2018 ANNUAL REPORT

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

March 29, 20**19**

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 2018 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, 2018 certified by the auditors LETACC.

    b) A report on the operations of the Bank during 2018.

Yours faithfully,

A. R. Matlanyane (Ph.D)
GOVERNOR

CENTRAL BANK OF LESOTHO
2018 ANNUAL REPORT

for the year ended December 31, 2018

The contents of this 2018 annual report are pursuant to Sections 46 and 53 of the of the Central Bank of Lesotho Act No. 2 of 2000.

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

For further information, contact:

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

GOVERNANCE, MISSION & OBJECTIVES

Ownership and Governance

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

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

Mission Statement

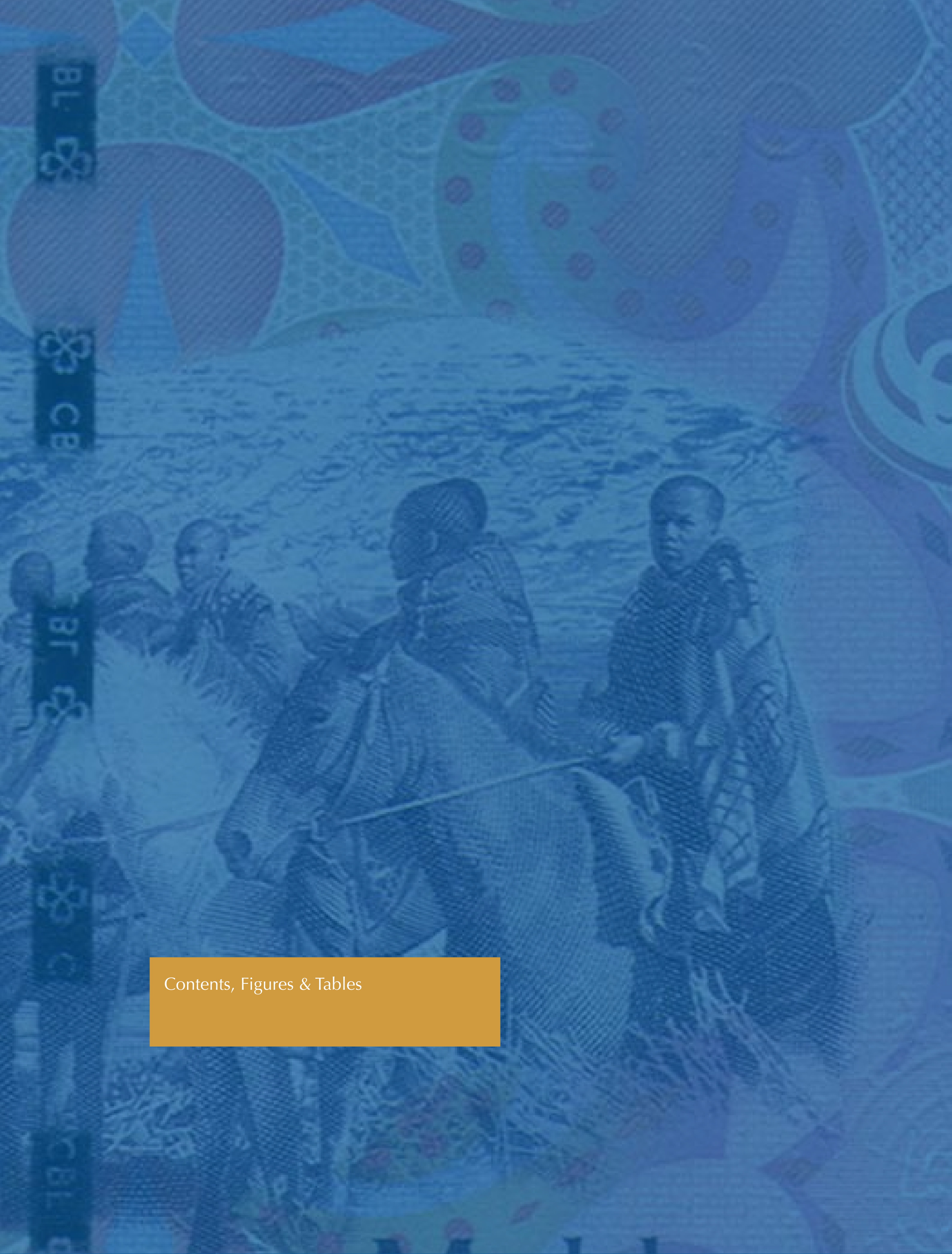
The Mission of the Central Bank of Lesotho is to achieve and maintain monetary and financial system stability to support balanced macroeconomic development of Lesotho.

Objectives

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

Other statutory functions of the Bank are:

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



Contents, Figures & Tables

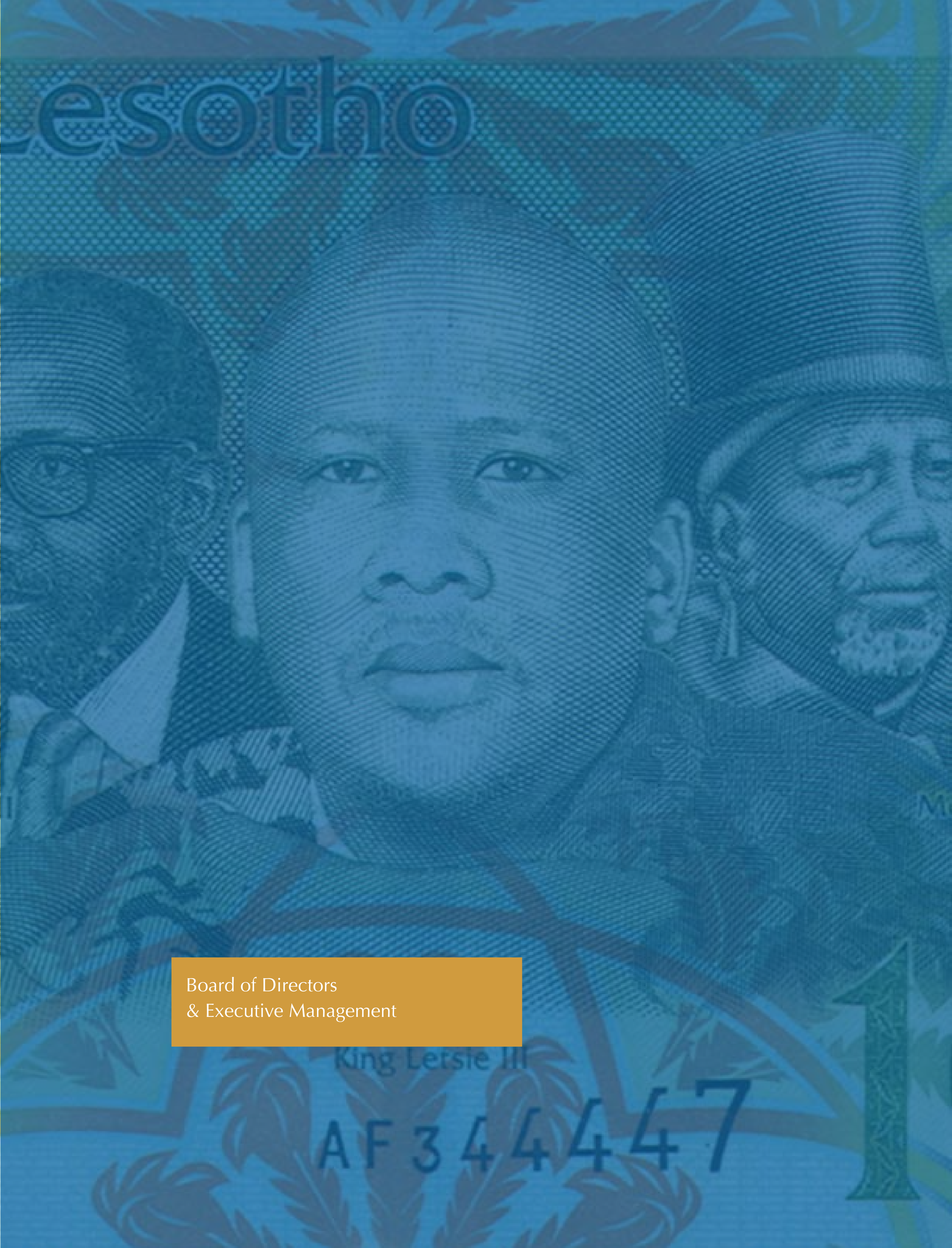
Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

