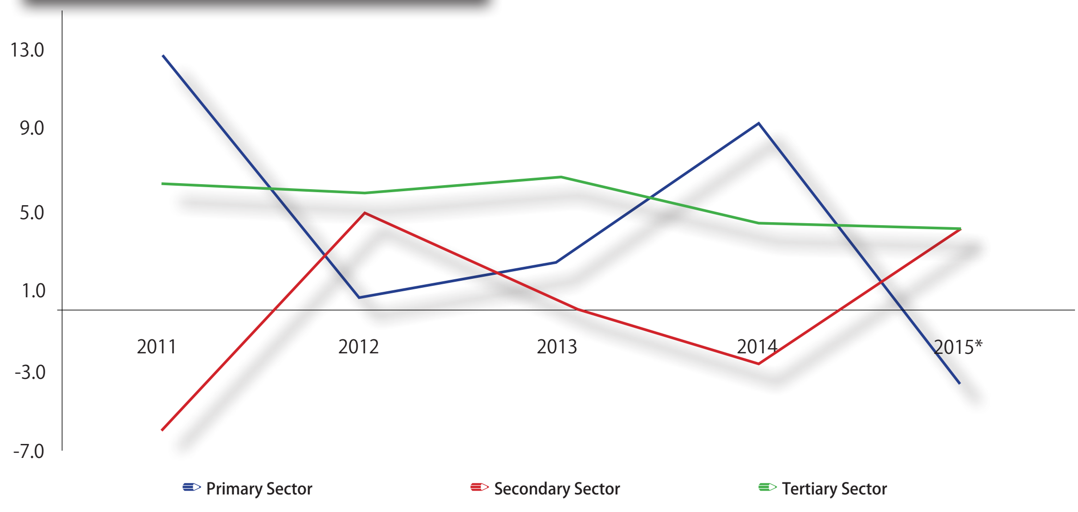
The agriculture, forestry and fishing sub sector was estimated to have contracted by 3.8 per cent in 2015 compared with a growth of 4.7 per cent in 2014. The contraction resulted from the weak performance by the crops subsector, which registered a further contraction of 17.2 per cent compared with a decline of 6.5 per cent last year. Crop production was mainly affected by bad weather conditions coupled with uneven rainfall and frost is some parts of the country. In addition area planted for some major crops declined in the 2014/2015 agricultural year.

The mining and quarrying subsector growth was estimated to have declined at a rate of 3.9 per cent in the review year compared with a robust growth of 15.5 per cent in 2014. The sub-sector's main drawback was due to reduced diamond sales in 2015. For instance, Lets'eng Diamond mine, known for its high value diamonds realized a 6 per cent decline in carats sold during 2015. In addition the price per carat achieved by the mine was US$2,299 in 2015, which indicated a 9.0 per cent decline from the price achieved in 2014. This was mainly due to unfavorable market conditions.

Figure 4 | Sectoral Real Growth Rate (Percentage)



Source: | Bureau of Statistics, *CBL Projections

3

The agriculture, forestry and fishing **sub sector** was estimated to have contracted by 3.8 per cent in 2015

(b) Developments in the Secondary Sector

The secondary sector, which comprises of manufacturing, electricity and water, and building and construction, was estimated to have grown at a rate of 3.9 per cent in 2015 compared with a decline of 2.6 per cent in 2014. The remarkable performance of the sector was attributed to improved performance by all the sub-sectors within the secondary sector in the review year.

The manufacturing sub-sector was estimated to have grown by 3.5 per cent in 2015 compared with a growth of 1.8 per cent in 2014. The growth of the sub-sector was at the back of improvements in the components of the sub-sector, namely: food products and beverages, textiles, clothing, footwear and leather, and other manufacturing. Food manufacturing's good performance was attributed to increased demand for food products during 2015 in the economy. The textile, clothing, footwear and leather products realized a growth of 3.3 per cent in 2015 though moderate compared with 6.8 per cent observed in 2014. The subsector recorded a positive growth regardless of the uncertainty which surrounded the renewal of AGOA in 2015, and this was evidenced by growth of exports of textiles and clothing to the US. Moreover, there was growth in export to other destinations like the South African market. Growth within the textile and clothing sub-sector was also boosted by arrival of new firms in the textiles and clothing, and footwear industries.

The electricity and water sub-sector was estimated to have grown by 3.5 per cent in 2015 compared with a growth of 1.4 per cent in 2014. The improvement in the subsector's performance was attributed to the robust growth by the water and electricity subsectors, which recorded the growth of 3.2 per cent and 4.1 per cent in 2015 compared with 1.1 per cent and 4.8 per cent in 2014, respectively.

The building and construction sub-sector was estimated to have registered a growth of 4.6 per cent in 2015 compared with a decline of 10.0 per cent in 2014. The observed growth was in line with expansion works which were carried out at Liqhobong mine and development of private property in Maseru. In addition, ongoing construction and gravelling of both rural and urban roads might have contributed to the observed trend.

(c) Developments in the Tertiary Sector

The tertiary sector, which comprises of wholesale and retail trade, restaurants and hotels, transport and communications, financial intermediation, real estates and business services, public administration, education, health and social work, and community, social and personal services was estimated to have grown at a somehow stable rate in 2015. The sector was estimated to register a 4.1 per cent growth in 2015 compared with 4.4 per cent growth in 2014 and the growth was attributed to good performance by all the sub-sectors within the tertiary sector.

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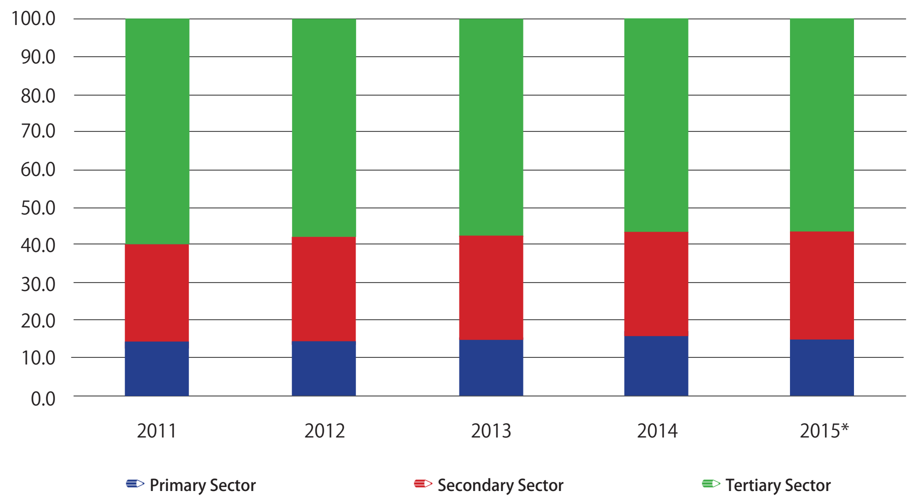
The health and social work sub-sector was estimated to have registered a growth rate of 4.3 per cent in 2015 compared with a decline of 4.1 per cent in 2014. The improvement in the performance of the sub-sector was at the back of provision of health services to the remote areas in the country which resulted from construction of clinics and health centers under the Millennium Challenge Corporation health projects. The transport and communication sub-sector was estimated to have grown at 7.6 per cent in 2015 compared with 6.7 per cent registered in 2014. The growth was attributed to the 8.7 per cent growth by the post and telecommunications services in 2015 compared with 5.5 per cent in 2014. The growth in the sub-sector was due to growth in the usage of mobile money service. On the other hand, the growth in the wholesale and retail subsector moderated to 4.5 per cent in 2015 compared to a significant growth of 10.1 per cent in 2014, this is reflective of low consumer purchasing power in the review year.

Figure 5 Sectoral Shares in GDP at Factor Cost (Percentages)



Source: Bureau of Statistics, *CBL Projections

3.1.3 Savings and Investments

Gross national savings was estimated at 18.6 per cent of GNI in 2015 compared with 19.6 per cent of GNI in 2014, while total investment as a share of GNI was recorded at 27.8 per cent in 2015 compared with 28.9 per cent in the preceding year. The saving-investment gap as a share of GNI widened by almost the same margin, it is recorded at negative 9.2 per cent in 2015 and at negative 9.3 per cent in the previous year. The widening of the saving-investment gap resulted from a decline in national savings, which mainly reflected deterioration in government saving to 8.2 per cent as a share of GNI in 2015 from 10.3 per cent in 2014 given that there was an improvement in private sector savings in 2015.

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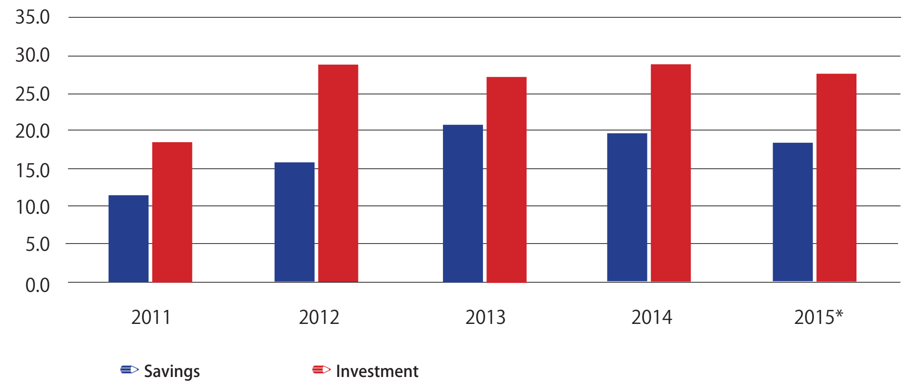
The manufacturing sector remained the largest employer in the economy during 2015.

Figure 6 **Savings and Investment** (As a percentage of GNI)



Source: Bureau of Statistics, *CBL Projections

3.2 Employment, Wages and Prices

3.2.1 Employment

The manufacturing sector remained the largest employer in the economy during 2015. Employment by LNDC assisted companies increased to 49,142 in December 2015 from 46,737 in December 2014. This represented a surge of 5.1 per cent in the review year compared with a decline of 3.8 per cent registered in the previous year. The increased employment by LNDC assisted companies[3] mainly reflected among others increased employment by the hospitality subsector, which was due to change of management to Avani group. In addition, there was an introduction of four new firms in the manufacturing sub-sector in the review year. New firms are being introduced after the construction of Tikoe industrial area as factory spaces become available for occupation. The observed increase is in line with improvements in output by the manufacturing subsector.

The number of government employees was 44,016 in 2015 down from 44,248 in 2014. This marked a 0.5 per cent reduction. The decline was as a result of reduced employment levels in the categories of civil servants, teachers and daily paid worker. The civil servants, teachers, and daily paid workers declined by 0.6 per cent, 0.3 per cent, and 1.2 per cent respectively in the review year. With regard to migrant mineworkers, employment has been on a declining trend, the number of migrant mineworkers fell to 27 947 employees in 2015 from 30 386 employees in the previous year. This represented a drop of 8.0 per cent in 2015 compared with a decline of 9.3 per cent registered in 2014. It has to be noted that TEBA has not been recruiting for some time, and those retired are not replaced.

[3] LNDC-assisted companies include textiles and clothing, leather and footwear, retail, construction, food and beverages and hotels and accommodation.

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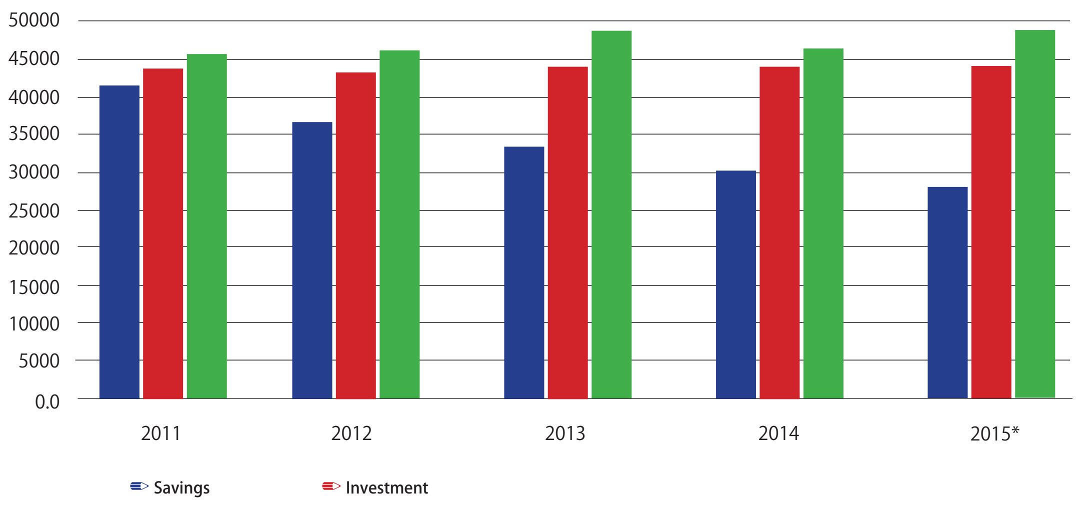
Figure 7 Employment Trends



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

3.2.2 Wages

The general minimum wage increased by an annual average of 3.0 per cent in the 2015/2016 fiscal year, as determined by the Lesotho Wages Advisory Board. The rate of increase was lower than the 7.0 per cent implemented by the Board in the previous fiscal year. The 3.0 per cent increment was applied across all the sectors with the exception of the clothing textiles and leather manufacturing sector which benefited from the 3.9 per cent increase in wages and salaries.

In addition, government employees benefited from an across the board salary adjustment of 6.0 per cent in the 2015/2016 fiscal year compared with 4.0 per cent increase in the 2014/2015 fiscal year. This was done as a government policy to ensure that the value of the take home salaries is maintained constant in real terms. The government further adjusted the tax credit up from M6100.00 to M6466.00 in order to protect the lower income levels, and this translated into an adjustment of the minimum annual taxable income from M30, 500.00 to M32, 330.00.

3.2.3 Price Developments

Lesotho consumer inflation averaged 3.2 percent in 2015, 2.2 of a percentage points lower than 5.4 per cent observed in 2014. The moderation in the annual average inflation rate was mainly at the back of a contraction in the housing, electricity, gas and other fuels and transport inflation rates and to some extended moderation in alcoholic beverages and tobacco, communications, education and miscellaneous

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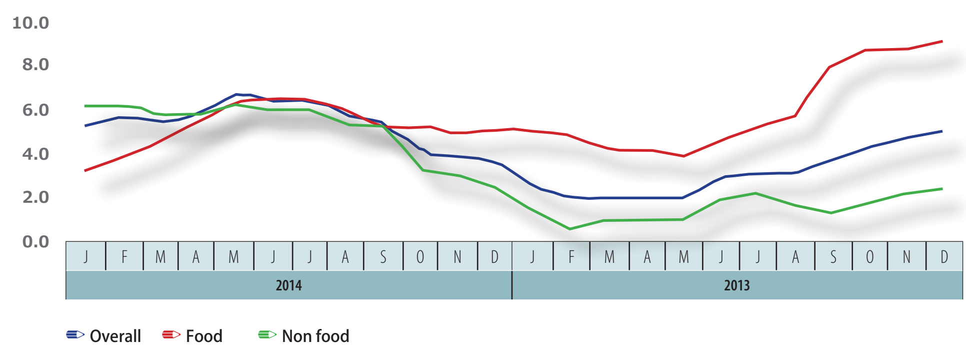
The 2015 average **annual inflation rate** in South Africa was recorded at 4.6 per cent, which is higher than that of Lesotho.

goods and services. The housing, electricity, gas and other fuels index contracted by 6.8 per cent in 2015 as opposed to an increase of 7.8 per cent in 2014, this was mainly on account of lower prices of petroleum products experienced during the course of the year. The transport service category moderated to 0.3 per cent in 2015 compared with 10.5 per cent in 2014, and this was due to lower pump prices of petrol and diesel emanating from low international oil prices.

However, it has to be noted that food and non-alcoholic beverages category increased at the rate of 6.1 per cent in 2015 compared with 5.3 per cent in 2014. This was due to increases in food prices which were experienced during the second half of 2015, mainly because of reduced domestic cereal production and inflation emanating from imported food stuffs from South Africa. On the contrary, the FAO food price index averaged 164.1 per cent points, which was 19 per cent less than in 2014 and this marked the fourth consecutive annual decline. The decline was as a result of abundant cereal supply.

The 2015 average annual inflation rate in South Africa was recorded at 4.6 per cent, which is higher than that of Lesotho. Throughout the review year, Lesotho and South Africa's inflation rates have been moving together though Lesotho's inflation rate was moderating at a faster rate than that of SA. This can be explained by differences in the respective consumer baskets, particularly weight relating to the category of food and nonalcoholic beverages.

Figure 8 **Lesotho Consumer Price Index** (Annualized Percentage Changes)



Source: Bureau of Statistics

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Box 2 Establishment of Maseru Securities Exchange to Benefit Lesotho Economy

a) Background

As part of the effort to develop the capital and financial market in line with the Financial Sector Development Strategy, the Central Bank of Lesotho has established the stock exchange. The Maseru Securities Market (MSM) as is known will provide a central location for Basotho to buy and sell local companies' stocks and bonds and for trading in the secondary market. Thus, providing companies that participate in the MSM with alternative sources of capital and the public with diversified investment opportunities. For a company to trade on the MSM, it must be listed with the MSM.

The establishment of the securities market is governed by the Central Bank of Lesotho Act of 2000, Section 6 (i) and (j), which mandates the Bank to promote development of a safe and sound financial system as well as to monitor and regulate the capital market. It is supported by the Capital Markets Regulations 2014, which provide for the orderly, secure, fair and transparent operation of MSM. The MSM is currently operated by the Central Bank of Lesotho but the intention is that it will eventually be handed over to the private sector. It has been registered as a legal entity and will operate in line with international best practices.

(b) Expected Benefits

A stock market can play a very significant role in the development of the economy. The following are some of the ways in which it is expected to be beneficial:

- Provision of Capital

Stock markets facilitate the raising of capital for companies through the issuance of new stock (selling shares) or by borrowing through bonds and other debt instruments. Thus the MSM is expected to help in providing the much needed financing for investment within the country. It would provide an alternative avenue to raise funds for investment against depending only on borrowing from commercial banks. This will remove the bottleneck to investment which emanates from the fact that the banks are generally risk averse.

- Increased Savings

Domestic savings are expected to increase as the securities market provides opportunities and profitable options for people to invest in and increase their savings. It provides incentives to defer consumption in favour of investment. If efficient, capital markets also enable savings to be allocated to investment projects with higher returns. As the rate of return to savers increases, savings become more attractive. This encourages the growth of overall savings and investment within the economy.

- Efficient allocation of capital

Investing in the stock market leads to a more rational allocation of resources. Funds which could have been consumed or kept as idle deposits with banks could be mobilised and redirected to finance business activity in the more productive and profitable sectors of the economy.

- Provision of liquidity

The MSM is expected to provide to a ready market for sale and purchase of securities. This would give assurance to investors that their investment could be converted into cash any time wanted.

- Improved corporate governance

Capital market development necessitates the creation of a legal and regulatory framework incorporating increased transparency and information dissemination. These monitoring systems reinforce corporate governance practices, improve transparency, and enhance investor confidence. Industry-level data from various studies have shown a positive relationship between market-based governance and improvements in industry efficiency. Industry efficiency is important because it promotes economic growth.

