2017 ANNUAL REPORT

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

CENTRAL BANK OF LESOTHO
BANKA E KHOLO EA LESOTHO

March 29, 20**18**

Hon. Dr Moeketsi Majoro, MP,
Minister of Finance
Office of Minister of Finance
P O Box 395
MASERU 100
Lesotho

Honourable Minister,

I have the honour to transmit the Annual Report of the Central Bank of Lesotho for the year 2017, which includes:

1. a review of economic developments during the year

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

    a) The Bank's annual financial statements for the year ended December 31,2017 certified by the auditors, LETACC Firm of Chartered Accountants;

    b) A report on the operations of the Bank during 2017.

Yours faithfully,

A. R. Matlanyane (PhD)
GOVERNOR

CENTRAL BANK OF LESOTHO 2017 ANNUAL REPORT

for the year ended December 31, 2017

The contents of this 2017 annual report are pursuant to Sections 46 and 53 of the
of the Central Bank of Lesotho Act No. 2 of 2000.

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

For further information, contact:

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Website: **www.centralbank.org.ls**

GOVERNANCE, MISSION & OBJECTIVES

Ownership and Governance

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

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

Mission Statement

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

Objectives

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

Other statutory functions of the Bank are:

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

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Board of Directors & Executive Management

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BOARD OF DIRECTORS

Dr. Retšelisitsoe Matlanyane
Executive Chairman

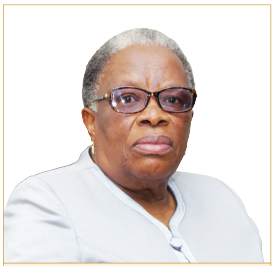
Dr. Masilo Makhetha
Executive Director

Ms. 'Mathabo Makenete
Executive Director

Mrs. Neo Phakoana-Foulo
Non-Executive Director

Mrs. Octavia Letebele
Non-Executive Director

Dr. Maluke Letete
Non-Executive Director



Mrs. Sophia Mohapi
Non-Executive Director

Adv. Sekake Malebanye KC
Non-Executive Director

EXECUTIVE MANAGEMENT

Dr. Retšelisitsoe Matlanyane
Governor

Dr. Masilo Makhetha
First Deputy Governor

Ms. 'Mathabo Makenete
Second Deputy Governor

Mr. Lehlomela Mohapi
Director of Research Department

Mr. Bohlale Phakoe
Director of Financial Markets Department

Mr. Mokotjo Mphaka
Director of Other Financial Institutions Supervision Department

Mr. Fusi Morokole
Director of Operations Department

Dr. Sephooko Motelle
Director of Bank Supervision & Financial Stability Department

Mr. Samuel Mahooana
Director of ICT Department

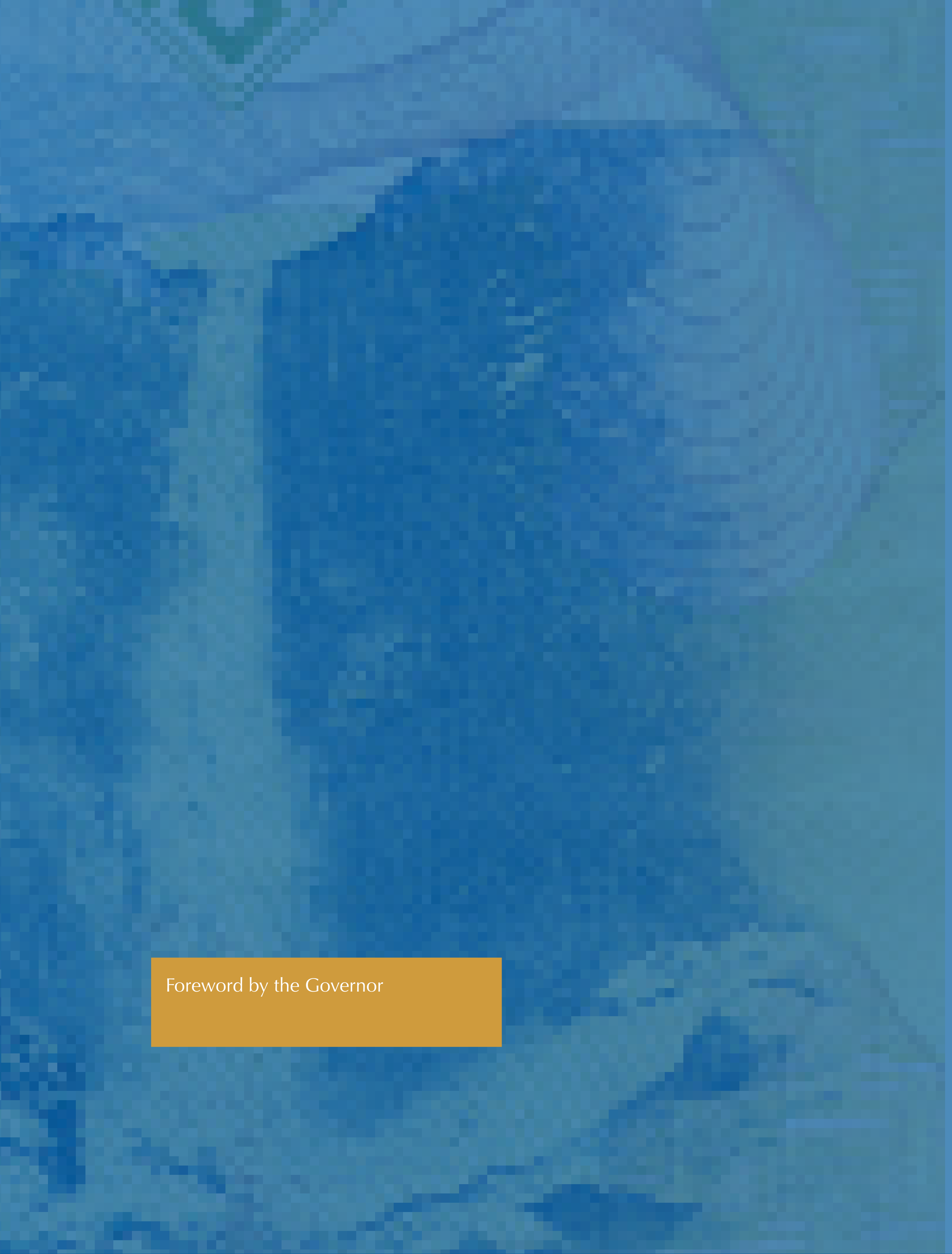
Mrs. 'Mamakhaola Mohale
Director of Internal Audit Department

Mr. Napo Rantsane
Director of Corporate Affairs Department

Mrs. 'Mapheko Mohapi
Director of Finance Department

Mrs. 'Mateboho Morojele
Director of Human Resources Department

Mrs. Mpono Mosaase
Director of Enterprise Risk Management Department



Foreword by the Governor

FOREWORD BY THE GOVERNOR

Dr. Retšelisitsoe Matlanyane
Governor

The year 2017 began with trepidation over a number of issues that appeared to be threatening the accepted order and norms of global economic discourse. There was anxiety over how the election of Donald Trump as the president of the United States of America was going to affect the gains of globalization and trade. The rising tides of populism in a number of European countries that were going for elections were continuing. Protectionism and inward-looking policies continued to dominate policy dialogue. Inclusive growth became the core of the global policy agenda in 2017.

Global economic activity improved with the recovery momentum observed in the second half of 2016 being sustained over the course of 2017. Global output rose by about 3.7 per cent in 2017, up by 0.5 percentage points from 2016. This is the broadest synchronized global economic growth since 2010 with most countries experiencing growth acceleration. However, monetary policy normalization underway in advanced countries remains a significant risk to the current growth path. Monetary policy stance in advanced economies remained mostly accommodative with policy rates at historically low levels while inflation seems to be picking up.

Domestic economic developments were characterized by continued slowdown economic growth, uncertainty and severe risks emanating from deteriorating fiscal performance. Economic growth is estimated to have grown by 2.3 per cent compared with 2.4 per cent registered in 2016. Growth was supported by positive developments in the primary and services sector, particularly the significant growth in the mining industry and information and communication sub-sector. The economy is expected to have contracted in the second quarter of the year due to heightened uncertainty that resulted in wait and see approach by investors. In turn, this exacerbated the fiscal challenges as domestic revenue underperformed during the period. This occurred against the background of SACU revenue that had only recovered partially from the huge drop experienced last year.

Inflation developments have largely been supportive of macroeconomic stability. The average annual inflation rate for Lesotho recorded 5.2 per cent in 2017 relative to 6.6 per cent in 2016 reflecting the good harvests due to improved weather conditions coupled with substantially increased area planted.

The Bank continued to implement its core functions of formulating monetary policy, supervising and regulating the financial sector, developing domestic financial markets, overseeing national payments systems and managing foreign reserves. Financial sector reforms guided by the Financial Sector Development Strategy continued to be the main focus. To this end, the Pensions Bill is now ready for enactment which will see the pensions industry being regulated by the Bank and meaningfully contributing towards domestic economic development.

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FOREWORD BY THE GOVERNOR

During the year, the Bank undertook the mid-term review of the 2015-2019 Strategic Plan. While the Bank monitors the implementation of its strategic plan on a continuous basis, the review provided the Bank with an opportunity to reflect comprehensively on the progress made. The exercise also allowed the Bank to take into account emerging issues arising from the changing environment that are affecting the domestic financial sector. Some of the identified key issues are the low level of foreign reserves, the continuous deceleration in economic growth, cybercrime and cyber security. These issues are now part of the Bank strategy in the remaining period.

Continuous learning and renewal are the hallmarks of an agile organization. The implementation of the new core banking and enterprise resource planning (ERP) systems – the *Quantum Central Banking Solution (QCBS)* and the *Acctech e-Workflow* respectively – which replaced the legacy integrated system – *Midas* – represented a major step towards the modernization aimed at serving our stakeholders better. The implementation of the skill development policy continued to ensure that Bank maintains adequate skills within its workforce. In response to the growing scope of functions, the resulting growth in human resource headcount together with best practices in various areas of management, the Bank reviewed its organizational structure. Some of the salient features of the review are the Supervision Department that has metamorphosed into two departments as well as the elevation of the human resources function into a department having all along been a division in the former Administration Department

The assurance and governance structures of the Bank continue to be strong and robust. These, coupled with our commitment to executing our mandate and statutory functions as effectively as possible and our subscription to sound and best management practices, remain critical attributes in our endeavor to be a dynamic institution, in pursuit of excellence in central banking ❑

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

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The global economy continued to strengthen throughout the year (World Economic Outlook, January 2018).

THE ECONOMIC REPORT

1.1 INTERNATIONAL ECONOMIC DEVELOPMENTS

1.1.1 The World Economy

The global economy continued to strengthen throughout the year. The January 2018 update of the World Economic Outlook shows that the global output is estimated to have risen by about 3.7 per cent in 2017, an improvement of 0.5 percentage points from 2016. The economic outlook further indicates that the growth accelerated in 120 countries, which account for three-quarters of the world GDP, reflecting the broadest synchronized global economic growth since 2010. The world trade volume was expected to grow by 4.7 per cent in 2017 compared to 2.5 per cent in 2016.

The stronger global economic growth was backed by the generally accommodative policies which supported the recovery in investment, manufacturing, and trade. Monetary policy stance in advanced economies remained mostly accommodative with policy rates still at historically low levels. However, the U.S. and U.K. have embarked on a gradual path of monetary policy normalisation due to heightened inflation pressures resulting from increased economic activity and strengthening of the labour markets. The unemployment levels gradually declined in several advanced and emerging economies, albeit at the slower pace.

Resurgence in commodity prices gained some momentum, especially for the crude oil prices which were mostly supported by an improved global growth outlook, weather events in the United States, the extension of the OPEC agreement to limit oil production, and geopolitical tensions in the Middle East. The increase in crude oil prices raised headline inflation in advanced economies. Among emerging market economies, headline and core inflation have increased slightly despite the decline observed earlier in the year.

Many potential risks still exist which could undermine the synchronized global economic recovery. One notable threat to growth is that the monetary policy normalization could be further delayed if the wage and core-price inflation remain subdued in the advanced economies. In this context, a protracted period of very low-interest rates will increase global debt levels, and financial vulnerabilities as yield-seeking investors search for higher investment returns, which might tend to increase their exposure to less creditworthy borrowers such as households, lower-rated corporate and sovereign borrowers. Alternatively, the low-interest rates environment will increase consumers and business spending, causing stock prices to rise. But the emerging signs of rising inflation could trigger a financial market correction resulting in a plunge in stock prices subsequently leading to an economic depression.

There is a real likelihood that the central banks in the United States and Europe might raise interest rates faster than expected to curb the inflation pressures. The faster tightening of the monetary policies will cause the turbulence in financial markets hence reduce the potential output. Increased geopolitical risks and protectionism are expected to weigh on global investment and potential growth in advanced, emerging market and developing economies. The uncertainty surrounding the BREXIT and the prolonged political standoff in German to establish a new coalition government following the elections in September will have a destabilising impact on financial markets and global economic growth prospects.

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The world trade volume was expected to grow by 4.7 per cent in 2017 compared to 2.5 per cent in 2016.

1.1.2 Selected Advanced Economies

a) The United States (US)

Real GDP is estimated to have increased by 2.3 per cent in 2017 compared with an increase of 1.5 per cent in 2016. The growth in fixed capital formation, exports, federal government spending, rising consumer and business confidence accelerated the US economic recovery. Also, the recent passing of the US$1.5 trillion tax plan in December is expected to reinforce the current expansion further. The labour market conditions improved as the unemployment rate declined from 4.9 per cent in 2016 to 4.4 per cent in 2017.

Comparing 2016 and 2017, the inflation rate hovered around 2.1 per cent in both periods, thereby exceeding the 1.6 per cent, which was average annual rate over the past 10 years. The Federal Reserve hiked the federal funds rate three times as it attempted to ensure a sustained return to the 2 per cent inflation target. The Federal Reserve committed to maintaining a gradual adjustment in the stance of monetary policy.

b) The Euro Area

Economic growth in the Euro Area accelerated to 2.4 per cent in 2017 from 1.8 per cent in 2016. The rapid increase in both industrial production and exports of goods boosted the economic growth. The trade balance recorded a €25.4 billion surplus in trade of goods with the rest of the world. The unemployment rate was at 8.7 per cent in 2017, down from 9.7 per cent in 2016. But more importantly, the Euro Area made some progress in reducing the high rate of youth unemployment to 17.9 percent, compared with 20.3 per cent in December 2016.

The inflation rate accelerated from 1.1 per cent in 2016 to 1.4 per cent in 2017. Rising energy, and food, alcohol and tobacco prices pushed the inflation rate higher. But the deceleration of the inflation rate from 1.5 per cent in November to 1.4 per cent in December justified the European Central Bank's decision to keep its policy easy despite growing pressure from Germany and other richer Eurozone countries.

c) Japan

The economic growth rate is expected to double from 0.9 per cent in 2016 to an estimated 1.8 per cent in 2017, the fastest increase since a 2.0 per cent expansion in 2013. The Japanese economy has been growing well over eight successive quarters to December, showing that the country was likely to repeat its most significant economic boom when it registered 12 consecutive quarters of growth between 1986 and 1989. The previous rounds of consistent monetary stimulus, rising consumer spending and fixed capital formation sustained the economic growth in Japan. The unemployment rate decreased from 3.1 per cent in 2016 to 2.8 per cent in 2017.

The inflation rate remained subdued at 1.0 per cent, despite the sustained monetary stimulus from the central bank. Throughout the year, the Bank of Japan maintained the key policy rate at -0.10 per cent. However, the extended economic growth and strengthening of the labour market conditions eventually will lift the consumer prices toward the 2 per cent inflation target, thereby prompting the Bank of Japan to start the monetary policy normalization.

d) United Kingdom

The GDP growth rate was estimated to have increased by 1.7 per cent in 2017, slightly below the 1.9 per cent in 2016. The increased uncertainty surrounding the BREXIT transition and a significant fall in oil and gas extraction, due to the repair work made to the Forties pipeline, dampened the growth prospects. The unemployment rate, which was considered the lowest on record since 1975, decreased from 4.8 per cent in 2016 to 4.3 per cent in 2017.

The inflation rate which was mostly driven by the housing and household services accelerated from 1.6 per cent in 2016 to 3.0 per cent in 2017. The inflation rate which exceeded the 2 per cent target forced the Bank of England to hike the key policy rate in November, for the first time in more than 10 years, from 0.25 per cent to 0.50 percent.

1.1.3 Selected Emerging Market Economies

a) China

The GDP growth rate in China accelerated from 6.7 per cent in 2016 to 6.8 per cent in 2017, thus continuing to stay above the official growth target of around 6.5 per cent. Consumer spending, which contributed about 58.8 per cent to GDP growth, and services have replaced investment and exports as the traditional primary sources of growth in China. Strong consumer and business confidence will further reinforce growth as the country continues on a path to restructure and reconfigure its economy. The unemployment rate was stable at 4.6 per cent year-on-year in December.

The inflation that was mostly being driven by non-food prices and services increased to 1.8 per cent year-on-year. The Bank of China maintained the key policy rate at 4.35 per cent throughout the year.

b) India

The GDP decelerated from 7.1 per cent in 2016 to 6.7 per cent in 2017 due to the implementation of two disruptive structural reforms of the Goods & Services Tax (GST) which increased the business operating costs, and demonetization – which led to a severe cash crunch for small and medium-sized enterprises. Private consumption growth was sluggish, and the trade balance deteriorated as imports accelerated more than exports. India's unemployment rate increased from 3.5 per cent in 2016 to 3.6 per cent in 2017. However, the investor confidence was restored, and growth was expected to rebound after the credit rating agency Moody's upgraded India's ratings in November after a gap of 13 years, arguing that the reforms were worthwhile in the long run.

A hike in the central government's house rent allowance (HRA) significantly increased housing prices that pushed the inflation rate to 5.2 per cent in 2017 from 3.4 per cent in 2016. But the inflation remained well below its target as the cost pressures related to the implementation of the GST started to wane. In the third quarter, the Reserve Bank of India had enough leverage to stimulate growth by cutting the key policy rate from 6.25 per cent to 6.00 percent, which was the lowest level since 2010.

The inflation that was mostly being driven by non-food prices and services increased to 1.8 per cent year-on-year.

c) South Africa (SA)

The GDP growth is expected to improve from 0.3 per cent in 2016 to 0.9 per cent in 2017. An increase in industrial production, especially the mining sector supported the economic growth, while the growth in the manufacturing output decelerated due to a slump in the automotive industry. The South African economy has struggled for growth for much of the post-crisis period. The increased political and policy uncertainty, limited progress on structural reforms and the pressures on the key policymaking institutions such as the Reserve Bank and the National Treasury also weighed on growth. Consequently, the Fitch and S&P global credit rating agencies downgraded South Africa to sub-investment grade, which reduced the investor confidence. Moody's, the third credit rating agency, decided to hold on its rating (which is currently one notch above junk) until after the 2018 budget speech under the guidance of new ANC leadership. The annual unemployment rate increased from 26.5 per cent in 2016 to 26.7 per cent in 2017.

The annual inflation rate eased from 6.4 per cent in 2016 to 5.3 per cent in 2017, as a result of the deceleration in food prices of which are the second critical determinants of the inflation in South Africa. The slowdown in inflation allowed the South African Reserve Bank to cut the key policy rate, from 7.00 per cent to 6.75 percent, to stimulate growth.

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Table 1 Selected Economic Indicators, 2013 – 2017* (Percentage changes unless otherwise)

Indicators	2013	2014	2015	2016	2017
World Output	3.3	3.4	3.2	3.2	3.7
Advanced Economies	1.2	1.9	2.1	1.7	2.3
Of which:					
United States	**1.7**	**2.4**	**2.6**	**1.5**	**2.3**
Euro Area	-0.3	1.1	2.0	1.8	2.4
Japan	1.4	0.0	0.5	0.9	1.8
United Kingdom	1.9	3.1	2.2	1.9	1.7
Emerging and Developing Economies	5.0	4.6	4.0	4.4	4.7
Of which:					
Sub Saharan Africa	5.2	5.1	3.4	1.4	2.7
South Africa	**2.3**	**1.6**	**1.3**	**0.3**	**0.9**
Developing Asia	7.0	6.8	6.6	6.4	6.5
China	7.8	7.3	6.9	6.7	6.8
India	6.6	7.2	7.6	7.1	6.7
Consumer prices					
Advanced Economies					
Of which:					
United States	**1.5**	**1.6**	**0.7**	**2.1**	**2.1**
Euro Area	1.3	0.4	0.0	0.3	1.4
Japan	0.3	2.8	0.8	-0.2	1.0
United Kingdom	2.6	1.5	0.1	0.7	3.0
Emerging and Developing Economies					
Of which:					
Africa					
/Sub Saharan	6.6	6.3	7.0	11.3	11.0
South Africa	**5.8**	**6.1**	**4.6**	**6.4**	**5.3**
Developing Asia	4.6	3.5	2.7	2.8	2.6
China	2.6	2.0	1.4	2.0	1.8
India	9.4	5.9	4.9	3.4	5.2
World Trade Volume	3.5	3.8	2.6	2.5	4.7
(Goods and Services)					
Exports					
Advanced Economies	3.2	3.8	3.6	2.6	4.1
Emerging and Developing Countries	4.5	3.5	1.3	2.3	5.9
Imports					
Advanced Economies	2.3	3.8	4.2	2.4	3.8
Emerging and Developing Countries	5.3	4.5	-0.6	2.3	4.8
Source	IMF World Economic Outlook, October 2016 * IMF Projections				

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The price of oil increased by 25.6 per cent from an average of US$42 in 2016 to that of US$52 in 2017.