CONTENTS

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

TABLES & FIGURES

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



Board of Directors & Executive Management

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

BOARD OF DIRECTORS

Dr. Retšelisitsoe Matlanyane
Executive Chairman

Dr. Masilo Makhetha
Executive Director

Ms. 'Mathabo Makenete
Executive Director

Mrs. Neo Phakoana-Foulo
Non-Executive Director

Dr. Maluke Letete
Non-Executive Director

Mrs. Sophia Mohapi
Non-Executive Director

Adv. Kuena Thabane
Non-Executive Director

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

EXECUTIVE MANAGEMENT

Dr. Retšelisitsoe Matlanyane
Governor

Dr. Masilo Makhetha
First Deputy Governor

Ms. 'Mathabo Makenete
Second Deputy Governor

Mr. Lehlomela Mohapi
Director of Research Department

Mr. Bohlale Phakoe
Director of Financial Markets Department

Mr. Mokotjo Mphaka
Director of Other Financial Institutions Supervision Department

Mr. Fusi Morokole
Director of Operations Department

Mrs. Puseletso Tau
Acting Director of Banking Supervision & Financial Stability

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

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

Foreword by the Governor

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

FOREWORD BY THE GOVERNOR

Dr. Retšelisitsoe Matlanyane
Governor

The year 2018 marked the 10th anniversary of the global financial crisis, yet the global economy continues to deal with the effects of the crisis. With the leadership of G20 countries, a number of post crisis reforms have been implemented to ensure that the financial sectors are more resilient at the time of the next crisis. During the year, the global growth faced major headwinds propagated by rising trade tensions, increased trade policy uncertainty and weakening financial markets sentiment. The on-going trade tensions are likely to reverse some of the gains in the global trading system and may have detrimental effects on the developing countries.

The global economy lost momentum in 2018 with growth becoming less synchronised across countries. Global output grew by 3.7 per cent in 2018, a slight weakening in comparison to the 3.8 per cent recorded in 2017. Although growth weakened in all country groupings, the influence mainly stemmed from advanced economies while growth in the emerging market economies remained broadly unchanged. The resilience in emerging market economies was on account of stronger policy frameworks. For advanced economies, growth has been mostly hampered by escalating trade tensions, particularly between the US and China. The optimism that monetary policy normalisation was underway has since diminished and indications are that it will be more gradual. Monetary policy in advanced countries has remained broadly accommodative, with most central banks opting for a more prudent approach to their monetary policy decisions.

During the year, domestic economic developments were characterised by challenging regional economic environment, low economic growth and deteriorating fiscal conditions. Economic growth is estimated to have grown at a relatively faster pace of 1.4 per cent in 2018 compared with the revised 0.1 per cent recorded in the previous year. At this rate, economic growth in Lesotho remains way below the 7 per cent threshold that is required to address the high unemployment particularly among youth and severe poverty in the country. During the year, most of the major sectors contributed positively to the observed expansion. The primary sector mainly reflected the buoyed performance of the mining and quarrying subsectors while the strong growth in the manufacturing and financial sector industries drove the expansion in the secondary and tertiary sectors, respectively. Overall, the economy continues to be negatively affected by continuing low economic growth in South Africa coupled with prevailing fiscal challenges.

Inflation developments continued to be supportive of macroeconomic stability despite some upside risks. The average annual inflation rate for Lesotho recorded 4.7 per cent, which is lower than the 5.2 per cent recoded in 2017. The deceleration largely reflected the slowdown in food prices which account for a sizable portion of Lesotho basket. However, upside risks emanating from weaker exchange rate and upswing in the price of crude oil remained.

Monetary policy conditions remained accommodative with the CBL Rate ending the year at 6.75 per cent, which is the same as at the end of the previous year. The Bank continued to implement monetary policy through the use of treasury bills to mop up excess liquidity. To a large extent this curbed the negative effects of on-going fiscal challenges on the level of foreign exchange reserves.

FOREWORD BY THE GOVERNOR

The Bank continued to strengthen its functions of supervising and regulating the financial sector, developing domestic financial markets, overseeing national payments systems and managing foreign reserves. The Financial Sector Development Strategy remains the roadmap for reforms in the sector. The Bank continues to make significant progress in expanding financial inclusion in the country but more needs to be done particularly in bridging the gender gap and embracing digitalisation. On banking supervision, efforts are now advanced towards the migration to Basel II.5 at the end of 2019. The implementation of Basel II.5 will ensure greater stability in the financial system due to improvements in corporate governance, transparency and risk management. On pensions, the much anticipated Pensions Bill has been tabled before Parliament of the Kingdom of Lesotho. Once enacted, the Bill will pave way for pensions to be regulated by the Bank.

The financial sector continues to experience incidents of malpractice which results in loss of hard earned savings by some sections of the society. The Bank has now established a dedicated unit for financial consumer protection with the clear mandate to rein in on these practices timely and scale up financial education. To that end, the preparation of the Financial Consumer Protection policy and bill has commenced.

Cyber-crime is emerging as a major threat to the financial sector. The exposure of the Bank to this growing risk is exacerbated by the continuous improvement and automation of the Bank's core processes and the wider global digital revolution. In response, the Bank has launched the Bank-wide campaign to raise awareness and nurture responsibility through the "stop-think-connect" campaign.

The Bank completed a strategy review in the reporting period and the revised strategy is organised around four themes of monetary and financial stability, operational excellence, service excellence and innovation excellence. The key resource in delivering on these and indeed on the prime mandate of the Bank has been and continues to be the human capital. It is against this that the Bank each year commits substantial resources on training.

The assurance and governance structures of the Bank continue to be strong and robust. The Management continues to be guided by best practices. It is constantly vigilant towards ensuring that the strategy rollout is on course and that risks are well understood, monitored and managed.