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Lesotho's **external sector** position was estimated to have registered a higher surplus in 2015.

- Economic growth

The MSM is expected to accelerate economic growth by providing a boost to domestic savings and increasing the quantity and the quality of investment. In particular, it can encourage economic growth by providing an avenue for new and growing companies to raise capital at lower cost.

(c) Conclusion

The establishment of the stock exchange is expected to benefit the economy though the creation of a capital market which will facilitate mobilisation and efficient allocation of capital to finance investment. This will increase the level and quality of investment, thereby contribute to economic growth.

3.3 Balance of Payments

3.3.1 Overall Balance

Lesotho's external sector position was estimated to have registered a higher surplus in 2015. The overall balance of payments (BOP) was projected to have increased to a surplus of M1366.4 million, equivalent to 5.4 per cent of GDP in 2015, up from a surplus of M929.9 million or 3.9 per cent of GDP recorded in the previous year. The improvement in the overall balance benefitted from the growth in capital and financial account inflows, which was more than enough to finance the deficit in the current account. This was also supported by gains from the depreciation of the local currency against major international trading currencies in which CBL foreign reserves are held. However, the observed performance of overall balance was weakened by an increase in current account deficit largely driven by the widening of the trade deficit in nominal terms. The trade deficit as a percentage of GDP however portrayed a slight improvement due to the slowdown in GDP growth. The transactions balance, which measures the overall balance without the effects of foreign currency movements, recorded a marginal deficit of 0.1 per cent of GDP in the review year, in contrast with a surplus of 2.0 per cent of GDP in 2014. The improvement in the external sector position was reflected in the growth in gross official reserves from 6.2 months of import cover in the previous year to 6.6 months in 2015.

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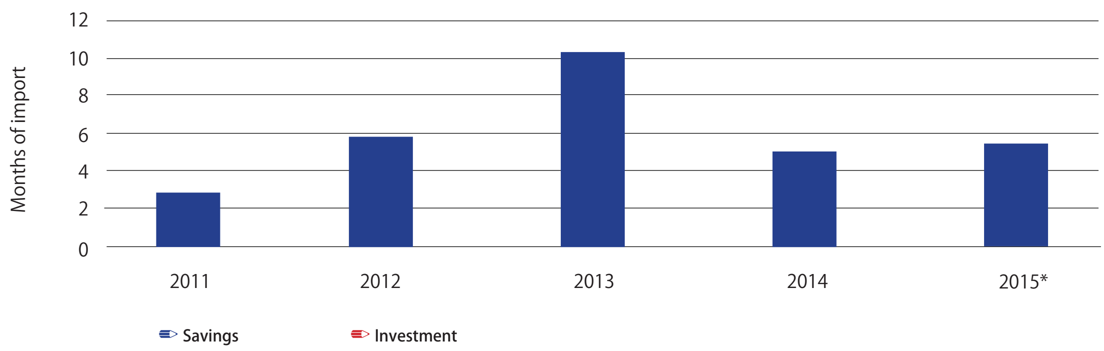
Figure 8 Reserves in Months of Imports



Source: Central Bank of Lesotho, * Preliminary estimates

Table 4 Summary of Balance of Payments (As Percentage of GDP)

	2011	2012	2013	2014	2015*
Current account	8.23	-15.40	-7.85	-10.63	-10.71
Goods	-38.88	-53.43	-46.41	-47.32	-46.52
Services	-17.48	-17.33	-15.35	-13.94	-14.49
Income	21.03	18.23	16.94	13.97	16.29
Current transfers	27.11	37.12	36.97	36.66	34.01
Capital and Financial account	8.43	17.78	11.51	14.55	16.13
Transactions balance	-3.41	0.23	0.73	1.97	-0.05

Source Central Bank of Lesotho, * Preliminary estimates

3.3.2 Current Account

The current account deficit was estimated to have increased slightly to M2.7 billion or 10.7 per cent of GDP in 2015 from M2.5 billion, which was equivalent to 10.6 per cent of GDP in the previous year. The observed performance was mainly driven by a nominal expansion in trade deficit. The trade deficit was estimated to have risen by 6.2 per cent to M15.4 billion in the review period from M14.5 billion deficit in the previous year, reflecting an increase in imports of goods and services which overshadowed the growth in exports of goods and services during the year. The deficit was also influenced by a decline in net current transfers as a result of a fall in SACU receipts in the review year.

The worsening trade deficit indicates that the growth in imports outpaced that of exports during the year under review. Merchandise imports on the one hand were estimated to have grown by 7.1 per cent to M21.5 billion in 2015. As a percentage of GDP, merchandise imports accounted for 85.5 per cent in the review period compared with 85.2 per cent in the previous year. The rising import bill was largely driven

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The **net services deficit** was estimated to have increased by 10.8 per cent in the review year

by imports associated with the on-going construction of Liqhobong mining plant. Merchandise exports on the other hand were estimated to have increased by 9.9 per cent to M9.8 billion in 2015. Relative to GDP, merchandise exports registered 39.0 per cent in 2015, compared with 37.8 per cent in the previous year. The increase was mainly attributed to a rise in both textiles and clothing and diamonds exports. Textiles and clothing exports rose by 22.2 per cent in the review period, higher than 2.5 per cent recorded a year ago. This was driven by an increase in orders for companies exporting to the US under the African Growth and Opportunity Act (AGOA) arrangement, despite uncertainties surrounding the renewal of AGOA during the first half of the year. The 10-years extension of AGOA is therefore expected to strengthen the growth of Lesotho's textiles and clothing exports going forward, though uncertainties stemming from the recently signed Trans-Pacific Partnership (TTP) still remain. Diamond exports were estimated to have grown by 1.1 per cent in 2015, following a rise of 33.6 per cent in the previous year. The muted growth emanated from lower production by both Letšeng and Storm diamond mines as well as unfavourable diamond prices in the international markets in 2015. Merchandise exports, particularly non-SACU exports also benefitted from the depreciation of the local currency during the year.

The net services deficit is estimated to have increased by 10.8 per cent in the review year, following a 0.3 per cent rise in the previous year. The persistent widening of the deficit in net services indicated that Lesotho continued to be a net importer of services. The observed performance largely reflected an increase in payments for transportation services acquired abroad, particularly freight services for imported goods from outside the SACU. The expansion in payments for services acquired abroad was also driven by higher payments for Lesotho's embassies abroad during the year. As a percentage of GDP, net services account recorded a deficit of 14.5 per cent in 2015, in contrast to 13.9 per cent in the previous period.

Income account balance is estimated to have risen by 24.3 per cent in 2015, in contrast with a decline of 8.8 per cent in the previous year. The increase resulted mainly from improved remittances from Basotho migrant mineworkers and other employees in SA, despite a perpetual reduction in the number of Basotho mineworkers. The growth in remittances reflected an increase in the wages earned by Basotho working in the SA mines. In addition, the income account was supported by a rise in returns on both the Central Bank of Lesotho and Commercial Banks portfolio investments abroad. The observed performance was also influenced by an increase in income inflows from SA government for maintenance of LHWP dams. As a percentage of GDP, the income account registered 16.3 per cent of GDP in the review year, compared with 13.9 per cent of GDP recorded in 2014.

The net current transfers were estimated to have declined by 1.1 per cent, to 34.0 per cent of GDP in the review period, compared with an increase of 9.6 per cent to 36.6 per cent of GDP in the previous year. The deterioration in current transfers was underpinned by the fall in SACU receipts which takes the largest share in current transfers account.

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3.3.3 Capital and Financial Account

The net surplus of 16.1 per cent of GDP was realised in the capital and financial account in 2015, rising from 14.5 per cent in the previous year. This was driven largely by an increase in financial account inflows, primarily foreign direct investment associated with the construction of the Liqhobong diamond mine plant. The observed performance was also supported by a 35.7 per cent rise in capital account inflows in the review year, in contrast with a decline of 48.3 per cent in the previous year. This reflected continued foreign support for government developmental projects.

The financial account inflows grew by 13.7 per cent in the review period, following an increase of more than 100 per cent in the previous year. This indicated a slowdown in financial flows after huge injection in foreign direct investment (FDI) for the initial construction of Liqhobong diamond mine plant in 2014. In addition, the surplus was moderated by a built up in commercial banks' foreign assets abroad which more than offset the increase in commercial banks as well as CBL's foreign liabilities.

3.3.4 Foreign Exchange Rates

The loti, which is fixed at par to the SA rand, weakened against the US dollar, the pound sterling and the Special Drawing Rights (SDR) but appreciated against the Euro during the review year. The weakness occurred in most of the emerging markets currencies including South Africa, since investors moved their investments from emerging countries' financial markets back to developed countries such as the US, due to positive investors' sentiment on economic growth in developed countries. Other factors associated with depreciation of domestic currency included:

- Internal problems of SA such as electricity shortages, and the fragile manufacturing sector;
- A fall in commodity prices, in particular, gold and platinum, in the international markets which had a detrimental effect on the value of the rand, as SA is one of the major commodity-exporting countries;
- A slowdown of China's economic growth that led China to devalue its currency in attempting to stimulate their export sector, and thus led other countries to follow suit by devaluating their currencies in an effort not to fall behind.

In 2015, on average, the local currency in nominal terms depreciated by 19.8 per cent to M13.00 and 10.2 per cent to M19.67 against the US dollar and the Pound Sterling, respectively. It also depreciated by 9.0 per cent to M17.93 against the SDR. Against the Euro, it appreciated by 1.2 per cent to M14.21.

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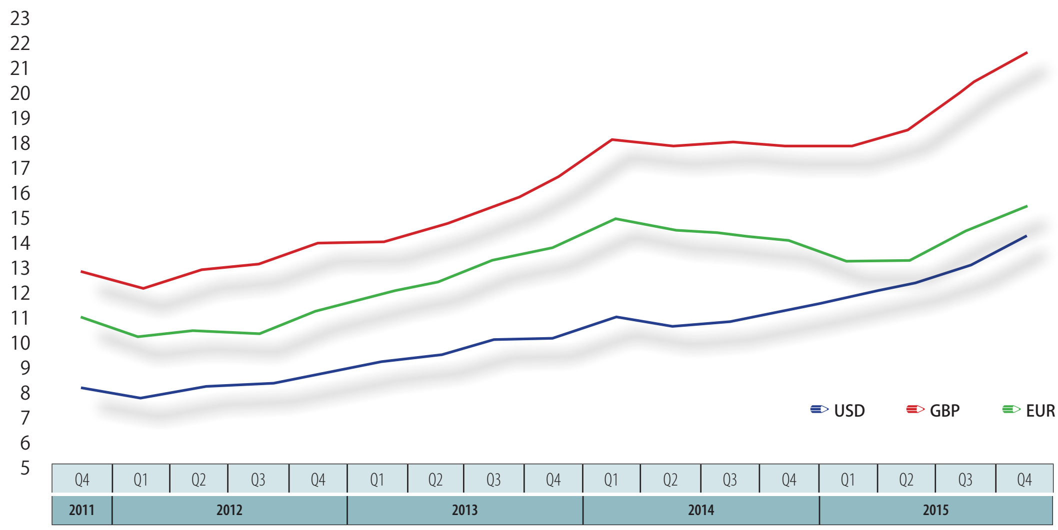
Money supply (M2) in nominal terms grew by 13 % in 2015 compared to a relatively muted increase of 4.0 per cent registered in 2014.

Figure 10 Nominal Exchange Rate of Loti against Major Currencies (Period Averages)



Source: Central Bank of Lesotho

3.4 Monetary and Financial Developments

3.4.1 Money Supply

Money supply (M2) in nominal terms grew by 13 per cent in 2015 compared to a relatively muted increase of 4.0 per cent registered in 2014. This growth was underpinned by a 16.0 per cent increase in net foreign assets coupled with 8.0 per cent increase in domestic credit excluding net claims on government. Real growth in money supply, measured by the change in M2 adjusted for inflation, recorded an increase of 7.4 per cent in 2015 compared to a 0.4 per cent during the previous year. This is attributable to a high paced growth of nominal money supply that over-shadowed acceleration in inflation rate.

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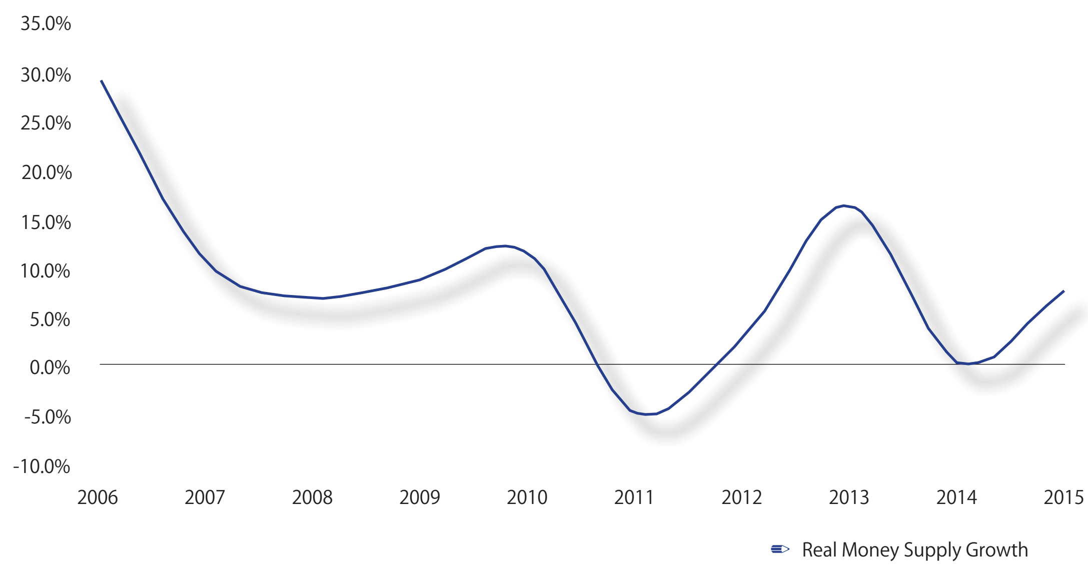
Figure 11 **Real Money Supply Growth** (Percentage Change)



Source: Central Bank of Lesotho

Developments in money supply (M2) can also be reflected through movements in the components of M2, namely, narrow money (M1) and quasi money. Narrow money registered a 26.3 per cent increase during the review period following a slow paced growth of 2.7 per cent during the previous year. This was on account of 35.7 per cent increase in demand deposits coupled with 7.8 per cent growth in currency in circulation. On the contrary, quasi money declined slightly as it recorded a 1.3 per cent fall in 2015 against 5.0 per cent increase in 2014.

3.4.2 Domestic Credit

Domestic credit, including claims on government, recorded a drastic growth of 313 per cent against a 56.8 per cent fall during the previous review period. The main drivers of this development are the 3.8 per cent increase in net claims on government as well as 7.4 per cent increase in private sector credit. The growth in net claims on government was bolstered by expansion in claims on government that over-shadowed build-up of government deposits with the Central Bank. This follows depreciation of South African Rand (hence Loti) thus leading to increase in foreign currency denominated debt.

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Businesses enterprises credit showed signs of resilience amid dampened global growth.

On the other hand, private sector credit growth during the review period was underpinned by a 2.8 per cent growth in household's credit as well as 15.9 per cent increase in credit extended to business enterprises. Traditionally, private sector credit has been dominated by credit to households which has recently experienced a slow paced growth as banks continue to curtail their exposure to unsecured lending in favour of asset backed lending. While this has translated into a drastic growth in mortgages, the gains have not offset the losses hence total private sector credit continues to grow at a decelerating rate. Businesses enterprises credit showed signs of resilience amid dampened global growth. It was supported mainly by increased economic activities in some key economic sectors such as construction and mining.

Table 5 **Domestic Credit** (Million Maloti: End of Period)

	2011	2012	2013	2014	2015
Claims on Government (Net)	-2593	-3149	-4,178	-4963	-4773
Claims on Central Government	965.1	1318.9	1,499.50	1460.5	1916
Liabilities to Central Government	3557.7	4467.8	5,677.30	6423.1	6689.3
Claims on Public NFCs (Official entities)	1.4	-0.1	0	0	0
Claims on Private Sector	2687	3778.2	4,556.10	5121.3	5501.7
Claims on Households	1491	2307.3	2997.8	3306.2	3398.2
Claims on Business Enterprises	1196	1470.8	1558.3	1815.1	2103.4
Domestic Claims	107	639.1	390	168.6	696.36
Source	Central Bank of Lesotho				

3.4.3 Net Foreign Assets

Growth in overall banking system Net Foreign Assets (NFA) continued to rise during the review period. In 2015, NFA increased by 16.0 per cent compared to a 9.0 per cent growth during the period ending December 2014. This is against the backdrop of significant growth in both the Central Bank's and commercial banks NFA which grew by 12.0 per cent and 27.0 per cent, respectively. Depreciation in South African Rand (and hence the Loti) against major international currencies coupled with slow government budget execution boosted Central Bank NFA. On the other hand, commercial banks NFA benefitted from increased deposits that offset growth in credit extension hence banks had to invest funds in the regional money markets.

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Table 6	Banking System's Net Foreign Assets (Million Maloti: End of period)				
	2011	2012	2013	2014	2015
Commercial banks	3209.5	2487	3237	3040	3859
Assets	3390.9	2570	3627	3329	4244
Liabilities	-181.4	-82.8	-390.7	-289.9	385
Central Bank	6696.1	7654	9599	10924	12275
Assets	7350.6	8564	10964	12342	13960
Liabilities	-654.5	-909.3	-1366	1419	1685
Net Foreign Assets	9905.7	10141	12835	13963	16134
Source	Central Bank of Lesotho				

3.4.4 Credit Extension

a) Trends of Credit Extended to Business Enterprises

Credit extended to business enterprises during the review period increased by 15.9 per cent compared to 16.5 per cent growth recorded for the previous year. Retail, Hotel and Restaurant registered the largest growth of 53.9 per cent followed by construction, transport, storage and communications and lastly mining. To a large extent, this growth in credit is in line with increased economic activity in the respective sectors undertaken during the review period. On the contrary, credit extended to electricity, gas and water sector declined sharply by 18.6 per cent owing to loans runoff that occurred during the review period.