1.1.4 Commodity Price Developments

a) Gold Prices

The gold prices rose from US$1,247.77 per ounce in 2016 to US$1,258.32 in 2017. In Maloti terms, the gold price decreased from M18,385.42 per ounce in 2016 to M16,787.40 per ounce in 2017. The gold prices mostly increased buoyed by safe-haven demand from anxious investors on concerns about a weaker US dollar, the geopolitical tensions between the US and North Korea, and anticipated rate hikes from the Fed caused worries, as did the Brexit process and European elections. Gains were offset by the fed, which hiked the key policy rate three times to avert the inflation pressures during the year.

b) Platinum Prices

The platinum price declined by 3.8 percent to US$ 950 per ounce in 2017, following a 6.4 percent fall in 2016. In Maloti terms, the price of platinum declined by 12.9 percent to M12,668.26. A slowdown in demand by the car manufacturers and China (jewellery industry) caused the platinum price to fall during the year. The platinum price is expected to decline further as the car manufacturers both in Europe and Asia continue replacing the diesel (and petrol) powered vehicles with the new energy vehicles, which are mostly electric-powered vehicles. China, the world's largest market for the new energy vehicles, introduced around 1.7 million such vehicles on its roads at the end of the year.

c) Oil Prices

The price of oil increased by 25.6 per cent from an average of US$42 per barrel in 2016 to that of US$52 in 2017. In maloti terms, the price of oil increased by 14.4 per cent from M612 per barrel in 2016, to M701 per barrel in 2017. The increase in the oil prices was caused mostly by OPEC and non-OPEC countries which agreed to cut the excess supply by about 1.8 million barrels per day (bpd) in an effort to boost the oil prices at the beginning of the year. At the end of the review period, these countries decided to extend the agreement to cut the supply further without overheating the oil market for another year. The decline in the domestic production in China, which increased its crude oil imports after closing down the oil plants to build new refinery capacity, supported the increase in the oil prices. The increase in the crude oil imports made China the world's largest crude oil importer ahead of the US in 2017. The significant risks to the bullish oil market prices include increased production expectations mostly from the US, which could undermine the OPEC's recent efforts to cut the excess oil supply in the global market.

d) Maize Prices

The price of white maize sharply fell by 47.0 per cent to US$157.52 per tonne, compared to an increase of about 30.2 per cent in 2016; whereas the price of yellow maize declined by 29 per cent to US$161.88, after increasing by 9.8 per cent in 2016. In Maloti terms, the price of white maize significantly dropped by 52.2 per cent to M2,100.08, while the price of yellow maize plummeted by 38.5 per cent to M2,158.41. The fall in maize prices was attributed to the oversupply of maize in the global markets, as a result of more than expected harvest in the Southern Hemisphere. The favorable weather conditions and higher prices had encouraged the farmers to increase the area planted which boosted the maize production in Southern Africa and South America. The excellent weather raised the yield levels above the previous year's levels, which more than outweighed the significant production cuts in the United States and Europe where the severe weather reduced the yields. In China, the decrease in the Government's procurement price had triggered a contraction in the size of the area planted which cut the maize production.

e) Wheat Prices

The price of wheat increased by 5.0 per cent to US$316.29 per tonne in 2017 compared with a 5.0 per cent decline in 2016. The reduced supply of wheat in the global markets which was caused by the unfavorable weather conditions in Canada, the United States and several other major producing countries, resulted in firmer prices in 2017. The increases in wheat production in Russia, China, India, France and elsewhere did not compensate for the production losses incurred due to the adverse weather conditions. A weaker US dollar reduced the cost of wheat in global markets, hence in Maloti terms, the price of wheat declined by 5.2 per cent to M4,216.81 per tonne.

1.1.5 Currency Movements

The Rand, hence the Loti, appreciated against the US dollar, the British pound and the Euro by 9.3 percent, 13.9 per cent and 7.3 percent, respectively. The resilience of the Rand was mostly supported by the heightened global risk appetite which was manifested in the form of capital inflows from distressed investors who searched for higher yields. Anticipated changes in the leadership of the ruling party with a market and investor friendly candidate in South Africa inspired the market confidence. The Rand strengthened despite the widening fiscal deficit, heightened political uncertainty, the Steinhoff scandal and South Africa being downgraded by the Fitch and S&P credit rating agencies to sub-investment grade.

1.2 Domestic Economic Developments

1.2.1 Real Sector Developments

I. Trends in Output and Income

Real GDP is estimated to have grown by 2.3 per cent in 2017, relative to 2.4 per cent recorded in 2016. The output growth was mainly underpinned by stronger growth in both the primary and tertiary real output, while contraction of the secondary sector output moderated the growth. The primary and tertiary sectors mainly benefited from a strong mining and quarrying output growth and information and communication sector output growth, respectively. The secondary sector performance deteriorated at the back of the decline in construction sector output as well as a slowdown in manufacturing sector.

The real GNI is estimated to have grown by 1.9 per cent in 2017 compared with a negative growth of 1.6 per cent recorded in 2016. The positive grow in GNI is mainly attributed to the increase in income receivables from the rest of the world, in particular, the increase in remittances of migrant mineworkers, the increase in interest earned by commercial banks which was moderated by the decline in interest earned by the Central Bank of Lesotho as well as other incomes.

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The Rand, hence the Loti, appreciated against the US dollar, the British pound and the Euro by 9.3 percent, 13.9 per cent and 7.3 percent, respectively.

Table 2	Aggregate Economic Indicators (Percentage Change, 2012=100)				
	2013	2014	2015	2016	2017*
GDP	1.8	3.1	2.5	2.4	2.3
GNI	1.5	2.4	2.1	-1.6	1.9
GDP Per Capita	1.3	1.9	3.1	2.5	2.1
GNI Per Capita	0.9	1.2	2.7	-1.5	1.6
Source	Bureau of Statistics, *CBL Projections				

II. Sectoral Performances

a) Developments in the Primary Sector

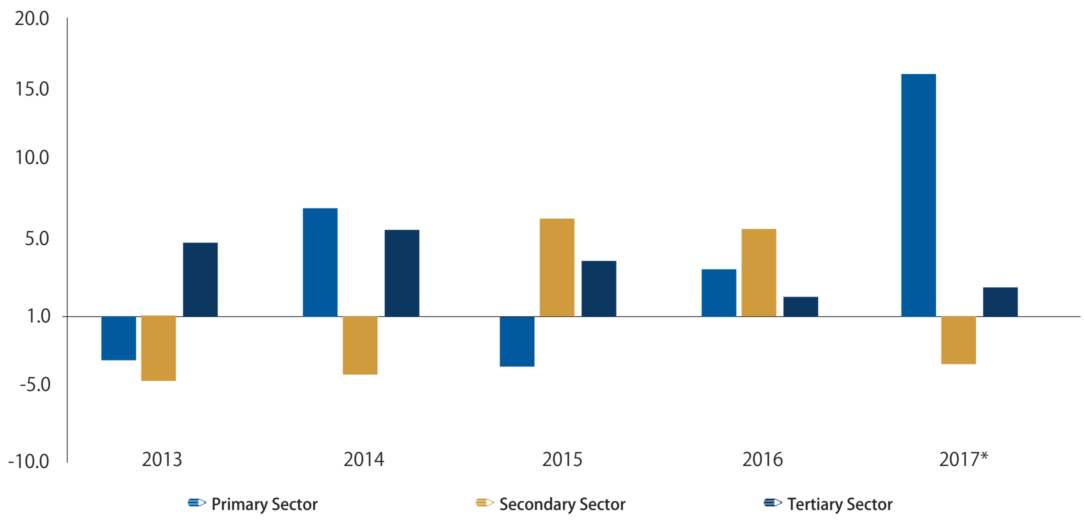
The real output in the primary sector is estimated to have grown by 16.0 per cent in 2017 compared with 3.1 per cent growth recorded in 2016. This robust growth was mainly dominated by strong rebound in output growth in the mining and quarrying subsectors, which were mainly underpinned by high production by the mines in Lesotho and a new entrant in the mining sector, which started operations at the end of 2016. The agricultural sector output also contributed to the growth in the primary sector, albeit at a slower pace during review period.

The real output in the agriculture, forestry and fishing subsector is estimated to have grown, albeit at a slower pace of 3.4 per cent in 2017 compared with 7.2 per cent recorded in 2016. The real output growth in the sector is accounted for by a higher growth in crop production in 2017, mainly due to better weather conditions relative to the two prior years where El Niño drought ravaged the yield in crop production.

The mining and quarrying subsector output is estimated to have registered a growth of 34.4 per cent in 2017, which is a massive rebound from a contraction of 2.4 per cent recorded in 2016. The robust growth in the subsector's real output mainly emanated from increased production in all the mines' output in 2017, which was also boosted by the new entrant in the mining sector at the end of 2016.

The mining and quarrying subsector registered a growth of 34.4% in 2017.

Figure 1 Sectoral Real Growth Rate (Percentage)



Source: Bureau of Statistics, *CBL Projections

b) Developments in the Secondary Sector

The secondary sector's real output was estimated to have contracted by 3.7 per cent in 2017, compared with a positive growth of 5.7 per cent in 2016. This was mainly at the backdrop of a slowdown in the manufacturing sector, especially the textiles and clothing, as well as, a continued contraction of real output in the construction sector. The slowdown in the manufacturing sector was at the back of subdued performance of the textiles and clothing as demand for Lesotho's exports in U.S market faced stiff competition from the Asian and some African competitors, which are low cost producers relative to Lesotho. Nonetheless, the demand for manufactured exports to the SACU market continued to grow albeit at a more muted pace in 2017.

The sector's output was further adversely affected by the construction sector, which is estimated to have declined by 20.0 per cent in 2017, following a 13.5 per cent contraction in 2016. The developments in the construction subsector mainly reflected the subdued developments in the public projects as well as the completion of the major construction of the Metolong dam, which was completed in the second half of 2016.

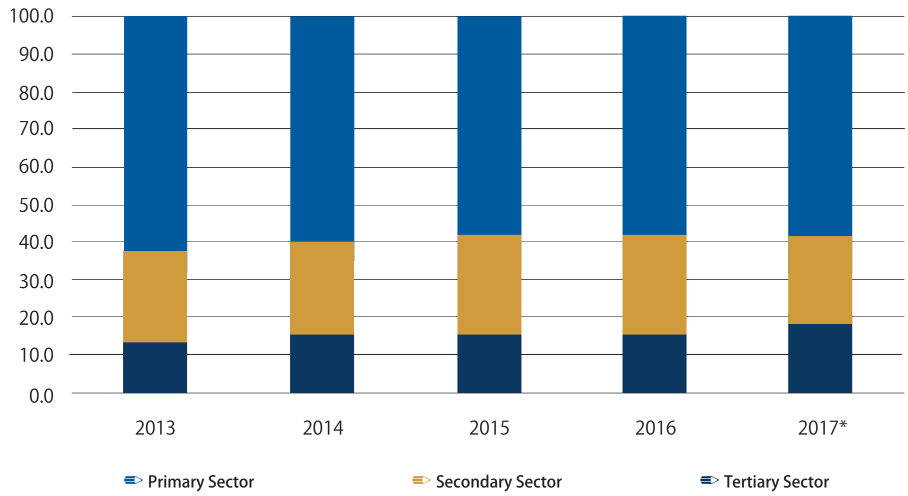
The water and electricity subsector's real output is estimated to have registered a contraction of 1.0 per cent in 2017 compared with 6.3 per cent contraction in 2016. Despite the continued contraction in the output of the water and electricity subsector in 2017, it has improved compared with the contraction recorded in 2016. The continued negative growth in 2017 mainly reflected the subdued performance in the manufacturing sector.

The secondary sector's real output was estimated to have contracted by 3.7 per cent in 2017, compared with a positive growth of 5.7 per cent in 2016.

c) Developments in the Tertiary Sector

The services sector real output was estimated to have grown by 2.2 per cent in 2017, compared with 1.2 per cent recorded in 2016. The developments in the tertiary sector are due to increased activity in the transport and communications subsectors during the year 2017. The financial sub-sector also played a significant role in the growth process of the tertiary sector during the review period, especially due to improved performance in the financial services. The wholesale and retail trade real output growth increased at the back of better demand for consumer products during the review period relative to 2016 mainly at the back of increased purchasing power of consumers as well as the general better performance of the economy. Moreover, the sector benefited from the fiscal policy as public administration also increased during the review period relative to 2016.

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



Source: Bureau of Statistics, *CBL Projections

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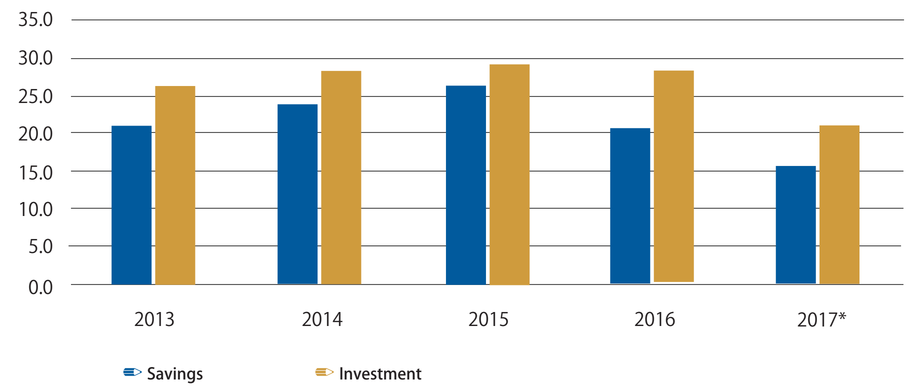
III. Savings and Investments

Gross national savings, as percentage of GNI, is estimated to have recorded 15.0 per cent in 2017 compared with 20.2 per cent recorded in 2016. The total investment recorded 20.8 per cent of GNI in 2017 compared with 27.9 per cent of GNI in 2016. The decline in gross national savings as a share of GNI mainly reflects the decline in national savings. The savings investment gap narrowed down to 5.8 per cent of GNI in 2017 relative to 7.6 per cent recorded in 2016. The reduction in the gap is mainly accounted for by the moderate decline in the government investment, which outweighed the decline in private sector savings during the review period.

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



Source: Bureau of Statistics, *CBL Projections

IV. Employment, Wages & Prices

a) Employment Trends

The labour market statistics report comprises three segments, namely, employment by Lesotho National Development Corporation (LNDC) assisted companies, government and migrant mineworkers. Employment by LNDC-assisted companies increased to 47,795 employees in 2017, from 47,054 employees in 2016. This is a moderate growth of 1.5 per cent in 2017 relative to 2016. This is reflective of the performance of the manufacturing sector where competition for the U.S market of manufactured exports puts the sector under pressure. The LNDC-assisted companies are the largest private sector employers in the economy.

The second largest employer segment, the public sector, continued to register a decline in the number of employees, registering a drop of 2.3 per cent in 2017, following a 1.3 per cent drop in 2016. The third segment is the migrant mineworkers' category, which also continued to show a decline in the number of employees from 26,298 in 2016 to 25,770 employees in 2017.

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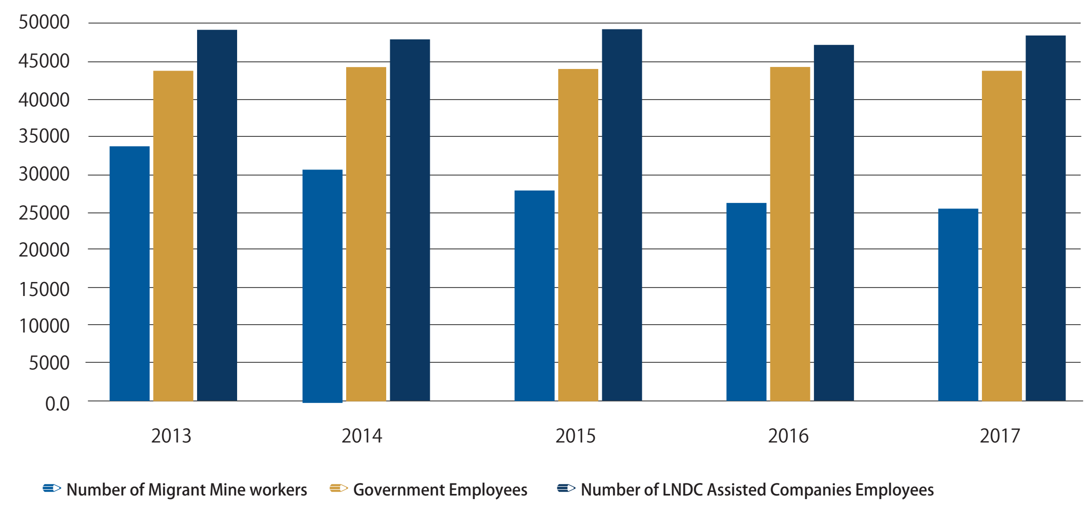
Gross national savings, as percentage of GNI, was estimated to have recorded 15.0 per cent in 2017 Compared with 20.2 per cent recorded in 2016.

Figure 4 Employment Trends



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

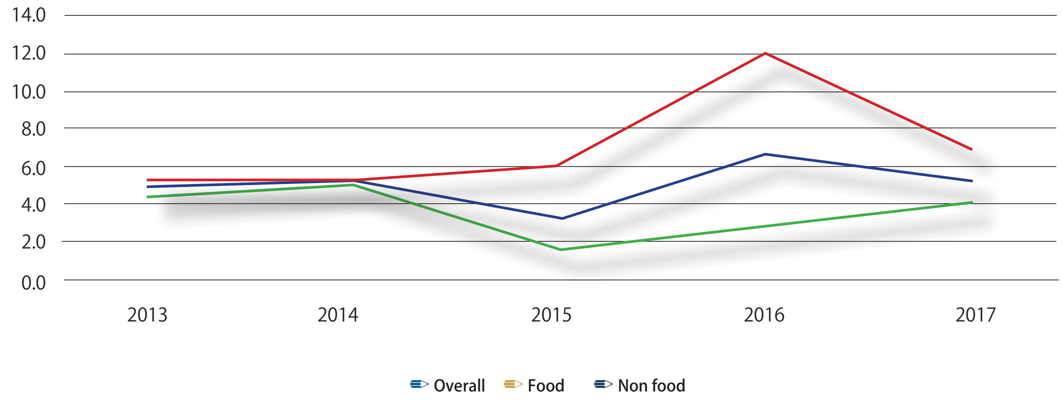
b) Wages

The general minimum wage increased by an annual average of 5.1 per cent across all sectors for the fiscal year 2017/2018 as determined by the Government of Lesotho through Lesotho Wages Advisory Board. This was lower than the 10.0 per cent that was instituted in the previous fiscal year. The Government employees' salaries were adjusted by 3.0 per cent across the board in the fiscal year 2017/2018 compared with 4.0 per cent in 2016/2017 fiscal year.

c) Price Developments

The average annual inflation rate for Lesotho recorded 5.2 per cent in 2017 relative to 6.6 per cent in 2016. The deceleration in the average annual inflation rate was a result of deceleration in the following categories: "Food and non-alcoholic beverages", "Clothing & footwear", "Transport" and "Health". However, the developments in these categories were moderated by the increases in the categories of "Alcoholic beverages & Tobacco", "Housing, electricity gas & other fuels", "Furniture, households' equipment & routine maintenance of house", "Leisure, entertainment & Culture" as well as "education" categories. The relative decline in food and non-alcoholic beverages prices was due to the improved weather conditions, which improved the grains harvest in the Southern Africa region. Domestically, good harvests were experienced, again, due to improved weather conditions coupled with substantially increased area planted.

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



Source: Bureau of Statistics

1.2.2 Monetary and Financial Developments

I. Money Supply

Following a decrease of 4.8 per cent in 2016, money supply (in nominal terms) increased by 25.5 per cent in 2017. This development was attributed to a 75.6 per cent growth in domestic claims despite a decline of 3.1 per cent in overall banking sector net foreign assets. In real terms, money supply increased by 19.8 per cent in 2017 compared to a decrease of 10.2 per cent in 2016. This growth in money supply can also be observed through movements in its components, namely; narrow money (M1), as well as, quasi money. During the period under review, M1 and quasi money recorded increases of 26.4 per cent and 24.7 per cent, respectively. This is relative to a decrease of 7.9 per cent and 1.5 per cent in the former and the latter, respectively, for the previous year. During the review period, the increase in M1 was due to a 17.8 per cent increase in currency in circulation as well as a 28.4 per cent increase in transferable deposits. In addition, quasi money's positive position was prompted by a 28.4 per cent increase in other deposits.

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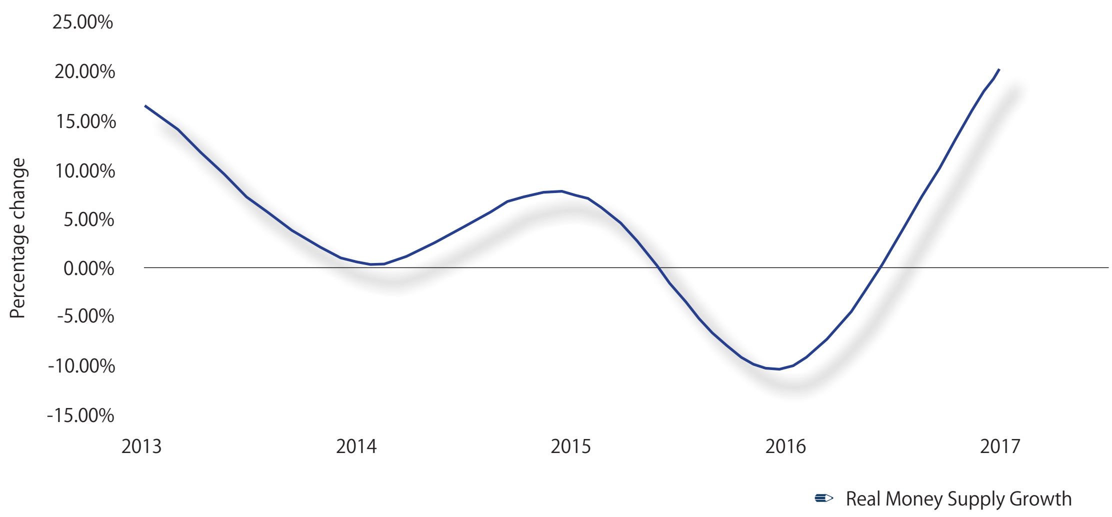
Following a decrease of 4.8 per cent in 2016, money supply (in nominal terms) increased by 25.5 per cent in 2017.

Figure 6 Real Money Supply Growth



Source: Central Bank of Lesotho

II. Domestic Credit

Domestic credit, including claims on government increased by 72.7 per cent during the review period following a surge in 2016. This was mainly due to a sharp growth of 70.2 per cent in net claims on Central Government following a 42.4 per cent drawdown in government deposits with the Central Bank. The rise in domestic claims was further strengthened by an increase of 8.2 per cent in credit to the private sector in the review period, relative to a 2.9 per cent increase registered in the previous year. In terms of the distribution of credit extended to the private sector, households continue to take the largest portion at 67.7 per cent of the total, while business enterprises re the recipients of the remaining 32.3 per cent. Despite the continued growth in private sector credit on a year on year basis, the fact that it is driven largely by household credit does not augur well for the domestic economy as a substantial amount of private sector credit is used to finance consumption and not investment. This highlights the need to accelerate efforts aimed at unlocking credit to business enterprises, as well as, addressing other impediments to private sector growth.