The year ahead is not going to be less challenging; if anything, challenges are likely to be more complex. I count on the support of our Management teams and Staff to go into 2019 with renewed motivation and sense of service as we strive to be the model for excellence – both as professionals and as the institution ❑

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

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

1

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

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

THE ECONOMIC REPORT

1.1 INTERNATIONAL ECONOMIC DEVELOPMENTS

1.1.1 The World Economy

The global economy slowed down slightly in 2018 with growth becoming less synchronised across countries. A decade since the 2008/09 global financial crisis, the global growth continues to face major headwinds propagated by rising trade tensions, increased policy uncertainty and emerging apprehensions in financial market sentiment. Estimates from the World Economic Outlook (January update 2019) indicated that global GDP grew by 3.7 per cent in 2018, a slight deceleration from 3.8 per cent realised in 2017. Although growth weakened in all country groupings, the slowdown in global expansion mainly came from advanced economies while growth in the emerging market economies remained broadly unchanged. The resilience in emerging market economies was on account of stronger policy frameworks. For advanced economies growth has been mostly hampered by escalating trade tensions, particularly between the US and China. Since the start of the trade war, China, the Euro Area, Japan and the US have experienced a reduction in the growth of exports orders, which, all else being equal, is set to precede a further growth slowdown.

Inflationary pressures picked up in both advanced and emerging market and developing economies in line with increasing oil prices as well as the pass-through of the currency depreciation. In advanced economies, inflation rate was 1.7 per cent in 2017 and accelerated to 2.0 per cent in 2018. In emerging market and developing economies inflation is estimated to have accelerated from 4.3 per cent in 2017 to 5.0 per cent in 2018.

The global monetary policy stance remained broadly accommodative, with most central banks opting for a more prudent approach to their monetary policy decisions. Although the US Federal Reserve continued with its policy normalisation throughout 2018, it signalled a more gradual pace of rate hikes for the coming years. The European Central Bank indicated that its monetary policy would remain broadly accommodative in the near future having concluded its quantitative easing programme at the end of 2018. In some emerging market and developing countries such as South Africa and India, the respective central banks increased interest rates in a bid to curb capital outflows induced by the on-going US policy normalisation.

In 2018, oil prices rose to their highest level in four years, on account of lower production in major oil producing countries such as Venezuela, Iran and Libya. In addition, metal prices fell on account of weaker demand from China, which took a knock from the US-China trade war. The agricultural price index also declined as a result of the on-going trade tensions and concerns about global growth. For instance, the retaliatory tariff on US soybeans led to its price falling in June 2018. In addition, food production was affected by weather related shocks during the year.

The global economy continues to face risks associated with barriers to trade and tighter financial conditions. Thus progress will only be made if countries make a concerted effort to resolve the on-going trade disputes. While efforts are being made to abate the impending trade wars, it is important that decisive policy action is executed in other areas that are important in taking global growth forward. These include amongst others, measures to boost potential output growth, enhance inclusiveness and strengthen fiscal and financial buffers (WEO, January 2019 update).

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

The global economy slowed down slightly in 2018 with growth becoming less synchronised across countries.

1.1.2 Selected Advanced Economies

The United States (US)

The real GDP in the US is estimated to have grown by 2.9 per cent in 2018, picking up from a 2.2 per cent increase in 2017. The fiscal stimulus in the form of a combination of tax cuts and infrastructure spending, which was implemented towards the end of 2017, is largely responsible for the observed growth acceleration. Consumer spending was robust throughout the year, even though capital formation spending declined. The economy was operating close to full employment with the unemployment rate having declined to 4.0 per cent in 2018 from 4.4 per cent in 2017 while real wages increased over the same period.

The annual average inflation rate in the US rose to 2.4 per cent in 2018 from 2.1 per cent in 2017. The increase in the inflation rate was primarily driven by above potential output as a result of expansionary fiscal policy implemented during the period. The Fed hiked the key interest rate four times in 2018 closing at the upper bound of 2.5 per cent compared to that of 1.7 per cent at the end of 2017. This reflected in part stronger performance in the labour markets and the on-going policy rate normalisation was warranted by the relatively strong indicators of economic activity.

The Euro Area

In the Euro Area, real GDP growth decelerated to 1.8 per cent in 2018, from 2.4 per cent in 2017. Growth was constrained by the slowdown in exports due to the fragile external demand. Consumer spending was subdued owing to the low confidence, which also affected investment spending. Furthermore, industrial production and therefore economic activity fell as a result of the introduction of new regulations aimed at reducing automobile fuel emissions in Germany. Despite the growth deceleration, the unemployment rate unemployment rate declined to 7.9 per cent in 2018, from 8.7 per cent in 2017. The decline was underpinned by falling youth unemployment coupled with an ageing and shrinking workforce in the region.

The annual inflation rate accelerated to 1.6 per cent in 2018, from to 1.4 per cent in 2017. Inflationary pressures emanated from a rise in the cost of services as well as higher food prices. The acceleration reflected the weak Euro, which led to an increase in the price of imported goods. The inflation rate was however still below the official target of 2.0 per cent. The monetary policy remained accommodative, supported by historically low policy rate at 0.0 per cent and quantitative easing in the form of asset purchases, which came to an end in December 2018.

Japan

Japan's real GDP is estimated to have increased by 0.9 per cent in 2018, compared with 1.9 per cent registered in 2017. The economy was hit by natural disasters, which disrupted economic activity. Growth was further hampered by subdued consumer demand and falling exports. The unemployment rate declined further in 2018 reaching a historically low level of 2.4 per cent, from 2.8 per cent in 2017. The development was in line with tight labour market conditions resulting from the aging population.

The annual inflation rate decelerated to 0.3 per cent in 2018 from 1.0 per cent in 2017. The subdued inflation pressures mainly reflected declining cost of food and transport. The Bank of Japan maintained accommodative monetary stance in 2018 by keeping the key policy rate in the negative territory. The Bank also continued with unconventional monetary policy, through purchasing of government and corporate bonds as well as other assets including Exchange Traded Funds (ETFs). This move was taken to suppress long-term interest rate.

United Kingdom

The real GDP growth slowed down to 1.4 per cent in 2018, from a revised 1.8 per cent in 2017. The slowdown was mainly influenced by weather related disruptions in the first half of the year coupled with weaker exports. In addition, consumer confidence and investment spending were negatively affected by the rising uncertainty surrounding the Brexit negotiations outcome. The unemployment rate fell to 4.0 per cent in 2018, from 4.3 per cent in 2017. Employment gains were realised mainly in the services sector.

The annual inflation rate in the UK remained above the target due to pass-through from the weaker currency and higher oil prices in the first half of the year. It recorded 2.1 per cent in 2018, easing from 3.0 per cent in 2017. The UK hiked the key interest rate by 25 basis points to 0.75 per cent during the second half of 2018 in a bid to gradually continue with the normalization of monetary policy. This was at the back of improved employment together with a build-up in domestically generated inflation.

1.1.3 Selected Emerging Market Economies

China

The real GDP growth in China weakened to 6.6 per cent in 2018 from 6.9 per cent in 2017, which is the slowest slowest growth since 1992. The situation may have been exacerbated by the tariffs imposed on China's imports by the US. The unemployment rate declined slightly from 3.82 per cent in 2017, to 3.80 per cent in 2018. The improvement in the unemployment rate reflected the strengthened role played by the private sector, in particular the services sector in generating employment.