Table 7	Trends of Credit to Business Enterprises (Millions of Maloti)				
	2011	2012	2013	2014	2015
Agriculture	4.7	11.3	16.3	17.4	18.1
Mining	139.7	152	185.4	358.7	406.9
Manufacturing	155.9	226	320.7	445.4	481.7
Construction	67.4	181.4	212.7	171.2	228.2
Transport, Storage and Communication	240.3	130.2	112.3	188.5	235.3
Electricity, gas and water	37.9	33.9	36.8	40.4	32.9
Wholesale, Retail, Hotel & Restaurant	210.5	246.9	225.7	153.2	235.8
NBFIs, Real Estate and Business Services	289.9	443.3	204.8	429.9	444.6
Community, Social & Personal Service	49.7	45.8	243.6	10.3	19.8
Total	**1 196.1**	**1 470.8**	**1 558.3**	**1815.1**	**2103.4**
Source	Central Bank of Lesotho				

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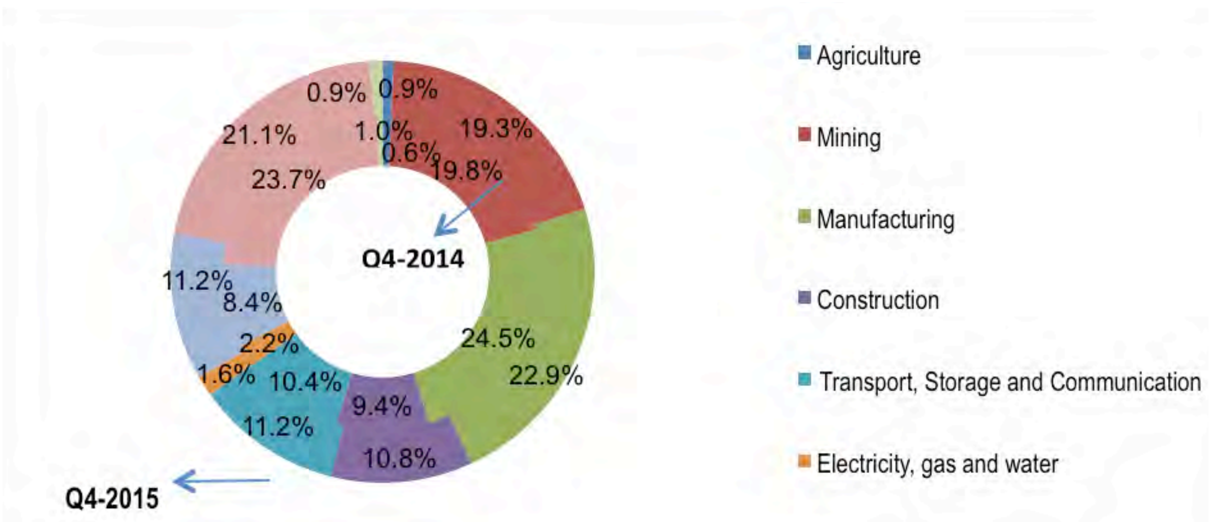
Agriculture and community, social and personal services received the smallest **shares of credit.**

b) Distribution of Credit to Business Enterprises

Manufacturing continues to take the lion's share of credit extended to business enterprises followed by real estate and business enterprises and mining. To the large extend, this development is reflective of the performance of these sectors during the review period as well as their contribution to country's GDP. In particular, manufacturing appears to have fairly weathered the storms during the review period following uncertainties around renewal of AGOA. On the other hand, agriculture and community, social and personal services received the smallest shares of credit.

Figure 12 Distribution of Credit to Business Enterprises



Source: Central Bank of Lesotho

c) Credit Extension to Households

During the review period, credit to households grew albeit at a much moderate pace compared to the previous year. Following a 10.2 per cent growth recorded during the review period ending December 2014, credit to households slackened as it grew by 2.6 per cent in 2015. This modest growth was on account of a 7.1 per cent decline in personal loans that over-shadowed a 43.6 growth in mortgages. In terms of shares, personal loans continue to have significantly large but falling share of total credit granted to households while share of mortgages is growing rapidly. During the review period, personal loans share stood at 73.4 per cent compared to 81.0 per cent during the previous year while mortgages registered a share of 26.6 per cent in 2015 compared to 19 per cent during the same time period. As highlighted earlier, this is reflective of banks attempts to minimise risk exposure to unsecured lending in order to maintain a more sustainable growth of their loan books.

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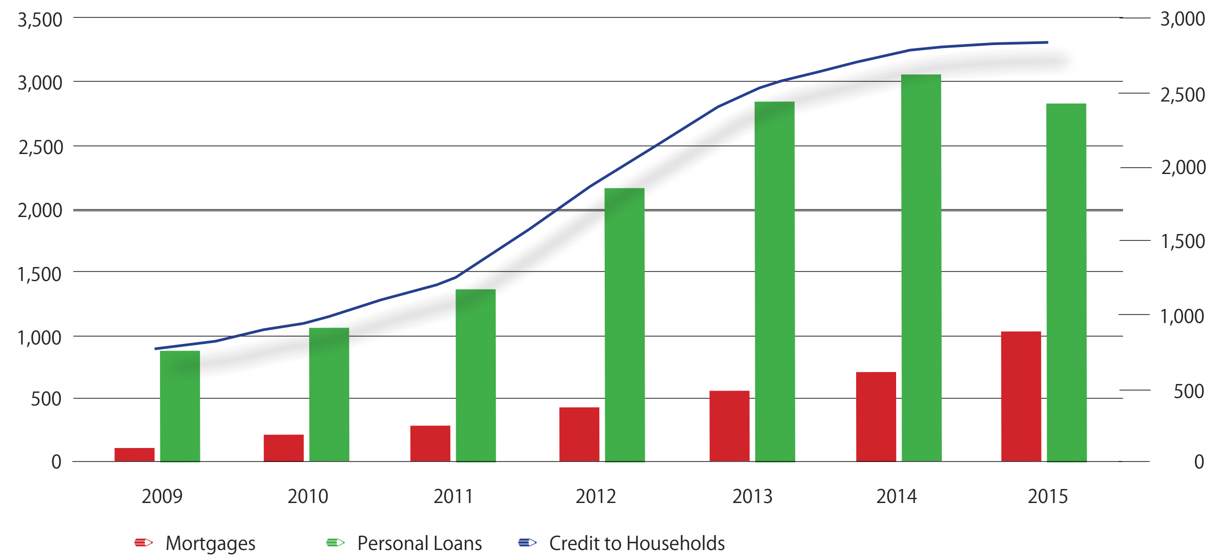
Figure 13 **Credit Extension to Households** (Million Maloti: End Period)



Source: Central Bank of Lesotho

3.4.5 Commercial Banks Liquidity

Commercial banks liquidity stood at 82.3 per cent in 2015 compared to 85.2 per cent during the previous year. This is attributable to a drastic increase in total deposits that offset growth in surplus funds. Growth in total deposits was reinforced by aggressive deposits mobilisation by banks as well as a result of good performance by some sectors. Similarly, credit to deposit ratio declined from 61.4 per cent in 2014 to 59.8 per cent during the review period as total deposits growth out-weighed growth in total credit as credit continues to lose growth momentum.

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The South African Reserve Bank (SARB) increased its **repo rate** during the review period owing to deteriorating inflation outlook.

Table 8	Commercial Banks' Liquidity					
	2010	2011	2012	2013	2014	2015
Credit to Deposit Ratio	**36.90%**	**43.90%**	**55.80%**	**58.00%**	**61.40%**	**59.80%**
Private Sector Credit	2 166.7	2 604.7	3 546.6	4 465.1	4918.2	5432.2
Total Deposits	5 877.9	5 934.7	6 359.3	7 698.7	8004.3	9084.4
Liquidity Ratio	**95%**	**85%**	**70.80%**	**83.00%**	**85.20%**	**82.59%**
Notes and Coins	160.2	257.1	342.9	396	361.6	476.34
Balances Due from Banks in Lesotho	1 047.8	1 023.1	931.3	1 859.6	2149.5	2343.9
Balances Due from Banks in SA	3 757.4	3 110.9	2 397.3	3 416.7	3142.7	3760.6
Surplus funds	37.4	-44.1	-5.7	50.9	303.9	96.344
Government Securities	596.2	722.2	839.1	664.9	864	825.42
Total	**5 599.1**	**5 069.1**	**4 504.9**	**6 388.0**	**6821.7**	**7502.6**
Source	Central Bank of Lesotho					

3.4.6 Interest Rates

The South African Reserve Bank (SARB) increased its repo rate during the review period owing to deteriorating inflation outlook. In a quest to maintain one-to-one peg between Lesotho Loti and the South African Rand, the CBL has to ensure the domestic cost of funds is aligned to interest rates within the CMA region especially South Africa as failure to do so would compromise the NIR position and therefore the peg. Consequently, most Lesotho money markets interest rates increased during the review period. For instance, Lesotho average prime lending rate increased from 10.44 per cent in December 2014 to 10.94 per cent in December 2015 while 91-days TB rate rose from 6.25 per cent to 6.49 per cent during the same time period.

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Table 9 Interest Rates

	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15
Central Bank					
91-days TB Rate	5.28	5.37	5.18	6.25	6.49
Lombard Rate	9.28	9.37	9.18	10.25	10.49
Commercial Banks					
Call	1.15	0.77	0.77	0.99	1.03
Time					
31 days	1.21	0.91	0.91	1.23	0.48
88 days	1.67	1.41	2.85	2.85	1.04
6 months	1.94	1.69	1.69	2.31	2.26
1 year	2.78	2.34	2.34	3.21	3.26
Savings	1.15	0.84	0.84	0.86	0.51
Central Bank					
Repo	5.5	5	5	5.75	6.25
T Bill Rate – 91 Days	5.46	4.95	5.24	6.12	6.98
Prime	9	9	8.5	9.25	9.75

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

Box 3 Introduction of Central Bank of Lesotho Rate

he Central Bank of Lesotho introduced a bank rate in December 2015 envisaged to serve as a reference and an anchor for other domestic interest rates. The policy rate will ensure that the cost of borrowing is aligned to domestic developments. Ultimately ensuring that the Bank continues to attain price stability (the ultimate objective of monetary policy).

In setting the rate, the bank considers domestic economic conditions as well as global economic conditions especially developments in South Africa. The policy rate is linked to other monetary policy instruments that absorb or inject liquidity in the economy. It is set such that it maintains the NIR at a level that will ensure the one-to-one peg between the South African Rand and Loti. For this to happen, Lesotho has to hold an equivalent of at least 100 per cent of narrow money (M1). The policy rate is put at a level that encourages investors to keep money in Lesotho so as to avoid capital flights that can undermine the peg hence at all times the Bank shall endeavour to offer a competitive policy rate in order to curb capital outflows.

The transmission of the policy rate to the lending rate is currently a direct one. Increases in the policy rate will lead to banks changing their lending rate. Ideally the policy rate has to be transmitted to the lending rate firstly by changing the interbank rate. However, this is not operational in Lesotho due to the high liquidity held by commercial banks thus there is no operational lending of banks with one another thus why the transmission is direct.

In conclusion, it is vital to highlight that the introduction of the policy rate gives the Central Bank of Lesotho power to alter the cost of borrowing as per the circumstances in Lesotho thus increasing the relevance of the rate to domestic conditions. However for the policy rate to be effective there are other changes that need to be effected namely; introduction of new monetary policy tools, currently there are only two (Treasury Bill and required reserve ratio) and development of a comprehensive measure of the amount of money supply in the economy, these are current shortcomings of monetary policy in Lesotho which are however being addressed. When these challenges are fully addressed the policy rate will be a greater representation of the economic circumstances of Lesotho thus making the general public able to relate and understand better the changes in the cost of borrowing.

3

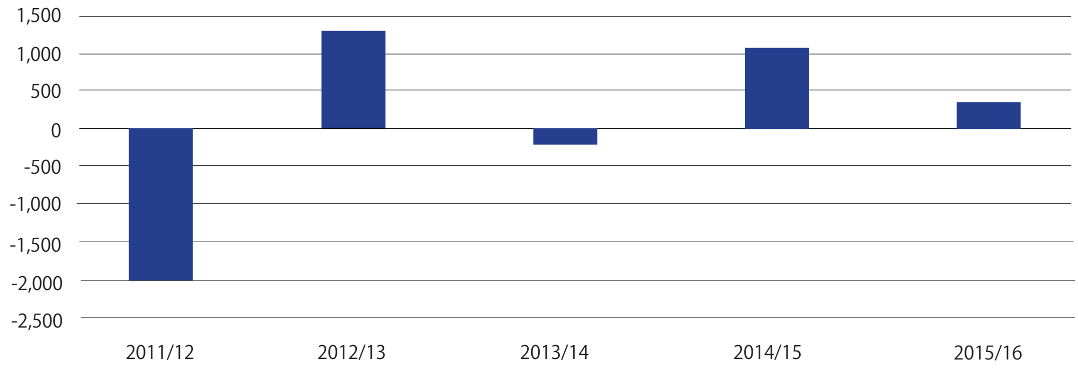
Total revenue is expected to register 59.7% of GDP in 2015/16 down from the revised 60.6% recorded in 2014/15.

3.5 Government Finance

3.5.1 Fiscal Performance in 2015/2016

Government budgetary operations are expected to register a fiscal surplus of 1.4 per cent of GDP in the 2015/16 fiscal year compared with 4.4 per cent of GDP in 2014/15. Furthermore, the stock of public debt as a ratio of GDP is expected to be below the SADC threshold of 60.0 per cent of GDP by 2.7 per cent of GDP by the end of the fiscal year compared with 47.8 per cent in 2014/15. Thus, the public debt stock is projected to grow by 29.6 per cent in 2015/16 reflective of the largely exchange rate effect. Loti remained weak against the major foreign currencies, and thus increasing the foreign currency denominated debt.

Figure 14 | **Fiscal Balance** (Million Maloti)

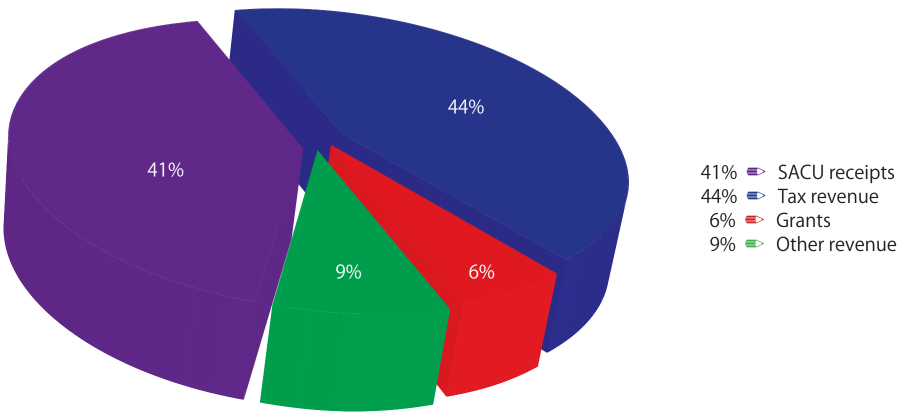


Source: | Ministry of Finance (MoF) and CBL estimates

3.5.2 Revenue

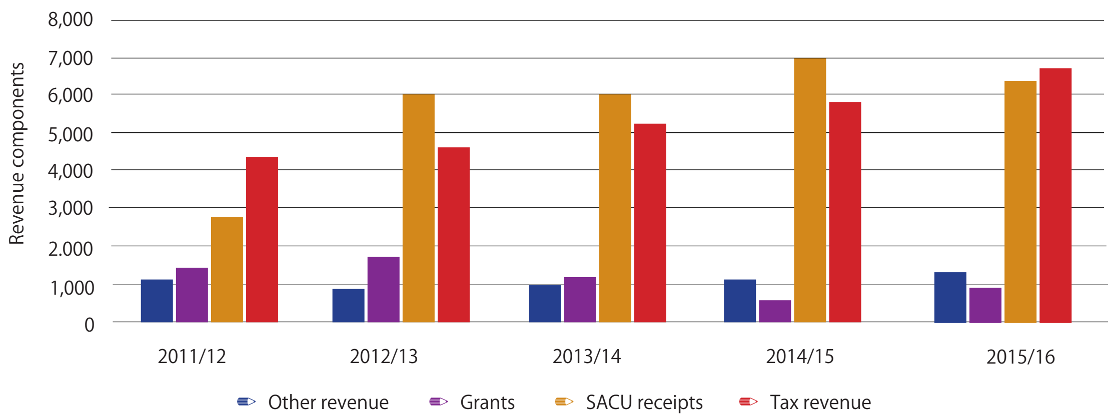
Total revenue is expected to register 59.7 per cent of GDP in 2015/16 down from the revised 60.6 per cent recorded in 2014/15. Preliminary estimates further indicate that total revenue will increase by 6.4 per cent in 2015/16 compared with a rise of 8.8 per cent in 2014/15, as per the revised figures. The main drivers of this increase in revenue constitute personal income tax, company tax and grants. In terms of proportions, the tax revenue is expected to take the largest share of revenue at 44 per cent, followed by SACU receipts. The tax revenue is forecasted to increase by 26.0 per cent during the fiscal year under review compared with 24.2 per cent in 2014/15. On the one hand, grants disbursements from the following development partners: European Union, Global Fund for malaria, TB and HIV/AIDS, African Development Fund, International Development Association, Government of Germany, United Nations Children's Fund; are expected to increase coupled with counterpart contribution from the Government of Lesotho. The funds from these partners sponsor the following sectors: health and social welfare, water supply, agriculture (wool and mohair) and, roads and bridges. The European Union is expected to contribute at least 70.0 per cent of the projected grants in 2015/16, followed by the Global Fund at 18 per cent. Furthermore, Lesotho continues to be vulnerable to external shocks as SACU receipts are projected to decline by 9.0 per cent in 2015/16 relative to a rise of 16.2 in the previous fiscal year. The fall in SACU receipts reflects the economic downturn in South Africa.

Figure 15 **Total Revenue** (Percentage Share)



Source: Ministry of Finance (MoF) and CBL estimates

Figure 16 **Sources of Government Revenue** (Million Maloti)



Source: Ministry of Finance (MoF) and CBL estimates

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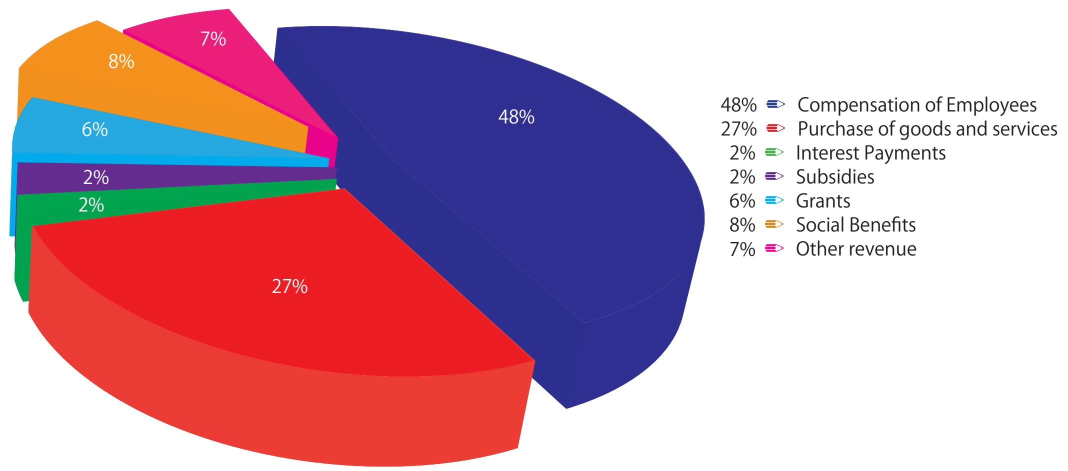
The **expenses** are projected to contribute 77.8% to total expenditure in the current fiscal year 2015/16 down from the revised 78.8% in 2014/15.

3.5.3 Expenses

The expenses (recurrent expenditures) are projected to contribute 77.8 per cent to total expenditure in the current fiscal year 2015/16 down from the revised 78.8 per cent in 2014/15. The projected expense outturn will record 45.4 per cent of GDP during the fiscal year under review compared with the revised 44.3 per cent of GDP in 2014/15. This means that it will increase by 10.7 per cent in 2015/16 up from 3.1 per cent in 2014/15. The rise in expenses is attributed to the increase in all components apart from the grants category. The significant increase relates to wages and salaries, operating costs and interest payments on foreign loans. Interest payments to non-residents increased by 25.2 per cent on account of exchange rate effect, among other things.