Table 3 Domestic Credit (Million Maloti: End Of Period)	2013	2014	2015	2016	2017
Claims on Government (Net)	-4,177.85	-4963	-4790	-2584	-770.5
Claims on Central Government	1,499.48	1460.5	1899.2	1953.9	1844.3
Liabilities to Central Government	5,677.33	6423.1	6689.3	4537.9	2614.8
Claims on Public NFCs (Official entities)	0	0	0	0	0
Claims on Private Sector	4556.11	5121.3	5501.7	5664.6	6131
Claims on Other Resident Sector (Households)	2997.7	3306.2	3398.2	3697.9	4147.8
Claims on Other NFCs (Enterprise)	1,558.34	1815.1	2103.4	1966.7	1983.2
Domestic Claims	**389.96**	**171.28**	**742.93**	**3160.3**	**5455.6**
Source: Central Bank of Lesotho					

III. Net Foreign Assets

Overall, banking system net foreign assets (NFA) slowed down as it registered a 3.1 per cent decline in 2017, following a decrease of 15.4 per cent during the previous year. This development is against the backdrop of 18.8 per cent decline in Central Bank NFA moderated by a 51.2 per cent increase in commercial banks NFA. The fall in Central Bank NFA, was driven by a decline in Central Bank other deposits and securities included in official reserves at the rates of 65.5 per cent and 34.5 per cent, respectively, for purposes of financing government expenditure over the review period. On the other hand, commercial bank NFA increased on the back of a 65.7 per cent increase in their other deposits with non-residents, as well as, a 24.4 per cent increase in their holdings of foreign currency. The increase in commercial banks' other deposits with non-residents was done to take advantage of higher returns outside the country following an improvement in their deposit base. The increase in commercial banks' holdings of foreign currency was in response to increased demand of foreign currency by banks' customers during the review period.

Table 4 Banking System's Net Foreign Assets (Millions of Maloti)	2013	2014	2015	2016	2017
Commercial banks	3237	3039	3859	2992	4524
Assets	3627	3329	4244	3330	5011
Liabilities	-390.7	-289.9	-385	-337.6	-487.1
Central Bank	9599	10666	11958	10382	8435
Assets	10964	12066	13740	11920	9902
Liabilities	-1366	-1401	-1782	-1539	-1467
Net Foreign Assets	**12835**	**13705**	**15817**	**13374**	**12959**
Source: Central Bank of Lesotho					

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Overall, banking system net foreign assets (NFA) slowed down as it registered a 3.1 per cent decline in 2017.

IV. Credit Extension

a) Trends of Credit Extended to Business Enterprises

Credit extended to business enterprises registered a moderate growth of 0.8 per cent in 2017 compared to the decline of 6.5 per cent registered in the previous year. Manufacturing, mining, wholesale, retail, hotel and restaurant, construction and agriculture experienced declines in credit extension in 2017, while real estate and business services, electricity, gas and water, community, social and personal services coupled with transport, storage and communication saw increased credit extension in the review period. The decline in loans and advances to Manufacturing, mining, wholesale, retail, hotel and restaurant, construction and agriculture came on the back of bank run offs[1], unutilised overdraft facilities and the payment of overdrafts. The moderate increase in loans to the identified sectors was due to new loans granted net of run offs.

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

	2013	2014	2015	2016	2017
Agriculture	16.3	17.4	18.1	25.3	17.0
Mining	185.4	358.7	406.9	363.8	284.1
Manufacturing	320.7	445.4	481.7	319.4	252.1
Electricity, gas and water	36.8	40.4	32.9	38.5	41.2
Construction	212.7	171.2	228.2	313.5	284.0
Transport, Storage and Communication	112.3	188.5	235.3	185.7	370.9
Wholesale, Retail, Hotel & Restaurant	225.7	153.2	235.8	184.7	167.1
NBFIs, Real Estate and Business Services	204.8	429.9	444.6	509.5	522.9
Community, Social & Personal Service	243.6	10.3	19.8	26.4	43.9
Total	**1 558.3**	**1815.1**	**2103.4**	**1966.7**	**1983.2**

Source: Central Bank of Lesotho

b) Distribution of Credit to Business Enterprises

In 2017, the largest portion of credit extended to business enterprises went to real estate and business services followed by transport, storage and communication, then mining and lastly construction. The pattern is largely similar to that observed in 2016, safe for the fact that in 2016 manufacturing's share of credit was larger than that of construction. This is indicative of an increased economic activity in real estate and business services sector during the review period. Agriculture, which is mainly subsistence in nature, continues to constitute the lowest share of credit extended to business enterprises.

[1] A loan run off is the reduction of a loan portfolio as loans are paid off at scheduled maturity dates, or when borrowers prepay their loans.

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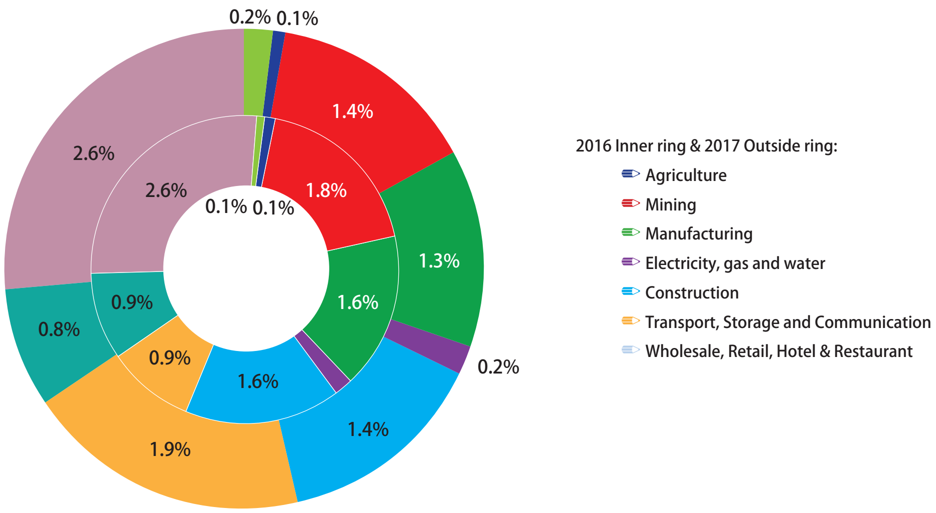
Figure 6 Distribution of Credit to Business Enterprises



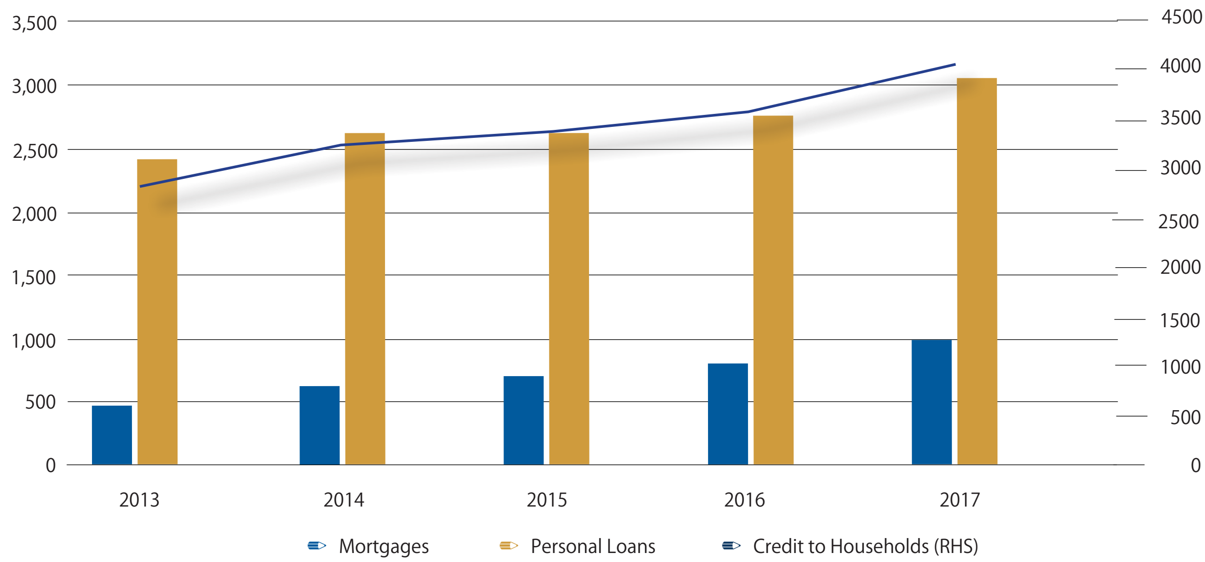
Source: Bureau of Statistics, *CBL Projections

c) Credit Extension to Households

Following an 8.5 per cent rise in 2016, credit extended to households registered a relatively higher growth of 12.1 per cent in 2017. This was against a 21.8 per cent rise in mortgages while personal loans increased by 7.5 per cent. Personal loans continue to have the largest but falling share of credit extended to households. During the review period, share of personal loans stood at 75.2 per cent compared to 76.6 per cent in 2016. On the other hand, mortgages share of credit extended to households registered 24.8 per cent in 2017 compared to 23.4 per cent in 2016. This is against a backdrop of an attempt by banks to mitigate the level of concentration risk by ensuring a sustainable balance between secured and unsecured lending.

Following an 8.5 per cent rise in 2016, credit extended to households registered a relatively higher growth of 12.1 per cent in 2017.

Figure 7 **Credit Extension to Households** (Million Maloti: End Period)



Source: Central Bank of Lesotho

V. Commercial Banks Liquidity

During the review period, commercial banks liquidity stood at 74.3 per cent compared to 72.4 per cent in 2016. This was mainly caused by 65.7 per cent increase in balances due from banks in South Africa and a 26.6 per cent increase in total deposits. Conversely, the credit to deposit ratio decreased to 55.17 per cent in the review period compared with 64.6 per cent in 2016. This was on account of the increase in deposit outstripping the increase in credit extension.

Table 6	Commercial Banks' Liquidity (Millions of Maloti)				
	2013	2014	2015	2016	2017
Credit to Deposit Ratio	**58.00%**	**61.40%**	**59.80%**	**64.55%**	**55.18%**
Private Sector Credit	4 465.1	4918.2	5432.2	5584.59	6045.47
Total Deposits	7 698.7	8004.3	9084.4	8651.19	10956
Liquidity Ratio	**83.00%**	**85.20%**	**82.59%**	**72.38%**	**74.30%**
Notes and Coins	396	361.6	476.34	582.42	740.983
Balances Due from Banks in Lesotho	1 859.6	2149.5	2343.9	2127.76	2157.63
Balances Due from Banks in SA	3 416.7	3142.7	3760.6	2533.81	4198.18
Surplus funds	50.9	303.9	96.344	170.392	41.0195
Government Securities	664.9	864	825.42	846.959	1002.12
Total	**6388.0**	**6821.7**	**7502.6**	**6261.34**	**8139.94**
Source	Central Bank of Lesotho				

VI. Interest Rates

In 2017, the Central Bank of Lesotho monetary policy rate (the CBL Rate) stood at 6.75 per cent. This was a 25 basis point decrease from the rate registered in 2016. This development closely reflected developments within member countries of the Common Monetary Area (CMA), chiefly South Africa. Consequently, the prime rate (industry average) decreased from 11.69 per cent to 11.44 per cent. The 91 day T-Bill rate also decreased from 6.58 per cent to 6.27 per cent. This is reflective of monetary policy accommodation as regional interest rates endeavour to create a favourable environment for economic growth.

In 2017, the Central Bank of Lesotho (CBL) policy rate stood at 6.75 per cent. This was a 25 basis point decrease from the rate registered in 2016.

Table 7 Interest Rates					
	13-Dec	14-Dec	15-Dec	16-Dec	17-Dec
Central Bank Rate	-	-	6.25	7.00	6.75
91-days TB Rate	5.18	6.25	6.49	6.58	6.27
Lombard Rate	9.18	10.25	10.49	10.58	10.27
Commercial Banks					
Call	0.77	0.99	1.03	1.19	1.06
Time					
31 days	0.91	1.23	0.48	0.44	0.36
88 days	2.85	2.85	1.04	1.12	1.31
6 months	1.69	2.31	2.26	2.53	2.45
1 year	2.34	3.21	3.26	3.52	3.73
Savings	**0.84**	**0.86**	**0.51**	**0.56**	**0.76**
				0.51	0.56
Prime*	**9.92**	**10.44**	**10.94**	**11.69**	**11.44**
South Africa				**10.94**	**11.69**
Repo	5	5.75	6.25	7	6.75
T Bill Rate – 91 Days	**5.24**	**6.12**	**6.98**	**7.61**	**7.6**
Prime	8.5	9.25	9.75	10.5	10.25
Prime	9	8.5	9.25	9.75	10.5
Source	Central Bank of Lesotho and South African Reserve Bank (SARB)				

1.2.3 Government Finance Operations

I. Fiscal Performance in 2017

The Government budgetary operations registered an overall budget deficit of 6.2 per cent of GDP in 2017 compared with 6.9 per cent in the previous year. The fiscal deficit was on account of slight increase in total expenditure of 0.5 per cent in 2017, compared with 10.1 per cent in 2016. Total revenue also increased marginally by 0.5 per cent during the year under review relative to a fall of 6.6 per cent in the 2016. The Government debt stock registered 35.6 per cent of GDP at end of 2017, compared to 40.5 per cent of GDP at end of 2016. The decline was attributable to exchange rate gains during the period.

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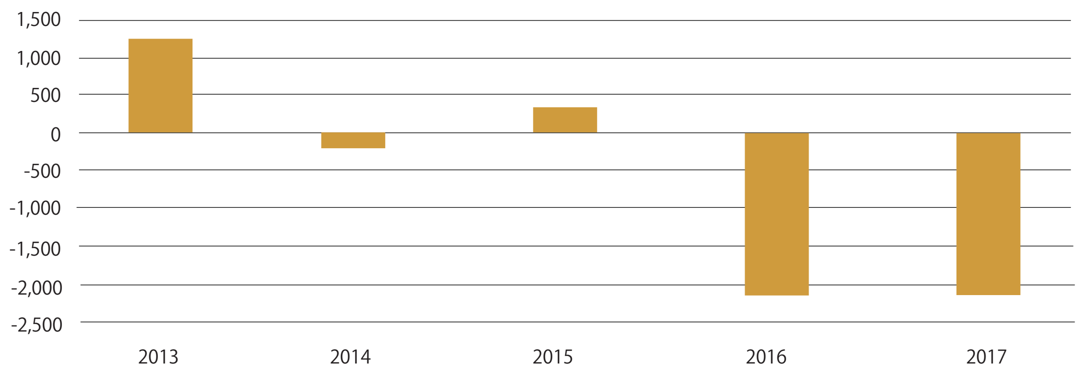
Figure 8 Fiscal Balance (Million Maloti)

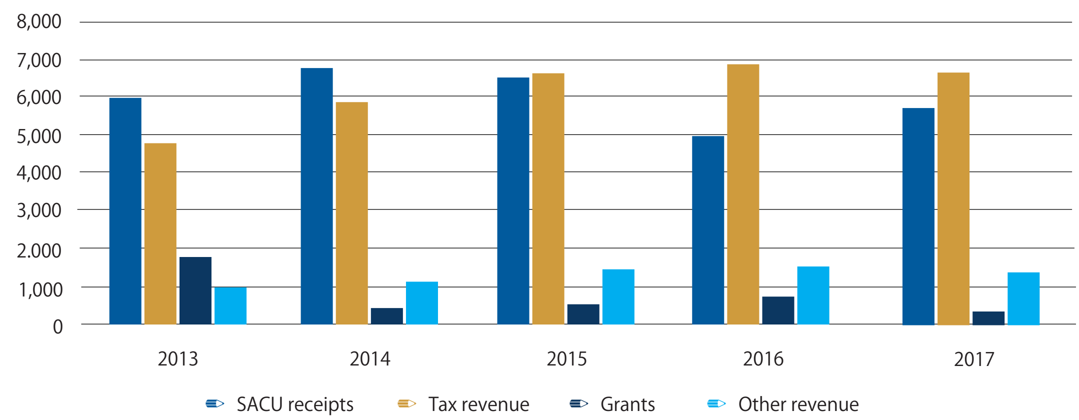


Source: Ministry of Finance (MoF) and CBL estimates

II. Revenue

A breakdown of revenue showed that total government collected-revenue grew by 0.5 per cent in 2017, relative to 6.6 per cent decline in the previous year. The development was attributed to enhanced receipts from SACU, which increased by 15.7 per cent during the year under review relative to 24.5 per cent fall in 2016. All other components of revenue declined, with tax revenue falling by 2.7 per cent. In the same vein, receipts from grants shrunk significantly by 63.3 per cent, with the 'other revenue' component also declining by 4.4 per cent.

Figure 9 Sources of Government Revenue (Million Maloti)



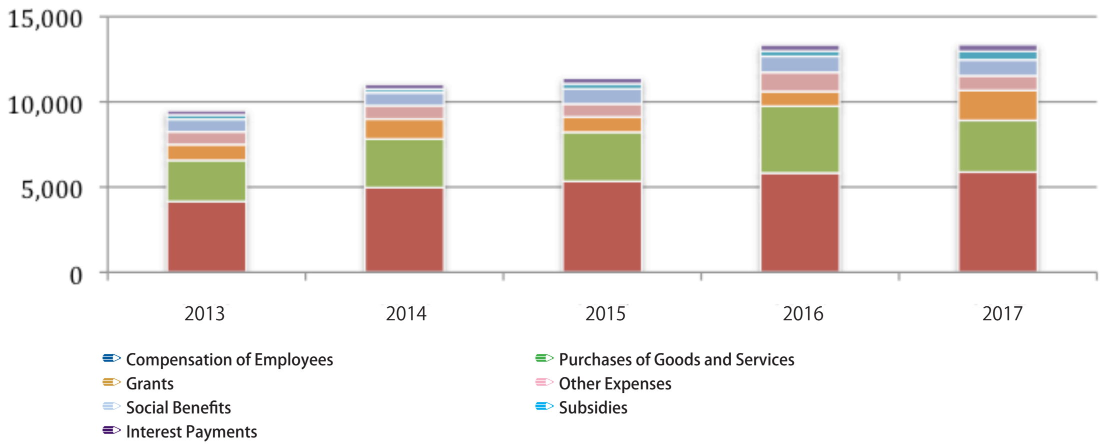
Source: Ministry of Finance (MoF) and CBL estimates

A breakdown from revenue showed that total government collected-revenue grew by 0.5 per cent in 2017.

III. Expenses

The aggregate expenditure increased by 0.5 per cent in 2017 from the level in 2016. As a proportion of GDP, it represented 46.1 per cent, compared to 51.4 per cent in 2016. Expenses increased slightly by 0.2 per cent in 2017 compared to a substantial 17.0 per cent increase in 2016, with compensation of employees and purchases of goods and services accounting for 44.0 per cent and 22.7 per cent of expenses, respectively. Grants increased by a massive 103.9 per cent in 2017 from a 3.2 per cent declined observed in 2016, thereby constituting 13.2 per cent of expenses.

Figure 10 **Components of Expense** (Million Maloti)

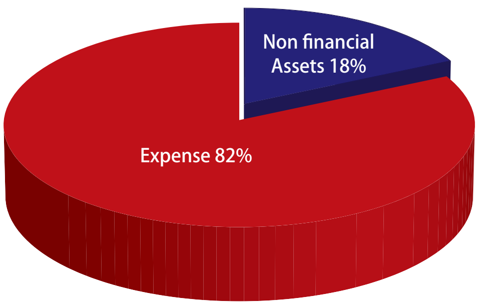


Source: Ministry of Finance (MoF) and CBL estimates

IV. Non-Financial Assets

Capital expenditure rose by 2.1 per cent during the period under review, accounting for 18.3 per cent of the total expenditure. As a share of GDP, this stood at 8.4 per cent. Buildings and structure increased by 39.1 per cent in 2017, accelerating from 15.5 per cent increase in 2016, and machinery and equipment increased by a massive 104.3 per cent in 2017 compared to 18.1 per cent increase in the previous year.

Figure 11 Composition of Total Expenditure

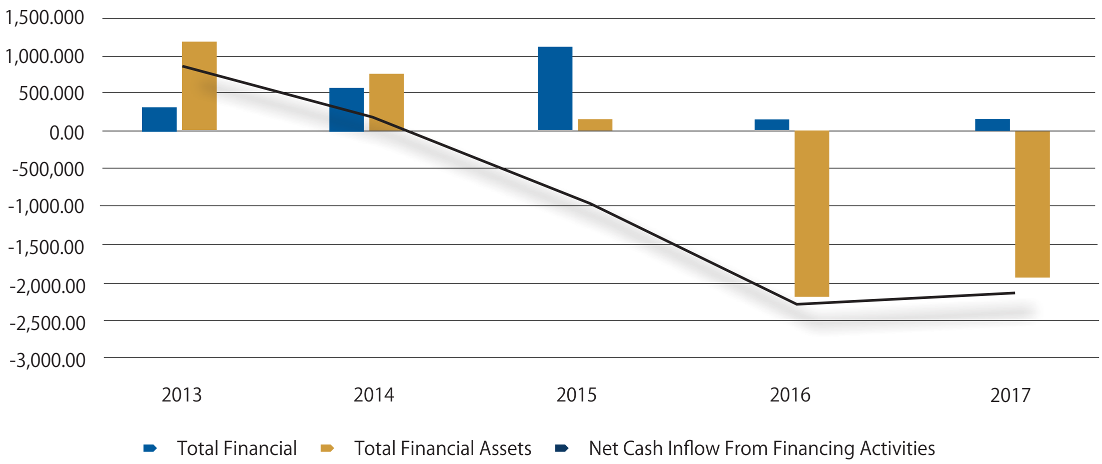


Source: MOF and CBL Projections

V. Financial Assets and Liabilities

The 'net cash inflow from financing activities' (total financing) registered M2,108.27 million in 2017 compared with M2,343.05 million in the previous year, which indicates an increase of 10 per cent. Financial assets as a percentage share of total financing recorded 90.9, which was a result of a drawdown in domestic deposits from the banking system. While under financial liabilities, foreign loans decreased extensively by 105.9 per cent in 2017, as opposed to 73.0 per cent decrease in 2016.

Figure 12 Financial Assets and Liabilities (Million Maloti)



Source: Ministry of Finance (MoF) and CBL estimates

The 'net cash inflow from financing activities' (total financing) registered M2,108.27 million in 2017.