China's annual inflation rate was 1.9 per cent in 2018 compared with 1.8 per cent in 2017. The People's Bank of China (China's central bank) left its key interest rate unchanged at 4.35 per cent in 2018. The monetary policy rate in China has not been changed since 2015. However, the Bank continued to provide liquidity in the economy by reducing reserve requirement ratios four times in 2018. This was done to counteract the negative effects of trade war and to support the real economy.

India

India's real GDP was estimated to have grown by 7.3 per cent in 2018, an acceleration from a 6.7 per cent growth in 2017. The observed growth mainly reflected a rebound from transitory shocks (the currency exchange initiative and implementation of the national Goods and Services Tax). The improvement in economic activity was accompanied

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

South Africa's annual average inflation rate declined to 4.7 per cent in 2018 from 5.3 per cent 2017.

by strengthening investment and robust consumption. In addition, the economy continued to benefit from structural reforms, which were aimed at boosting manufacturing contribution to growth while also harnessing the digital technology to improve delivery of services.

The annual inflation rate fell more than expected to 2.2 per cent in 2018 from 5.2 per cent in 2017. Food prices declined during the year, benefitting from the favourable Monson weather pattern, which improved food production, thus resulting in a steep decline observed during the year. The Reserve Bank of India raised the repo rate twice in 2018, closing the year with a 6.50 per cent interest rate. The increase was meant to curb the build-up in inflationary pressures in the economy given the worsening inflation outlook, due to rising oil prices in the first half of the year.

South Africa (SA)

The real GDP in South African is estimated to have grown at a weaker rate of 0.8 per cent from in 2018 from 1.3 per cent in 2017, given the uncertainty posed by the 2019 general elections. In fact, during the second half of 2018, the South African economy slipped into a technical recession resulting from two successive quarters of negative output. The drag on output mainly emanated from the contraction in manufacturing, agriculture and trade industries. In addition, the low consumer confidence and muted investment spending weighed on growth. Although a slight improvement was registered in 2018, the unemployment rate remained persistently high at 27.1 per cent.

South Africa's annual average inflation rate declined to 4.7 per cent in 2018 from 5.3 per cent 2017. This was mainly attributed to the sharp fall in oil price during the last quarter of 2018. A decline in oil prices resulted in falling costs of transport and therefore less pressure on inflation. The SARB raised the repo rate by 25 basis points to 6.75 per cent in 2018 based on bleak inflation outlook and expectations.

1.1.4 Commodities

Wheat

The average price of wheat declined by 3.9 per cent to US$304.03 in 2018. The fall in price was underpinned by the improved output in the key producing regions, including the Black Sea Area, the US and the Euro Area. Moreover, the build-up in inventories and increased exports from Russia led to an oversupply of the commodity, hence suppressing its price. In Maloti terms, the price of wheat declined by 4.56 per cent during the same period.

Oil

The price of oil increased by 34.0 per cent in 2018 to US$70.29, from US$52.46 realised in 2017. The surge in the price of oil was on account of restricted production by OPEC members and other cooperating countries. In addition, the disruptions in the key producing countries including Libya, Venezuela and Nigeria negatively affected global supply. However, in the last quarter of the year, oil prices decreased sharply, as the signs of a slowdown in the global growth emerged.

Platinum

The platinum price remained under pressure in 2018 due to the introduction of the new rules in the European Union pertaining to stricter regulations on automobile fuel emissions. This development affected production of diesel vehicles. As a result, the price of platinum declined by 7.35 per cent to US$880.09, extending the losses from 2017. Platinum is used as an auto catalyst in the production of diesel vehicles to control emission. The price of platinum was also affected by falling demand for jewellery.

Gold

The price of gold increased by 1.03 per cent to US$1,271.30 per ounce in 2018 from US$1,258.32 per ounce in 2017. This reflected the increased demand for gold as a safe haven and a more stable asset to avert risks emanating from the volatility in the financial markets. The risks emanated from the trade war between the US and China, and escalating geopolitical tensions. The domestic factors in the major economies, including Brexit negotiations, political tensions in the Euro Area and in the US, also contributed to the volatility in the global financial markets.

Maize

The price of white maize registered a 3.49 per cent increase to US$175.40 per tonne in 2018. In the same period, the price of yellow maize increased by 3.02 per cent to US$172.59 per tonne. The increase was supported by tight supply conditions in the global markets. The falling maize inventories and unfavourable weather conditions led to a decline in the area planted, thus resulting in elevated prices. The key producing countries, including Argentina and South Africa were also affected by below normal rain falls.

1.1.5 Currency Movements

The Rand (and hence the Loti) strengthened slightly by 0.71 per cent against the US Dollar, while it weakened by 2.95 per cent and 3.64 per cent against the Pound Sterling and the Euro, respectively. The value of the rand was influenced by shifting sentiments from the risky assets in the emerging countries, including South Africa and this led to net capital outflows in these economies. Investors moved funds into the less risky assets to take advantage of the rising yields, at the back of increasing interest rates and rising stock markets' returns.

Furthermore, the rand was boosted by the easing political uncertainty following the election of a new ANC leadership as well as interest rate hikes by the SARB. The political and trade policy uncertainty in the US weighed on the value of Dollar, hence a depreciation against the rand. The euro remained volatile due to slowing growth and rising political tensions in the region spurred by the delays in forming coalition governments in Germany and Italy. The Ultimate formation of governments in Italy and Germany as well as an agreement between European Union and Italy with regard to the budget deficit, led to the strengthening of the Euro against the rand. The pound was nfluenced by heightened Brexit-related uncertainty in the UK. However, the agreement that the deal would be decided by the legislature as well as the rate hike by BoE strengthened the Pound against the Rand.

The price of gold increased by 1.03 per cent to US$1,271.30 per ounce in 2018 from US$1,258.32 per ounce.in 2017.

Table 1	Selected Economic Indicators, 2014 – 2018* (Percentage changes unless otherwise)				
Indicators	2014	2015	2016	2017	2018
World Output	3.4	3.2	3.2	3.8	3.7
Advanced Economies	1.9	2.1	1.7	2.4	2.3
Of which:					
United States	**2.4**	**2.6**	**1.5**	**2.2**	**2.9**
Euro Area	1.1	2.0	1.8	2.4	1.8
Japan	0.0	0.5	0.9	1.9	0.9
United Kingdom	3.1	2.2	1.9	1.8	1.4
Emerging and Developing Economies	4.6	4.0	4.4	4.7	4.6
Of which:					
Africa					
Sub Saharan Africa	**5.1**	**3.4**	**1.4**	**2.9**	**2.9**
South Africa	1.6	1.3	0.3	1.3	0.8
Emerging & Developing Asia	6.8	6.6	6.4	6.5	6.5
China	7.3	6.9	6.7	6.9	6.6
India	7.2	7.6	7.1	6.7	7.3
Consumer prices					
Advanced Economies					
Of which:					
United States	1.6	0.7	2.1	2.1	1.9
Euro Area	0.4	0.0	0.3	1.4	1.6
Japan	2.8	0.8	-0.2	1.0	0.3
United Kingdom	1.5	0.1	0.7	3.0	2.1
Emerging and Developing Economies					
Of which:					
Africa					
Sub Saharan Africa	6.3	7.0	11.3	11.0	8.6
South Africa	**6.1**	**4.6**	**6.4**	**5.3**	**4.5**
Emerging & Developing Asia	3.5	2.7	2.8	2.4	3.0
China	2.0	1.4	2.0	1.8	1.9
India	5.9	4.9	3.4	5.2	2.2
World Trade Volume	3.8	2.6	2.5	5.2	4.2
(Goods and Services)					
Exports					
Advanced Economies	3.8	3.6	2.6	4.4	3.4
Emerging and Developing Countries	3.5	1.3	2.3	6.9	4.7
Imports					
Advanced Economies	3.8	4.2	2.4	4.2	3.7
Emerging and Developing Countries	4.5	-0.6	2.3	7.0	6.0
Source	IMF World Economic Outlook, October 2018, IMF World Economic Outlook Update, January 2019 * IMF Projections				