Figure 16 **Sources of Expense** (Proportional Share)



Source: Ministry of Finance (MoF) and CBL estimates

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Figure 18 Components of Expense (Million Maloti)

Source: Ministry of Finance (MoF) and CBL estimates

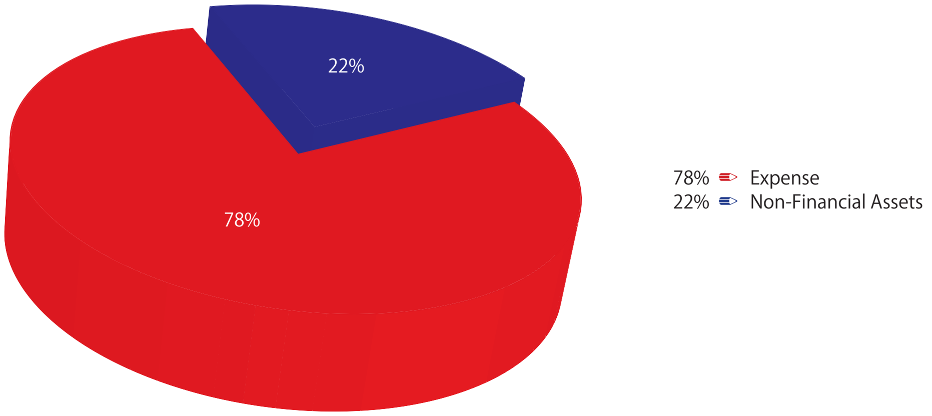
3.5.4 Non-Financial Assets

The capital expenditure or non-financial assets category is expected to take a share of 22.2 per cent out of total projected outturn in 2015/16 compared with 21.2 in 2014/15. It is estimated at 13.0 per cent of GDP in 2015/16 compared with 11.9 per cent in the previous fiscal year. Thus, it will increase by 17.7 per cent in the current fiscal year up from a fall of 12.3 per cent in 2014/15. The reason for the good performance is due to the rise in dwellings, non-residents buildings, other structures (roads, bridges and dams), other machinery and equipment (for example, computers), and unidentified fixed assets.

3

The projected **cash flows** show how the government utilises financial resources generated by other sectors till the end of the fiscal year, 2015/16.

Figure 19 **Composition of Total Expenditure** (Million Maloti)

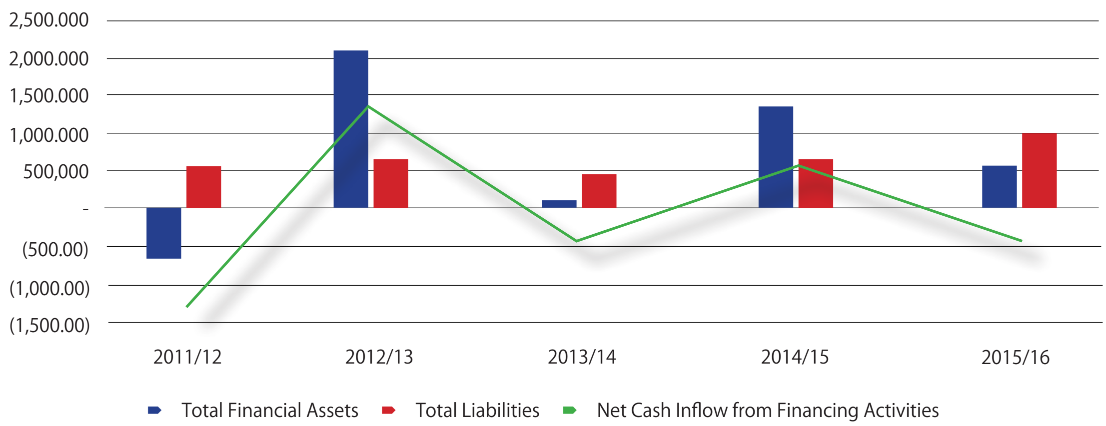


Source: Ministry of Finance (MoF) and CBL estimates

3.5.5 Financial Assets and Liabilities

The projected cash flows show how the government utilises financial resources generated by other sectors till the end of the fiscal year, 2015/16. The net acquisition of financial assets is estimated to be M543.96 million in 2015/16 down from M1, 313.6 million in 2014/15. The net incurrence of liabilities are expected to increase by M970.1 million in 2015/16 compared with M695.6 million in 2014/15.

Figure 20 **Financial Assets and Liabilities** (Million Maloti)



Source: Ministry of Finance (MoF) and CBL estimates

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Table 10 Summary of Government Budgetary Operations (Millions of Maloti)

	2011/12	2012/13	2013/14	2014/15	2015/16
Revenue	**9618.83**	**13167.63**	**13407.65**	**14590.21**	**15529.10**
Tax revenue	4286.15	4601.02	5167.09	5818.43	6763.92
Grants	1436.78	1703.46	1194.99	495.70	955.80
Other revenue	1143.25	896.83	991.02	1242.01	1410.77
SACU receipts	2752.65	5966.33	6054.55	7034.07	6398.62
Expense	**-8742.57**	**-8782.42**	**-10351.79**	**-10667.65**	**-11806.27**
Compensation of Employees	-3639.38	-3679.94	-4553.49	-4984.49	-5716.11
Purchases of goods and services	-2177.99	-2344.43	-2761.93	-2819.08	-3146.77
Interest Payments	-197.33	-244.19	-293.57	-259.55	-284.87
Subsidies	-237.17	-252.94	-232.62	-197.50	-240.10
Grants	-1171.91	-922.22	-976.46	-963.10	-735.66
Social benefits	-586.69	-616.75	-762.53	-704.56	-899.07
Other expense	-732.10	-721.96	-771.18	-739.37	-783.69
Net Cash Inflow From Operating Activities	**876.26**	**4385.21**	**3055.86**	**3922.56**	**3722.84**
Nonfinancial Assets	**-2888.38**	**-3087.95**	**-3262.56**	**-2862.45**	**-3370.09**
Fixed Assets	-2888.38	-3087.95	-3262.56	-2862.45	-3370.09
Buildings and structures	-1758.38	-1295.90	-1721.54	-1845.33	-2142.57
Machinery and equipment	-217.31	-266.19	-261.26	-123.45	-154.47
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00
Cash deficit(-)/surplus(+)	**-2,012.12**	**1,297.26**	**-206.69**	**1,060.11**	**352.75**
Net Cash Inflow From Financing Activities	**1,216.10**	**-1,304.33**	**335.62**	**-618.02**	**426.14**
Financial assets	**637.06**	**-1,995.39**	**-139.27**	**-1,313.62**	**-543.96**
Domestic	637.06	-1,995.39	-139.27	-1,313.62	-543.96
Foreign	0.00	0.00	0.00	0.00	0.00
Liabilities	**579.04**	**691.06**	**474.89**	**695.60**	**970.10**
Domestic	413.33	293.61	66.75	38.14	450.69
Foreign	165.71	397.44	408.14	657.46	519.41
Statistical Discrepancy	**-796.02**	**-7.07**	**128.92**	**442.08**	**778.89**

Source: Ministry of Finance (MoF) and CBL estimates

3.6 Public Debt

3.6.1 Overview

The public debt stock, including publicly guaranteed debt, is expected to increase from M11, 498.4 million recorded in 2014/15 to M14, 906.4 projected in 2015/16. The difference between these two years amounts to M3, 408.0 million of which the external public debt contributes 91.1 per cent (or M3, 104.7 million). Thus, the public debt stock is projected to have increased to 57.3 per cent of GDP in 2015/16 up from 47.8 per cent in the previous fiscal year. The main driver for this increase is external public debt which is

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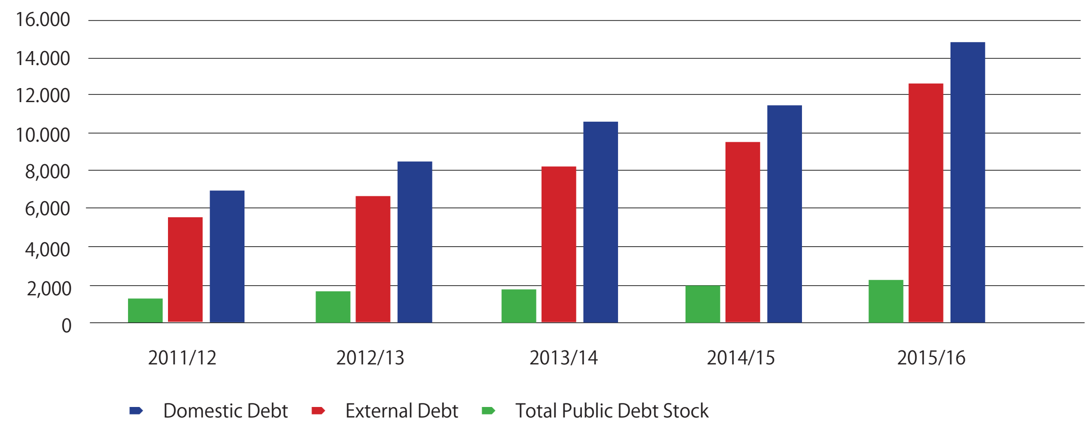
The **external public debt** stock contributes 84.6% to total public debt stock, as per the forecasted fiscal year 2015/16.

expected to expand from 39.5 per cent of GDP in 2014/15 to 48.5 per cent in the current fiscal year. The domestic debt (with inclusion of the IMF's Extended Credit Facility) has increased slightly from 8.3 per cent of GDP in 2014/15 to 8.8 per cent in 2015/16.

The external public debt stock contributes 84.6 per cent to total public debt stock, as per the forecasted fiscal year 2015/16 compared with the revised 82.7 per cent in 2014/15. It will increase by 32.7 per cent in 2015/16 which is up from 11.9 per cent rise in 2014/15. This increase in external debt is due to a significant rise in multilateral loans and suppliers' credit since bilateral loans and loans from financial institutions are expected to decline despite the prevailing exchange rate depreciation.

The factors that usually affect the changes in the debt stock include disbursements, amortisation and exchange rate depreciation or appreciation. The projected 2015/16 public debt will mostly be affected by the exchange rate depreciation of Loti against major foreign currencies in which debt is denominated. Out of the projected 91.1 percentage share of the external public debt stock in the public debt stock increase, the net incurrence of foreign loans (disbursements minus amortisation) will record 16.7 per cent (M519.4 million) while the holding losses due to exchange rate depreciation will constitute 83.3 per cent. The Special Drawing Rights currency takes the largest share, followed by Euro, US Dollar and so on.

Figure 21 | **Public Debt by Residency** (Million Maloti)



Source: | Ministry of Finance (MoF) and CBL estimates

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Table 11 Public Debt Stock and Select Ratios (Millions of Maloti)

	2011/12	2012/13	2013/14	2014/15	2015/16
Total Public Debt Stock	**6,959.38**	**8,556.36**	**10,378.90**	**11,498.40**	**14,906.42**
External Debt	**5,629.20**	**6,791.24**	**8,492.06**	**9,506.71**	**12,611.49**
Bilateral Loans (concessional)	242.80	376.35	831.94	1,186.94	1,163.04
Multilateral Loans	5,058.80	5,929.22	7,074.81	7,690.99	10,743.80
Concessional	4,869.40	5,339.25	6,175.46	6,363.41	8,754.56
Non-concessional	189.40	589.96	899.35	1,327.58	1,989.24
Financial Institutions (non-concessional)	66.50	59.82	57.93	55.08	0.64
Suppliers' Credit (non-concessional)	261.10	425.85	527.38	573.70	704.01
Banks	**1,330.18**	**1,765.12**	**1,886.83**	**1,991.69**	**2,294.94**
Treasury Bonds	1,039.88	1,425.62	1,563.99	1,567.49	1,939.86
Treasury Bills	375.18	405.57	318.30	336.90	468.03
Special Drawings (on-lent by CBL)	450.14	447.01	406.34	407.25	395.61
Non-bank	214.56	573.04	839.35	823.34	1,076.22
Treasury Bonds	290.30	339.59	322.84	410.79	410.79
Treasury Bills	151.40	213.51	186.19	236.27	154.84
Treasury Bills	138.90	125.99	136.66	187.93	200.24
Total debt as % of GDP	37.3	42.7	47.2	47.8	57.3
External debt as % of GDP	30.2	33.9	38.6	39.5	48.5
Domestic debt as % of GDP	7.1	8.8	8.6	8.3	8.8
External debt as % of total	80.9	79.4	81.8	82.7	84.6
Domestic debt as % of total	19.1	20.6	18.2	17.3	15.4
Concessional as % of External debt	90.8	84.2	82.5	79.4	78.6

Source Ministry of Finance (MoF) and CBL estimates

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Report on the Operations of the Bank

4.1 Governance, Risk Management and Compliance

4.4.1 Governance Matters

During the year 2015, the Board of Directors convened nine times to consider matters relating to the following; strategic performance, risk management, budget performance, approval of budget, and to oversee other material governance aspects of the Bank's business and mandate. The Committees of the Board, namely the Audit Committee, Human Resources and Remuneration Committee, and Risk and Information Technology Governance Committee also convened, deliberated and advised the Board on matters that required their specialised attention.

The term of office of Non-Executive Directors Advocate Sekake Malebanye (KC), Mrs Octavia Letebele, and Mrs 'Mapalesa Rapapa ended in May 2015, having commenced in May 2012. Non-Executive Directors Malebanye and Letebele were reappointed for further terms of three years with effect from May 2015. Non-Executive Director Dr Maluke Letete was appointed to the Board in July 2015.

4.4.2 Internal Audit

The Internal Audit Department is mandated to advice the CBL Board to facilitate accomplishment of the Bank's objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of Risk Management, Control, and Governance processes. To achieve this mandate, the audit team performs analysis and assessment, to derive recommendations and advice concerning CBL activities, which would inform decision making and improve the effectiveness and efficiency of operations throughout the Bank.
The Department has therefore in 2015, engaged a Quality Assurance and Improvement Program (QAIP) designed among others to provide reasonable assurance to its various stakeholders that it performs its work in accordance with its Charter. The charter is consistent with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (Standards), Definition of Internal Auditing and Code of Ethics as well as that it operates in an effective and efficient manner.

During the year 2015, the Department worked on provision of assurance and consulting services in line with the approved 2015 Audit Plan. The Board was supported through assurance engagements performed in the main focus areas being Financial, Operational and IT matters as determined and prioritized through Risk-based Audit Universe and Plan.

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Additionally the Department pursued strategic initiatives scheduled for the year, which were mainly focused at improvements in efficiency and effectiveness of the audit process and enforcing conformance with IIA Standards. Worth noting is the progress made by the Department in collaborating with other assurance providers within the Bank towards introduction and adoption of the combined assurance concept which will among others reduce the duplication of efforts while eliminating the silo approach to management of risks within the Bank.

4.1.3 Risk Management

(a) Risk Management Efforts

The review period was characterised by two things in this area. The quarterly risk management reports based on the risk action plans which were in turn derived from the Bank's risk register were prepared and discussed by the executive management. Furthermore efforts were directed at developing the Bank risk profile, which was still being refined at the close of the reporting period. Following the approval of the 2015-2019 Strategic Plan, the Bank risk register had to be reviewed in order to align it with the new strategic plan. That process will be concluded in the early part of the next year.

(b) Business Continuity Management

The Division also undertook a Business Continuity Management (BCM) Self- Assessment exercise and a report thereto was produced. The objective was to assess the BCM maturity level of the division using the adopted BCM Maturity Model. The division managed to undertake quarterly tests of the temporary Disaster Recovery (DR) Site and test reports were produced and presented to Management. The purpose was to ensure readiness of the DR site.

4.2 Financial Sector Development

4.2.1 Financial Sector Development Strategy (FSDS)

The Bank continued to implement the projects in the Financial Sector Development Strategy. In 2015, the limited life FSDS Secretariat was established within the Bank with the mandate to coordinate the overall implementation of the strategy, and to support the Implementation Committee, which is the high level body tasked with the oversight of the implementation process. The Secretariat has commenced with the task of updating the status of various FSDS projects.

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The Bank continued to make efforts to develop **financial markets** in the country with focus on the capital markets for the year 2015.

4.2.2 Capital Markets Development

The Bank continued to make efforts to develop financial markets in the country with focus on the capital markets for the year 2015. During this year, the Bank was in the process to develop the centralised securities market through the establishment of Maseru Securities Market (MSM). In order to ensure the success of the project, four areas pillars were identified; namely, market support and outreach, legal and operational framework, IT infrastructure and institutional arrangements. Activities that were planned under these pillars were successfully completed, culminating into the launch of MSM as a legal entity authorised to carry out the functions of the stock exchange in the interim in terms of Capital Markets Regulations, 2014.

While the launch of MSM is an important and critical mile stones, great challenges remain ahead. Amongst them is the need to get companies to list and for the public to understand capital markets and participate in the economy. This requires concerted efforts by all stakeholders and the Bank continues consultations with the Government and LNDC to take lead in offloading their shareholding of companies held to the public.

4.3 Research and Monetary Policy

4.3.1 Economic Research

Economic research is an important activity in the Bank that stems from the Central Bank Act aimed at informing monetary policy and other management decisions, providing reports on the state of the economy to the office of the Minister of Finance and to other stakeholders. In 2015 the Bank produced four Quarterly Reviews in compliance with Sections 41 (3) (c) and 46 (1) & (2) of the Central Bank of Lesotho Act of 2000 (the Act). Furthermore the Bank produced three research papers and two policy briefs in 2015. Two of the research papers were presented in conferences outside the country.

4.4.2 Monetary Policy

Pursuant to Sections 5 and 6(c) of the Act the Bank conducts monetary policy and the Monetary Policy Committee (MPC) is the body charged with this responsibility. In the review year the MPC had four regular sittings and one special sitting. The regular sittings were the policy meetings where economic conditions were considered and a decision on policy stance reached. The special sitting considered progress made in the monetary improvement project. It was the state of this project that paved way to the introduction of the monetary policy rate in final policy sitting of the MPC in December 2015. The policy rate, which has come to be known as the CBL Rate, is the key reference rate against which all other rates will be benchmarked against.

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4.4 Reserves Management

Reserves management is another critical function of the Bank. In terms of the Act, the Bank is charged with the responsibility to manage the Country's reserves. Over the past years the Bank has modernised its systems and frameworks in managing these reserves in line with best practices. For the year 2015, focus was placed on enhancing the returns amid the challenging investment environment. More return enhancing products were explored and the investment guidelines reviewed to accommodate these products. These activities are expected to continue into the year 2016 and it is expected to improve the reserves management for better returns.

4.5 Financial Sector Regulations and Supervision

4.5.1 Regulation and Supervision of the Banking Sector

The Banking Supervision Division has been actively working hard to improve the quality of the supervisory apparatus. In 2015, there were two key areas of focus, namely; improvement of risk-based supervision and migration from Basel I to II. The Basel II project has gained a lot of traction. In terms of planning, the project implementation plan and the project risk management strategy were developed. The first deliverable was a research paper on a proposal of a selection of aspects of Basel II and III that the CBL plans to implement. Risk-based supervision sits at the heart of Basel II implementation which ensures that pillar II of the accord becomes operational. Hence, the capacity building efforts towards strengthening risk-based supervision remain critical and will ease the migration to Basel II. In addition, a CBL-assessment exercise has been carried out in order to determine its readiness for implementing Basel II. The outcome of this has been very instrumental in enriching the implementation plan to facilitate a response to the major gaps identified.