Table 8 Summary of Government Budgetary Operations (Millions of Maloti)	2013	2014	2015	2016	2017
Revenue	**13,721.88**	**14,103.59**	**15,069.10**	**14,078.91**	**14,151.70**
Tax revenue	4,879.97	5,876.40	6,638.16	6,883.54	6,697.13
Grants	1,783.35	364.93	510.24	717.46	263.33
Other revenue	1,026.06	1,073.07	1,340.62	1,511.63	1,445.86
SACU receipts	6,032.49	6,789.19	6,580.08	4,966.28	5,745.39
Expense	**-9,493.54**	**-11,042.79**	**-11,399.91**	**-13,342.68**	**-13,365.40**
Compensation of Employees	-4,155.75	-4,967.88	-5,336.49	-5,825.06	-5,879.93
Purchases of goods and services	-2,413.85	-2,850.34	-2,884.65	-3,921.51	-3,031.47
Interest Payments	-263.06	-300.21	-336.19	-370.82	-403.61
Subsidies	-246.42	-201.63	-304.19	-307.76	-490.83
Grants	-926.28	-1,174.63	-890.84	-862.63	-1,759.12
Social benefits	-736.13	-762.23	-882.44	-937.01	-938.04
Other expense	-752.06	-785.87	-765.11	-1,126.73	-862.41
Net Cash Inflow From Operating Activities	**4,228.35**	**3,060.80**	**3,669.19**	**736.22**	**786.30**
Transactions in Nonfinancial Assets	**-2,977.11**	**-3,244.44**	**-3,369.10**	**-2,923.01**	**-2,983.77**
Fixed Assets	-2,977.11	-3,244.44	-3,369.10	-2,923.01	-2,983.77
Buildings and structures	-1,418.06	-2,098.78	-1,485.47	-1,715.88	-2,386.69
Machinery and equipment	-263.92	-158.36	-161.85	-191.11	-390.41
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00
Cash deficit(-)/surplus(+)	**1,251.24**	**-183.63**	**300.09**	**-2,186.79**	**-2,197.47**
Net Cash Inflow From Financing Activities	**-860.66**	**-205.70**	**968.73**	**2,343.05**	**2,108.27**
Transactions in Financial assets	**-1,176.59**	**-768.30**	**-137.09**	**2,195.31**	**1,915.58**
Domestic	-1,176.59	-768.30	-137.09	2,195.31	1,915.58
Foreign	0.00	0.00	0.00	0.00	0.00
Transactions in Liabilities	**315.93**	**562.60**	**1,105.82**	**147.74**	**192.69**
Domestic	44.13	53.56	383.23	-47.14	204.16
Foreign	271.80	509.04	722.60	194.89	-11.47
Statistical Discrepancy	**390.58**	**-389.33**	**1,268.82**	**156.27**	**-89.20**
Source: Ministry of Finance (MoF) and CBL estimates					

VI. Public Debt

The government debt-to-GDP ratio has recorded 36.5 per cent of GDP in 2017 compared to 40.5 per cent of GDP in 2016. The domestic debt-to-GDP ratio recorded 6.8 per cent, which resulted from the issuance of new debt in treasury bonds to finance deficit. While the foreign debt to GDP ratio declined to 28.7 per cent by end of 2017 from 33.5 per cent in 2016 as a result of appreciation of Loti against major foreign currencies in which external debt was denominated. External debt accounted for a significant 80.7 per cent of total debt, and concessional debt as a percentage of external debt was 77.6 per cent.

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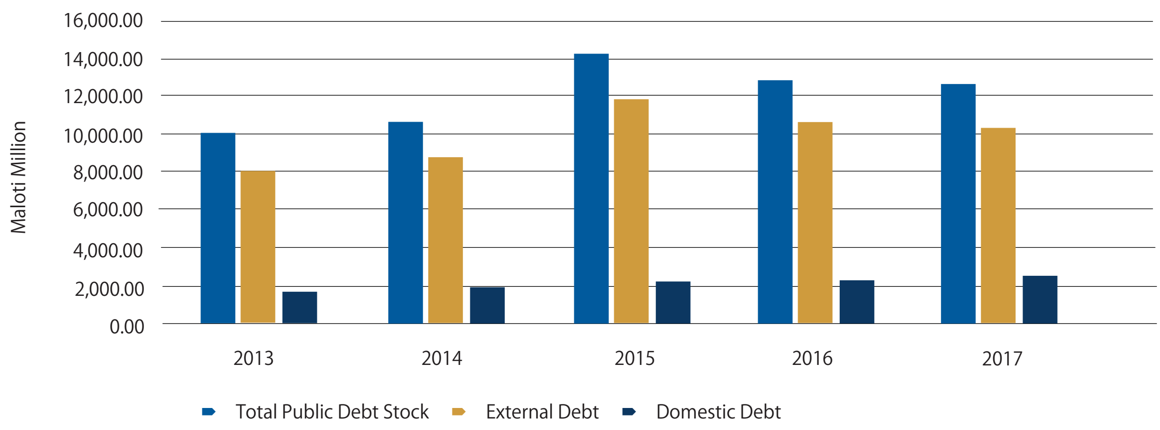
Figure 13 Public Debt by Residency (Million Maloti)



Source: Ministry of Finance (MoF) and CBL estimates

Table 9 Public Debt Stock and Selected Ratios (Millions of Maloti)

	2013	2014	2015	2016	2017
Total Public Debt Stock	**9,930.52**	**10,706.84**	**14,154.60**	**12,821.02**	**12,603.83**
External Debt	**8,067.50**	**8,717.32**	**11,862.07**	**10,598.93**	**10,177.59**
Bilateral Loans (concessional)	491.70	767.30	1,137.67	972.95	845.74
Multilateral Loans	7,052.80	7,330.02	9,764.07	8,862.54	8,678.97
Concessional	6,135.60	6,424.37	8,312.46	7,209.56	7,053.89
Non-concessional	917.20	905.65	1,451.61	1,652.99	1,625.08
Financial Institutions (non-concessional)	0.00	57.00	0.72	0.60	0.34
Suppliers' Credit (non-concessional)	523.00	563.01	959.62	762.83	652.54
Domestic Debt	**1,863.02**	**1,989.52**	**2,292.52**	**2,222.09**	**2,426.25**
Banks	1,544.81	1,578.73	1,937.44	1,742.43	1,747.47
Treasury Bonds	307.68	321.69	468.03	466.39	525.89
Treasury Bills	402.54	407.25	395.61	395.20	477.88
Central Bank (IMF-ECF)	834.58	849.79	1,073.81	880.84	743.70
Non-bank	318.21	410.79	355.08	479.66	678.78
Treasury Bonds	181.40	232.07	154.84	268.50	431.96
Treasury Bills	136.81	178.72	200.24	211.16	246.82
Total debt as % of GDP	45.30	45.23	55.65	40.52	35.57
External debt as % of GDP	36.80	36.82	46.63	33.49	28.72
Domestic debt as % of GDP	8.50	8.40	9.01	7.02	6.85
External debt as % of total	81.24	81.42	83.80	82.67	80.75
Domestic debt as % of total	18.76	18.58	16.20	17.33	19.25
Concessional as % of External debt	82.15	82.50	79.67	77.20	77.62

Source Ministry of Finance (MoF) and CBL estimates, (*end of period exchange rate)

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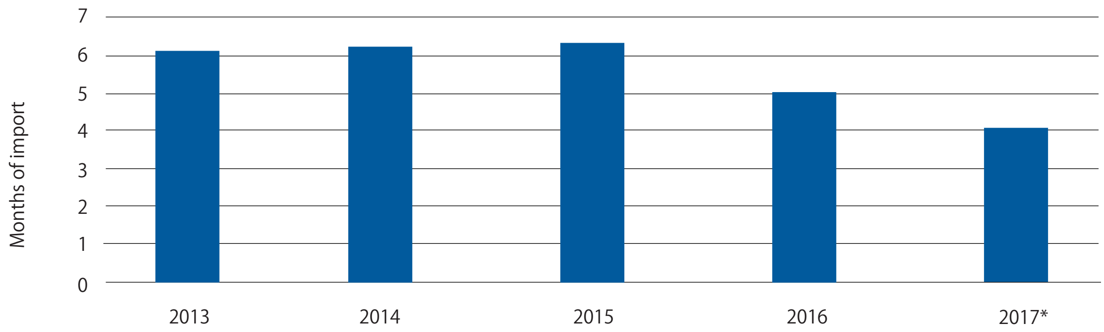
Lesotho's external sector position continued to register a deficit in 2017.

1.2.4 Balance of Payments

I. Overall Balance

Lesotho's external sector position continued to register a deficit in 2017. The overall balance of payments (BOP) deficit narrowed to 3.2 per cent of GDP in the review period, compared with a deficit of 10.7 per cent of GDP realised in 2016. The narrowing of the overall balance of payments deficit was driven largely by the improvement in the current account due to improvement in the primary and secondary income account balances. In addition, the financial account deficit contracted during the period, thus contributing to the observed improvement in the external sector position. The overall deficit was financed largely by running down official reserves. As a result gross official reserves declined from 5.1 months of import cover in 2016 to 4.1 months of import cover in 2017.

Figure 14 Reserves in Months of Import Cover



Source: Central Bank of Lesotho, * Preliminary estimates

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

	2013	2014	2015	2016	2017*
Current account	**-6.4**	**-4.7**	**-3.1**	**-8.6**	**-6.2**
Goods	-41.1	-36.2	-31.8	-31.9	-29.4
Services	-13.3	-11.4	-10.8	-10.7	-11.5
Primary Income	14.9	12.2	12.6	13.1	12.8
Secondary Income	33.0	30.8	26.9	20.9	21.9
Capital Account	**6.1**	**1.3**	**1.5**	**2.1**	**1.6**
Financial Account	**4.3**	**-5.5**	**-4.5**	**-10.7**	**-3.2**
Of which Reserve Assets	9.8	4.8	5.2	-5.4	-5.6
	2013	**2014**	**2015**	**2016**	**2017***

Source Central Bank of Lesotho

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II. Current Account

The current account deficit narrowed to M2.2 billion or 6.2 per cent of GDP in 2017, from a M2.9 billion deficit, equivalent to 8.6 per cent of GDP in the previous year. The narrowing of the deficit emanated largely from the growth in the primary and secondary income account balances together with the reduction of the deficit in the goods account.

The deficit in the goods account improved to M10.6 billion or 29.4 per cent of GDP in the review period from a deficit of M10.8 billion or 31.9 per cent of GDP in the previous year. This was ascribed to the increase in merchandise exports, which was driven largely by increased diamond exports during the year. Diamond exports were supported by favourable prices in the international market for diamonds. This was despite the appreciation of the local currency against the US dollar, which somewhat diluted the growth in the diamond exports earnings. Merchandise export growth was however, moderated by weak performance of textiles and clothing exports, particularly, exports to the US market under the AGOA preferential agreement, due to the lower orders by the US market during the period. Merchandise exports grew by 5.9 per cent to M13.7 billion or 37.9 per cent of GDP in 2017, compared with a rise of 8.5 per cent to M12.9 billion or 38.4 per cent of GDP in the previous year. Merchandise imports rose by 2.7 per cent to M24.3 billion or 67.3 per cent of GDP in the review period, compared with an increase of 7.2 per cent to M23.7 billion, which was equivalent to 70.4 per cent of GDP in the previous year.

Lesotho continued to increase its imports of services at a higher rate than exports of services during the review period. This was reflected in an expansion in the net services deficit to M4.1 billion which was equivalent to 11.5 per cent of GDP in 2017, compared with a deficit of M3.6 billion or 10.7 per cent of GDP in the preceding year. The growth in the services account deficit was attributed to transportation services, on account of a rise in payments for freight services on imported goods. The observed performance of services account was also influenced by an increase in payments for business travel services abroad and international telecommunication services during the review year.

The income account balance grew by 4.9 per cent to M4.6 billion in 2017, which was equivalent to 12.8 per cent of GDP. This followed an increase of 9.8 per cent to M4.4 billion or 13.1 per cent of GDP in the previous year. The growth in the income account balance was largely driven by increased remittances from Basotho mineworkers and other Basotho workers in SA. This was also supported by a rise in interest returns on commercial banks' portfolio investments abroad. However, the observed improvement in the income account was moderated by a reduction in interest returns on CBL's foreign portfolio investments together with an increase in interest payments on government external loans.

The secondary income account balance improved by 12.5 per cent to M7.9 billion in the review year, in contrast with a fall of 18.1 per cent to M7.0 billion in the previous period. The growth emanated from an increase in SACU revenue, which constitutes the largest portion of secondary income. This was also influenced by a rise in grants from international organisations, which was meant to support government budgetary operations. Relative to GDP, the surplus in the secondary income account registered 21.9 per cent in 2017, following a surplus of 20.9 per cent of GDP a year ago.

Lesotho continued to increase its imports of services at a higher rate than exports of services during the review period.

The secondary income balance declined by 18.4 per cent in the review year, compared with a fall of 1.8 per cent in the previous period. The decline in the secondary income was mainly attributed to lower SACU receipts which take the largest share in the account. SACU receipt fell by 24.5 per cent in 2016, higher than a decline of 3.1 per cent in the previous year. As a percentage of GDP, secondary income account registered 22.2 per cent in the review year, compared with 29.6 per cent in the preceding period.

III. Capital Account

In 2017, the surplus in the capital account declined by 18.0 per cent to M0.6 billion, in contrast with the growth of 46.0 per cent to M0.7 billion in the previous period. This reflected a slowdown of foreign support for government projects during the review year. The contraction in the capital account surplus was however, curbed by the inflows associated with preparations for construction of Polihali dam under Phase II of the Lesotho Highlands Water Project. As a percentage of GDP, capital account amounted to 1.6 per cent in 2017 in contrast to 2.1 per cent realised in the previous year.

IV. Financial Account

The financial account continued to be in deficit in 2017, albeit narrower compared with the previous year. The reduction in the deficit was mainly attributed to the growth in commercial banks' foreign assets and the drop in their liabilities abroad during the review period. The contraction in the deficit was also influenced by the fall in FDI receipts, which were adversely affected by the completion of construction by one of the diamond mining companies in 2017. However, the impact was moderated by entrance of a new diamond mining company with FDI equity of M59.1 million in 2017. The official reserve assets declined by 11.0 per cent during the review period in line with the increasing import bill. Relative to GDP, financial account registered a deficit of 2.0 per cent in 2017, following a deficit of 10.6 per cent in the previous year ❑

2

Bank is responsible for the implementation of monetary policy which, under the CMA arrangement, involves maintaining the peg between the Loti and the Rand.

CENTRAL BANKING ACTIVITIES

The Central Bank of Lesotho continued to pursue its statutory functions of monetary policy implementation, supervision of banks and insurance companies, capital market development and oversight of the national payment system. In addition, the Bank continued with the implementation of financial sector reforms in line with the Financial Sector Development Strategy (FSDS). The strategy focuses on improving access to finance and financial inclusion in Lesotho. To date, significant progress has been achieved in areas of legal reforms, improving supervisory frameworks, capital markets development and establishment of institutions that support access to credit.

2.1 MONETARY POLICY

Pursuant to Sections 5 and 6 (c) & (d) of the Act, the Bank formulates and implements the country's monetary policy which, under the CMA arrangement, involves maintaining the peg between the Loti and the Rand. In the review period, the Bank convened six (6) sittings of the Monetary Policy Committee where upon consideration of global and domestic economic conditions, global financial markets conditions, net international reserves (NIR) developments and outlook, the Committee would make a determination on the NIR target floor (which is the level of NIR below which the parity of the Loti and the Rand would be compromised); and the *CBL Rate*.

In the monetary policy space, one of the milestones of the reporting period has been the coming into use of a new model to forecast liquidity conditions to better inform monetary policy operations. The model has been in use for one year, having debuted in January 2017.

Lesotho monetary policy targets the certain level of NIR level as the operating target towards the ultimate objective of ensuring price stability through maintenance of the 1 to 1 parity of the Loti with the Rand. The declining level of reserves put immense pressure on the NIR for the whole of 2017.

2.2 ECONOMIC RESEARCH AND REPORTS

The Bank is mandated by Sections 41(3) and 46(1) of the Act to conduct economic research and analysis and, on the basis of that, proffer relevant advice to the Government of Lesotho. Section 46(2) empowers the Bank to publish the research and analysis it undertakes in a manner it sees fit.

Economic Reports

At a very basic level, the Bank compiles quarterly economic reports which are then submitted to the Office of the Minister of Finance in the form of a Cabinet Information Papers precedent to being published for public consumption. The review period saw compilation and publication of the Quarterly Reviews for the quarters ending in December 2016, March, June and September of 2017. The Bank also prepares a semi-annual medium term Macroeconomic Outlook which it usually disseminates in the form of a multi-stakeholder economic briefing seminar.

Advisory Work

In light of the tight fiscal conditions that the country has faced, the Bank has, pursuant to its function as an economic advisor to Government, conducted advisory research and submitted the same to the office of the Minister of Finance. A full research paper titled *Scope for Domestic Revenue Mobilisation* was received with positivity and enthusiasm by the Ministry. A policy brief titled *Taxing the Informal Sector: Administrative Feasibility & Economic Implications* was prepared. The final brief for the year (*A Near-Fiscal Crisis threatens Macroeconomic Stability: Options on the Way Out*), which was taken to Cabinet was prepared in collaboration with the Ministry of Finance.

One of the standout headlines of 2017 were on *cryptocurrencies*. Management sanctioned an explanatory brief with a view to have a solid grasp of the landscape after which a statement was issued in print media advising the members of the public about the Bank's stance on the issue.

Research

The reputation of the Bank has been increasing in the region as a result of the quality of its research work. This has been demonstrated by the recognition afforded to its staff being called in as resource persons in some of the regional assignments. The research culture that has been nurtured over the past few years culminated in the launch of the *CBL Research Bulletin* which is the Bank's outlet for rigorous scientific research work. The review period saw the publication of two issues of the Bulletin which brought the total cumulative number of issues to three since the publication was launched. Economists from across the Bank continue to carry out research. Of the 2017 research output, 2 articles were published in external journals while 4 appeared in the *CBL Research Bulletin*. There are further 9 research papers that were undergoing review at the close of the reporting period.

2.3 FINANCIAL STABILITY

Advances in enhancing the Financial Stability function

The Bank continued to advance its efforts to 'promote a stable financial system' by enhancing its Financial Stability function. To this effect, the Bank continued to expand its set of macroprudential surveillance indicators (including financial soundness indicators (FSIs)) as well as increase the coverage to include the non-bank sector. This facilitated regular reporting on the health and soundness of the financial system stability through quarterly and annual reports. The reports review and analyse international and domestic macro-financial developments and trends of the FSIs, and assess potential risks and identify any implications arising from them for financial stability. In addition, in enhancing its early warning system, the Bank conducts Banking Sector Stress Testing semi-annually to assess resilience of the sector to both external and internal shocks.

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Section 46(2) empowers the Bank to publish the research and analysis it undertakes in a manner it sees fit.

Other key aspects of the Financial Stability function in the pipeline are the Macroprudential Policy and Crisis Management and Resolution frameworks. In an effort to build a macroprudential policy framework, the Bank continued to conduct research central to the development of a macroprudential policy framework for Lesotho which will be used to shape the macroprudential policy tool-kit for the country. Similarly, the Bank is conducting ground work to establish a robust and effective bank crisis management and financial safety nets, in line with relevant international standards. The work covers issues such as bank recovery and resolution planning, deposit insurance and emergency liquidity assistance as well as domestic and cross-border coordination.

The banking system continued to be sound and stable. The industry is highly capitalized, relative to the minimum regulatory requirements and maintains a good quality of assets. The level of liquidity within the banking system is fairly adequate to withstand shocks to banks' balance sheet and the industry is profitable. Stress-test results demonstrate that the current capitalisation, liquidity and profitability levels of the banking sector guarantee a high degree of resilience to the assumed shocks. However, the banks face a number of challenges. They are exposed to credit concentration risk, which poses a threat to their capital position. Credit to households constitutes the largest share of credit extended to the private sector and some segments of the household sector appear overburdened by debt. Furthermore, Lesotho's economic structure makes the financial system prone to concentration risk because economic activity is undiversified. Banks lend mostly to businesses operating in limited sectors. This calls for prudent monitoring of large exposures.

Financial Soundness Indicators

Capital adequacy

During the review period, the ratio of total regulatory capital to risk-weighted assets stood at 11.0 per cent, 7.0 percentage points lower relative to the same period in the previous year. The decrease in the ratio was brought about by the increase in the total risk-weighted assets while total regulatory capital declined. In contrast, the industry's core capital, measured by the ratio of tier-1 capital to risk-weighted assets, increased by 2.7 percentage points relative to the rate observed in December 2016. At these levels, the industry continued to maintain regulatory and core capital above the minimum regulatory requirements. This level of a buffers put banks in a better position to absorb expected or unexpected shocks that may arise, hence avoid insolvency.

Earnings and profitability

During the review period, return on assets (ROA) decreased by 1.2 percentage points from 4.5 per cent recorded in December 2016. Similarly, the return on equity (ROE) declined by 12.9 percentage points in December 2017. The ratio of interest margin to gross income remained comparatively constant at 58.1 per cent relative the ratio observed in December 2016. The ratio of non-interest expenses to gross income increased by 9.9 percentage points to 64.6 per cent in December 2017, relative to the rate observed in the same period in the previous year. The increase in the ratio was due to a rise in personal and other expenses in the review period.

Asset quality

The ratio of non-performing loans to total gross loans, which measures the level of risk in banks' loan portfolios, remained relatively unchanged, year-on-year, in December 2017. However, concentrations in certain loan types and exposures to single or group of borrowers remain elevated. The ratio of large exposure to capital, intended to identify vulnerabilities arising from the concentration of credit risk was 170.0 per cent during the review period, 45.5 percentage points higher than in December 2016.

Liquidity

Banks strengthened their liquidity positions during the review period. The ratio of liquid assets to short-term liabilities increased from 52.4 per cent recorded in December 2016 to 53.7 per cent. Similarly, the ratio of liquid assets to total assets and the ratio of customer deposit (excluding interbank loans) to total loans increased by 4.4 percentage points and 24.4 percentage points relative to the value observed in December 2016, respectively.

Sensitivity to market risk

The ratio of net open position in foreign exchange to capital increased to 56.7 per cent in the review period from 10.5 per cent observed in December 2016. The ratio increased as a result of a surge in transferable deposits with non-resident banks. In addition, the banks maintained a long position in foreign currency during the review period, making devaluation risk a concern in the short to medium term, since banks have more foreign currency assets than liabilities. Nonetheless, this position would benefit the banks when the loti depreciates against other currencies.

Table 11 Financial Soundness Indicators (FSIs)

		2013	2014	2015	2016	2017
		Dec	Dec	Dec	Dec	Dec
Capital Adequacy	Regulatory capital to risk-weighted assets	12.1	13.7	15.2	18.0	11.0
	Regulatory Tier 1 capital to risk-weighted assets	11.4	13.0	13.8	17.2	19.8
	Nonperforming loans net of provisions to capital	11.0	8.0	7.8	7.4	13.5
Assets Quality	Nonperforming loans to total gross loans	3.7	4.1	3.9	3.6	4.3
	Large exposures to capital	154.7	163.5	150.9	124.3	170.0
Earnings & Profitability	Return on assets	4.8	4.5	4.5	4.5	3.3
	Return on equity	42.7	40.5	40.8	38.0	25.1
	Interest margin to gross income	55.9	58.4	57.6	58.0	58.1
	Noninterest expenses to gross income	52.8	51.1	52.2	54.7	64.5
Liquidity	Liquid assets to total assets	35.3	40.6	40.3	31,4	35.8
	Liquid assets to short-term liabilities	71.6	56.1	63.6	52.4	53.7
	Customer deposits to total (non-interbank) loans	154.7	174.3	163.1	149.4	173.8
Sensitivity to Market Risk	Net open position in foreign exchange to capital	32.3	8.0	17.5	10.5	56.7

Source Central Bank of Lesotho

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During the review period, return on assets (ROA) decreased by 1.2 percentage points from 4.5 per cent recorded in December 2016.