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

THE ECONOMIC REPORT

1.2 Domestic Economic Developments

1.2.1 Real Sector Developments

Trends in Output and Income

Real GDP is estimated to have grown by 1.4 per cent in 2018, relative to a revised 0.1 per cent recorded in 2017. The expansion was broad-based with all the three major sectors contributing, albeit with varying magnitudes. The developments in the primary sector mainly reflected the buoyed performance of the mining and quarrying subsectors. The strong growth in the manufacturing and financial sector industries drove the expansion in the secondary and tertiary sectors, respectively.

The real gross national income (GNI) was estimated to have grown by 1.3 per cent in 2018 after declining by 0.3 per cent in 2017. The increase in remittances for migrant mineworkers in South Africa, other migrant workers and increased interest earned by both the commercial banks and Central Bank of Lesotho boosted the income received from the rest of the world and hence the real GNI.

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

	2014	2015	2016	2017	2018*
GDP	2014	2015	2016	2017	2018*
GNI	2014	2015	2016	2017	2018*
GDP Per Capita	2014	2015	2016	2017	2018*
GNI Per Capita	2014	2015	2016	2017	2018*

Source Bureau of Statistics, *CBL Projections

Sectoral Developments

a) Developments in the Primary Sector

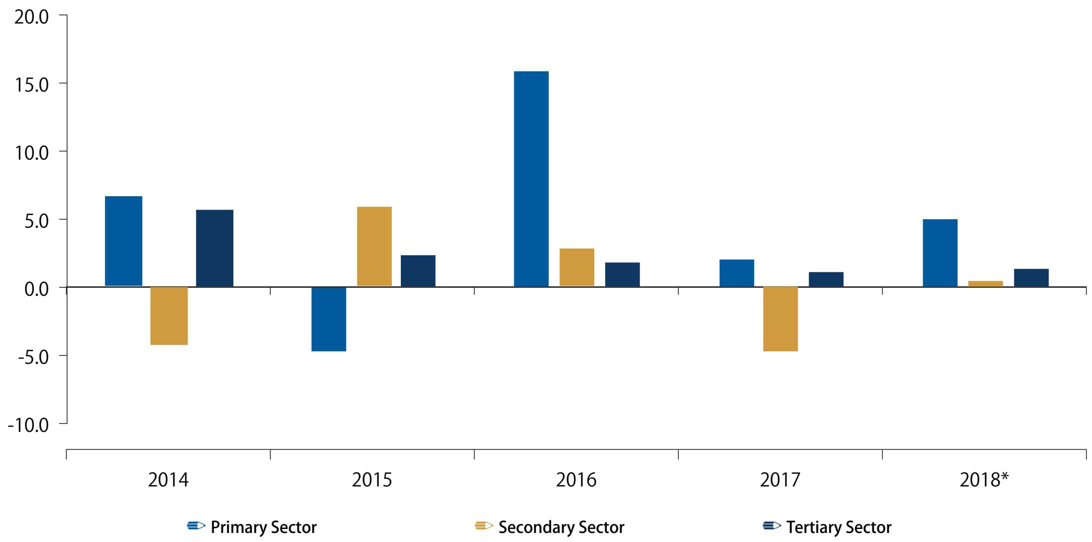
The strong growth in the mining and quarrying subsectors was estimated to be driven the robust performance of the primary sector in 2018. The primary sector was estimated to have grown by 5.0 per cent in 2018 compared with 2.1 per cent registered in 2017. The buoyant global demand for diamonds, as well as, their favourable prices were estimated to have boosted the performance of the mining and quarrying subsector in 2018. Nonetheless, the agricultural subsector was expected to moderate the strong growth primary sectors.

The real output of the agriculture, forestry and fishing subsector declined by the estimated 1.7 per cent in 2018 compared with a decline of 19.1 per cent in 2017. The crop industry continued to decline in 2018 by more than three times the rate of the decline registered in 2017. Nonetheless, the expansion of the farming of livestock and forestry industries moderated the decline of crop industry output in 2018.

The mining and quarrying subsector was estimated to grow by 11.9 per cent in 2018 compared with that of 39.3 per cent registered in 2017. The buoyant demand for diamonds, as well as, their favourable prices boosted diamond production, thus leading to an expansion of the subsector's output.

In the secondary sector, the growth was estimated at 0.5 per cent in 2018, which was an improvement from a slump of 4.8 per cent registered in 2017.

Figure 1 Sectoral Real Growth Rate (Percentage)



Source: Bureau of Statistics, *CBL Projections

b) Developments in the Secondary Sector

In the secondary sector, the growth was estimated at 0.5 per cent in 2018, which was an improvement from a slump of 4.8 per cent registered in 2017. The expansion of the manufacturing industry output of 2.5 per cent in 2018, from its decline of 6.8 per cent registered in 2017, boosted the sector's performance. Nonetheless, the continued output decline in the construction subsector, as well as, the fall in output of the water and electricity subsector moderated the sector's growth.

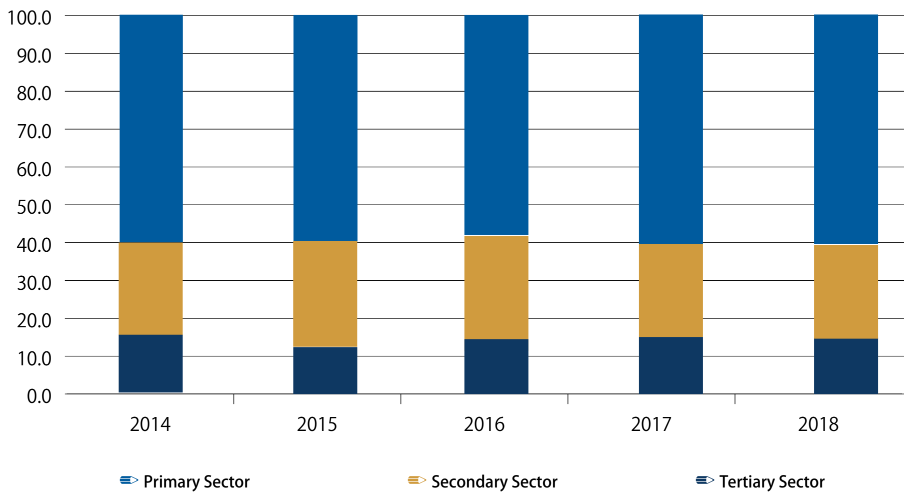
The rebound of the manufacturing sector in 2018 from a decline of 6.8 per cent in 2017 was broad-based as all the respective industries were estimated to have all recovered. Nevertheless, the performance of the manufacturing sector highly mimics that of the textile and clothing industry. The garment industry bounced back in 2018, despite the industrial labour disputes that took place in the third quarter of the year.