4.5.2 Financial Stability

A financial system comprises of financial intermediaries, financial markets and financial infrastructure. The system is said to be stable when it timeously, efficiently and smoothly allocates resources from savers to investors. It should enable accurate assessment and pricing of financial risk as well as efficient and forward-looking management of risk. A stable financial system should also be resilient and able to respond to adverse shocks, while continuing to function smoothly and supporting the ability of households and firms to use their financial assets with confidence. It should also contribute towards broader economic growth and rising living standards.

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CBL collaborates with several domestic, regional and international bodies in an effort to promote the **stability** of the domestic financial sector.

CBL collaborates with several domestic, regional and international bodies in an effort to promote the stability of the domestic financial sector. In an endeavour to be transparent in its operations and to enhance awareness of the soundness of the Lesotho's financial system, in 2015, the Bank started an initiative to communicate findings of its work on financial stability issues to stakeholders through the Financial Stability Watch (FSW), which is intended to culminate into a Financial Stability Report. The FSW reviews international and domestic macro-financial developments and assesses potential risks to the stability of the domestic financial system. It also focuses on banking sector developments, and related vulnerabilities. It also highlights measures taken by the CBL to mitigate financial risks.

The Bank also has a mandate to design and implement Macro-prudential Policy in the country and to develop the macro-prudential policy framework thereof. The current toolkit has macro-prudential indicators (MPIs) and stress testing. MPIs are defined broadly as indicators of the health and stability of a financial system and comprise both aggregated micro-prudential indicators of the health of individual financial institutions, and macroeconomic variables associated with financial system soundness. On the other hand, stress testing is macro-prudential surveillance tool used to test resilience of the financial to a hypothetical adverse event, usually severe but plausible economic shocks. For 2015, the bank continued to compile and publish, as part of MPIs, financial soundness indicators (FSIs). These indicators are statistical measures designed to monitor the financial health and soundness of a country's financial sector. They cover aspects of capital adequacy, quality of assets, earnings and profitability, liquidity and sensitivity to market risk. Over and above the FSIs, a trial-run stress test was conducted for the banking industry only, due to data challenges regarding other sub-sectors of the financial sector. Four banks were covered and various elements of their balance sheets and income statements were stressed under various risk factors.

4.5.3 Regulation and Supervision of Non-Bank Financial Institutions

In 2015 the Bank resolved to strengthen regulation and supervision of non-bank financial institutions. It was determined that the non-bank financial institutions are key in supporting the goal of financial inclusion. That being the case it was deemed necessary to create a strong regulatory framework for the sector. To that end, the Bank entered into a three-year technical assistance program with the World Bank FIRST Initiative. The program focuses on five main components of (i) creating an appropriate legal, regulatory and supervisory framework for microfinance institutions and financial cooperatives, (ii) cooperatives and other non-bank financial institutions, (iii) mobile money and agency banking, (iv) consumer protection and financial education and (v) strengthening partial credit guarantee schemes.

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4.6 Payment Systems

4.6.1 Payment Systems Regulations

Following the enactment of the Payment Systems Act of 2014, implementing regulations were drafted in the reporting period. The draft regulations are aimed at ensuring safety and efficiency of payment systems in the country.

4.6.2 Electronic Funds Transfer (EFT) Domestication Project

The Electronic Funds Transfer (EFT) payment stream was launched in 2012 by the Payment Association of Lesotho (PAL). PAL outsourced the related clearing process for this payment stream to a South African company for a period of three years that ended in 2015. To further enhance the efficiency and maintain full control over the operations of the Payment Clearing House (PCH) of EFTs, the Bank and PAL undertook a project to domesticate the PCH. The project was successfully completed by the end of April, and the new PCH (EFT) went live in May 2015.

4.6.3 Remittances Projects

(a) Shoprite Money Transfer Cross-border Remittances Facility

During the review period, Shoprite South Africa and Shoprite Lesotho, as well as Capitec Bank in South Africa launched the Shoprite Money Transfer cross-border remittances facility. This facility was the result of intensive consultations with the South African Reserve Bank (SARB), Central Bank of Lesotho (CBL), Shoprite South Africa and Shoprite Lesotho, as well as Capitec Bank in South Africa. The main objectives of this initiative was to develop an affordable, convenient, safe, reliable and real time inbound remittance corridor, through which Basotho who are working and residing in South Africa can send money home. Since its launch in March 2015, this service has experienced phenomenal growth in terms of processed transactions volumes and values. By the end of December 2015, overall this service transacted a total of 33,834 transactions valued at M31, 443,916.67.

(b) Mobile Money Transfer Services

During the year, mobile money operators (MNOs), Econet Telecom Lesotho (ETL) and Vodacom Lesotho (VCL), each launched inbound cross border remittances services. Both MNOs partnered with licensed Money Transfer service providers to provide this service. These services have not only provided an instant and cost-effective remittance corridors but also bring convenience especially to the unbanked and under banked sections of the population as they allow Ecocash and M-pesa subscribers to use received funds to

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The Bank has continued to **promote knowledge** and understanding among the population of Lesotho on economic and financial matters.

pay bills, buy airtime and send money locally or withdraw cash at registered Ecocash and M-Pesa agents across the country once such funds hit their Ecocash wallet and M-pesa account.

4.7 Stakeholder Relations

One of the most important stakeholder engagements the Banks carries out with diligence is in the form of industry meetings which are a forum where the Bank and the regulated industries share issues of mutual interest and update each other key developments from the regulator's side and from the industries side. During the review year meetings were held quarterly with the banking industry and with the insurance industry.

The Bank has continued to promote knowledge and understanding among the population of Lesotho on economic and financial matters. This has been achieved through the use of various channels of communication including print, online, media and other forums such as meetings, seminars, workshops, breakfast meetings, dinners and public education campaigns. In 2015, the Bank initiated a project of developing financial education blue print for schools and eventually having that integrated into schools curricula. The project is also expected to develop materials for other target groups which have been identified in Interim Financial Education Strategy (2014) of Lesotho namely; employees, rural population and general population.

4.8 Corporate Services

4.8.1 Information and Communication Technology

The Information and Communications Technology (ICT) Department provides centralised ICT services to the Bank with the ultimate objective of supporting the business functions and the strategic direction of the Bank through delivery, maintenance and support of information systems and infrastructures.

In 2015, the ICT Department carried took majors strides in enabling the operations of the Bank. In the area of establishment of domestic money and capital markets, the Department successfully enhanced the functionality of the Bank's Central Securities Depository (CSD) system to have additional features to serve as a trading platform for securities, equities and stocks, a project which assisted in the establishment of the Maseru Stock Market. The Department also delivered a website to serve as a communication tool between the Bank and the stock market stakeholders for the Maseru Stock Market. In the area of payment systems, the Department successfully completed a project for the domestication of Electronic Funds Transfer (EFT) technologies, which helped establish a domestic platform for processing Electronic Funds Transfers as opposed to the leased South African based EFT platform that was used in the past.

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The Department also undertook measures to upgrade its infrastructural environment and to improve its internal efficiencies. Infrastructural upgrades undertaken include upgrade of processors, memory and data storage to ensure availability of adequate capacity to host new applications and data required by the Bank. Measures undertaken to improve internal departmental efficiencies include the establishment of and IT Governance Framework and the implementation of an IT Service Management System, which is intended to facilitate the implementation of the framework.

The Department further initiated two big projects to implement a new Enterprise Resource Planning (ERP) system and a new Core Banking System, thereby replacing the Bank's legacy core banking and general ledger platform, MIDAS. These projects were necessitated by the observed limitations of the legacy system that resulted in overall inability for the Bank to serve its customers and stakeholders efficiently.

4.8.2 Procurement and Facilities Management

In 2015, the Bank appointed the private entity with relevant skills and experience to run the Clubhouse of Lehakoe and their mandate is to ensure Lehakoe is run in a manner that is self-sustaining. However, the Gymnasium remains under direct control of the Bank.

4.8.3 Human Resources Management

The Human Resources function of the Bank continues to play a pivotal role in ensuring that adequate and capable manpower is in place to drive the Bank increasing mandate. Policies are in place and are reviewed from time to time to make the Bank a better workplace.

Training and development is very high on the staff development agenda of the Bank. During the course of 2015 staff from all departments attended different courses relevant to their areas of work with the view to perform better and reach the performance goals of the Bank. The year 2015 also saw the Bank undertake a comprehensive Management Development Programme across all levels of management. The University of Stellenbosch Business School ran custom-designed programs for the supervisory level managers, for middle manager and for the executive management.

Staff movements that occurred in 2015 resulted in the net increase of 5 additional staff members. The number of recruitments into the new positions was 22. The Bank separated, for various reasons, with 17 staff members.

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The five year **planning cycle** of the Bank came to an end when the 2010 – 2014 Strategic Plan elapsed.

4.9 Major Projects

4.9.1 CBL Strategic Plan 2015-2019

The five year planning cycle of the Bank came to an end when the 2010 – 2014 Strategic Plan elapsed. The drive to put together a subsequent five-year plan for the period 2015 – 2019 started in 2014. The consultant was engaged to facilitate the initial review of the 2010-2014 Strategic Plan, discussions across all levels of the Bank which as well as stakeholder engagements for broad-based consultations. The process culminated the seven strategic objectives that would anchor the work of the Bank to 2019. Once the strategic objectives were agreed, the Bank through an internally constituted team took the process forward to finality the result of which was a Board-approved strategic plan document in 2015. The Bank's work plan for 2015 was anchored on the 2015-2019 Strategic Plan.

4.9.2 The Bank Extension

The staff compliment has increased over the years as a result of expanding areas of responsibilities of the Bank. This has necessitated increased space requirements both in the form of office space, meeting facilities as well as the car parking bays. The Bank Extension Project was borne out of these circumstances. The Project scope entails the building with a capacity (workstations, meeting rooms, library, auditorium, waiting areas and training rooms) to accommodate 1,478 people and a modern parkade with 530 parking bays. The contract for bulk earthworks was awarded to Sigma/Stefanutti Stocks Joint Venture (SSSJV) while the principal construction contract was awarded to LSP Construction. Mobilisation for bulk earthworks commenced towards end of February 2015 while the work was completed in July 2015. Construction work started immediately thereafter and is expected to be completed in February 2017.

4.9.3 Key Systems Upgrades and Migration

In 2015, the Bank took a decision to change its major IT systems. The change involves the migration of the core banking system and the introduction of the Enterprise Resource Planning (ERP) system. The core banking system is changes from the more than twenty-year-old Midas system which was increasingly becoming problematic. Following a thorough assessment and the realization that the Bank is one of the only two central banks in the region still using the system a decision was made that it was time to change. The ERP system is being introduced as a consolidated platform that (1) replaces a plethora of disjointed systems and (2) automating some of the key processes that have to date been manual such as procurement ❒

Central Bank of Lesotho

Financial Statements

for the year ended December 31, 2015

Central Bank of Lesotho
Financial Statements
for the year ended
December 31, 2015

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
Deloitte & Touche and LETACC

Secretary
Mr. Napo Rantsane (Adv.)

Lawyer
Webber & Newdigate

Contents

This report details the salient aspects of the governance framework of the Central Bank of Lesotho (the Bank). The Bank is committed to ensuring that its policies and practices comply with the highest standards of corporate governance. The Board of Directors of the Bank are 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 Bank has a unitary Board which comprises five (5) Non-Executive Directors and three Executive Directors. The Non-Executive Directors are independent of management and free of any business or other relationship with the Bank that could materially affect their unfettered and independent judgement in the exercise of their fiduciary duties.

The Governor is the Chairperson of the Board and sets its tone. She is responsible for the effective organisation 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 management, and provides leadership for the successful execution of the statutory mandate and for the long term sustainability and success of the Bank.

In order to assist the Board in carrying 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 prescibed charters in terms of which they undertake their respective roles as delegated by the Board. Matters reviewed by these committees on behalf of the Board are referred to the Board for decision with clear recommendations. Furthermore, each committee provides reports to the Board on the matters that it dealt with periodically.

Apart from these committees, there is an Executive Committee, which comprises of the Governor, Deputy Governors and Heads of Departments and also acts with delegated authority from the Board. The Executive Committee is responsible for the day to day operations of the Bank. This committee also provides reports to the Board periodically.

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

In line with Section 13 (2) of the Act, which requires the Board to meet as frequently as possible and not less than once in two months, the Board of Directors convened nine (9) meetings during the 2015 financial period.

Mr. Napo Rantsane
Director of Corporate Affairs
Secretary to the Board

Central Bank of Lesotho • **Directors' Responsibilities and Approval**

for the year ended December 31, 2015

The directors are required in terms of the Central Bank of Lesotho Act No.2 of 2000 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included 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 December 31, 2015, in conformity with the Central Bank of Lesotho Act No.2 of 2000 and according to the policies set in note 1 of the annual financial statements The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual 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 annual financial statements and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates consistently applied. The Directors acknowledge that they are ultimately responsible for the system of internal financial 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 control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Bank and all employees are required to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Bank is on identifying, assessing, managing and monitoring all known forms of risk across the Bank. While operating risk cannot be fully eliminated, the Bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The annual 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.

The annual financial statements were approved by the Board of Directors on March 29, 2016 and are signed on its behalf by:

Dr. Retšelisitsoe Matlanyane
Governor

Mr. Sekake Malebanye KC
Director

Deloitte.

Accountancy Firm

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CENTRAL BANK OF LESOTHO

To the shareholder of Central Bank of Lesotho

We have audited the financial statements of Central Bank of Lesotho, as set out on pages 65 to 113, which comprise the statement of financial position as at December 31, 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting described in note 1 and requirements of the Central Bank of Lesotho Act No.2 of 2000, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company`s preparation and fair presentation of the financial statements 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 company`s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Central Bank of Lesotho as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with the accounting policies described in note 1 to the financial statements and the requirements of the Central Bank of Lesotho Act No. 2 of 2000.

Report on Other legal and Regulatory Requirements

The annual financial statements have been prepared in accordance with the requirements of the Central Bank of Lesotho Act No. 2 of 2000 and in compliance with the Income Tax Order of 1993 and Value Added Tax number 9 of 2001, in all material respects.

As part of our audit of the financial statements for the year ended 31 December 2015, we have read the Director's Report for the purpose of identifying whether there are material inconsistencies between this report and the financial statements. The Director's Report is the responsibility of the respective preparers. Based on reading this report we have not identified material inconsistencies between the report and the audited financial statements. However, we have not audited this report and accordingly do not express an opinion on it.

Deloitte & Touche

Deloitte & Touche
Registered Auditors
Per Stephen Munro
Partner
March 25, 2016

LETACC

LETACC
Firm of Chartered Accountants and Auditors
Per Letuka Sephelane
Partner
March 25, 2016

The Directors present their annual report, which forms part of the audited annual financial statements of the Central Bank of Lesotho, for the year ended December 31 2015. The annual financial statements are expressed in Maloti, the national currency of Lesotho and the functional currency of the Bank that is at par with South African Rand.

1. Review of 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.

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 67. Amounts paid and due in terms of the Act were as follows:

	M '000
31 December 2015	184,232
31 December 2014	131,166

2. Amounts due to Government of Lesotho

Amounts payable to the Government of Lesotho Consolidated Fund in terms of Section 21 (5) of the Act are set out in the statement of financial position on page 65.

3. Share capital

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

4. Directors

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

Name	Date of appointment	Term of Office ended	Position held
Dr. A. R. Matlanyane	January, 2012		Governor and Chairman
Dr. M. P. Makhetha	January, 2012		First Deputy Governor
Ms. M. G. Makenete	January, 2012		Second Deputy Governor
Mrs. M. Rapapa	May, 2012	May 2015	Non-Executive Director
Mrs. N. Foulo	December, 2014		Non-Executive Director
Mrs. S. Mohapi	December, 2014		Non-Executive Director
Mr. S. Malebanye KC	May, 2015		Non-Executive Director
Mrs. O. Letebele	May, 2015		Non-Executive Director
Dr. M. Letete	July, 2015		Non- Executive Director

5. Secretary

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

Mr. N. Rantsane, who was previously acting as the Board Secretary since June 2014, was officially appointed in March 2015.

6. Events subsequent to balance sheet date

Effective January 1, 2016, the Lehakoe Recreation and Cultural Centre Operations (Clubhouse and Gymnasium) were transfered to a separate company, which is wholly owned by the Bank. The Bank has also appointed an external service provider to manage these operations. These operations were considered not significant to the overall operations of the Bank.

The Directors are not aware of any material events that could cause changes in the annual financial statements, which may have occured between the financial year end and date of this report.

7. Auditors

Deloitte & Touche and LETACC carried out the statutory audit of the Bank.