2.4 Regulation and Supervision

Bank Supervision – Basel II.5 Migration

In 2017, a number of initiatives were undertaken in preparation for migration to Basel 2.5. The Bank undertook a self -assessment process to ensure compliance with the Basel Core Principles which serve as a prerequisite for adopting Basel accords 2 or 3. These mainly focused on the laws, supervisory systems and practices that are in place for the Regulator and risk management systems that banks have to employ in order to identify, measure and monitor the risks they face. The assessment covered the gap analysis of the regulatory and legal framework in Lesotho in the context of risk-based supervision.

Following the assessment, a number of regulatory instruments were developed including the Corporate Governance, Stress Testing, Internal Capital Adequacy Assessment Process (ICAAP) and Basic Disclosure Requirements Guidelines. These documents were duly validated by the market participants for pilot implementation in 2018.

Summary of Banking Sector Performance in 2017

The banking industry reflected good profits and strong capital position. There were four licenced banks in Lesotho, three subsidiaries of South African banks and a Government-owned bank. The banking sector's total assets amounted to M16.0 billion in December 2017, dominated by loans and advance amounting to M5.8 billion, balances from foreign banks and local banks amounting to M4.1 billion and M2.2 million, respectively. The three foreign banks dominated the market at 91.9 per cent of the balance sheet size. Balances with local banks indicated the banks' efforts to comply with domestic liquid assets requirements while the outflows to foreign banks represented both the excess amounts invested over the available investment instruments in-country and the correspondent banks balances. To a larger extent, improved performance was observed in the credit portfolio, with overdrafts being the major driver for the first time over a period of 5 years.

Total liabilities amounted to M13.9 billion in December 2017, comprising deposits amounting to M11.1 billion. Deposit liabilities were mostly dominated by businesses and government, which were wholesale in nature, at 74 per cent of total deposits. The industry continued to be challenged by liquidity funding structure which is dominated by short-term wholesale deposits. The volatility in total deposits observed in the first two quarters of the year heightened concerns about the wholesale funding whose repercussions became apparent when government deposits were withdrawn.

In terms of national outreach, the industry had a total of 49 branches in the country, 203 ATMs and 1524 point of sale (POS) devices. Globally, digital technology continued to transform and disrupt the world of business, exposing organizations to both opportunities and threats, which therefore, compelled banks to continue improving security measures on cybercrime.

CENTRAL BANKING ACTIVITIES

Strengthening Non-Bank Financial Institutions Supervision & Regulation

The Non-Banks Financial Institutions is a diverse set of financial institutions comprised of Credit Only and Deposit Taking Micro-Finance Institutions (MFIs); Money Transfer Institutions; Credit Bureau; Financial Leasing Institutions; and Money Lenders. These institutions are supervised and regulated within the Non-Banks Supervision Division (NBSD). NBSD is also charged with the responsibility of implementing several projects aimed at building requisite financial infrastructure, fostering financial inclusion and improving access to finance.

Under the MFIs the Bank, with the assistance of the World Bank under the First Initiative, has reviewed the Deposit Taking and Credit Only MFIs Regulations with the aim of creating an appropriate legal and regulatory framework. Another area of focus in the review period under this program has been the review and development of the Financial Consumer Protection framework.

The establishment of the Secured Transactions Regime on Movables and the Collateral Registry is another area of priority that the Central Bank has been driving. Thus far, a prototype state of the art electronic registry or system has been developed and the drafting of Security in Movable Property Bill was being finalised.

Under Financial Leasing, there were still no players in 2016 since the Financial Leasing Regulations were enacted into Law in 2013. The Central Bank further pursued development of the leasing market by undertaking the market research and reviewing the legal framework with a view to identifying and removing the potential barriers to entry into the leasing space by prospective players.

The Credit Information Bureau is another project which has been implemented by the Bank recently. In the period under review, much focus has been on improving data coverage into the Bureau and building supervisory and regulatory frameworks within the Central Bank. As at the end of December 2015, the total number of individuals' records in the bureau constituted over 7 per cent of the adult population and the electronic reporting system and the entire supervisory and regulatory frameworks were developed and implemented.

Insurance and Pensions Sectors Regulation

During 2017, the Central Bank of Lesotho focused on the implementation of the Insurance Regulations of 2016, following their publication. These include the new licensing requirements, fit and proper requirements as well as revised capital requirements for the insurance sector. The requirements are meant to strengthen regulation of the sector, which is generally prone to fraud globally. Furthermore, with the assistance of the regional regulatory bodies, the Central Bank of Lesotho implemented the risk based supervision framework, which is aimed at deploying the supervisory resources efficiently for the optimal regulation of the insurance sector. The Bank shall continue to implement relevant frameworks and instruments in line with best international principles, particular the Insurance Core Principles (ICPs) to which the Bank subscribes.

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The banking industry reflected good profits and strong capital position.

In the Pensions sector, the Central Bank of Lesotho completed drafting the implementing regulations of the Pension Bill during 2017. This includes regulations on licensing, disclosure and financial reporting. The regulations are expected to be gazetted after the enactment of the Pension Bill expected early in 2018. Furthermore, supervision frameworks and structures aimed at supporting the implementation of the Pension Bill have also been put in place. The enactment of the Pension Bill is expected to represent the major milestone in the financial sector as pensions can play critical role in fostering economic growth.

2.5 Financial Markets

Reserves Management Environment

The global financial markets began 2017 with apprehensions over how the Trump administration would conduct itself against globalization and trade. Populism was also a scare with main European economies going for elections. The real impact of Brexit was anticipated with fears of possible contagion rattling through the markets. Protectionism was also a theme that ran a while in the market. Fiscal aggression from the US also got rating agencies on their toes and the increasing debt levels in china were also on watch. These factors contributed in perpetuating the already difficult environment for reserves management.

The Maseru Securities Market

Following the establishment of the Maseru Securities Market (MSM), the Bank continued to promote participation through sensitization and engagement with various stakeholders. The stakeholders included Corporates and the Government among others. They were encouraged and guided on how to issue and list securities on the MSM. Channels used include roadshows, bilateral meetings and media communication. As a result, the Bank managed to register and licence different market player, three (3) brokers who also work as Sponsors and five (5) financial advisors.

Domestic Market Operations

The Bank continues to implement the Government of Lesotho Treasury Bonds Program. Treasury bond issuances are an important marker for maturity of domestic capital markets. To date, there are 7-year and 10-year maturity bonds. The auctions are currently conducted four times a year and the number is expected to increase as the market deepens. In an effort to bolster the bond market while addressing the infrastructure deficit in the country, the Honourable Minister of Finance ordered that M450 million be issued through Government bonds. However, the participation in bond auctions was not balanced, with September auction highly subscribed and December auction highly under-subscribed.

2.6 Payment and Settlement Systems

Payment Systems Modernisation

The Bank continued to make efforts to strengthen the legal and regulatory framework to achieve safety and efficiency of the National Payment Systems in line with the mandate bestowed upon it by the Central Bank of Lesotho Act 2000 and articulated in detail by the Payment Systems Act 2014. The Payment Systems Act was operationalized by the gazetting and promulgation of the Payment Systems (Issuers of Electronic Payment Instruments) Regulations 2017. The Regulations are meant to strengthen the mobile money regulation, promote market confidence, protect investors and manage risks associated with issuance of electronic payment instruments (including mobile money) in the country. Furthermore, the Regulations aim to provide guidance for the licensing and oversight of issuers of electronic payment instruments (including issuance of e-money) as well as to provide general provisions applicable to all e-money issuers in the country. Consequently, all new and existing issuers of electronic payment instruments are expected to abide by these regulations.

Systems Performance in 2017

Lesotho Wire (LSW)

Lesotho Wire (LSW) remained the backbone of the payment and settlement system in Lesotho since its introduction in 2006. In 2017, this system was available to participants for 99.63 per cent of the time and allowed the processing and settlement of large value and time critical payments in the country. During this reporting period, the system processed and settled a total of 29,968 transactions to the tune of approximately M43.07 billion compared to 23,917 transactions valued at M34.26 billion processed and settled in the previous year. This represents approximately 25 per cent growth in terms of both transaction volumes and values from 2016. The growth in transactions volumes and values associated with this system bears testimony to the significance of this system to the economy of Lesotho.

Lesotho Automated Clearing House (LACH)

In line with growth in LSW transactions reported for 2017, transactions cleared through the Lesotho Automated Clearing House (LACH), which hosts both Electronic Funds Transfers (EFTs) and cheques clearing systems also grew during the reporting year. In particular, EFT system cleared a total of about 1.12 million transactions worth M5.12 billion during the reporting year relative to 863,342 EFT transactions valued at M2.79 billion cleared in 2016 on the one hand. This represents approximately 29 per cent and 84 per cent growth in terms of transaction volumes and values, respectively. On the other hand, a total of 120,710 cheques worth about M1.76 billion were cleared by the cheque system in 2016 compared to 229,486 cheque transactions worth about M3.12 billion processed through this system in 2016.This constitutes about 47 per cent and 44 per cent decline in terms of transaction volumes and values, respectively. The increase in EFT transactions was on account of the general consumer preference of electronic payment methods due to their efficiency in processing payments during the reporting period while the decline in cheque based transactions was influenced by operational challenges, which resulted in non-issuance of cheques by government and, in part, by the consumers' preference towards more efficient electronic payment methods such as EFTs.

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The global financial markets began 2017 with apprehensions over how the Trump administration would conduct itself against globalization and trade.

2.7 Financial Sector Development Strategy (FSDS) Initiatives

Development of the Financial Leasing Market

The Central Bank of Lesotho continued to explore measures aimed at developing the financial leasing market in Lesotho. Following the delivery of the market research of financial leasing in Lesotho in 2016, the Bank has engaged several stakeholders from institutions which were identified as relevant in implementing the proposed incentives and regulatory environment for leasing in Lesotho. These include commercial banks, Lesotho Revenue Authority, the Lesotho National Development Corporation, Lesotho Tourism Development Corporation, Ministry of Small Business Enterprises and Cooperatives, Ministry of Trade and Industry and Ministry of Finance. On the legal side, the Proposed Amendments of the Financial Leasing Regulations were drafted and are awaiting enactment by Parliament of the Kingdom of Lesotho. Going forward, the Bank looks forward to undertaking investment forums aimed at attracting international leasing firms to deliver leasing finance products in Lesotho. The Bank is also looking forward to overseeing training of microfinance institutions on development of leasing products in the country.

Credit Information Bureau

Following the launch of the Credit Information Bureau in 2016, the Bank has begun analyzing the credit information which the Credit Bureau operator submits to the Central Bank of Lesotho. The analysis provides information on trends in the credit market in Lesotho, levels of consumer indebtedness and the usage of credit information system by lenders. Also efforts have been scaled-up to sensitize consumers about the credit bureau. A communications company has been outsourced to undertake public campaigns across several media platforms targeting consumers and lenders. These campaigns are planned to continue in the next year.

The Bank continued to ensure that the credit information bureau is in compliance with its regulatory obligations. To date, there are about One Hundred and Thirty Seven Thousand (137 000) individuals and a total of Two Hundred and Twenty Thousand (220 000) accounts are in the custody of the credit bureau. The number of active credit providers remained at Twenty Four (24). At the end of September 2017, the number of credit information enquiries was recorded at Thirteen Thousand (13000) with the bulk of inquiries being by banks.

Secured Transaction Regime on Movables and the Collateral Registry

Efforts are still on-going towards the development of modern secured transactions in movable property law and the establishment of a national public registry for security interests in movables. The main goals of this reform are to: increase access to credit for businesses and consumers by facilitating the use of movable assets as collateral for credit; reduce risks to lenders through increased certainty of repayment; increase the likelihood of loan approval; improve the loan duration and loan-to-value ratios; and reduce interest rates. Thus far the Security in Movable Property Bill of 2018 is being finalized by the OPC. Also several groups of borrowers including commercial banks, microfinance institutions and money lenders were trained on the use of the electronic registry named Lesotho Registry of Interests in Movable Assets (LeRIMA).

FIRST Initiative Project on Financial Inclusion

This is the Technical Assistance Program in Lesotho funded by the World Bank and the FIRST Initiative. The objective of the program is to support the Lesotho Government and Central Bank of Lesotho (CBL) in expanding financial inclusion in Lesotho by strengthening and deepening the supply of financial services and establishing a consumer protection framework.

The Program focuses on five main components: (i) creating an appropriate legal, regulatory, and supervisory framework for microfinance institutions (MFIs) and Financial Cooperatives; (ii) strengthening legal, regulatory and supervisory capacity for cooperatives, and other non-bank financial institutions; (iii) creating a conducive environment for mobile money and agency banking; (iv) creating an adequate framework for financial consumer protection and improving financial capability/education; and (v) strengthening partial credit guarantee schemes.

An assessment of the legal, regulatory and supervisory framework of moneylenders, micro finance institutions and financial cooperatives has been completed and adopted. This has led to the proposed amendment of the legal, regulatory, and supervisory framework for microfinance institutions (MFIs) and Financial Cooperatives.

Consumer protection is critical for financial inclusion. The Central Bank of Lesotho has completed the financial consumer protection diagnostics study with the assistance of the World Bank. This paved way for the development of the draft financial consumer protection policy framework in Lesotho. Upon adoption of the policy by Government, the Financial Consumer Protection law will be drafted. Institutionally, the Central Bank has created a new Financial Consumer Protection Unit with a team that is being trained on consumer protection. Draft supervisory and regulatory instruments are also being developed in order to effectively undertake financial consumer protection. The financial consumer protection regime will help the Bank deal with issues in relation to undue collection methods by lenders, serial consumer complaints, abusive lending practices and high prices.

The Credit Information Bureau is another project which has been implemented by the Bank recently.

Financial Education and Literacy

In 2017, the Bank, in collaboration with major stakeholders in the financial sector, continued to promote financial education and literacy in the country. This is the sub-component of the financial inclusion pillar of the FSDS. In particular:

- The now Money Week Campaign was changed from 'Money Week' to 'Money Month Campaign' which ensured wider coverage including the District of Mokhotlong.
- Financial education was successfully integrated into Grade 9 curriculum in partnership with the National Curriculum Development Centre of the Ministry of Education and Training.

In the coming year, the Bank will continue to collaborate with the industry to equip consumers with the necessary skills to manage their personal financial resources effectively by educating them on how they could: manage money; become wise consumers; manage risks and emotions associated with money; borrow and lend responsibly; promote a saving culture; and earn money through the development of livelihood skills and entrepreneurial training.

2.8 International Cooperation

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

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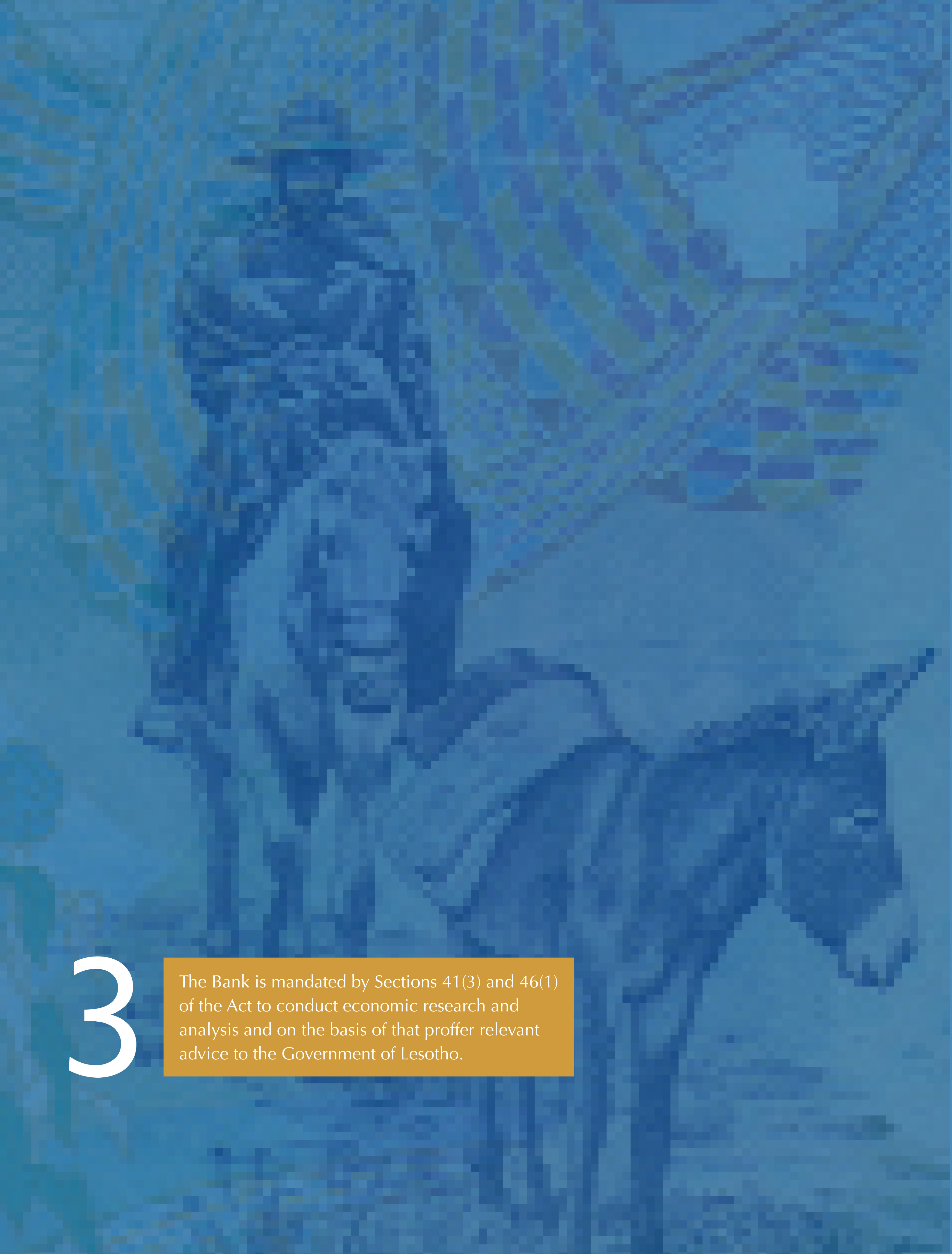

3

The Bank is mandated by Sections 41(3) and 46(1) of the Act to conduct economic research and analysis and on the basis of that proffer relevant advice to the Government of Lesotho.

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CORPORATE ACTIVITIES REPORT

3.1 GOVERNANCE MATTERS

The Board has a unitary Board which comprises of five (5) Non-Executive Directors and three (3) Executive Directors. The Non-Executive directors are independent of management and free of any business or other relationship with the Bank that could materially affect their unfettered and independent judgment in the exercise of their fiduciary duties. The Board is collectively responsible for the execution of the mandate of the Bank as enshrined in 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 carry out its responsibilities, the Board has established the Audit Committee, the Risk and IT Governance Committee, and the Human Resource and Remuneration Committee. These Committees have prescribed charters in terms of which they undertake their respective roles as delegated by the Board. Matters that have been dealt by these Committees are referred to the Board for decision with clear recommendations. Further, each Committee provides reports to the Board on the matters that it dealt with periodically. Apart from these Committees, there is the Executive Committee, which comprises of the Governor, who is also the Chairperson, the Deputy Governors, and Heads of Departments. The Executive Committee acts with delegated authority from the Board and is responsible for day to day operations of the Bank and reports to the Board periodically. In line with section 13 (2) of the Act, which requires the Board to meet as frequently as possible and not less than once in every two months.

3.2 ASSURANCE MATTERS

Risk Management

The risk appetite and tolerance framework was developed in the review period. The Bank reviewed the risk management policy and framework and the Bank-wide risk profile to reflect trends in key operations of the Bank as well as inculcation of risk management culture. The review of the framework specifically highlighted the following critical changes: revised risk rating matrix, incorporation of a new dimension of risk appetite and tolerance framework, clear articulation of incident management and reporting.

Business Continuity Management

The BCM Charter was developed and approved during the review period. Business Continuity Plan (BCP) teams were inaugurated accordingly and they began to assume their functions during the review period. The Bank's BCP was updated to incorporate revised BCM Governance structure. The development of business area recovery plans for critical business areas begun during the period. Following restructuring exercise, the Occupational Health and Safety (OHS) functions were moved to BCM Division thus promoting coordinated management of Business Continuity in the Bank.

CORPORATE ACTIVITIES REPORT

The Internal Audit Function

In 2017, a range of activities as outlined in the approved audit plan were carried out to provide consultancy/advisory and assurance services to Senior Management and the Board on the adequacy and effectiveness of controls, risk management and governance. All these services were executed following the mandatory guidance enshrined in the definition of internal auditing, code of ethics and International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA).

The performance criterion highlighted above charge the Internal Audit Department (IAD) with enhancing and protecting the Bank's operations by providing the risk-based, objective and reliable assurance, advice, and insights. The IAA accomplished this requirement by allocating the work into auditing and assurance services, consultations and advisory services. On the basis of work performed, the system of internal controls in the Bank was found to be adequate and effective with room for improvement. The control environment, therefore, continues to improve from year to year due to senior management's determination to address control gaps brought to its attention.

One of the value adding engagements undertaken in 2017 was the consultancy work performed in Enterprise Risk Management Department (ERMD) whose main objective was to assist to improve risks management process in the Bank. The engagement was also geared towards harmonization of processes in the two departments. This culminated in the preparation of new departmental risks registers which led to compilation of corporate risk profile. The IAD used both risk registers and corporate risk profile for the preparation of the 2018 Annual Audit Plan. Both the risk registers and corporate risk profile formed part of the key source documents used in the preparation of Risk Based Annual Audit Plan for 2018.

3.3 STRATEGY REVIEW

The Bank activities are guided by the *2015 – 2019 Strategic Plan*. In 2017 the Bank began the mid-term review of the Strategy with a view to assess new and emerging challenges and opportunities, assess its capabilities to cope and adapt. The review involved capacity building in strategy management for all levels of Management of the Bank.

3.4 PROJECTS

Project Management in the Bank

The project portfolio of the Bank had 14 projects that were grouped into four programmes, in line with the strategic objectives of the Bank. The comprehensive portfolio plan was developed and monitored accordingly throughout the reporting period. Earned value management and benefit management were introduced as an improvement to an overall

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The Bank's risk register was aligned to the Strategic Plan in the review period.

project monitoring and evaluation function of the Bank. Maturity assessments were conducted and an improvement in maturity was reported. The Bank coordinated nationwide project management conference which was aimed at promoting sharing of project management knowledge, tools and techniques amongst the project management practitioners in Lesotho.