The construction subsector was estimated to continue the poor performance in 2018, having declined by 3.1 per cent, a slower pace relative to a fall of 4.7 per cent registered in 2017. The delayed implementation of the development projects, such as the Lesotho Highlands Water Projects Phase II, continued to weigh down on the subsector. The marginal real output decline of 0.1 in 2018 in the water and electricity subsector was mainly underpinned by the poor performance of the water and sewerage, in particular the waste collection.

c) Developments in the Tertiary Sector

The tertiary sector was estimated to grow by 1.3 per cent in 2018 compared with 1.1 per cent registered in 2017. The financial services, the transport and communications, as well as, the real estates and business services became the anchor of the growth of the tertiary sector during 2018. Nonetheless, the output decline in the wholesale and retail trade put the pressure on the sector's performance. The performance of the wholesale and retail trade was underpinned by the subdued demand in the economy despite the disinflation in 2018 relative to 2017. The subdued demand mainly reflected the fragility in the South Africa's economic performance, as well as, the weak government and private sectors' demand.

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



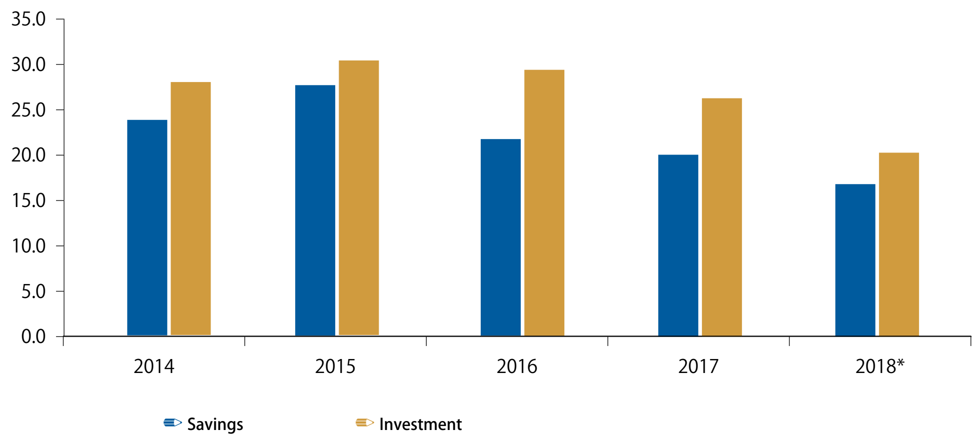
Source: Bureau of Statistics, *CBL Projections

Savings and Investments

Gross national savings, as percentage of GNI, was estimated at 16.8 per cent in 2018 compared to 20.0 per cent in 2017, while the ratio of total investment to GNI was estimated at 20.7 per cent in 2018 relative to 26.2 per cent registered in 2017. The private sector savings and investment, as share of GNI, underpinned the decline in the share of gross national savings and investment in GNI, respectively. The savings-investment gap narrowed from 6.2 per cent in 2017 to an estimated 3.9 per cent in 2018.

The number of Basotho migrant mineworkers in SA mines declined further to 22,354 employees in December 2018 from 25,771 registered in December 2017.

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



Source: Bureau of Statistics, *CBL Projections

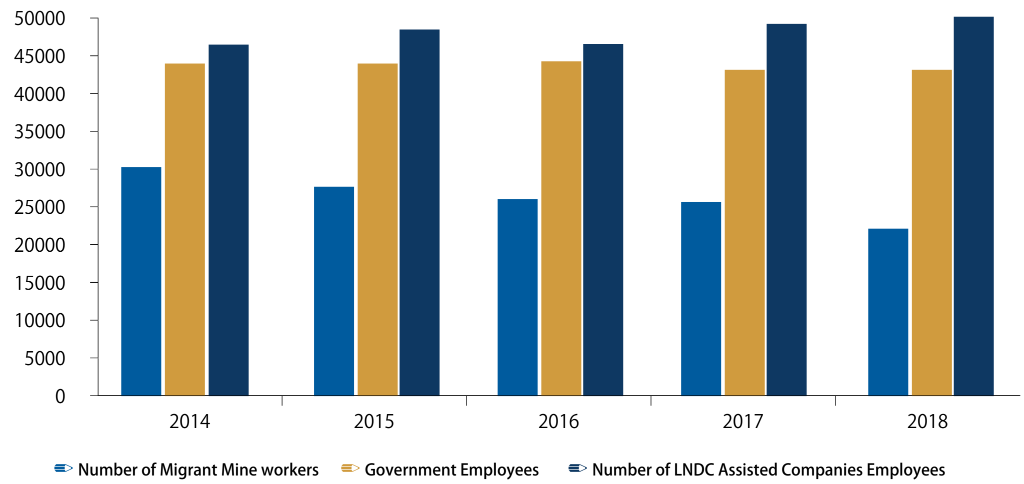
Employment, Wages and Prices

a) Employment Trends

Improvements were observed on employment by LNDC-assisted companies in 2018. Employment increased to 50,542 employees in December 2018 from 49,435 employees in December 2017 and the sector remained the highest employer in the country during the review period. Employment was mainly supported by the growth of the woven garments industry, which grew by 9.9 per cent. On the contrary, employment by the public sector fell by 0.3 per cent in 2018 to 43,256 employees from 43,386 employees at the end of December 2017. All the categories of public sector workers except civil servants registered declines during the review year.

The number of Basotho migrant mineworkers in SA mines declined further to 22,354 employees in December 2018 from 25,771 registered in December 2017. This represented a decline of 13.5 per cent compared with a decline of 1.7 per cent in 2017. The SA precious metals mining struggled in 2018 due to relatively weak global prices and low production of platinum and gold. The condition was worsened by the strengthening of the rand in the second half of 2018, putting deep-level South African gold and platinum producers under significant pressure as reflected in the market capitalisation of these entities.

Figure 4 Employment Trends



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

b) Wages

The general minimum wage as determined by Lesotho's Wage Advisory Board increased by an annual rate of 7.0 per cent during the review period, higher than the 5.0 per cent effected in 2017. The textiles, clothing and leather manufacturing sector realized a higher increase of 37.0 per cent in 2018 compared with 5.0 per cent in 2017. Moreover, government employees' salaries were increased by 4.0 per cent in the 2018/2019 fiscal year.