Dr. Retšelisitsoe Matlanyane
Governor

Mrs. Octavia Letebele
Director

29-March-2016

Central Bank of Lesotho • **Statement of Financial Position**

for the year ended December 31, 2015

	Notes	2015 M	2014 M
Assets			
Cash and balances with Banks	2	7,709,255	6,821,883
Accrued interest due from Banks	3	8,189	8,588
Investment in unit trust	4	795,293	585,415
Investment in SWIFT	5	847	-
Treasury notes and bonds	6	4,353,916	4,027,479
IMF Subscription Account	7	751,788	585,573
IMF Holding of Special Drawing Rights (SDR)	8	984,665	779,925
IMF Funded PRGF Advances	9	1,073,290	849,081
Lesotho Government Securities	10	336	582
Deferred currency expenditure	11	29,275	26,187
Loans to Staff	12	69,457	60,831
Other assets	13	14,644	14,410
Property, plant and equipment	14	423,386	282,492
Intangible assets	15	14,505	1,692
Deferred taxation	25	4,887	-
Total Assets		**16,233,733**	**14,044,138**
Equity and Liabilities			
Liabilities			
Notes and coins issued	16	1,324,805	1,165,737
Deposits	17	555,803	906,030
Lesotho Government Deposits		6,408,528	6,007,398
IMF Maloti Currency Holding	18	669,138	521,617
IMF Special Drawing Rights Allocation	19	708,236	551,998
IMF-PRGF Facility	20	1,073,290	849,081
Taxation payable	21	27,569	15,335
Due to Government of Lesotho Consolidated Fund	22	184,232	131,166
Other liabilities	23	78,140	82,702
Long-term employee benefit obligation	24	94,263	83,252
Deferred taxation	25	-	1,346
Total Liabilities		**11,124,004**	**10,315,662**
Equity			
Share capital	26	100,000	100,000
General reserve		253,402	216,555
Rand compensatory reserve		505,660	459,326
SDR revaluation reserve		145,443	78,246
Foreign exchange revaluation reserve		4,070,690	2,762,585
Property revaluation reserve		129,082	119,543
Bond /Unit trust revaluation reserve		(94,548)	(7,779)
		5,109,729	**3,728,476**
		16,233,733	**14,044,138**

Central Bank of Lesotho • **Statement of Profit or Loss & Other Comprehensive Income**

for the year ended December 31, 2015

	Notes	2015 M '000	2014 M '000
Interest income	27	552,065	467,935
Interest expense	2 8	(6,121)	(5,210)
Net interest income		**545,944**	**462,725**
Other income	29	38,455	25,176
Revaluation gain on foreign exchange activities		1,375,302	354,760
Operating profit		**1,959,701**	**842,661**
Operating expenses	30	(266,261)	(261,420)
Profit before taxation		**1,693,440**	**581,241**
Taxation	31	(84,748)	(53,793)
Profit for the year		**1,608,692**	**527,448**
Other comprehensive income:			
Bond/ unit trusts fair values			
Decrease in bond/unit trusts fair values		(115,692)	(4,040)
Tax effect		28,923	1,010
Net movement		(86,769)	(3,030)
Property revaluation reserve			
Increase in property revaluations		**27,719**	**22,467**
Tax effect		(6,930)	(5,617)
Tax effect adjustment	25	(11,250)	-
Net movement		9,539	16,850
Rand compensatory reserve			
Increase in reserve		46,334	42,575
Tax effect		-	-
Net movement		46,334	42,575
Actuarial gains and losses on employee benefits			
Actuarial (loss)/ gain for the year		(16,415)	(20,386)
Tax effect		4,104	5,097
Net movement		(12,311)	(15,289)
Other comprehensive(loss)/ income for the year net of taxation		**(43,207)**	**41,106**
Total comprehensive income		**1,565,485**	**568,554**

Central Bank of Lesotho • **Statement of Changes in Equity**
for the year ended December 31, 2015

	Share capital	General reserve	Rand compensatory reserve	SDR revaluation reserve	Foreign Exchange revaluation reserve	Property revaluation reserve	Bond /Unit trust revaluation reserve	Accumulated profit/(loss)	Total equity
	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000
Balance at January 01, 2014	**100,000**	**190,322**	**416,751**	**67,722**	**2,418,349**	**102,693**	**(4,749)**	**-**	**3,291,088**
Profit for the year	-	-	-	-	-	-	-	527,448	527,448
Transfer of foreign exchange	-	-	-	10,524	344,236	-	-	(354,760)	-
Decrease in bond/unit trust fair values	-	-	-	-	-	-	(3,030)	-	(3,030)
Asset revaluations for the year	-	-	-	-	-	16,850	-	-	16,850
Rand compensatory receipts	-	-	42,575	-	-	-	-	-	42,575
Actuarial fair value loss	-	-	-	-	-	-	-	(15,289)	(15,289)
Transfer to general reserve	-	26,233	-	-	-	-	-	(26,233)	-
Dividends	-	-	-	-	-	-	-	(131,166)	(131,166)
Total changes	-	26,233	42,575	10,524	344,236	16,850	(3,030)	-	437,388
Balance at January 01, 2015	**100,000**	**216,555**	**459,326**	**78,246**	**2,762,585**	**119,543**	**(7,779)**	**-**	**3,728,476**
Profit for the year	-	-	-	-	-	-	-	1,608,692	1,608,692
Transfer of foreign exchange translation to designated reserve	-	-	-	67,197	1,308,105	-	-	(1,375,302)	-
Decrease in bond/unit trust fair values	-	-	-	-	-	-	(86,769)	-	(86,769
Asset revaluation for the year	-	-	-	-	-	9,539	-	-	9,539
Rand compensatory receipts	-	-	46,334	-	-	-	-	-	46,334
Actuarial fair value loss	-	-	-	-	-	-	-	(12,311)	(12,311)
Transfer to general reserve	-	36,847	-	-	-	-	-	(36,847)	-
Dividends	-	-	-	-	-	-	-	(184,232)	(184,232)
	-	36,847	46,334	67,197	1,308,105	9,539	(86,769)	-	1,381,253
Total Changes	100,000	253,402	505,660	145,443	4,070,690	129,082	(94,548)	-	5,109,729
Balance at December 31, 2014	**100,000**	**216,555**	**459,326**	**78,246**	**2,762,585**	**119,543**	**(7,779)**	**-**	**3,728,476**

Central Bank of Lesotho • Statement of Cash Flows
for the year ended December 31, 2015

	Notes	2015 M	2014 M
Cash flows from operating activities			
Cash generated from operations	32	1,024,344	1,078,503
Interest income	27	552,065	467,935
Interest expense	28	(6,121)	(5,210)
Tax paid	21	(61,919)	(46,014)
Rand compensatory reserve		46,334	42,575
Payments to Government of Lesotho Consolidated Fund	22	(131,166)	(105,847)
Net cash from operating activities		**1,423,537**	**1,431,942**
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(146,068)	(36,023)
Sale of property, plant and equipment	14 & 29	1,713	759
(Increase) in deferred currency expenditure	11	(3,088)	(26,187)
Purchase of intangible assets	15	(2,014)	(737)
(Increase)/decrease in other assets	13	(233)	18,874
(Increase)/Decrease in loans to staff	12	(8,627)	(10,024)
(Increase)/Decrease in Lesotho Government Securities	10	246	(546)
(Increase)/Decrease in Treasury notes, bonds and unit trust		(536,315)	125,860
Increase in SWIFT		(847)	-
Net cash from investing activities		**(695,233)**	**71,976**
Cash flows from financing activities			
Movements in notes and coins	16	159,068	(33,885)
Total cash movement for the year		**887,372**	**1,470,033**
Cash at the beginning of the year	2	6,821,883	5,351,850
Total cash at end of the year		**7,709,255**	**6,821,883**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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 land and buildings, financial instruments classified as available-for-sale, financial assets and liabilities held at fair value through profit and loss and derivative instruments. All monetary figures appearing in the financial statements, unless otherwise indicated, are stated in Maloti.

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

1.1 Property, plant and equipment

Owner-occupied properties

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

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 open-market fair value as determined by an independent professional valuers, less accumulated depreciation.

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

Unrealised surpluses or deficits arising on revaluation of property, plant and equipment are transferred to a Revaluation Reserve Account.

The most recent independent valuation for Buildings was performed for the year ended December 2015. All other items of property, plant and equipment were last valued at 31 December 2010 as they are not considered material.

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	Rates
Buildings	1.5%
Housing furniture	10%
Office furniture	10%
Motor vehicles	25%
IT equipment	20%
Office and sports equipment	20%
Housing equipment	20%
Security equipment	20%

1.1 Property, plant and equipment (continued)

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

When revalued assets are sold, the amounts included in property revaluation reserves are transferred to profit and loss.

1.2 Intangible assets

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. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

1.3 Financial instruments

Classification

The Bank classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. Subsequent to initial recognition these assets are measured at fair value.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the financial year end date. These are classified as non-current assets. Subsequent to initial recognition loans and receivable are carried at amortised cost using the effective interest rate method less any provision for impairment.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the financial year end date. Subsequent to initial recognition available for sale financial assets are carried at fair value.

The main classes of the financial assets classified as available for sale assets are Treasury notes and Bonds and Unit trusts.

1.3 Financial instruments (continued)

(d) Held-to-maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after the financial year end date. These are classified as non-current assets.

Initial recognition and measurement

Regular purchases and sales of financial assets are recognised on the settlement-date. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through statement of profit and loss and other comprehensive income. Financial assets carried at fair value through statement of profit and loss and other comprehensive income are initially recognised at fair value, and transaction costs are expensed in the profit and loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for- sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'other income/expenses' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss and other comprehensive income as part of other income when the Bank's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on nonmonetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of profit and loss and other comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the profit and loss as part of other income when the Bank's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Impairment of financial assets

The Bank shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised.

1.3 Financial instruments (continued)

Available-for-sale financial assets

Where an available-for-sale asset is impaired, and an increase in the fair value of the financial asset was previously recognised in equity, the increase in fair value of the financial asset recognised in equity is reversed to the statement of profit and loss and other comprehensive income to the extent that the asset is impaired and recognised as part of the impairment loss.

Any additional impairment loss is recognised in the statement of profit and loss and other comprehensive income. If in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, where the instrument is a debt instrument, the write-down is reversed through profit and loss. An impairment loss in respect of an equity instrument classified as available- for-sale is not reversed through the statement of profit and loss and other comprehensive income.

An available-for-sale-instrument is generally considered impaired if a significant or prolonged decline in the fair value of the security below its cost has occurred. Where an available-for-sale asset which has been remeasured to fair value directly through equity is impaired, and a loss on the financial asset was previously recognised directly in equity, the cumulative net loss that had been recognised in equity is transferred to the statement of comprehensive income and is recognised as part of the impairment loss.

Financial assets carried at amortised cost

The Bank assesses at each financial year end date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions; and
- Initiation of bankruptcy proceedings;

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred as per Incurred Loss model) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

When a loan is uncollectable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income in impairment charge for credit losses.

1.3 Financial instruments (continued)

Financial liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers, debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows consist of cash and balances with banks and short-term negotiable securities. Cash flows arising from operating funds are stated after excluding the impact of foreign currency translation differences on asset and liability classes.

Cash and balances with banks comprise coins and bank notes and balances with other central and commercial banks. Short-term negotiable securities are highly liquid investments of maturities less than 3 months that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.4 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 enacted. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax related to fair value re-measurement of available-for-sale investments, 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.

Deferred tax assets and liabilities

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

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

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

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

1.5 Leases

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

Leases, where the bank transfers substantially all the benefits and risks of ownership, are classified as finance leases. (Finance leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are separated using the interest rate implicit in the lease to identify the finance cost, which is charged against income over the lease period, and the capital repayment, which reduces the liability to the lessor).

1.6 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Depreciation ceases once classified as held for sale.

1.8 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.

(b) Other long-term employee benefits

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

Long-term employee benefits include:

- Severance pay - this is calculated as two weeks salary for each completed year of service from 1993.
- Gratuity - this is calculated at 12.5% of the average of the annual salary of the last three years multiplied by number of years of service.

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

1.9 Provisions

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

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 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.

1.10 Revenue

Revenue is derived substantially from the business of banker to the Government of Lesotho and related activities and comprises net interest income and non-interest revenue.

Interest income and expenses are recognised in the statement of profit and loss and other comprehensive income for all interest-bearing instruments on an accrual basis using the effective interest rate method. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount on the financial statements. Direct incremental transaction costs incurred and origination fees received as a result of bringing margin- yielding assets on statement of financial position, are capitalised to the carrying amount of financial instruments (excluding financial instruments at fair value through profit and loss) and amortised through interest income over the useful life of the asset.

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. Dividends received on lending activities are included in interest income.

Non-interest revenue

Non-interest revenue includes dividends from investments, fees and commission from banking, insurance and related transactions, net revenue from exchange and securities trading and net gains on the realisation or revaluation of investment banking assets.

1.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost by using the effective interest rate method.

1.12 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 Lesotho Maloti, which is the functional currency of the bank.

1.12 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 Lesotho Maloti, 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.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit and loss and other comprehensive income within interest income. All other foreign exchange gains and losses are presented within other income/expenses.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit and loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary items, such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity through other comprehensive income.

1.13 Impairment of non-financial assets

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

1.14 Claims on staff

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

1.15 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. The appropriateness of this amortisation period is reviewed from time to time by the Directors.

1.16 Dividend distribution

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

1.17 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. Issued notes and coins held by the Bank are netted off against currency in circulation.

1.18 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 34 900 000 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 4 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.

1.19 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.

1.20 Comparative figures

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

1.21 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.

1.22 Rand Compensatory Reserve

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

1.23 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 SDR Revaluation Reserve Account. The profits or losses arising from such change are included in the statement of profit and loss and other comprehensive income and are then transferred from distributable reserves to a non-distributable Foreign Currency Revaluation Reserve in terms of Section 54 of the Central Bank of Lesotho Act No.2 of 2000.

1.24 SDR Revaluation Reserve

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

1.25 Property Revaluation Reserve

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

1.26 Bond/Unit Trust Revaluation Reserve

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

1.27 Financial Risk Management

The Bank's activities expose it to a variety of financial risks. Taking risks is core to the financial business and sometimes losses are inevitable consequences. The Bank's aim is therefore to achieve a balance between risk and return and minimize potential adverse effects on its financial performance. There are written policies that address specific areas of risk, such as foreign exchange risk, interest rate risk and credit risk.

(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 2015, if the currency had weakened/strengthened by 5% against the functional currencies, the Bank's foreign assets would have been 1.93% higher/lower as a result of foreign exchange losses/gains on valuation of foreign currency denominated assets.

I*nterest 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.

As at 31 December 2015, if interest rates had fallen by 1%, the Bank's revenue would decline by 6%, based on the simulation performed. However, if rates had increased by 1%, revenue would increase by 8%.

(b) Credit risk

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

(c) Liquidity risk

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

Refer to the Risk Management Statements on pages 36 to 51.

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 will be allocated to general reserve and in case where general reserve exceeds paid up capital but not less than four times, one sixth of the net profits 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.

1.28 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the Non-Interest Bearing Note of SDR 14,756,536 (2014: SDR15,013,764) issued by the Government of Lesotho (GOL) in favour of the IMF. GOL chose to substitute non-interest bearing notes for a portion of the balance held in its Fund's No. 1 account and the securities substituted for currency are recorded in the Securities Account. GOL's holding in IMF SDR Department is posted in the No.1 account and is used for the Fund's operational transactions e.g. purchases and repurchases, whereas the No. 2 account is used for the payment of operational expenses incurred by the Fund in Maloti. The Bank revalues the IMF accounts in its Statement of Financial Position in accordance with the practices of the IMF Treasury Department. The revaluation of the SDR rates by the IMF is effected annually on 30 April, and whenever there are IMF transactions using the Maloti. The IMF accounts have been revalued using the latest prevailing SDR rates in IMF website.

1.29 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) Income taxes

The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(b) Employee benefits

The leave, 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 company cannot be separately determined and is therefore treated as defined contribution plan. Refer to further disclosure in note 24 and 34.

(c) Fair values

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

i) Balances due to and from banks

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

ii) Loans and advances

Loans and advances are shown net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Where significant concentrations of non-market related loans exist appropriate impairment has been effected.

1.29 Critical accounting estimates and judgements (continued)

iii) Investment securities

Investment securities held as available for sale are shown at fair value. Other instruments such as treasury bills are based on the contracted value, including accrued discount, which is considered to approximate the current fair value.

(d) Impairment of available-for-sale financial assets

The Bank follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

	2015 M '000	2014 M '000
2. Cash and balances with Banks		
Cash and cash equivalents		
Foreign cash on hand	1,969	1,612
Rand currency holding	44,884	94,131
Cash in transit	26,900	19,230
Total cash and cash equivalents	73,752	114,973
Current and Call Accounts:		
Foreign Banks	116,740	57,019
South African Banks	4,410,205	3,739,047
Total Current and Call Accounts	4,526,945	3,796,066
Foreign Banks	1,749,645	1,723,275
South African Banks	1,358,912	1,187,569
Total Fixed deposits (with maturity shorter than 3 months)	3,108,557	2,910,844
Balances with banks (with maturity shorter than 3 months)	7,709,255	6,821,883

The split of the cash and cash equialents is shown in note 40.

Total cash and balances with Banks	**7,709,255**	**6,821,883**
3. Accrued interest due from Banks		
Accrued interest receivable:		
ZAR call accounts	850	571
ZAR fixed deposit accounts	6,987	7,777
Foreign call and fixed deposit accounts	352	240
	8,588	8,588

4. Investment in unit trust

2015	Available for sale	Total
Unit trusts at fair value	795,293	795,293

2014	Available for sale	Total
Units trusts at fair value	585,415	585,415

The unit trusts were purchased from the Bank for International Settlement (BIS) in 2012. These are treated as available-for-sale instruments and changes in market values are recorded directly in the Bond/unit trust revaluation reserve. The number of units remained constant at 376,076 converted at $135.444889 (2014: 376,076 at $134.572551) at an exchange rate of 15.6131 (2014:11.5665) to the US Dollar.

	2015	2014
	M '000	**M '000**
5. Investment in Swift		
Investment in SWIFT	847	-

The investment in SWIFT relates to share allocation based on the financial contribution to SWIFT for network-based services.

6. Treasury notes and bonds

2015

	At fair value through profit and loss	Available-for- sale	Total
US Bonds at fair value	1,569,104	661,868	2,230,972
ZAR Bonds at fair value	-	2,073,459	2,073,459
US Bonds accrued interest	4,174	1,354	5,528
ZAR Bonds accrued interest	-	43,957	43,957
	-	-	-
	1,573,278	**2,780,638**	**4,353,916**

2014

	At fair value through profit and loss	Available-for- sale	Total
US Bonds at fair value	1,092,501	695,895	1,788,39
ZAR Bonds at fair value	-	2,191,722	2,191,722
US Bonds accrued interest	2,194	1,210	3,404
ZAR Bonds accrued interest	-	43,957	43,957
	1,094,695	**2,932,784**	**4,027,479**

The Treasury notes and bonds held by the Bank are treated as available-for-sale instruments and revaluations are done monthly. However, Treasury notes and bonds managed by the World Bank, starting in 2008, through the Reserves Advisory Management Program (RAMP) are treated as held-for-trading instruments and are stated at fair value through profit and loss.

7. IMF Subscription Account

	2015	2014
Balance at beginning of year	585,573	563,787
Exchange revaluation	166,215	21,786
Balance at end of year	**751,788**	**585,573**

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 34,900,000. The local currency equivalent of the subscription account in the statement of financial position is converted at the year end rate of 0.0464227 (2014: 34,900,000 at 0.0595997).

8. IMF Holding of Special Drawing Rights (SDR)

	2015	2014
Balance at beginning of year	779,925	767,621
Net transactions - (decrease) / increase in rights	772	(17,384)
Exchange revaluation	203,968	29,688
Balance at end of year	**984,665**	**779,925**

The value of SDR 45,710,797. (2014: SDR 46,483,342) allocated by the International Monetary Fund less utilisation is converted at 0.0464227 (2014:0.0595997).

	2015 M '000	2014 M '000
9. IMF Funded PRGF Advances		
Balance at beginning of year	849,081	834,453
Paid during the year	(15,600)	(17,641)
Exchange revaluation	239,809	32,269
Balance at end of year	**1,073,290**	**849,081**

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

10. Lesotho Government Securities

Maturing within 1 month	336	582

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 bills are subject to fixed interest rate risk and are held to maturity.