The ERP and Core Banking Project

The year 2017 opened with the go-live of this project, which separated the accounting and banking functions of the Bank. This marked a transition of monumental proportions for the Bank and as is the case with the projects of this size and complexity, much of the year was spent identifying and ironing out bugs and gaps in the new system. The new systems further necessitated reconfigurations of some functions in the Bank. Areas such as Treasury and Procurement were some notably affected ones. Revisions of process flowcharts and procedure manuals were embarked upon to harmonise them with the new systems.

The Bank Extension Project

The Bank Extension construction project commenced in February 2015 and, after several extensions of estimated completion time, is anticipated to be completed in the first half of 2018. The main construction consisted of the parkade and the main building. The parkade will accommodate 512 staff and visitors vehicles. The main building consists of a modern auditorium with a seating capacity of 414 people, reference library, the meeting rooms and offices. Upon completion of the project, some departments of the Bank will relocate and take occupancy of the new offices.

3.5 CORPORATE SERVICES

Human Resources

At the close of the previous year, work had been commissioned to assess how best the Human Resources (HR) function can best be positioned as a strategic partner to the Management of the Bank. In 2017 the HR of the Bank was elevated to a department that was fashioned around the Business Partner Model. With the staff headcount in excess of 270, the HR strategy and needs of the Bank were becoming increasingly difficult to be served adequately by a Divisional unit.

CORPORATE ACTIVITIES REPORT

ICT Support, Security & Governance

ICT support in the Bank is the responsibility of the ICT Department, which provides centralized ICT services 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.

The review year saw the approval and rollout of the Cyber Security Framework along with the Information Security Policy, in an attempt respond to the emerging cybercrime threat. In collaboration with an external cyber security company, measures were embarked upon, which included engagement of Bank staff at all levels to be on high alert with regard, but not limited to phishing emails. The Bank started monitoring of cybercrime incidents and trends locally and internationally. On top of the fortification of the whole infrastructure, arrangements are underway to embark on a more comprehensive cyber security program based on the approved framework.

With regard to the holistic Information Technology Governance, the Bank has embarked on a roadmap to implement key IT Governance, Enterprise Architecture and IT Service Management Practices. This program is intended to ensure that the ICT department works in accordance with best practices in its area as prescribed in COBIT 5, ITIL and TOGAF 9 frameworks. The exercise has assisted the Bank to improve the attainment of target uptime levels on the systemic systems.

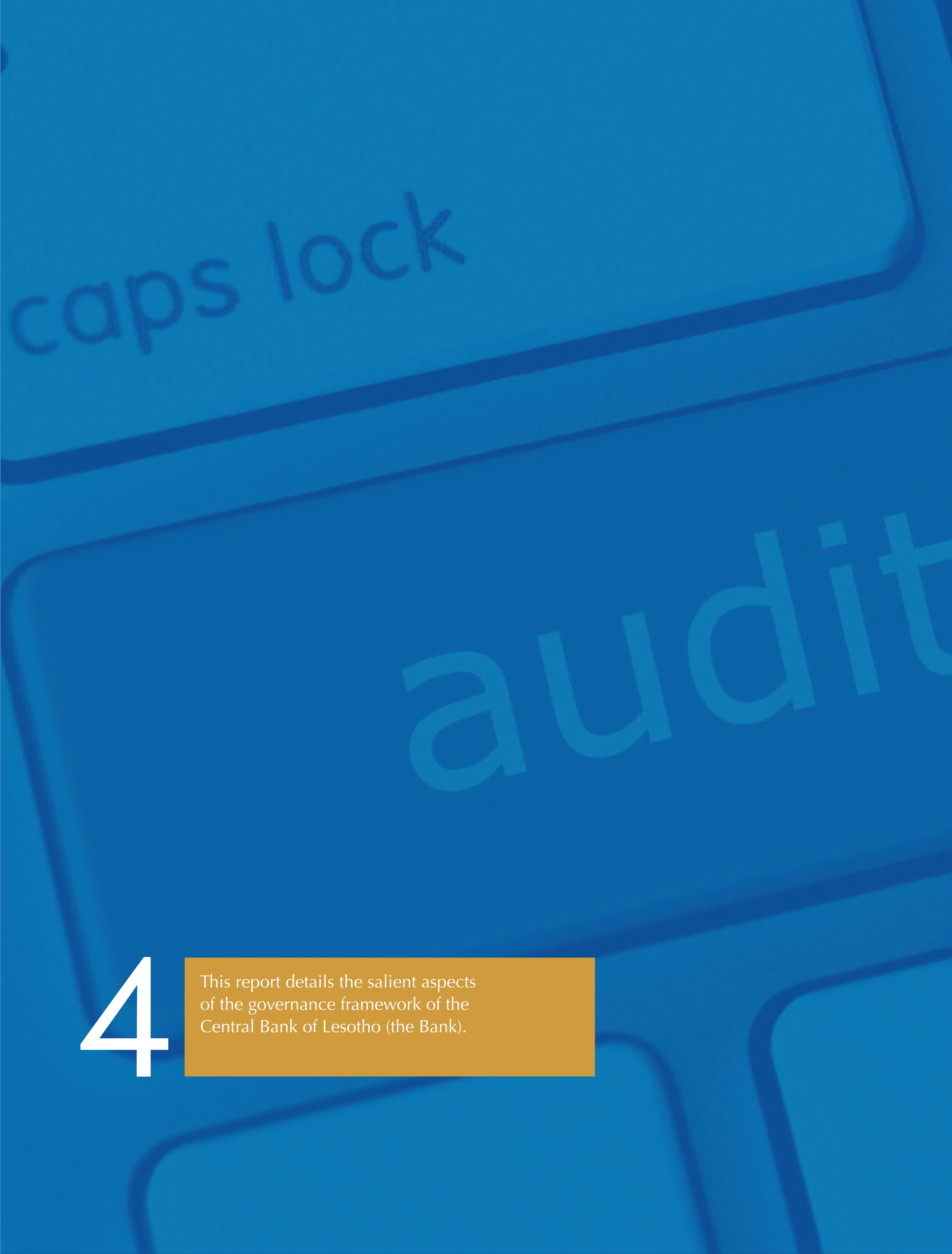
Automation of processes in Banking and Insurance Supervision departments was completed allowing for collection of more extensive financial institutions information.

Facilities Management

Another key corporate service function of the Bank is facilities management. This function entails:

- Procurement of goods, works and services
- Stores and inventory management
- Maintenance of all movable and immovable assets of the Bank in order to minimise their downtimes,
- Provision (and facilitation) of all transport services locally and internationally.

Facilities Management Division (formerly known as General Services) continues to be the vital cog, year after year, in ensuring that the work of the Bank is performed in a conducive environment and with the necessary amenities and incidentals in place ❑



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

CENTRAL BANK OF LESOTHO
BANKA E KHOLO EA LESOTHO

Financial Statements
for the year ended 31 December 2017

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

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Central Bank of Lesotho

Financial Statements • Corporate Governance Report

for the year ended 31 December 2017

This report sets out the key 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 is committed to ensuring that the Bank adheres to the principles of accountability, transparency and integrity in all its dealings and interactions with all its stakeholders.

Report for the year

The Bank has a unitary Board which comprises five (5) Non-Executive Directors and three (3) 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 help it carry out its responsibilities, the Board has established the Audit Committee, the Risk and IT Governance Committee, and the Human Resources and Remuneration Committee. These Committees have prescribed charters in terms of which they undertake their respective roles as delegated by the Board. Matters that have been dealt with by these Committees are referred to the Board 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 who is also the Chairperson, the Deputy Governors and Heads of Departments. The Executive Committee acts with delegated authority from the Board and is responsible for the day to day operations of the Bank and reports to the Board periodically.

The Bank is responsible to facilitate an induction programme for new members of the Board 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 to enhance its efficiency and effectivenes. 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 every two months, the Board of Directors convened eleven (11) meetings during the 2017 financial year.

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

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Central Bank of Lesotho

Financial Statements • Audit Committee Report

for the year ended 31 December 2017

The Audit Committee is a committee of the Board of Directors of the Bank established in terms of section 20 of the Central Bank of Lesotho By-Laws of 2005. The Committee comprises of four independent non-executive Directors. The general mandate and responsibility of the Committee is to review the Bank's business reporting processes, the systems of internal controls and the management of business risks, the audit process, as well as the appointment of the external Auditors. The Committee is also responsible for monitoring the Bank's process of compliance with the applicable laws and regulations and its own code of business conduct.

During the financial year under review, the Committee convened seven times in the performance of its oversight role. The Committee members are satisfied that the Bank's internal financial controls are adequately designed and effectively operated, to form a sound basis for the preparation of reliable financial reports. In the current year the Audit Committee discussed with both management and the External Auditors the challenges that were experienced with the new system that resulted in some controls not operating as planned. This assessment is based on reports from both internal and external auditors and Management. However the Committee was assured of the mitigations strategies put in place by Management that preserved the integrity of the financial statements of the Bank.

The Committee also considered and approved the annual internal audit plan. Members reveiewed the reports of the Internal Audit Department on control weaknesses and Management's corrective actions. The Head of the Internal Audit Department reports functionally to the Audit Committee and administratively to the Governor.

The Audit Committee is satisfied with the independence of the external auditors of the Bank. his assessment was made after considering the representations of independence from the external auditors, continuous monitoring and approval of non-audit services, and a formal partner rotation process.

Inconsultation with Management, the Committee reviewed and approved the external Auditors'scope, approach and audit fees for the year under review. The Audit Committee is satisfied with the formal procedures that govern the provision of non-audit services by the external auditors. This is monitored through the reporting and approval of such activities at the Audit Committee meetings.

The Committee members are satisfied that the Bank implemented appropriate processes and controls to ensure compliance with all applicable laws and regulations as they relate to financial reporting. This is based on the Committee's review of reports received from both internal and externl auditors, as well as from the Management. The Audit Committee is satisfied that the Bank managed its Information Communications Technology capability and controls in an appropriate manner to support the integrity of financial reporting. This is based on the Committee's regular review of the reports from IT Management as well as internal Auditors. But note should be made that in the year under review some of the controls were not operating as planned due to difficulties experienced with the new system.

On behalf of the audit committee:

Mrs. Octavia Letebele
Chairperson Audit Committee

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Central Bank of Lesotho

Financial Statements • Directors' Responsibilities and Approval

for the year ended 31 December 2017

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 31 December 2017, in conformity with the Central Bank of Lesotho Act No.2 of 2000 and according to the policies set in note 1 of the financial statements. The external auditors are engaged to express an independent opinion on the annual financial statements.

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

The Directors acknowledge that they are ultimately responsible for the system of internal 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 that the bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the bank is on identifying, assessing, managing and monitoring all known forms of risk across the bank. While operating risk cannot be fully eliminated, the bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

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

The financial statements were approved by the board of directors on 29 March 2018 and are signed on its behalf by:

Dr. Retšelisitsoe Matlanyane
Governor

Mr. Sekake Malebanye King's Council (KC)
Director

Accountancy Firm

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CENTRAL BANK OF LESOTHO

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Central Bank of Lesotho, that comprise the statement of financial position as at 31st December 2017 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 notes to the financial statements as contained on pages 11 to 54 including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank for the year ended 31 December 2017, are prepared, in all material respects, in accordance with the accounting policies described in Note 1 to the financial statements and the requirements of the Central Bank Act No.2 of 2000.

Basis for Opinion

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

Emphasis of Matter- Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Bank in complying with the requirements of the Central Bank Act No. 2 of 2002. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Bank, the Government of Lesotho and the International Monetary Fund and should not be distributed to or used by other parties. Our opinion is not modified in respect of this matter.

Other Information

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

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

In connection with our auditor on the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of Directors for the Financial Statements

The Central Bank of Lesotho Directors are responsible for the preparation and fair presentation of the financial statements in accordance with the Bank's accounting policies and the requirements of the Central Bank Act No. 2 of 2000 and for such internal controls 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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr Letuka Sephelane.

LETACC

LETACC
Firm of Chartered Accountants and Auditors
Per Letuka Sephelane CA (L)
Partner
29 March 2018

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Directors

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

Name	Date of appointment	Position held
Dr. A. R. Matlanyane	January, 2017	Governor and Chairman
Dr. M. P. Makhetha	January, 2017	First Deputy Governor
Ms. M. G. Makenete	January, 2017	Second Deputy Governor
Mrs. N. Foulo	December, 2017	Non-Executive Director
Mrs. S. Mohapi	December, 2017	Non-Executive Director
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

Secretary

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

Events subsequent to balance sheet date

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.

Auditors

Deloitte & Touche (South Africa) and LETACC carried out the statutory audit of the Bank.

Dr. Retšelisitsoe Matlanyane
Governor

Mrs. Octavia Letebele
Director

29-March-2018

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Central Bank of Lesotho

Financial Statements • Statement of Financial Position

for the year ended 31 December 2017

	Notes	2017 M	2016 M
Assets			
Cash and balances with Banks	2	4 778 747	5 710 314
Accrued interest due from Banks	3	9 817	12 049
Investment in unit trust	4	635 604	701 863
Investment in SWIFT	5	700	555
Treasury notes and bonds	6	3 121 639	3 859 285
Movement in Treasury Bills	7	91 813	246 015
IMF Subscription Account	8	1 223 196	1 284 076
IMF Holding of Special Drawing Rights (SDR)	9	530 125	641 390
IMF Funded PRGF Advances	10	753 413	877 458
Lesotho Government Securities	11	58	7
Deferred currency expenditure	12	8 303	15 775
Loans to Staff	13	86 196	80 264
Other assets	14	11 953	13 177
Property, plant and equipment	15	695 445	617 753
Intangible assets	16	41 761	9 370
Taxation receivable	22	26 882	-
Total Assets		**12 015 652**	**14 069 351**
Equity and Liabilities			
Liabilities			
Notes and coins issued	17	1 616 489	1 335 835
Deposits	18	401 824	505 397
Lesotho Government Deposits		3 208 374	4 878 626
IMF Maloti Currency Holding	19	1 002 220	1 052 545
IMF Special Drawing Rights Allocation	20	576 167	604 844
IMF-PRGF Facility	21	753 413	877 458
Taxation payable	22	-	4 599
Due to Government of Lesotho Consolidated Fund	23	84 396	147 566
Movement in other liabilities	24	26 944	72 030
Long-term employee benefit obligation	25	101 879	105 460
Deferred taxation	26	19 344	12 946
		7 791 050	9 597 306
Equity			
Share capital	27	100 000	100 000
General reserve		299 795	282 916
Rand compensatory reserve		674 708	563 200
SDR revaluation reserve		(42 297)	43 433
Foreign exchange revaluation reserve		3 046 502	3 360 498
Property revaluation reserve		141 413	141 413
Bond /Unit trust revaluation reserve		4 481	(19 415)
		4 224 602	4 472 045
Total Equity and Liabilities		**12 015 652**	**14 069 351**

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Central Bank of Lesotho

Financial Statements • Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017

	Notes	2017 M '000	2016 M '000
Interest income	28	445 145	558 782
Interest expense	29	(6 471)	(3 776)
Net interest income		**438 674**	**555 006**
Other income	30	28 834	38 691
Revaluation (loss) on foreign exchange activities		(399 726)	(812 202)
Operating profit (loss)		**67 782**	**(218 505)**
Operating expenses	31	(332 918)	(348 768)
(Loss) before taxation		**(265 136)**	**(567 273)**
Taxation	32	(35 144)	(62 060)
(Loss) for the period		**(300 280)**	**(629 333)**
Other comprehensive income:			
Bond/ unit trusts fair values			
Increase in bond/unit trusts fair values		31 861	100 177
Tax effect		(7 965)	(25 044)
Net movement		**23 896**	**75 133**
Property revaluation reserve			
Increase in property revaluations		-	16 442
Tax effect		-	(4 111)
Net movement		**-**	**12 331**
Rand compensatory reserve			
Increase in reserve		111 508	57 540
Tax effect		-	-
Net movement		**111 508**	**57 540**
Actuarial gains and losses on employee benefits			
Actuarial (loss)/ gain for the year		2 439	(7 719)
Tax effect		(609)	1 930
Net movement		1 830	(5 789)
Other comprehensive income for the year net of taxation		**137 234**	**139 215**
Total comprehensive (loss)		**(163 046)**	**(490 118)**

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Central Bank of Lesotho

Financial Statements • Statement of Changes in Equity

for the year ended 31 December 2017

	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 01 January 2016	**100 000**	**253 402**	**505 660**	**145 443**	**4 070 690**	**129 082**	**(94 548)**	**-**	**5 109 729**
Transfer of foreign exchange translation to designated reserve	-	-	-	(102 010)	(710 192)	-	-	812 202	-
Movement in bond/unit trust fair values	-	-	-	-	-	-	75 133	-	75 133
Asset revaluation for the year	-	-	-	-	-	12 331	-	-	12 331
Rand compensatory receipts	-	-	57 540	-	-	-	-	-	57 540
Actuarial fair value loss	-	-	-	-	-	-	-	(5 789)	(5 789)
Transfer to General Reserve	-	29 514	-	-	-	-	-	(29 514)	-
Dividends	-	-	-	-	-	-	-	(147 566)	(147 566)
Total changes	-	29 514	57 540	(102 010)	(710 192)	12 331	75 133		(8 351)
Balance at 01 January 2017	**100 000**	**282 916**	**563 200**	**43 433**	**3 360 498**	**141 413**	**(19 415)**	**-**	**4 472 045**
Loss for the period	-	-	-	-	-	-	-	(300 280)	(300 280)
Actuarial fair value gain	-	-	-	-	-	-	-	1 829	1 829
Total comprehensive Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(298 451)**	**(298 451)**
Transfer of foreign exchange translation to designated reserve	-	-	-	(85 730)	(313 996)	-	-	399 726	-
Movement in bond/unit trust fair values	-	-	-	-	-	-	23 896	-	23 896
Rand compensatory receipts	-	-	111 508	-	-	-	-	-	111 508
Transfer to General Reserve	-	16 879	-	-	-	-	-	(16 879)	-
Dividends	-	-	-	-	-	-	-	(84 396)	(84 396)
Total changes	-	16 879	111 508	(85 730)	(313 996)	-	23 896	298 451	51 008
Balance at 31 December 2017	**100 000**	**299 795**	**674 708**	**(42 297)**	**3 046 502**	**141 413**	**4 481**	**-**	**4 224 602**

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Central Bank of Lesotho

Financial Statements • Statement of Cash Flows

for the year ended 31 December 2017

	Notes	2017 M '000	2016 M '000
Cash flows from operating activities			
Cash used in operations	33	(2 149 827)	(2 743 286)
Interest income	28	445 145	558 782
Interest expense	29	(6 471)	(3 776)
Tax paid	22	(68 802)	(94 307)
Rand compensatory reserve		63 295	57 540
Payments to Government of Lesotho Consolidated Fund	23	(147 566)	(184 232)
Net cash from operating activities		**(1 864 226)**	**(2 409 279)**
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(145 697)	(193 389)
Sale of property, plant and equipment	15&30	48	143
Purchase of other intangible assets	16	(918)	(288)
Purchase of Deferred currency expenditure	12	(429)	13 500
Movement in Other assets	14	1 224	1 466
Movement in Loans to staff	13	(5 932)	(10 806)
Movement in Lesotho Government Securities	11	(51)	329
Movement in Treasury notes, bonds and unit trust	4&6	803 905	588 061
Movement in Investment in Swift	5	(145)	292
Net cash from investing activities		**652 005**	**399 308**
Cash flows from financing activities			
Movements in notes and coins	17	280 654	11 030
Total cash movement for the year		**(931 567)**	**(1 998 941)**
Cash at the beginning of the year		5 710 314	7 709 255
Total cash at end of the year	2	**4 778 747**	**5 710 314**

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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 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 revaluation reserves in equity. Decreases that offset previous increases of the same asset are charged against property revaluation reserves.

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

The most recent independent valuation for buildings was performed for the year ended December 2016. 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	Depreciation method	Rates
Buildings		1.5%
Office furniture		10%
Motor vehicles		20%
Office equipment		10%
Lehakoe furniture		20%
Housing equipment		20%
Security equipment		20%
Intangible assets		33.3%

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1.1 Property, plant and equipment (continued)

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

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

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, available for sale and held to maturity investments. 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. Assets in this category are classified as current assets. Subsequent to initial recognition these assets are measured at fair value. These categories are used to determine how a particular financial asset is recognised and measured in the financial statements.

(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 on initial recognition 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.

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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. Subsequent to initial recognition these are measured at armortised costs. These are classified as non-current assets. The financial assets that the Bank classifies as held to maturity are Treasury Bills.

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¬forsale 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; and subsequently transferred to 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.

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

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

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

1.7 Share capital

(a) Share capital is classified as equity

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

(b) Dividends on ordinary shares

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

1.8 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. The pension contributions are recorded in profit and loss via the salaries account.

(b) Other long-term employee benefits

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

Long-term employee benefits include:

- Severance pay - this is calculated as two weeks salary for each continuous completed year of service from 1993.
- Gratuity - this is calculated at 12.5% of the average of the annual 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.

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

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

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

1.10 Revenue

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

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

(b) Transactions and balances

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

Changes in the fair value of monetary securities denominated in foreign currency classified as 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 initially in profit and loss, and subequently transferred to equity.

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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. Notes and coins represent the value of currency (Maloti) 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 69 800 000 units. The Central Bank of Lesotho administers the Special Drawing Rights (SDR) on behalf of the Government of Lesotho for the allocation in the financial records of the Bank.

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

1.19 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 amongst the Government of Namibia, Swaziland, Lesotho and the Republic of South Africa. The Government has directed that this amount be treated as a reserve.

1.23 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 Foreign Exchange Revaluation Reserve Account and 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 Financial risk factors

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

(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 2017, if the currency had weakened/strengthened by 5% against the functional currencies, the Bank's foreign assets would have been 2.31% (2016: 2.12%) higher/lower as a result of foreign exchange losses/gains on valuation of foreign currency denominated assets.

1.27 Financial Risk Management Financial risk factors (continued)

Financial risk factors

Interest Rate Risk

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

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

As at 31 December 2017, if interest rates had fallen by 1%, the Bank's revenue would decline by 20%, based on the simulation performed. However, if rates had increased by 1%, revenue would increase by 22%.

(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 38 to 56.

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.

1.29 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 are, therefore, treated as defined contribution plan. Refer to further disclosure in note 25 and 35.

(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.

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1.29 Critical accounting estimates and judgements (continued)

(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.