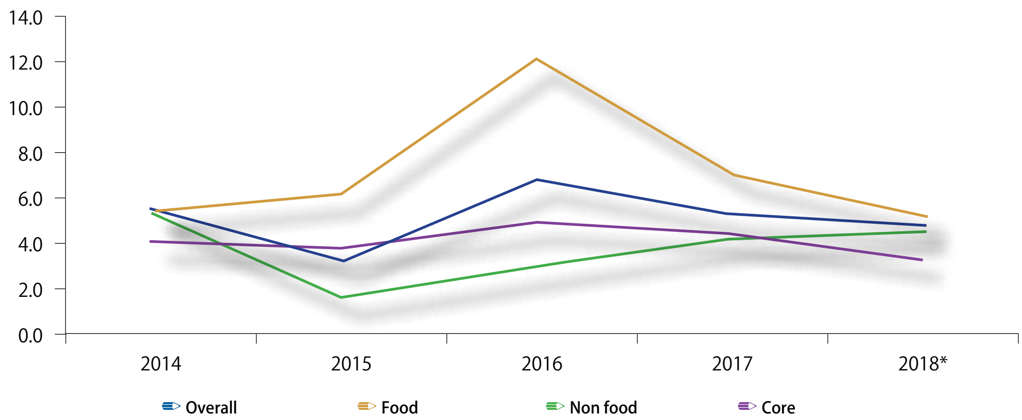
c) Price Developments

The rate of inflation, measured as the percentage change in the Consumer Price Index (CPI), slowed down to an average of 4.7 per cent in 2018, from 5.2 per cent recorded in 2017. Inflation rate was 5.3 per cent in January 2018, and fluctuated throughout the year to close at the rate of 4.9 per cent in December. The deceleration in average annual inflation was due to a slowdown in food prices, which averaged 5.2 per cent in the review period compared with an average of 6.9 per cent in the previous year. According to Food and Agricultural Organization (FAO), the global food price index fell by almost 22.0 per cent in 2018 from the value obtained in 2017. This was mainly on account of sufficient global supplies of all the major cereals and ample inventories from the previous year. Despite the moderation in the annual average inflation rate, significant inflationary pressures still existed in the housing, electricity, gas and other fuel, and transport services categories. The surge in the inflation rate of these categories emanated from the upward revision in the domestic pump prices of paraffin, petrol and diesel, respectively. Core inflation rate moderated to 3.2 per cent in 2018 from a 4.3 per cent observed in the previous year.

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

Broad measure of money supply (M2), increased by 10.7 per cent in December 2018 in nominal terms compared to a growth of 25.5 per cent in December 2017.

Figure 5 Lesotho Consumer Price Index (Annualized Percentage Changes)



Source: Bureau of Statistics

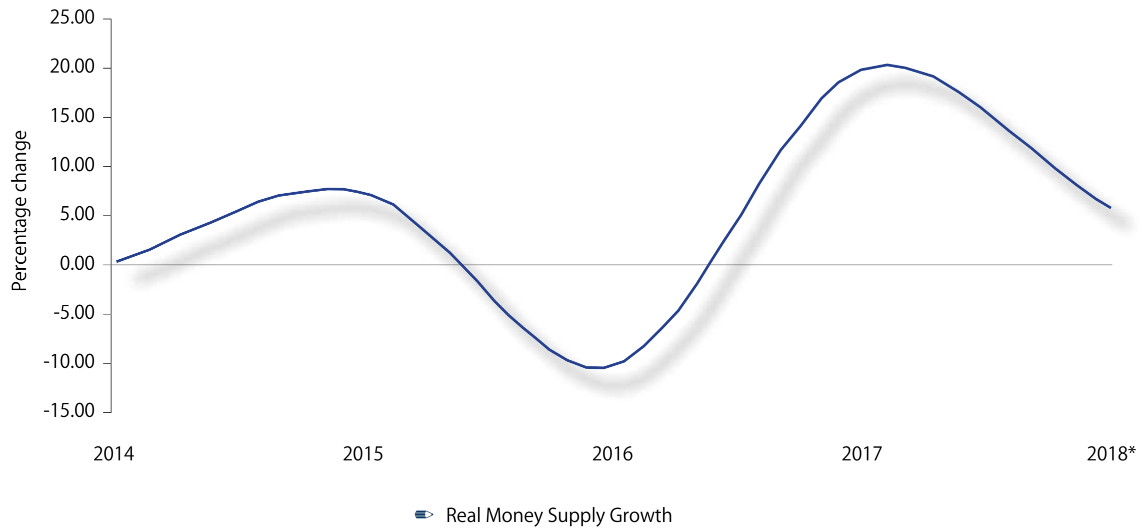
1.2.2 Monetary and Financial Developments

Money Supply

Broad measure of money supply (M2), increased by 10.7 per cent in December 2018 in nominal terms compared to a growth of 25.5 per cent in December 2017. This was at the back of an increase in overall banking system net foreign assets as well as domestic claims which rose by 19.0 per cent and 17.0 per cent respectively. In real terms, money supply registered a growth of 5.8 per cent in 2018 against an increase of 19.8 per cent realised in 2017.

In terms of components of money supply, narrow money (M1) declined by 0.04 per cent while quasi money increased by 21.8 per cent. The moderate decline in M1 was due to a decline in currency in circulation moderated by an increase in demand deposits. On the other hand, an increase in quasi money was attributed to a rise other deposits particularly from business enterprises.

Figure 6 Real Money Supply Growth



Source: Central Bank of Lesotho

Domestic Credit

Domestic claims, including net claims on government, increased by 17.3 per cent during the period under review compared to a much higher growth of 72.7 per cent recorded during the previous year. This was at the back of a 10.8 per cent rise in private sector credit coupled with an increase of 13.6 per cent in net claims on government. The notable growth in net claims on central government was a result of issuance of treasury bonds which were meant to support government budgetary operations. This over-shadowed a moderate build-up in government deposits. On the other hand, growth in private sector credit was due to increased loan limits by banks especially to households, banks' on-going efforts to promote asset-backed loans such as mortgages as well as support of a relatively new cannabis sub sector. It is also important to note that in the recent years, credit extended to business enterprises comprise mostly of short term loans such as overdrafts which are meant to support operations and not necessarily to support investment.

Total credit granted to business enterprises increased moderately in the year under review.

Table 3	Domestic Credit (Million Maloti: End Of Period)				
	2014	2015	2016	2017	2018
Claims on Government (Net)	-4,962.56	-4,790.12	-2,584.01	-770.46	-665.51
Claims on Central Government	*1,460.54*	*1,899.23*	*1,953.90*	*1,844.30*	*2,125.98*
Liabilities to Central Government	*-6,423.11*	*-6,689.34*	*-4,537.91*	*-2,614.77*	*-2,791.49*
Claims on Public NFCs (Official entities)	0.00	0.00	0.00	0.00	0.00
Claims on Private Sector	5,121.30	5,501.66	5,664.65	6,131.00	6,809.67
Claims on Other Resident Sector (Households)	*3,306.17*	*3,398.21*	*3,697.90*	*4,147.81*	*4,712.07*
Claims on Other NFCs (Enterprise)	*1,815.14*	*2,103.45*	*1,966.75*	*1,983.19*	*2,097.60*
Domestic Claims	**171.28**	**742.93**	**3,160.31**	**5,455.59**	**6,401.46**
Source	Central Bank of Lesotho				

Net Foreign Assets

Contrary to the previous year's decline of 3.1 per cent, overall banking system net foreign assets (NFA) increased by 19.0 per cent during the period under review. In particular, Central Bank NFA increased by 21.2 per cent while commercial banks NFA rose by 15.0 per cent. Revaluation gains coupled with sluggish execution of government budget resulted in the accumulation of Central Bank NFA. On the other hand, commercial banks NFA increase was mainly on account of growth in deposit liabilities hence banks decided to increase their placements abroad.