11. Deferred currency expenditure

Balance at beginning of year	26,187	-
Expenditure incurred	15,373	36,891
Amortised during the year	(12,285)	(10,704)
Balance at end of year	**29,275**	**26,187**

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

12. Loans to staff

Housing loans	31,093	25,040
Car loans	19,218	20,027
Furniture loans	1,368	1,101
Other loans and advances	17,778	14,663
	69,457	**60,831**

13. Other assets

Cheques for collection and uncleared items	-	2,300
Other prepayments	6,114	4,458
Other receivables	8,530	7,652
	14,644	**14,410**

14. Property, plant and equipment

	2015 M '000			2014 M '000		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land	100,933	(14,240)	86,693	89,522	(12,638)	76,884
Buildings	138,520	(16,409)	122,111	129,548	(14,383)	115,165
Residential land & buildings	18,585	(1,601)	16,984	12,652	(1,363)	11,289
Housing furniture	383	376)	7	531	(502)	29
Office furniture	9,121	(6,252)	2,869	8,638	(5,940)	2,698
Motor vehicles	10,189	(8,893)	1,296	3,793	(3,308)	485
Office equipment	33,578	(20,859)	12,719	10,997	(8,369)	2,628
Office computer	22,030	(14,370)	7,660	33,043	(27,490)	5,553
Lehakoe furniture	3,240	(2,758)	482	19,327	(12,600)	6,727
Sports and music equipment	7,823	(7,134)	689	9,058	(7,361)	1,697
Housing equipment	205	(186)	19	211	(186)	25
Security equipment	17,963	(11,324)	6,639	17,999	(9,180)	8,819
Work in progress	165,218	-	165,218	50,493	-	50,493
Total	**527,788**	**(104,402)**	**423,386**	**385,812**	**(103,320)**	**282,492**

14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
CBL Land and buildings	76,884	102	(1,495)	-	12,719	(1,517)	86,693
Lehakoe land and buildings	115,165	51	-	-	9,070	(2,175)	122,111
Residential land and buildings	11,289	3	-	-	5,930	(238)	16,984
Housing furniture	29	-	(3)	-	-	(19)	7
Office furniture	2,698	651	(1)	-	-	(479)	2,869
Motor vehicles	2,628	45	-	-	-	(1,377)	1,296
Office equipment	5,553	5,724	-	6,471	-	(5,029)	12,719
IT equipment	6,727	3,333	(1)	-	-	(2,399)	7,660
LRCC furniture	485	107	(7)	-	-	(103)	482
Sports and music equipment	1,697	49	(1,050)	-	-	(7)	689
Housing equipment	25	-	-	-	-	(6)	19
Security equipment	8,819	32	-	-	-	(2,212)	6,639
Work in progress	50,493	135,971	-	(21,246)	-	-	165,218
	282,492	**146,068**	**(2,557)**	**(14,775)**	**27,719**	**(15,561)**	**423,386**

Work in progress transfer includes an amount of M14,775 which has been transferred to intangible assets in note 15

14. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
CBL land and buildings	69,935	108	-	-	8,175	(1,334)	76,884
Lehakoe land and buildings	102,042	-	-	-	15,131	(2,008)	115,165
Residential land and buildings	12,367	-	-	-	(839)	(239)	11,289
Housing furniture	55	-	(6)	-	-	(20)	29
Office furniture	1,995	156	(50)	1,078	-	(481)	2,698
Motor vehicle	4,508	-	-	-	-	(1,880)	2,628
Office equipment	7,630	902	(5)	(716)	-	(2,258)	5,553
IT equipment	3,378	2,862	(9)	2,805	-	(2,309)	6,727
LRCC furniture	502	83	-	-	-	(100)	485
Sports & music equipment	-	-	-	2,287	-	(590)	1,697
Housing equipment	-	29	-	-	-	(4)	25
Security equipment	9,370	1,529	-	-	-	(2,080)	8,819
Work in progress	25,593	30,354	-	(5,454)	-	-	50,493
	237,375	**36,023**	**(70)**	**-**	**22,467**	**(13,303)**	**282,492**

	2015 M'000	2014 M'000

15. 14. Intangible assets

	2015			2014		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Computer software	40,093	(25,588)	14,505	23,305	(21,613)	1,692

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	1,692	2,014	14,775	(3,976)	14,505

Reconciliation of intangible assets - 2014

	Opening balance	Transfers	Amortisation	Total
	1,691	737	(736)	1,692

16. 15. Notes and coins issued

	2015 M'000	2014 M'000
Notes	1,307,891	1,148,648
Coins	16,914	17,089
	1,324,805	**1,165,737**

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.

17. Deposits

Deposits from Banks - Non-interest bearing		
Banks	545,794	565,095
Other Deposits - Non-interest bearing		
International Institutions	3,874	3,874
Parastatals and others	6,135	337,061
	555,803	**906,030**

18. IMF Maloti Currency Holding

Securities account	317,873	251,910
General resources account	351,265	269,707
	669,138	**521,617**

19. IMF Special Drawing Rights Allocation

Balance at beginning of year	551,998	531,126
Exchange revaluation	156,238	20,872
Balance at end of year	**708,236**	**551,998**

		2015 M'000	2014 M'000
19.	**IMF Special Drawing Rights Allocation** (continued)		
	Lesotho's allocation by IMF of SDR32,878,186 is converted at 0.0464227 (2014:0.0595997)		
20.	**IMF-PRGF Facility**		
	Balance at beginning of year	849,081	834,453
	Paid during the year	(15,600)	(17,641)
	Exchange revaluation	239,809	32,269
		1,073,290	**849,081**
	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 SDR49,825,000, converted at 0.0464227 as at 31 December 2015 (2014: SDR 50,605,000 at 0.595997). The loan has been on-lent as per note 9. Interest expense and exchange rate differences are borne by the Government of Lesotho.		
		555,803	**906,030**
21.	**Taxation payable/(receivable)**		
	Balance at beginning of year	15,335	9,589
	Paid during the year	(61,919)	(46,014)
	Current year charge	74,153	51,760
	Balance at end of year	**27,569**	**15,335**
22.	**Due to Government of Lesotho Consolidated Fund**		
	Balance at beginning of year	131,166	105,847
	Paid during the year	(131,166)	(105,847)
	Profit appropriations for the current year	184,232	131,166
	Balance at end of year	**184,232**	**131,166**
	The Foreign exchange differences which are not taxable, are eliminated from the Profit after tax, before a portion is transferred to the Government of Lesotho Consolidated Fund and the General Reserve account in terms of Section 21 of the Central Bank of Lesotho Act No.2 of 2000.		
	Profit after tax appropriates as follows:		
	Profit after tax (after actuarial (loss)/gain on employee benefits)	1,596,381	512,159
	Gain on foreign exchange activities	(1,375,302)	(354,760)
	Profit after tax net of gain on foreign exchange activities	221,079	157,399
	Transfer to General Reserve	(36,847)	(26,233)
		184,232	**131,166**
23.	**Other liabilities**		
	Donations - Referral Hospital	48,214	48,214
	Divisional cheques accounts	626	1,153
	Other	7,476	2,397
	Various accruals	21,824	30,938
		78,140	**82,702**

	2015 M'000	2014 M'000
24. Long-term employee benefit obligation		
Provision for severance pay		
Opening obligation	22,909	23,209
Interest cost	2,381	1,745
Current service cost	1,646	1,974
Actuarial loss/(gain) on employee benefits	1,957	861
Benefits paid	(3,752)	(4,880)
Closing obligation	**22,909**	**23,209**
Provision for gratuity		
Opening obligation	58,844	67,415
Interest cost	4,298	3,958
Current service cost	5,958	4,255
Actuarial loss/(gain)	13,923	16,728
Benefits paid	(15,400)	(23,442)
Closing obligation	69,122	60,343
Total	**94,263**	**83,252**
Net expense recognised in profit and loss (inclusive of leave pay provision)		
Current service cost	8,339	6,229
Interest cost	6,224	5,782
	14,563	**12,011**

25. Deferred taxation

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:

	2015 M'000	2014 M'000
Deferred tax asset/(liability)	4,887	(1,346)
Reconciliation of deferred taxation		
Balance at beginning of year	(1,346)	197
Movements in profit and loss	(6,491)	(3,064)
Movement in equity - current year	1,474	1,521
Movement in equity - tax adjustment*	11,250	-
Balance at end of year	**4,887**	**(1,346)**

* The tax adjustment relates to deferred tax not previously raised against historical revaluations of PPE

	2015 M'000	2014 M'000
26. 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.

	2015 M'000	2014 M'000
27. Interest income		
Foreign currency deposits	373,412	296,250
Foreign currency deposits	427	773
Issued and fully paid	178,226	170,912
	552,065	**467,935**
28. Interest expense		
Parastatals and Government deposits	47	17
IMF SDR allocation account	297	513
Interest on bonds	5,778	4,680
	6,121	**5,210**
29. Other income		
Rental income	390	241
Profit on sale of bonds	4,147	4,273
Interest on staff loans	1,228	1,042
Lehakoe proceeds	15,792	11,439
Other income	10,824	1,263
Gain on instruments designated as fair value through profit and loss	6,918	6,229
Profit/ (Loss) on sale of fixed assets	(844)	689
	38,455	**25,176**
30. Operating costs and expense per nature		
Administration and other expenses	58,303	65,992
Auditor's remuneration	2,006	1,981
Deferred currency expense amortised	12,286	10,704
Intangible assets amortised	3,976	736
Depreciation and impairments	15,561	13,303
Property, plant and equipment maintenance expenses	15,284	14,722
Loss on revaluation of treasury notes and bonds	12,619	6,459

	2015 M'000	2014 M'000
30. Operating costs and expense per nature (continued)		
Personnel costs:		
Staff welfare expenses	13,034	17,846
Non-executive directors' fees	825	1,050
Executive directors' salaries	5,555	5,271
Key management (heads of departments)	7,520	8,075
Staff salaries and expenses	100,543	97,910
Pension fund contributions	4,595	5,360
Gratuity and severance pay (interest and service cost)	14,154	12,011
	266,261	**261,420**
31. Taxation		
Major components of the taxation expense		
Current		
Normal taxation for the year	78,257	56,857
Deferred	6,491	(3,064)
Deferred taxation arising on other profit and loss items	**84,748**	**53,793**
Included in other comprehensive income		
Tax on actuarial gain/ (loss)	(4,104)	(5,097
Reconciliation of the taxation expense		
Chargeable profit (before foreign exchange gain/loss and after actuarial gain/loss)	301,723	206,095
Statutory tax rate		25 %
Permanent differences:		
Donations	0.71 %	4.45 %
50 % Entertainment	0.07 %	9.58 %
Training expenses additional 25% Other	(0.52)%	(6.71)%
Effective tax rate	1.47 %	(8.69)%
	26.73 %	**23.63 %**

	2015 M'000	2014 M'000
32. Cash generated from operations		
Profit before taxation	1,693,440	581,241
Less: Acturial loss	(16,415)	(20,386)
Adjustments for:		
Depreciation	15,561	13,303
Deferred computer software amortised	3,976	736
Loss on sale of assets	844	(689)
Interest income	(552,065)	(467,935)
Interest expense	6,121	5,210
Deferred currency amortisation	12,286	10,704
Actuarial losses	16,415	20,386
Loss on revaluation of treasury bills and bonds	5,701	6,459
Unrealised exchange rate fluctuation	(152,074)	(41,589)
Movement in deposits	50,903	946,897
Movement in accrued interest	399	1,066
Changes in IMF Maloti currency holding	147,521	18,680
Changes in IMF subscription account	(166,215)	(21,786)
Other liabilities	6,449	17,638
Changes in IMF Special Drawing Rights Holding	48,502)	8,568
	1,024,344	1,078,503

	2015 M'000	2014 M'000
33. Commitments		
Contracted	309,900	27,000

These capital commitments are in respect of professional fees for the Bank's extension which will be funded from internal resources in 2016.

Uncontracted	18,000	228,556

The current year expenditure relates to professional indemnity relating to the Bank extension. The prior year expenditure related to the extension of the Bank's building project and software for core banking and ERP systems.

34. Post retirement obligations

Total employer contributions	4,595	5,360

The Bank contributes towards a post retirement pension scheme that covers all permanent employees. This fund is a multi-employer plan and the assets are held in the Corporate Bodies Pension Scheme managed by Lesotho National Insurance Company and the appropriations to the different contributors are not performed. The assets and liabilities relating to the employees of the Bank cannot be separately determined and is therefore treated as defined contribution plan.

35. Contingent liability

There are labour disputes against the Bank and the total amount being claimed is approximately M7.1 million. The Bank's lawyers and management hold a strong view that most of these cases leveled against the Bank are relatively weak and that the Bank will be successful in defending these cases.

		2015 M'000	2014 M'000

36. Related parties transactions/ balances

The Bank is owned by the Government of Lesotho.

A number of banking transactions are entered into with the Government as the Bank also acts as banker to the Government in the normal course of business.

The deposits with the Bank held by the Government is disclosed separately in the statement of financial position. All payments relating to taxes, property rates and service utilisation are made to Government.

Loans to staff are disclosed in note 12.

		2015 M'000	2014 M'000
Gross advances made during the year to:	Car loans	343	5,760
Heads of Departments and Division Heads	Furniture loans	142	99
	Housing loans	804	1,454
Balances due at end of December:			
Heads of Departments and Division Heads	Car loans	4,135	7,558
	Furniture loans	71	102
	Housing loans	5,706	7,314
General Staff	Car loans	14,740	12,469
	Furniture loans	1,155	999
	Housing loans	25,584	17,726
General Staff and Heads of Department	Other loans	17,778	14,663
Interest charged for the year:			
Heads of Departments and Division Heads	Car loans	120	98
	Furniture loans	-	13
	Housing loans	1	104

During the year Deputy Governor I had a personal loan advance of M300,000 while Deputy Governor II had an advance of M200,000. At year end, the balances were M150,000 and M183,333.33 for Deputy Governor I and Deputy Governor II respectively.

No provisions have been recognised in respect of loans given to related parties.'

The loans issued to directors and other key management personnel during the year are repayable monthly and have interest rates of 3% per annum.

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

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

Further, all short term and 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:

	2015	2014
Executive Directors' salaries	5,555	5,271
Key management salaries	7,520	8,075

	2015	2014
	M'000	M'000

37. Financial assets by category

The financial assets have been categorised as follows :

2015
M '000

Financial assets	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Total
Cash and balances with Banks	7,709,255	-	-	7,709,255
Accrued interest due from Banks	8,189	-	-	8,189
Unit trusts	-	795,293	-	795,293
Investment in SWIFT	-	847	-	847
Treasury notes and bonds	-	2,780,638	1,573,278	4,353,916
IMF Subscription Account	751,788	-	-	751,788
IMF Holding of Special Drawing Rights	984,665	-	-	984,665
IMF Funded PRGF Advances	1,073,290	-	-	1,073,290
Lesotho Government Securities	336	-	-	336
Loans to staff	69,457	-	-	69,457
	10,596,980	**3,576,778**	**1,573,278**	**15,747,036**

2014
M '000

Financial assets	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Total
Cash and balances with Banks	6,821,883	-	-	6,821,883
Accrued interest due from Banks	8,588	-	-	8,588
Treasury bills	-	585,415	-	585,415
Treasury notes and bonds	-	2,932,784	1,094,695	4,027,479
IMF Subscription Account	585,573	-	-	585,573
IMF Holding of Special Drawing Rights	779,925	-	-	779,925
IMF Funded PRGF Advances	849,081	-	-	849,081
Lesotho Government Securities	582	-	-	582
Loans to staff	60,831	-	-	60,831
	9,106,463	**3,518,199**	**1,094,695**	**13,719,357**

38. Financial liabilities by category

The financial liabilities have been categorised as follows:

2015

M '000

	Financial liabilities at amortised cost	**Total**
Notes and coins issued	1,324,805	1,324,805
Deposits	555,803	555,803
Lesotho Government Deposits	6,408,528	6,408,528
IMF Maloti Currency Holding	669,138	669,138
IMF Special Drawing Rights Allocation	708,236	708,236
IMF PRGF Facility	1,073,290	1,073,290
	10,739,800	**10,739,800**

2014

M '000

	Financial liabilities at amortised cost	**Total**
Notes and coins issued	1,165,737	1,165,737
Deposits	906,030	906,030
Lesotho Government Deposits	6,007,398	6,007,398
IMF Maloti Currency Holding	521,617	521,617
IMF Special Drawing Rights Allocation	551,998	551,998
IMF PRGF Facility	849,081	849,081
	10,001,861	**10,001,861**

39. Operating lease

Amount receivable within 12 months	360	241
Amount receivable within 13 to 24 months	396	482
	756	**723**

The above income is for the rental of houses owned by the Bank. The lease contracts are all for a period of 24 months.

40. Risk management

Risk is an inherent feature of the Bank's activities. The Bank is committed to managing these risks by applying appropriate structures, systems and procedures. These structures, systems and procedures evolve continuously in response to changes in the financial and economic environment in which the Bank operates.

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 interest rate, market price, credit, market liquidity, operational, human resource, legal and reputational risks. These are discussed below:

40. Risk management (continued)

Market price risk

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

The Bank manages its market risks responsibly, utilising appropriate organisational structures and procedures. Exposures and limits are measured continuously and strategies are routinely reviewed by management on a regular basis.

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

Currency 2015	**Value of Currency 000**	**Exchange Rate**	**Maloti Equivalent M'000**
Cash and balances with Banks			
South Africa	7,961,056	1.0000	7,961,056
United States	302,929	15.6131	4,729,675
Botswana	543	1.3859	752
England	5,709	23.1535	132,192
European Union	653	17.0547	11,134
Switzerland	134	15.7626	2,114
IMF	45,711	21.6530	989,776
Treasury notes, bonds and unit trusts			
South Africa	2,117,416	1.0000	2,117,416
United States	156,963	15.6131	2,236,500
Unit trust - US Dollar based	50,938	15.6131	795,293

Currency 2014	**Value of Currency 000**	**Exchange Rate**	**Maloti Equivalent M'000**
Cash and balances with Banks			
South Africa	5,260,475	1.0000	5,260,475
United States	106,596	11.5665	1,232,944
Botswana	543	1.2166	660
England	18,521	18.0200	333,470
European Union	144	14.0620	2,019
Switzerland	60	11.6961	700
IMF	46,483	16.7530	778,735
Treasury notes, bonds and unit trusts			
South Africa	2,235,679	1.0000	2,235,679
United States	154,907	11.5665	1,791,730
Unit trust - US Dollar based	50,613	11.5665	585,415

40. Risk management (continued)

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.

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterpart to meet its contractual obligations. Credit risk arises from advances to and deposits the Bank makes with other institutions, and the settlement of financial instruments.

Credit risk policies are formulated by the Investment Technical Committee (ITC), which sets counterparty limits and security.

Operational risk

Operational risk is the risk of loss due to factors such as inadequate systems, management failure, ineffective internal controls, fraud, human error or other external events.

The Bank addresses these risks through comprehensive internal controls, back-up facilities, contingency planning and regular internal audit reviews.

Human resource risk

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

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

Legal risk

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

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

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

Reputational risk

The Bank's objective of achieving and maintaining price stability in Lesotho exposes it to external scrutiny and possible criticism in the event of any failures. The Bank also strives for full 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.