1.30 Memorandum Accounts

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

1.31 New Standards

IFRS 9- Financial Instruments

The IASB has issued a final version of IFRS 9 which brings together the classification and measurement, impairment and hedge accounting. This standard replaces IAS 32. IFRS 9 adopts a principle based approach to the classification of financial assets driven by cash-flow characteristics and business model in which the asset is held. The standard also focuses on expected credit loss impairment model for all financial assets not measured at fair value through profit and loss. IFRS 9 has been assessed by the Bank as having a possible effect on the financial statements of the Bank for annual periods beginning 1st January 2018. The Bank is currently assessing and determining the impact of IFRS 9 on its financial statements for the year ended 31 December 2018. Given the low level of historic impairments, the impact is likely to be insignificant.

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	2017 M '000	2016 M '000
2. Cash and balances with Banks		
Cash and cash equivalents consist of:		
Cash and cash equivalents		
Foreign cash on hand	2 055	1 625
Rand currency holding	173 157	121 640
Cash in transit	20 700	-
Total cash and cash equivalents	195 912	123 265
Current and Call Accounts:		
Foreign Banks	84 775	38 588
South African Banks	1 836 781	2 220 174
Total Current and Call Accounts	1 921 556	2 258 762
Fixed Deposits:		
Foreign Banks	1 341 469	1 635 975
South African Banks	1 319 810	1 692 312
Total Fixed deposits (with maturity shorter than 3 months)	2 661 279	3 328 287
Balances with banks (with maturity shorter than 3 months)	4 582 835	5 587 049
Total cash and balances with Banks	**4 778 747**	**5 710 314**
3. Accrued interest due from Banks		
Accrued interest receivable:		
ZAR call accounts	92	508
ZAR fixed deposit accounts	8 687	10 788
Foreign call and fixed deposit accounts	1 038	753
	9 817	**12 049**
4. Investment in unit trust		
2017	Available for sale	Total
Unit trusts at fair value	635 604	635 604
2016	Available for sale	Total
Units trusts at fair value	701 863	701 863

The unit trusts were purchased from the Bank for International Settlement (BIS) in 2012. These are treated as availablefor- 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 $136.848153 (2016: 376,076 at $136.055979) at an exchange rate of 12.35015 (2016: 13.7170) to the US Dollar.

	2017 M '000	2016 M '000
5. Investment in Swift		
Investment in SWIFT	700	555

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

6. Treasury notes and bonds

2017

	At fair value through profit and loss	Available-for- sale	Total
US Bonds at fair value	1 236 453	471 320	1 707 773
ZAR Bonds at fair value	-	1 375 858	1 375 858
US Bonds accrued interest	5 314	1 558	6 872
ZAR Bonds accrued interest	-	31 136	31 136
	1 241 767	**1 879 872**	**3 121 639**

2016

	At fair value through profit and loss	Available-for- sale	Total
US Bonds at fair value	1 386 024	655 388	2 041 412
ZAR Bonds at fair value	-	1 773 931	-
US Bonds accrued interest	4 907	1 980	6 887
ZAR Bonds accrued interest	-	37 055	37 055
	1 390 931	**2 468 354**	**3 859 285**

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. Movement in Treasury Bills

	2017 M '000	2016 M '000
US Treasury Bills		
Treasury Bills	91 813	246 015

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

8. IMF Subscription Account

	2017 M '000	2016 M '000
Balance at beginning of year	1 284 076	751 788
Quota increase	-	619 932
Exchange revaluation	(60 880)	(87 644)
Balance at end of year	**1 223 196**	**1 284 076**

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 69,800,000 in 2017 69,800,000. The local currency equivalent of the subscription account in the statement of financial position is converted at the year end rate of 0.0570636 (2016: 69,800,000 at 0.0497992).

9. IMF Holding of Special Drawing Rights (SDR)

	2017 M '000	2016 M '000
Balance at beginning of year	641 390	984 665
Net transactions - (decrease) / increase in rights	(165 275)	(339 666)
Exchange revaluation	54 010	(3 609)
Balance at end of year	**530 125**	**641 390**

The value of SDR 30,213,620. (2016: SDR 34,864,805) allocated by the International Monetary Fund less utilisation is converted at 0.0570636 (2016: 0.497992).

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	2017	2016
	M '000	M '000
10. IMF Funded PRGF Advances		
Balance at beginning of year	877 458	1 073 290
Paid during the year	(85 413)	(41 881)
Exchange revaluation	(38 632)	(153 951)
Balance at end of year	**753 413**	**877 458**

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 21.

11. Lesotho Government Securities

Maturing within 1 month	58	7

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.

12. Deferred currency expenditure

Balance at beginning of year	15 775	29 275
Expenditure incurred	429	3 003
Amortised during the year	(7 901)	(16 503)
Balance at end of year	**8 303**	**15 775**

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

13. Loans to staff

Housing loans	41 629	40 119
Car loans	22 124	20 052
Furniture loans	1 701	2 009
Other loans and advances	20 742	17 993
Other receivable	-	91
	86 196	**80 264**

The loans issued to staff members during the year are repayable monthly and attract interest rate at 3% per annum.

14. Other assets

Other prepayments	6 490	4 085
Other receivables	5 463	9 092
	11 953	**13 177**

15. Property, plant and equipment

	2017 M '000			2016 M '000		
	Cost or valuation	Accumulated depreciation	Carrying value	Cost or valuation	Accumulated depreciation	Carrying value
CBL land and buildings	106 267	(16 794)	89 473	106 267	(15 389)	90 878
Lehakoe land and buildings	149 020	(20 558)	128 462	148 036	(18 482)	129 554
Residential land and buildings	20 177	(2 182)	17 995	20 177	(1 880)	18 297
Housing furniture	383	(379)	4	383	(377)	6
Office furniture	9 409	(7 047)	2 362	9 385	(6 551)	2 834
Motor vehicles	11 955	(10 317)	1 638	11 636	(10 091)	1 545
Office equipment	34 400	(28 295)	6105	33 836	(25 407)	8 429
Office computer	30 724	(20 396)	10 328	25 700	(17 171)	8 529
Lehakoe furniture	3 384	(2 926)	458	3 240	(2 865)	375
Sports/music equipment	8 002	(7 634)	368	7 846	(7 406)	440
Housing equipment	205	(199)	6	205	(192)	13
Security equipment	20 232	(14 279)	5 953	16 783	(11 769)	5 014
Work in progress	432 293	-	432 293	351 839	-	351 839
Total	**826 451**	**(131 006)**	**695 445**	**735 333**	**(117 580)**	**617 753**

15. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Revaluations	Transfer to intangibles	Totals
CBL land and buildings	90 878	-	-	-	-	(1 405)
Lehakoe land and buildings	129 554	-	-	984	-	(2 075)
Residential land and buildings	18 297	-	-	-	-	(302)
Housing furniture	6	-	-	-	-	(2)
Office furniture	2 834	20	-	-	-	(491)
Motor vehicles	1 545	670	(351)	-	-	(577)
Office equipment	8 429	378	-	187	-	(2 889)
Office computer	8 529	5 085	(62)	-	-	(3 283)
Lehakoe furniture	375	144	-	-	-	(61)
Sports/music equipment	440	156	-	-	-	(228)
Housing equipment	13	-	-	-	-	(7)
Security equipment	5 014	1 414	-	2 035	-	(2 511)
Work in progress	351 839	137 941	-	(3 206)	(54 281)	-
	617 753	**145 808**	**(413)**	**-**	**(54 281)**	**(13 831)**

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15. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Transfers	Transfer to intangibles	Depreciation	Total
CBL land and buildings	86 693	-	-	5 334	(1 429)	90 878	89 473
Lehakoe land and buildings	122 111	-	-	9 516	(2 080)	129 554	128 462
Residential land and buildings	16 984	-	-	1 592	(279)	18 297	17 995
Housing furniture	7	-	-	-	(2)	6	4
Office furniture	2 869	482	(33)	-	(484)	2 834	2 362
Motor vehicles	1 296	1 447	-	-	(1 198)	1 545	1 638
Office equipment	12 719	282	(10)	-	(4 563)	8 429	6 105
Office computer	7 660	3 806	-	-	(2 940)	8 529	10 328
Lehakoe furniture	482	-	-	-	(108)	375	458
Sports/music equipment	689	26	-	-	(275)	440	368
Housing equipment	19	-	-	-	(6)	13	6
Security equipment	6 639	725	(100)	-	(2 165)	5 014	5 953
Work in progress	165 218	186 621	-	-	-	351 839	432 293
	423 386	**193 389**	**(143)**	**16 442**	**(15 529)**	**617 753**	**695 445**

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	2017 M'000	2016 M'000

16. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	95 291	(53 530)	41 761	49 752	(40 382)	9 370

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	9 370	55 199	(22 808)	41 761

Reconciliation of intangible assets - 2016

Opening balance	Additions	Amortisation	Total
14 505	288	(5 423)	9 370

All computer software are written off over a 3 year period on a straight line basis.

17. Notes and coins issued

	2017	2016
Notes	1 599 707	1 318 629
Coins	16 782	17 206
	1 616 489	**1 335 835**

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.

18. Deposits

	2017	2016
Deposits from Banks - Non-interest bearing		
Banks	398 488	495 920
Other Deposits - Non-interest bearing		
International Institutions	324	3 074
Parastatals and others	3 012	6 403
	401 824	**505 397**

19. IMF Maloti Currency Holding

	2017	2016
Securities account	236 912	224 862
General resources account	765 308	827 683
	1 002 220	**1 052 545**

20. IMF Special Drawing Rights Allocation

	2017	2016
Balance at beginning of year	604 844	708 236
Exchange revaluation	(28 677)	(103 392)
Balance at end of year	**576 167**	**604 844**

LLesotho's allocation by IMF of SDR32,878,186 is converted at 0.0570636 (2016: 0.0497992).

	2017 M'000	2016 M'000

21. IMF-PRGF Facility

	2017 M'000	2016 M'000
Balance at beginning of year	877 458	1 073 290
Paid during the year	(85 413)	(41 881)
Exchange revaluation	(38 632)	(153 951)
	753 413	**877 458**

This IMF loan was secured under the Poverty Reduction and Growth Facility. The Ministry of Finance tranche is accounted for through the Bank's records to present the amount due to the IMF. The balance due to the IMF amounted to SDR 42,992,500.00, converted at 0.0570636 as at 31 December 2017 (2016:SDR 47,697,000 at 0.0497992). The loan has been on-lent as per note 10. Interest expense and exchange rate differences are borne by the Government of Lesotho.

22. Taxation payable/(receivable)

	2017 M'000	2016 M'000
Balance at beginning of year	4 599	27 569
Paid during the year	(68 802)	(94 307)
Current year charge	37 321	71 337
Balance at end of year	**(26 882)**	**4 599**

23. Due to Government of Lesotho Consolidated Fund

	2017 M'000	2016 M'000
Balance at beginning of year	147 566	184 232
Paid during the year	(147 566)	(184 232)
Profit appropriations for the current year	84 396	147 566
Balance at end of year	**84 396**	**147 566**

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

Profit after tax appropriates as follows:

	2017 M'000	2016 M'000
(Loss)/profit after tax (after actuarial (loss)/gain on employee benefits)	(298 450)	(635 122)
Gain on foreign exchange activities	399 725	812 202
Profit after tax net of gain on foreign exchange activities	101 275	177 080
Transfer to General Reserve	(16 879)	(29 514)
	84 396	**147 566**

24. Other liabilities

	2017 M'000	2016 M'000
Trade payables	(2)	-
Donations - Referral Hospital	-	48 214
Divisional cheques accounts	3 337	459
Other	12 917	5 418
Various accruals	**10 692**	**17 939**
	26 944	**72 030**

The donations account relates to the construction expenses which have been earmarked for the building of a new hospital. At 31 December 2016, the building of the new hospital had not begun, however the obligation had still existed.

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	2017 M'000	2016 M'000
25. Long-term employee benefit obligation		
Provision for severance pay		
Opening obligation	25 671	25 141
Interest cost	2 346	2 516
Current service cost	2 723	2 481
Actuarial (gain)/ loss on employee benefits	(1 754)	(1 783)
Benefits paid	(4 325)	(2 684)
Closing obligation	24 661	25 671
Provision for gratuity		
Opening obligation	79 789	69 122
Interest cost	7 109	6 688
Current service cost	10 070	6 207
Actuarial loss/(gain)	(713)	9 242
Benefits paid	(19 037)	(11 470)
Closing obligation	77 218	79 789
Total	**101 879**	**105 460**

The Bank's liability is valued using the Projected Unit Credit Method by the independent Acturial Valuer. The Valuer has used assumptions based on statistics South African market data. The valuer has determined the discount rate to be equal 10,05% p.a., general inflation rate to be 7,98% p.a. The valuer has used the discount rate assumption of high quality corporate bond. The valuer has set the discount rate by using the best fit discount rate at 10 November 2017 based on yields from the zero coupon South African government bond curve. The computation has been determined taking into consideration the cash-flow weighted duration of the liabilities which is approximately 10 years. The recommended discount rate is 10,09%.

	2017	2016
Net expense recognised in profit and loss (inclusive of leave pay provision)		
Current service cost	9 859	8 688
Interest cost	12 793	9 603
	22 652	**18 291**
Key assumptions used		
Discount rates used	10,09 %	9,43 %
General inflation	6,78 %	6,76 %
Real rate (Gap)	1,90 %	1,31 %
Expected increase in salaries	8,03 %	8,01 %

26. 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:

	2017	2016
Deferred tax asset/(liability)	(19 344)	(12 946)
Reconciliation of deferred taxation		
At beginning of year	(12 946)	4 887
Movements in profit and loss	1 567	11 206
Movement in equity - current year	(7 965)	(29 039)
	(19 344)	**(12 946)**

	2017 M'000	2016 M'000
26. Deferred taxation		
Reconciliation of deferred taxation		
Accelerated capital allowance for tax purposes	5 532	5 278
Liabilities for Health care benefits accrued	26 590	27 481
Deferred expenses	(2 835)	(5 039)
Bond/unit trust revaluation reserve	(1 494)	6 472
Property revaluation reserve	(47 137)	(47 138)
Balance at end of year	**(19 344)**	**(12 946)**
27. 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.

	2017 M'000	2016 M'000
28. Interest income		
Foreign currency deposits	286 781	391 690
Foreign currency deposits	5 036	1 073
Issued and fully paid	153 328	166 019
	445 145	**558 782**
29. Interest expense		
Interest on non financial Public Enterprises	27	35
Amortisation of held to maturity liabilities	3 678	3 351
IMF SDR allocation account	2 766	390
	6 471	**3 776**
30. Other income		
Rental income	81	363
Profit on sale of bonds	751	2 176
Interest on staff loans	1 487	1 388
Lehakoe income	13 737	10 960
Other income	2 847	11 187
Gain on instruments designated as fair value through profit and loss	9 883	12 741
(Loss)/ profit on sale of fixed assets	48	(124)
	28 834	**38 691**

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	2017 M'000	2016 M'000
31. Operating costs and expense per nature		
Administration and other expenses 63 414 74 443	63 414	74 443
Auditor's remuneration	2 993	2 447
Deferred currency expense amortised	7 472	16 503
Intangible assets amortised	22 857	5 423
Depreciation and impairment	13 838	15 529
Property, plant and equipment maintenance expenses	15 736	16 049
Loss on sale of other instruments	908	28 385
Loss on revaluation of treasury notes and bonds	12 896	15 011
Personnel costs:		
Staff welfare expenses	19 234	19 486
Non-executive directors' fees	964	976
Executive directors' salaries	7 600	6 258
Key management (heads of departments)	8 710	9 037
Staff salaries and expenses	124 313	115 647
Pension fund contributions	5 653	5 682
Gratuity and severance pay (interest and service cost)	26 330	17 892
	332 918	**348 768**
32. Taxation		
Major components of the taxation expense		
Current		
Normal taxation for the year	36 711	73 266
Deferred		
Deferred taxation arising on other profit and loss items	(1 567)	(11 206)
	35 144	**62 060**
Tax on actuarial gain(loss)	609	(1 930)
Reconciliation of the taxation expense		
Reconciliation between applicable tax rate and average effective tax rate.		
Chargeable profit (before foreign exchange gain/loss and after actuarial gain/loss)	(137 029)	(237 223)
Statutory tax rate	25,00 %	25,00 %
Permanent differences:		
Donations	0,10 %	1,06 %
50 % Entertainment	0,31 %	0,08 %
Training expenses additional 25%	(2,02)%	(1,16)%
Other	2,77 %	0,37 %
Effective tax rate	**26,16 %**	**25,35 %**

	2017 M'000	2016 M'000
33. Cash generated from (used in) operations		
Profit(Loss) before taxation	(265 136)	567 273)
Adjustments for:		
Depreciation	14 004	15 529
Deferred computer software armotised	22 808	5 423
Loss on sale of assets	(48)	124
Interest income	(445 145)	(558 782)
Interest expense	6 471	3 776
Deferred currency amortisation	7 901	16 503
Revaluation of bonds and unit trust through OCI	31 861	-
Other movements	(282)	75 508
Movement in Deposits	(1 773 825)	(1 580 308)
Movement in accrued interest	2 232	(3 860)
Movement inTreasury bills	154 202	(246 015)
Movement in IMF Maloti Currency Holding	(50 325)	383 407
Movement in IMF Subcription Account	60 880	(532 288)
Movement in other liabilities	3 129	5 087
Movement in IMF Special Drawing Rights Holding	111 265	343 275
Movement in IMF Special Drawing Rights Allocation Assets	(28 677)	(103 392)
Movements in Long-term employee benefit obligation	2 439	-
Movement in employee benefits	(3 581)	-
	(2 149 827)	**(2 743 286)**

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	2017 M'000	2016 M'000
34. Commitments		
Contracted	55 000	175 278

These capital commitments are in respect of professional fees for the Bank's extension which will be funded from internal resources in 2017.

	2017 M'000	2016 M'000
35. Post retirement obligations		
Total employer contributions	6 045	5 682

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.

		2017 M'000	2016 M'000

37. 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 13.

		2017 M'000	2016 M'000
Gross advances made during the year to:	Car loans	1 147	399
Heads of Departments and Division Heads	Furniture loans	150	100
	Housing loans	1 000	-
Balances due at end of December:			
Heads of Departments and Division Heads	Car loans	3 313	4 599
	Furniture loans	299	276
	Housing loans	6 204	7 529
General Staff	Car loans	17 664	15 053
	Furniture loans	1 252	1 733
	Housing loans	34 425	32 589
General Staff and Heads of Department	Other loans	20 742	17 993
Interest charged for the year:			
Heads of Departments and Division Heads	Car loans	53	124
	Furniture loans	9	276
	Housing loans	80	56

There were no loan advances made to the Governors in the current year, and previous loans were paid up as at 31 December 2017.

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.

	2017	2016
	M'000	M'000

37. Related parties transactions/ balances (continued)

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

	2017	2016
Executive Directors' salaries	7 599	6 110
Key management salaries	8 710	9 036

38. Financial assets by category

The financial assets have been categorised as follows :

2017

M '000

Financial assets	**Loans and receivables**	**Available for sale**	**Assets at fair value through profit and loss**	**Total**
Cash and balances with Banks	4 778 747	-	-	4 778 747
Accrued interest due from Banks	9 817	-	-	9 817
Unit trusts	-	635 604	-	635 604
Investment in SWIFT	-	700	-	700
Treasury notes and bonds	-	1 879 872	1 241 767	3 121 639
Treasury bills	91 813	-	-	91 813
IMF Subscription Account	1 223 196	-	-	1 223 196
IMF Holding of Special Drawing Rights	530 125	-	-	530 125
IMF Funded PRGF Advances	753 413	-	-	753 413
Lesotho Government Securities	58	-	-	58
Loans to staff	86 196	-	-	86 196
	7 473 365	**2 516 176**	**1 241 767**	**11 231 308**

2016

M '000

Financial assets	**Loans and receivables**	**Available for sale**	**Assets at fair value through profit and loss**	**Total**
Cash and balances with Banks	5 710 314	-	-	5 710 314
Accrued interest due from Banks	12 049	-	-	12 049
Unit trusts	-	701 863	-	701 863
Investment in SWIFT	-	555	-	555
Treasury notes and bonds	-	2 468 354	1 390 931	3 859 285
Treasury bills	246 015	-	-	246 015
IMF Subscription Account	1 284 076	-	-	1 284 076
IMF Holding of Special Drawing Rights	641 390	-	-	641 390
IMF Funded PRGF Advances	877 458	-	-	877 458
Lesotho Government Securities	7	-	-	7
Loans to staff	80 264	-	-	80 264
	8 851 573	**3 170 772**	**1 390 931**	**13 413 276**

38. Financial liabilities by category

The financial liabilities have been categorised as follows:

2017

M '000

	Financial liabilities at amortised cost	Total
Notes and coins issued	1 616 489	1 616 489
Deposits	401 824	401 824
Lesotho Government Deposits	3 208 374	3 208 374
IMF Maloti Currency Holding	1 002 220	1 002 220
IMF Special Drawing Rights Allocation	576 167	576 167
IMF PRGF Facility	753 413	753 413
	7 558 487	**7 558 487**

2016

M '000

	Financial liabilities at amortised cost	Total
Notes and coins issued	1 335 835	1 335 835
Deposits	505 397	505 397
Lesotho Government Deposits	4 878 626	4 878 626
IMF Maloti Currency Holding	1 052 545	1 052 545
IMF Special Drawing Rights Allocation	604 844	604 844
IMF PRGF Facility	877 458	877 458
	9 254 705	**9 254 705**

39. Operating lease

Amount receivable within 12 months	-	180
Amount receivable within 13 to 24 months	-	270
	-	**450**

The above income is for the rental of houses owned by the Bank. The lease contracts are all for a period of 24 months. For the current year there were no tenants.

41. 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:

41. 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 2017	**Value of Currency 000**	**Exchange Rate**	**Maloti Equivalent M'000**
Cash and balances with Banks			
South Africa	3 447 415	1,0000	3 447 415
United States	90 808	12,3502	1 121 487
Botswana	609	1,2548	764
England	12 079	16,6937	201 643
European Union	545	14,8140	8 074
Switzerland	725	12,6603	9 179
IMF	9 933	17,5459	174 283
Treasury notes, bonds and unit trusts			
South Africa	1 406 994	1,0000	1 406 994
United States	138 836	12,3502	1 714 652
Unit trust - US Dollar based	51 510	12,3502	636 159
Treasury Bills			
United States	7 629	12,3502	91 804

Currency 2016	**Value of Currency 000**	**Exchange Rate**	**Maloti Equivalent M'000**
Cash and balances with Banks			
South Africa	4 204 708	1,0000	4 204 708
United States	85 941	13,7170	1 178 850
Botswana	337	1,2880	450
England	19 570	16,8411	329 577
European Union	64	14,4413	918
Switzerland	178	13,4487	2 395
IMF	**14 573**	**18,3965**	**268 077**
Treasury notes, bonds and unit trusts			
South Africa	1 810 986	1,0000	1 810 986
United States	149 322	13,7170	2 048 299
Unit trust - US Dollar based	51 167	13,7170	701 863

41. 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 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.