40. Risk management (continued)

Credit risk analysis

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

2015

Cash	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ZAR	71,784	71,784	ZAR	none	n/a
USD	1,828	1,828	USD	none	n/a
GBP	6	6	GBP	none	n/a
EUR	135	135	EUR	none	n/a
	73,753	**73,753**			

Current and call account	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA Bank	10,737	10,737	ZAR	none	P2/Baa2
B.I.S	50	50	EUR	none	Supranational
B.I.S	1,199	1,199	GBP	none	Supranational
B.I.S	1,297	1,297	USD	none	Supranational
Bank of England	30,600	30,600	GBP	none	P-1/Aa1
Bank of N.Y	40,453	40,453	USD	none	P-1/Aa1
Bank of N.Y	4,230	4,230	ZAR	none	none
Bank of N.Y RAMP	4,184	4,184	USD	none	P-1/Aa1
Citi Bank N.Y	13,189	13,189	USD	none	P-2/A3
Citi Bank SA	4,679	4,679	ZAR	none	P-2/Baa2
Commerz	10,100	10,100	EUR	none	P-1/A2
Crown Agents	180	180	GBP	none	F2/BBB
Crown Agents	816	816	USD	none	F2/BBB
Deutsche Bundesbank	849	849	EUR	none	N/R
Deutsche Bankers trust	647	647	USD	none	P-1/A1
Federal Reserve Bank of N.Y	2,811	2,811	USD	none	Aaa
First Rand	7,794	7,794	ZAR	none	P2/Baa2
Investec Bank	191,542	191,542	ZAR	none	P-2/Baa2
NedBank	3,527	3,527	ZAR	none	P-2/Baa2
Siress	334	334	ZAR	none	Baa1
South African Reserve Bank	4,187,104	4,187,104	ZAR	none	P-2/Baa2
Standard Bank	258	258	ZAR	none	P-2/Baa2
Standard Chartered Botswana	752	752	BWP	none	N/R
Standard Chartered London	7,499	7,499	GBP	none	P-1/A+
Swiss Bank	2,114	2,114	CHF	none	P1/Aa3
	4,526,945	**4,526,945**			

40. Risk management (continued)

Fixed deposits	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	2,280	2,280	ZAR	none	P-2/Baa2
Citibank SA	480	480	ZAR	none	P-2/Baa2
Crown Agents	8	8	GBP	GBP	F2/BBB
Crown Agents	854	854	ZAR	none	F2/BBB
Crown Agents	26	26	USD	USD	none
Firstrand	45	45	USD	none	P-2/Baa2
Firstrand	710	710	ZAR	none	P-2/Baa2
ICBC ASIA	38	38	USD	none	P-3/Baa3
Investec	1,394	1,394	ZAR	none	P-2/Baa2
Nedbank	103	103	USD	none	P-2/Baa2
South African Reserve Bank	816	816	ZAR	none	P-2/Baa2
Standard Bank PLC	1,155	1,155	ZAR	ZAR	P-3Baa3
Standard Bank PLC	130	130	USD	USD	P-3/Baa3
Standard Chartered London	141	141	USD	USD	P-1/A+
Standard Chartered London	9	9	USD	USD	P-1/A+
	3,108,557	**3,108,557**			

Accrued interest due from Banks	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	2,280	2,280	ZAR	none	P-2/Baa2
Citibank SA	480	480	ZAR	none	P-2/Baa2
Crown Agents	8	8	GBP	none	F2/BBB
Crown Agents	854	854	ZAR	none	F2/BBB
Crown Agents	26	26	USD	none	none
Firstrand	45	45	USA	none	P-2/Baa2
Firstrand	710	710	ZAR	none	P-2/Baa2
ICBC ASIA	38	38	USD	none	P-3/Baa3
Investec	1,394	1,394	ZAR	none	P-2/Baa2
Nedbank	103	103	ZAR	none	P-2/Baa2
South African Reserve Bank	816	816	ZAR	none	P-2/Baa2
Standard Bank PLC	1,155	1,155	ZAR	none	P-3Baa3
Standard Bank PLC	130	130	USD	none	P-3/Baa3
Standard Chartered London	141	141	USD	none	P-1/A+
Standard Chartered London	9	9	USD	none	P-1/A+
Standard Bank PLC	2,065	2,065	ZAR	none	P-3/Baa3
	8,189	**8,189**			

40. Risk management (continued)

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	2,117,416	2,235,679	ZAR	none	P-2/Baa2
United States-BIS	795,273	585,415	USD	none	Aaa
United States-RAMP	1,573,279	1,094,695	USD	none	Aaa
United States	663,241	697,105	USD	none	Aaa
	5,149,209	**5,149,209**			

Loans to staff	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
Housing Loans	31,094	31,094	LSL	Title deeds	n/a
Car loans	19,218	19,218	LSL	Terminal Benefits	n/a
Furniture loans	1,368	1,368	LSL	Terminal Benefits	n/a
Other loans and advances	17,778	17,778	LSL	Terminal Benefits	n/a
	69,458	**69,458**			

2014

Cash	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ZAR	113,361	113,361	ZAR	none	n/a
USD	1,238	1,238	USD	none	n/a
GBP	251	251	GBP	none	n/a
EUR	123	123	EUR	none	n/a
	114,973	**114,973**			

40. 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 Bank	20,897	20,897	ZAR	none	P2/Baa2
B.I.S	41	41	EUR	none	Supranational
B.I.S	930	930	GBP	none	Supranational
B.I.S	960	960	USD	none	Supranational
Bank of England	21,257	21,257	GBP	none	P-1/Aa1
Bank of N.Y	914	914	USD	none	P-1/Aa1
Bank of N.Y	30	30	ZAR	none	P-1/Aa1
Bank of N.Y RAMP	233	233	USD	none	P-1/Aa1
BankTrust	478	478	USD	none	P-1/A2
Citi Bank N.Y	21,556	21,556	USD	none	P-1/A3
Citi Bank SA	4,433	4,433	ZAR	none	P-2/Baa2
Commerz	1,184	1,184	EUR	none	P-1/A2
Crown Agents	140	140	GBP	none	F2/BBB
Crown Agents	605	605	USD	none	F2/BBB
Deutsche Bundesbank	671	671	EUR	none	N/R
Federal Reserve Bank of N.Y	2,063	2,063	USD	none	Aaa
First Rand	7,442	7,442	ZAR	none	P-2/Baa2
Investec Bank	63,146	63,146	ZAR	none	P2/Baa2
Nedbank	3,348	3,348	ZAR	none	P2/Baa2
South African Reserve Bank	3,639,411	3,639,411	ZAR	none	P-2/Baa2
Standard Bank	341	341	ZAR	none	P-2/Baa2
Standard Chartered Botswana	660	660	BWP	none	N/R
Standard Chartered London	4,626	4,626	GBP	none	P-1/A+
Swiss Bank	700	700	CHF	none	P1/Aa3
	3,796,066	**3,796,066**			

Fixed deposits	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA Bank					
CitiBank	425,391	425,391	ZAR	none	F1/AFitch
Crown Agents	162,269	162,269	GBP	none	F1/AFitch
FedralReseve N.Y	124,918	124,918	USD	none	Aaa
Firstrand	370,350	370,350	USD	none	P2/Baa2
Investec	405,836	405,836	ZAR	none	P2/Baa2
NedBank	208,304	208,304	USD	none	P-3/Baa3
Standard Chartered London	144,197	144,197	GBP	none	P1/A1
Standard Bank PLC	430,172	430,172	USD	none	P-3/Baa3
Standard Bank PLC	365,483	365,483	ZAR	none	P-3/Baa3
Standard Bank SA	101,561	101,561	USD	none	P-2/Baa2
World Bank	70,845	70,845		none	Supranational
	2,910,844	2,910,844			

40. Risk management (continued)

Accrued interest due from Banks	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	480	480	ZAR	none	P2/Baa2
Citibank	1	1		none	none
Crown Agents	2,333	2,333	GBP	none	none
Crown Agents	31	31	ZAR	none	none
Firstrand	127	127	ZAR	none	none
Firstrand	1	1	USD	none	P2/Baa2
Investec	2,380	2,380	ZAR	none	P2/Baa2
Nedbank	10	10	ZAR	none	P2/Baa2
South African Reserve Bank	559	559	ZAR	none	P2/Baa2
Standard Bank SA	392	392	USD	none	P2/Baa2
Standard Bank PLC	170	170	USD	none	P-3/Baa3
Standard Chartered London	39	39	USD	none	P-1/Aa2
Standard Bank PLC	2,065	2,065	ZAR	none	P-3/Baa3
Standard Bank PLC	2,180	2,180	ZAR	none	P-2/Baa1
	8,588	**8,588**			

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	2,235,679	2,235,679	ZAR	none	Baa1
Unites States-BIS	585,415	585,415	USD	none	Aaa
United States-RAMP	1,094,695	1,094,695	USD	none	Aaa
United States	697,105	697,105	USD	none	Aaa
	4,612,894	**4,612,894**			

Loans to staff	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Housing Loans	25,040	25,040	LSL	Title deeds	n/a
Car loans	20,027	20,027	LSL	Terminal Benefits	n/a
Furniture loans	1,101	1,101	LSL	Terminal Benefits	n/a
Other loans and advances	14,663	14,663	LSL	Terminal Benefits	n/a
	60,831	**60,831**			

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.

40. Risk management (continued)

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

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

Sensitivity Analysis for the year ended December 31, 2015

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

Data for currency and foreign investment risk
(figures in original currencies)

	December 31, 2015		December 31, 2014	
Currency	**Portfolio level**	**Exchange rate**	**Portfolio level in %**	**Portfolio level**
ZAR	7,961,056	1.00	7,496,154	1.00
USD	302,929	15.61	312,116	11.57
EUR	652	17.05	143	14.06
GBP	5,709	23.15	18,521	18.02
BWP	543	1.39	543	1.22
CHF	134	15.76	60	11.70
SDR	45,711	21.65	46,483	16.75

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

	December 31, 2015		
Currency	**Portfolio level**	**Portfolio level in %**	**Exchange rate**
ZAR	7,961,056	61.33 %	1.00
USD	4,729,675	29.54 %	15.61
EUR	11,134	0.02 %	17.05
GBP	132,192	2.73 %	23.15
BWP	752	0.01 %	1.39
CHF	2,114	0.01 %	15.76
SDR	989,775	6.37 %	21.65
	13,826,698	**100 %**	

40. Risk management (continued)

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

	December 31, 2014		
Currency	**Portfolio level**	**Portfolio level in %**	**Exchange rate**
ZAR	7,496,154	61.33 %	1.00
USD	3,610,090	29.54 %	11.57
EUR	2,019	0.02 %	14.06
GBP	333,740	2.73 %	18.02
BWP	660	0.01 %	1.22
CHF	700	0.01 %	11.70
SDR	778,735	6.37 %	16.75
	12,222,098	**100 %**	

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

			December 31, 2015	
Currency	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	7,961,056	**56.38 %**	-	1.00
USD	4,966,158	35.17 %	(247,193)	16.39
EUR	11,690	0.08 %	(556)	17.91
GBP	138,802	0.98 %	(6,610)	24.31
BWP	790	0.01 %	(38)	1.46
CHF	2,219	0.02 %	(106)	16.55
SDR	1,039,265	7.36 %	(49,489)	22.74
	14,119,980	**100 %**		

% Change 2.12%

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

			December 31, 2014	
Currency	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	7,496,154	60.17 %	-	1.00
USD	3,790,595	30.43 %	(180,505)	12.14
EUR	2,120	0.02 %	(101)	14.77
GBP	350,427	2.81 %	(16,687)	18.92
BWP	693	0.01 %	(33)	1.28
CHF	735	0.01 %	(35)	12.28
SDR	817,672	6.56 %	(38,937)	17.59
	12,458,396	**100 %**		

40. Risk management (continued)

% Change 1.93%

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

		December 31, 2015		
Currency	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	7,961,056	58.45 %	-	1.00
USD	4,493,191	33.79 %	247,193	14.83
EUR	10,577	0.08 %	556	16.20
GBP	125,583	0.90 %	6,610	22.00
BWP	715	0.01 %	38	1.32
CHF	2,008	0.01 %	105	14.97
SDR	940,287	6.76 %	49,489	20.57
	13,533,417	**100 %**		

% Change -2.12%

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

		December 31, 2014		
	Portfolio level	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	7,496,153	62.84 %	-	1.00
USD	3,429,586	28.61 %	180,505	10.99
EUR	1,918	0.02 %	101	13.36
GBP	317,053	2.65 %	16,687	17.12
BWP	627	0.01 %	33	1.16
CHF	665	0.01 %	35	11.11
SDR	739,799	6.17 %	38,937	15.92
	11,985,801	**100 %**		

% Change - (1.93%)

40. Risk management (continued)

Interest rate risk

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

2015

Currency	Cash	0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	2015	2015	2015	2015	2015	2015
	M '000	M '000	M '000	M '000	M '000	M '000
ZAR	42	5,802	-	827	1,291	7,961
USD	2	2,078	346	2,263	42.00	4,730
EUR	-	11	-	-	-	11
GBP	-	132	-	-	-	132
Other	-	993	-	-	-	993
Total	**44**	**9,016**	**346**	**3,090**	**1,333**	**13,827**

Base case yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	6.98 %	7.75 %	7.63 %	7.25 %
USD	0.48 %	0.89 %	0.92 %	- %
EUR	0.02 %	- %	- %	- %
GBP	0.84 %	- %	- %	- %
Other	- %	- %	- %	- %

100 Basis points increase in yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	7.98 %	8.75 %	8.63 %	8.25 %
USD	1.48 %	1.89 %	1.92 %	1.00 %
EUR	1.02 %	- %	- %	- %
GBP	1.84 %	- %	- %	- %
Other	1.00 %	- %	- %	- %

100 Basis points decrease in yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	5.98 %	6.75 %	6.63 %	6.25 %
USD	- %	- %	- %	- %
EUR	- %	- %	- %	- %
GBP	- %	- %	- %	- %
Other	- %	- %	- %	- %

40. Risk management (continued)

Nominal return in base case yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	405	-	63	94		
USD	10	153	1,026	-		
EUR	-	-	-	-		
GBP	1	-	-	-		
Other	-	-	-	-	Nominal Income	% Change
	-	-	-	-	1,752	-

Nominal return in increasing yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	463	-	71	106		
USD	31	156	1,048	0.42		
EUR	-	-	-	-		
GBP	2	-	-	-		
Other	10	-	-	-	Nominal Income	% Change
	-	-	-	-	1,890	8

Nominal return in decreasing yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	347	-	54	81		
USD	-	149.00	1,004	-		
EUR	-	-	-	-		
GBP	-	-	-	-		
Other	-	-	-	-	Nominal Income	% Change
	-	-	-	-	1,635	(7)

Sensitivity: For a 1 percentage increase in yields, Income increases by 8%
For a 1 percentage decrease in yields, income decreases by 7 %

40. Risk management (continued)

Interest rate risk

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

2014

Currency	Cash	0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	2015	2015	2015	2015	2015	2015
	M '000	M '000	M '000	M '000	M '000	M '000
ZAR	113,361	5,147,113	-	852,443	1,383,237	7,496,154
USD	1,238	1,485,096	328,282	1,795,474	-	3,610,090
EUR	123	1,896	-	-	-	2,019
GBP	251	333,489	-	-	-	333,740
Other	-	780,095	-	-	-	780,095
Total	**114,973**	**7,747,689**	**328,282**	**2,647,917**	**1,383,237**	**12,222,098**

Base case yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	6.21 %	6.65 %	7.63 %	7.25 %
USD	0.48 %	0.59 %	0.71 %	- %
EUR	0.10 %	- %	- %	- %
GBP	0.70 %	- %	- %	- %
Other	- %	- %	- %	- %

100 Basis points increase in yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	7.21 %	7.65 %	8.63 %	8.25 %
USD	1.48 %	1.59 %	1.71 %	1.00 %
EUR	1.10 %	- %	- %	- %
GBP	1.70 %	- %	- %	- %
Other	1.00 %	- %	- %	- %

100 Basis points decrease in yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	5.21 %	5.65 %	6.63 %	6.25 %
USD	- %	- %	- %	- %
EUR	- %	- %	- %	- %
GBP	- %	- %	- %	- %
Other	- %	- %	- %	- %

40. Risk management (continued)

Nominal return in base case yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	319	-	65	100		
GBP	7	2	13	-		
EUR	-	-	-	-		
Other	2	-	-	-	Nominal Income	% Change
					509	-

Nominal return in increasing yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	371	-	74	114		
GBP	22	5	31	-		
EUR	-	-	-	-		
Other	6	-	-	-	Nominal Income	% Change
	8	-	-	-	630	24

Nominal return in decreasing yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	268	-	56	86		
GBP	-	-	-	-		
EUR	-	-	-	-		
Other	-	-	-	-	Nominal Income	% Change
	-	-	-	-	411	(19)

Sensitivity: For a 1 percentage increase in yields, income increases by 24%
For a 1 percentage decrease in yields, income decreases by 19%

40. Risk management (continued)

Liquidity risk

The table below summarises the remaining contractual maturities of the Bank's financial liabilities based on undiscounted cash flows:

2015

	Redeemable on demand	Maturing within 1 month M'000	Maturing after 1 but within 6months	Maturing after 6 but within 12 months	Maturing after 1 but within 5 years	Maturing after 5 years	Total
Financial assets	**M'000**		**M'000**	**M'000**	**M'000**	**M'000**	**M'000**
Cash and balances with banks	4,796,177	2,913,078	-	-	-	-	7,709,255
Accrued interest due from banks	851	7,339	-	-	-	-	8,189
Treasury Notes, Bonds and Unit trusts	-	33,894	407,077	323,385	3,298,623	1,086,230	5,149,209
IMF accounts	2,809,743	-	-	-	-	-	2,809,743
Lesotho Government Securities	-	-	336	-	-	-	336
Loans to staff	-	-	-	-	37,879	31,579	69,458
Investment in SWIFT	847	-	-	-	-	-	847
Total Financial Assets	**7,607,618**	**2,954,311**	**407,413**	**323,385**	**3,336,502**	**1,117,809**	**15,747,037**
Financial liabilities							
Notes & coins issued	1,324,805	-	-	-	-	-	1,165,737
Deposits	555,803	-	-	-	-	-	555,803
Lesotho Government Deposits	6,408,528	-	-	-	-	-	6,408,528
IMF Accounts	2,450,664	-	-	-	-	-	2,450,664
Total Financial liabilities	**10,739,800**	**-**	**-**	**-**	**-**	**-**	**10,739,800**
Net liquidity gap	**(3,132,182)**	**2,954,311**	**407,413**	**323,385**	**3,336,502**	**1,117,809**	**5,007,237**

40. Risk management (continued)

Liquidity risk

The table below summarises the remaining contractual maturities of the Bank's financial liabilities based on undiscounted cash flows:

2014

	Redeemable on demand	Maturing within 1 month M'000	Maturing after 1 but within 6months	Maturing after 6 but within 12 months	Maturing after 1 but within 5 years	Maturing after 5 years	Total
Financial assets	M'000		M'000	M'000	M'000	M'000	M'000
Cash and balances with banks	3,911,038	2,077,658	833,187	-	-	-	6,821,883
Accrued interest due from banks	571	5,612	2,405	-	-	-	8,588
Treasury Notes, Bonds and Unit trusts	585,415	81,007	171,370	328,324	1,960,789	1,485,989	4,612,894
IMF accounts	2,214,579	-	-	-	-	-	2,214,579
Lesotho Government							
Securities	-	-	582	-	-	-	582
Loans to staff	-	-	-	14,663	21,128	25,040	60,831
Total Financial Assets	**6,711,603**	**2,164,277**	**1,007,544**	**342,987**	**1,981,917**	**1,511,029**	**13,719,357**
Financial liabilities							
Notes & coins issued	1,165,737	-	-	-	-	-	1,165,737
Deposits	906,030	-	-	-	-	-	906,030
Lesotho Government							
Deposits	6,007,398	-	-	-	-	-	6,007,398
IMF Accounts	1,922,696	-	-	-	-	-	1,922,696
Total Financial liabilities	**10,001,861**	**-**	**-**	**-**	**-**	**-**	**10,001,861**
Net liquidity gap	**(3,290,258)**	**2,164,277**	**1,007,544**	**342,987**	**1,981,917**	**1,511,029**	**3,717,496**

		Notes	2015 M'000	2014 M'000
41.	**Fair value information**			
	Levels of fair value measurements		-	-
	Level 1		-	-
	Available for sale financial assets		-	-
	Bonds		2,780,638	2,932,784
	Unit trusts	5	795,293	585,415
	Financial assets designated at fair value through profit or loss		-	-
	Bonds		1,573,278	1,094,695
	Investment in SWIFT	5	847	-
			5,150,056	**4,612,894**

Notes

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