41. 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.

2017

Cash	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ZAR	193 857	193 857	ZAR	none	n/a
USD	1 938	1 938	USD	none	n/a
GBP	12	12	GBP	none	n/a
EUR	105	105	EUR	none	n/a
	195 912	**195 912**			

Current and call account	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA Bank	5 866	5 866	ZAR	none	P-3/Baa3
ABSA Maloti Repatriation	17 807	17 807	ZAR	none	P-3/Baa3
ABSA Credit Card	799	799	ZAR	none	P-3/Baa3
B.I.S	867	867	GBP	none	Supranational
B.I.S	1 041	1 041	USD	none	Supranational
B.I.S	44	44	EUR	none	Supranational
Bank of England	25 302	25 302	GBP	none	P-1/Aa2
Bank of N.Y	322	322	USD	none	P-1/Aa1
Bank of N.Y	4 035	4 035	ZAR	none	P-1/Aa1
Bank of N.Y	1 108	1 108	USD	none	P-1/Aa1
Citi Bank SA	5 343	5 343	ZAR	none	P-2/A3
Crown Agents	1 489	1 489	GBP	none	B/BB
Crown Agents	2 097	2 097	USD	none	B/BB
Deutsche Bankers trust	25 915	25 915	USD	none	P-1/A2
Deutsche Bundersbank	7 927	7 927	EUR	none	Aaa
Federal Reserve Bank of N.Y	1 749	1 749	USD	none	Aaa
First Rand	8 743	8 743	ZAR	none	P-3/Baa3
Investec Bank	7 665	7 665	ZAR	none	P-3/Baa3
NedBank	3 861	3 861	ZAR	none	P-2/Baa2
SIRESS	4 253	4 253	ZAR	none	P-3/Baa3
South African Reserve Bank	1 773 212	1 773 212	ZAR	none	P-3/Baa3
Special Rand Deposit	5 000	5 000	ZAR	none	P-3/Baa3
Standard Bank	222	222	ZAR	none	P-2/Baa2
Standard Chartered Botswana	764	764	BWP	none	A2
Standard Chartered London	6 949	6 949	GBP	none	P1/A1
Union Bank of Switzerland	9 176	9 176	CHF	none	P-1/Aa3
	1 921 556	**1 921 556**			

41. Risk management (continued)

Fixed deposits	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	291 000	291 000	ZAR	none	P-3/Baa3
B.I.S	123 502	123 502	USD	none	Supranational
FEDRES	148 202	148 202	USD	none	Aaa
Firstrand	300 000	300 000	ZAR	none	P-2/Baa3
ICBC ASIA	210 440	210 440	USD	none	P-2/Baa3
Investec	345 082	345 082	ZAR	none	P-3/Baa3
NedBank	193 268	193 268	ZAR	none	P-2/Baa2
Standard Bank	190 471	190 471	ZAR	none	P-2/Baa2
Standard Chartered London	166 998	166 998	GBP	none	P1/A1
Standard Chartered London	174 701	174 701	USD	none	P1/A1
Standard Bank PLC	410 748	410 748	USD	none	P-2/Baa3
Standard Bank PLC	88 095	88 095	ZAR	none	P-2/Baa3
World Bank RAMP	18 772	18 772	USD		P1/Aa1
	2 661 279	**2 661 279**			

Accrued interest due from Banks	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA	1 598	1 598	ZAR	none	P-3/Baa3
BIS	101	101	USD	none	Supranational
Federal Reserve	18	18	USD	none	Aaa
Firstrand	1 951	1 951	ZAR	none	P-2/Baa3
ICBC ASIA	285	285	USD	none	P-2/Baa3
Investec	2 642	2 642	ZAR	none	P-3/Baa3
NedBank	694	694	ZAR	none	P-2/Baa2
Special Rand Deposit	97	97	ZAR	none	P-3/Baa3
Standard Chartered London	230	230	USD	P-1/A1	P-1/A1
Standard Chartered London	29	29	GBP	none	P-1/A1
Standard Bank PLC	345	345	USD	none	P-2/Baa3
Standard Bank PLC	1 156	1 156	ZAR	none	P-2/BAA2
Standard Bank	671	671	ZAR	none	P-2/Baa2
	9 817	**9 817**			

41. 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**
Federal Reserve Bank of New York	91 813	91 813	USD	none	Aaa

Treasury notes, bonds and unit trusts	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
South Africa	1 375 858	1 375 858	ZAR	none	P-3/Baa3
United States-BIS	635 604	635 604	USD	none	Aaa
United States-RAMP	1 236 453	1 236 453	USD	none	Aaa
United States	471 320	471 320	USD	none	Aaa
	3 719 235	**3 719 235**			

Loans to staff	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Housing Loans	41 629	41 629	LSL	Title deeds	n/a
Car loans	22 124	22 124	LSL	Terminal benefits	n/a
Furniture loans	1 701	1 701	LSL	Terminal benefits	n/a
Other loans and advances	20 742	20 742	LSL	Terminal benefits	n/a
	86 196	**86 196**			

2016

Cash	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ZAR	121 640	121 640	ZAR	none	n/a
USD	1 516	1 516	USD	none	n/a
GBP	11	11	GBP	none	n/a
EUR	98	98	EUR	none	n/a
	123 265	**123 265**			

41. 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	20 417	20 417	ZAR	none	P2/Baa2
B.I.S	874	874	GBP	none	Supranational
B.I.S	1 144	1 144	USD	none	Supranational
B.I.S	175	175	EUR	none	Supranational
Bank of England	4 421	4 421	GBP	none	P-1/Aa1
Bank of N.Y	2 563	2 563	USD	none	P-1/Aa1
Bank of N.Y	61	61	ZAR	none	P-1/Aa1
Citi Bank N.Y	17 455	17 455	USD	none	P-2/A3
Citi Bank SA	5 001	5 001	ZAR	none	P-2/A3
Crown Agents	8 726	8 726	GBP	none	B/BB
Crown Agents	5 801	5 801	USD	none	B/BB
Deutsche Bankers trust	568	568	USD	none	P-1/A2
Deutsche Bundersbank	778	778	EUR	none	Aaa
Federal Reserve Bank of N.Y	(10 483)	(10 483)	USD	none	Aaa
First Rand	8 257	8 257	ZAR	none	P-2/Baa2
Investec Bank	7 178	7 178	ZAR	none	P-2/Baa2
NedBank	3 737	3 737	ZAR	none	P-2/Baa2
SIRESS	9 550	9 550	ZAR	none	P-2/Baa2
South African Reserve Bank	2 160 559	2 160 559	ZAR	none	P-2/Baa2
Special Rand Deposit	5 000	5 000	ZAR	none	P-2/Baa2
Standard Bank	284	284	ZAR	none	P-2/Baa2
Standard Chartered Botswana	450	450	BWP	none	A2
Standard Chartered London	3 852	3 852	GBP	none	P-1/Aa3
Union Bank of Switzerland	2 394	2 394	CHF	none	P-1/Aa3
	2 258 762	**2 258 762**			

Fixed deposits	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
ABSA Bank	348 703	348 703	ZAR	none	P-2/Baa2
B.I.S	134 751	134 751	GBP	none	Supranational
Crown Agents	33 707	33 707	GBP	none	B/BB
Crown Agents	68 961	68 961	USD	none	B/BB
Crown Agents	116 138	116 138	ZAR	none	B/BB
FEDRES	260 623	260 623	USD	none	Aaa
Firstrand	235 000	235 000	ZAR	none	P-2/Baa2
ICBC ASIA	581 659	581 659	USD	none	P-2/Baa3
ICBC ASIA	164 759	164 759	ZAR	none	P-2/Baa2
Investec	466 000	466 000	ZAR	none	P-2/Baa2
NedBank	315 774	315 774	USD	none	P-2/Baa2
Standard Bank	210 699	210 699	ZAR	none	P-2/Baa2
Standard Chartered London	248 299	248 299	USD	none	P1/Aa3
Standard Chartered London	143 214	143 214	GBP	none	P1/Aa2
	3 328 287	**3 328 287**			

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41. 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	2 163	2 163	ZAR	none	P2/Baa2
Citibank	1	1	ZAR	none	
Crown Agents	50	50	USD	none	B/BB
Crown Agents	887	887	ZAR	none	B/BB
Crown Agents	2	2	GBP	none	B/BB
Federal Reserve	7	7	USD	none	Aaa
Firstrand	1 083	1 083	ZAR	none	P-2/Ba2
Firstrand	1	1	ZAR	none	P-2/Baa2
ICBC ASIA	967	967	ZAR	none	P-2/Baa3
ICBC ASIA	519	519	USD	none	P-2/Baa3
Investec	3 485	3 485	ZAR	none	P-2/Baa2
Investec	1	1	ZAR	none	P-2/BAA4
NedBank	1	1	ZAR	none	P-2/Baa2
NedBank	1 464	1 464	ZAR	none	P-2/Baa2
South African Reserve Bank	415	415	ZAR	none	P-2/Baa2
Special Rand Deposit	88	88	ZAR	none	P-2/Baa2
Standard Bank	743	743	ZAR	none	P-2/Baa2
Standard Chartered London	159	159	USD	none	P1/Aa3
Standard Chartered London	13	13	GBP	none	P1/Aa2
	12 049	**12 049**			

Treasury bills	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Federal Reserve Bank of New York	246 015	246 015	USD	none	Aaa

Treasury notes, bonds and unit trusts	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
South Africa	1 811 008	1 811 008	ZAR	none	P-2/Baa2
United States-BIS	701 863	701 863	USD	none	Aaa
United States-RAMP	1 390 931	1 390 931	USD	none	Aaa
United States	657 346	657 346	USD	none	Aaa
	4 561 148	**4 561 148**			

Loans to staff	**Carrying amount M'000**	**Maximum exposure M'000**	**Held in Denomination**	**Type of collateral held**	**Credit rating**
Housing Loans	40 119	40 119	LSL	Title deeds	n/a
Car loans	20 052	20 052	LSL	Terminal Benefits	n/a
Furniture loans	2 009	2 009	LSL	Terminal	n/a
Other loans and advances	18 084	18 084	LSL	Terminal Benefits	n/a
	80 264	**80 264**			

All financial assets were fully performing at year end.

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41. Risk management (continued)

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

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

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

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

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

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

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

Sensitivity Analysis for the year ended 31 December 2017

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, 2017		December 31, 2016	
Currency	**Portfolio level**	**Exchange rate**	**Portfolio level**	**Portfolio level**
ZAR	4 830 022	1,00	6 015 716	1,00
USD	288 544	12,35	304 365	13,72
EUR	545	14,81	64	14,44
GBP	12 079	16,69	19 570	16,84
BWP	609	1,25	350	1,29
CHF	725	12,66	178	13,45
SDR	9 933	17,55	14 572	18,40

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

		December 31, 2017	
Currency	**Portfolio level**	**Portfolio level in %**	**Exchange rate**
ZAR	4 830 023	54,97 %	1,00
USD	3 563 556	40,56 %	12,35
EUR	8 075	0,09 %	14,81
GBP	201 648	2,29 %	16,69
BWP	764	0,01 %	1,25
CHF	9 176	0,10 %	12,66
SDR	174 281	1,98 %	17,55
	8 787 523	**100 %**	

41. Risk management (continued)

Base case

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

	December 31, 2016		
Currency	**Portfolio level**	**Portfolio level in %**	**Exchange rate**
ZAR	6 015 716	53,90 %	1,00
USD	4 174 978	37,37 %	13,72
EUR	918	0,01 %	14,44
GBP	329 577	2,95 %	16,84
BWP	450	-%	1,29
CHF	2 395	0,02 %	13,45
SDR	268 077	5,74 %	18,40
	10 792 111	**100 %**	

Base case 5% increase in exchange rates

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

			December 31, 2017	
Currency	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	4 830 023	53,75 %	-	1,00
USD	3 741 734	41,64 %	(247 193)	12,97
EUR	8 749	0,09 %	(556)	15,55
GBP	211 730	2,36 %	(6 610)	17,53
BWP	802	0,01 %	(38)	1,32
CHF 9	9 635	0,11 %	(106)	13,29
SDR	182 996	2,04 %	(49 489)	18,42
	8 985 399	**100 %**		

% Change 2.21%

5% decrease in exchange rate

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

			December 31, 2017	
Currency	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	4 830 023	56,23 %	-	1,00
USD	3 385 378	39,41 %	178 178	11,73
EUR	7 671	0,09 %	403	14,07
GBP	191 565	2,23 %	10 082	15,86
BWP	726	0,01 %	38	1,19
CHF 9	8 717	0,10 %	459	12,03
SDR	165 567	1,93 %	8 714	16,67
	8 589 647	**100 %**		

% Change 2.12%

41. Risk management (continued)

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

		December 31, 2016		
Currency	**Portfolio level**	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	6 015 716	52,69 %	-	1,00
USD	4 383 727	38,35 %	(208 533)	14,40
EUR	964	0,01 %	(46)	15,16
GBP	346 056	3,03 %	(16 479)	17,68
BWP	473	- %	(23)	1,35
CHF	2 514	0,02 %	(120)	14,12
SDR	281 481	5,89 %	(13 403)	19,30
	11 030 931	**100 %**		

% Change -2.21%

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

		December 31, 2016		
	Portfolio level	**Portfolio level in %**	**Level change**	**Exchange rate**
ZAR	6 015 716	55,17 %	-	1,00
USD	3 966 229	36,34 %	208 533	13,03
EUR	872	0,01 %	46	13,72
GBP	313 098	2,87 %	16 479	16,00
BWP	428	- %	23	1,22
CHF	2 275	0,02 %	120	12,78
SDR	254 674	5,58 %	13 403	17,46
	10 553 292	**100 %**		

% Change - (2.12%)

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41. 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.

2016

Currency	Cash	0 to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	2016	2016	2016	2016	2016	2016
	M '000	M '000	M '000	M '000	M '000	M '000
ZAR	170 000	3 253 000	101 000	803 000	503 000	4 830 000
USD	2 000	1 365 000	372 000	1 825 000	-	3 564 000
EUR	-	8 000	-	-	-	8 000
GBP	-	202 000	-	-	-	202 000
Other	-	184 000	-	-	-	184 000
Total	**172 000**	**5 012 000**	**473 000**	**2 628 000**	**503 000**	**8 788 000**

Base case yields	**0-6 months**	**6 months - 1yr**	**1-5 yr**	**5yr+**
ZAR	6,87 %	7,10 %	7,00 %	7,88 %
USD	1,21 %	1,13 %	1,23 %	-%
EUR	(0,40)%	-%	-%	-%
GBP	0,48 %	-%	-%	-%

100 Basis points increase in yields	**0-6 months**	**6 months - 1yr**	**1-5 yr**	**5yr+**
ZAR	7,87 %	8,10 %	8,00 %	8,88 %
USD	2,21 %	2,13 %	2,23 %	1,00 %
EUR	0,60 %	- %	- %	- %
GBP	1,48 %	- %	- %	- %

100 Basis points decrease in yields	**0-6 months**	**6 months - 1yr**	**1-5 yr**	**5yr+**
ZAR	5,87 %	6,10 %	6,00 %	6,88 %
USD	0,21 %	0,13 %	0,23 %	- %

41. Risk management (continued)

Nominal return in base case yields	0-6 months	6 months - 1yr	1-5 yr	5yr+	Nominal Income	% Change
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	224 000	7 000	50 000	40 000		
USD	16 000	4 000	22 000	-		
GBP	1 000	-	-	-		
	-	-	-	-	371 000	-

Nominal return in increasing yields	**0-6 months**	**6 months - 1yr**	**1-5 yr**	**5yr+**	Nominal Income	% Change
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	256 000	8 000	64 000	45 000		
USD	30 000	8 000	41 000	-		
GBP	3 000	-	-	-		
	-	-	-	-	455 000	23

Nominal return in decreasing yields	**0-6 months**	**6 months - 1yr**	**1-5 yr**	**5yr+**	Nominal Income	% Change
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	191 000	6 000	48 000	35 000		
USD	3 000	-	4 000	-		
	-	-	-	-	287 000	(22)

Sensitivity: For a 1 percentage increase in yields, income increase by 23%

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

41. 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.

2016

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	116 000	4 088 000	735 000	879 000	197 000	6 015 000
USD	2 000	1 619 000	602 000	1 952 000	-	4 175 000
EUR	-	1 000	-	-	-	1 000
GBP	-	330 000	-	-	-	330 000
Other	-	271 000	-	-	-	271 000
Total	**118 000**	**6 309 000**	**1 337 000**	**2 831 000**	**197 000**	**10 792 000**

Base case yields	**0-6 months**	**6 months - 1yr**	**1-5 yr**	**5yr+**
ZAR	8,06 %	8,50 %	7,38 %	7,75 %
USD	1,04 %	0,88 %	0,94 %	- %
EUR	(0,39)%	- %	- %	- %
GBP	0,24 %	- %	- %	- %
Other	0,00 %	- %	- %	- %

100 Basis points increase in yields	**0-6 months**	**6 months - 1yr**	**1-5 yr**	**5yr+**
ZAR	9,06 %	9,50 %	8,38 %	8,75 %
USD	2,04 %	1,88 %	1,94 %	- %
EUR	0,61 %	- %	- %	- %
GBP	1,24 %	- %	- %	- %
Other	1,00 %	- %	- %	- %

100 Basis points decrease in yields	**0-6 months**	**6 months - 1yr**	**1-5 yr**	**5yr+**
ZAR	7,06 %	7,50 %	6,38 %	6,75 %
USD	0,04 %	- %	- %	- %
EUR	0,00 %	- %	- %	- %
GBP	0,00 %	- %	- %	- %
Other	0,00 %	- %	- %	- %

41. Risk management (continued)

Nominal return in base case yields	**0-6 months**	**6 months - 1yr**	**1-5 yr**	**5yr+**	Nominal Income	% Change
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	329 000	62 000	65 000	15 000		
USD	17 000	5 000	18 000	-		
EUR	0	-	-	-		
GBP	1 000	-	-	-		
	0	-	-	-	513 000	-

Nominal return in increasing yields	**0-6 months**	**6 months - 1yr**	**1-5 yr**	**5yr+**	Nominal Income	% Change
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	370 000	70 000	74 000	17 000		
USD	33 000	11 000	38 000	-		
GBP	4 000	-	-	-		
	-	-	-	-	617 000	20

Nominal return in decreasing yields	**0-6 months**	**6 months - 1yr**	**1-5 yr**	**5yr+**	Nominal Income	% Change
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	289 000	55 000	56 000	13 000		
USD	620,00	-	-	-		
	-	-	-	-	414 000	(19)

Sensitivity: For a 1 percentage increase in yields, income increases by 20%
For a 1 percentage decrease in yields, income decreases by -19%

41. Risk management (continued)

Liquidity risk

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

2017

	Redeemable on demand	Maturing within 1 month	Maturing after 1 but within 6months	Maturing after 6 but within 12 months	Maturing after 1 but within 5 years	Maturing after 5 years	Total
		M'000					
Financial assets	M'000		M'000	M'000	M'000	M'000	M'000
Cash and balances with banks	2 267 422	1 250 170	811 155	450 000	-	-	4 778 747
Accrued interest due from Banks and bonds	97	9 682	38	-	-	-	9 817
Expected interest cashflows from Bonds	-	-	58 661	58 661	270 044	233 152	620 518
Treasury Notes, Bonds and Unit trusts	-	-	-	899 215	2 222 424	-	3 121 639
IMF accounts	1 753 321	-	-	-	-	-	1 753 321
Lesotho Government Securities	-	-	-	-	58	-	58
Loans to staff	-	-	6 044	12 756	24 640	42 756	86 196
Investment in SWIFT	700	-	-	-	-	-	700
Total Financial Assets	**4 021 540**	**1 259 852**	**875 898**	**1 420 632**	**2 517 166**	**275 908**	**10 370 996**
Financial liabilities							
Notes & coins issued	1 616 489	-	-	-	-	-	1 616 489
Deposits	401 824	-	-	-	-	-	401 824
Lesotho Government Deposits	3 208 374	-	-	-	-	-	3 208 374
IMF Accounts	1 578 387	-	-	-	-	-	1 578 387
Total Financial liabilities	**6 805 074**	**-**	**-**	**-**	**-**	**-**	**6 805 074**
Net liquidity gap	**(2 783 534)**	**1 259 852**	**875 898**	**1 420 632**	**2 517 166**	**275 908**	**3 565 922**

* Discounted cash flows

41. Risk management (continued)

Liquidity risk

2016

	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	2 382 027	3 328 287	-	-	-	-	5 710 314
Accrued interest due from banks	508	9 828	1 713	-	-	-	12 049
Treasury Notes, Bonds and Unit trusts	-	-	-	-	3 170 217	1 390 931	4 561 148
IMF accounts	1 925 466	-	-	-	-	-	1 925 466
Lesotho Government Securities	-	-	7	-	-	-	7
Loans to staff	80 264	-	-	-	-	-	80 264
Investment in SWIFT	555	-	-	-	-	-	555
Total Financial Assets	**4 388 820**	**3 338 115**	**1 720**	**-**	**3 170 217**	**1 390 931**	**12 289 803**
Financial liabilities							
Notes & coins issued	1 335 835	-	-	-	-	-	1 335 835
Deposits	505 397	-	-	-	-	-	505 397
Lesotho Government Deposits	4 878 626	-	-	-	-	-	4 878 626
IMF Accounts	1 657 389	-	-	-	-	-	1 657 389
Total Financial liabilities	**8 377 247**	**-**	**-**	**-**	**-**	**-**	**8 377 247**
Net liquidity gap	**(3 988 427)**	**3 338 115**	**1 720**	**-**	**3 170 217**	**1 390 931**	**3 912 556**

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	Notes	2017	2016 M'000

42. Fair value information

Levels of fair value measurements		
Level 1		
Available for sale financial assets		
Treasury notes and bonds	1 879 872	2 468 332
Unit trusts	635 604	701 863
Financial assets designated at fair value through profit or loss		
Treasury notes and bonds	1 241 767	1 390 931
Investment in SWIFT	700	555
	3 757 943	**4 561 681**

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

43. Memorandum Accounts

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

Amounts in USD		
Deutsche Bank Trust Company America	**2 098 315**	**8 906 652**
Amounts in Euro		
Deutsche Bundesbank	**535 390**	**413 095**

As per the Bank's accounting policy in 1.30 these amounts have not been recorded on the Balance Sheet.

44. Subsequent Events

No material events that could cause changes in the financial statements have been identified between the financial year end and date of this report.

Notes

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