Table 4	Banking System's Net Foreign Assets (Millions of Maloti)				
	2014	2015	2016	2017	2018
Commercial banks	3039.45	3859.15	2992.48	4523.72	5200.68
Assets	*3329.38*	*4244.11*	*3330.04*	*5010.79*	*5700.44*
Liabilities	*-289.93*	*-384.96*	*-337.55*	*-487.07*	*-499.76*
Central Bank	10665.58	11957.92	10381.89	8435.22	10221.28
Assets	*12066.49*	*13739.59*	*11920.42*	*9901.86*	*11192.19*
Liabilities	*-1400.91*	*-1781.67*	*-1538.53*	*-1466.64*	*-970.91*
Net Foreign Assets	**13705.03**	**15817.07**	**13374.37**	**12958.94**	**15421.96**
Source	Central Bank of Lesotho				

Credit Extension

Trends of Credit Extended to Business Enterprises

Total credit granted to business enterprises increased moderately in the year under review. There was heightened demand for credit by the Mining, Wholesale, Retail, Hotel and Restaurant as well as NBFIs, Real Estate and Business Services. Credit to the aforementioned sectors expanded by 33.7 per cent, 56.6 per cent and 5.8 per cent respectively. Also worth mentioning is the Agricultural sector which realized an expansion of 78.2 per cent in credit extension, owing to the relatively new cannabis subsector. The credit growth within the business enterprises was however moderated by a drop in credit extended to Manufacturing, Transport, Storage and Communication and Community, Social & Personal Service.

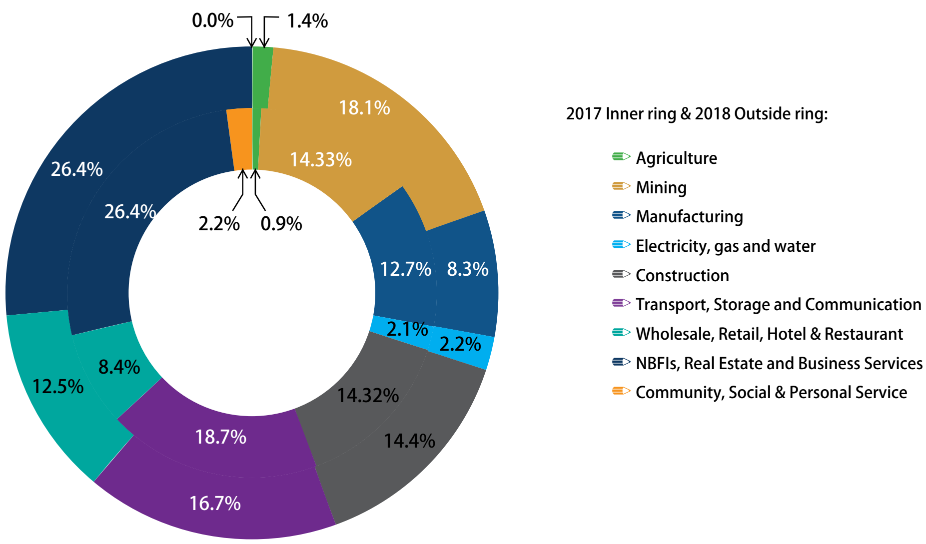
Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

Table 5	Trends of Credit to Business Enterprises (Millions of Maloti)				
	2014	2015	2016	2017	2018
Agriculture	17.40	18.10	25.31	16.98	30.31
Mining	358.70	406.92	363.84	284.14	379.73
Manufacturing	445.40	481.74	319.40	252.10	174.08
Electricity, gas and water	40.40	32.89	38.53	41.15	46.21
Construction	171.20	228.17	313.50	283.98	301.83
Transport, Storage and Communication	188.50	235.34	185.65	370.89	349.65
Wholesale, Retail, Hotel & Restaurant	153.20	235.85	184.69	167.13	261.68
NBFIs, Real Estate and Business Services	429.90	444.62	509.46	522.95	553.24
Community, Social & Personal Service	10.30	19.82	26.38	43.87	889.00
Total	**1815.10**	**2103.45**	**1966.75**	**1983.19**	**2985.71**
Source	Central Bank of Lesotho				

Distribution of Credit to Business Enterprises

The previous twelve months showed mixed results with regards to distribution of credit amongst different categories of business enterprises. Manufacturing sector continued to account for the largest share followed by Mining as well as Transport, Storage and Communication sectors. During the period under review, mining sector share of credit extended to business enterprises surpassed that of Transport, Storage and Communication sector. This is broadly reflective of an increased economic activity in this sector. Credit to the Community, Social and Personal Service sector deteriorated, leading the sector to account for the least share of credit to business enterprises.

Figure 7 Distribution of Credit to Business Enterprises



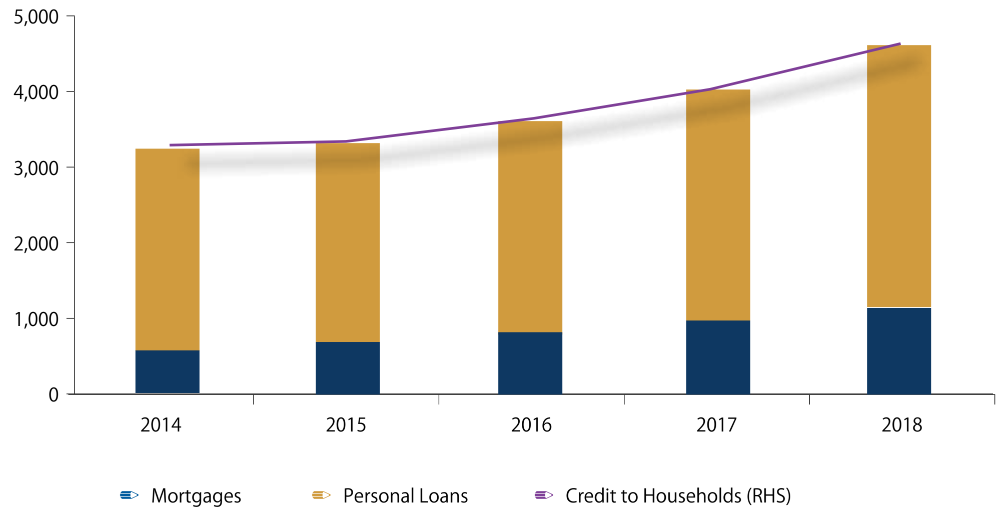
Source: Bureau of Statistics, *CBL Projections

Credit extended to the households sector continued to show an upward trajectory in the year under review.

Credit Extension to Households

Credit extended to the households sector continued to show an upward trajectory in the year under review. Over the last twelve months, credit extended to households grew by 13.8 per cent, an improvement from 12.1 per cent realized in the previous year. Personal loans continue to account for a significant share of total credit to the household sector although there is a gradual shift to secured lending, as commercial banks try to balance their loan portfolio. Personal loans accelerated by 13.0 per cent in the current review period, from 10.0 per cent in the previous period. On the other hand, mortgages grew at a relatively slower rate of 15.9 per cent during the review period compared an increase of 19.2 per cent in 2017. As a share of total credit to households, personal loans and mortgages received 74.7 per cent and 25.3 per cent, respectively in 2018 compared with 75.2 per cent and 24.8 per cent in 2017.

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



Source: Central Bank of Lesotho

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

Commercial Banks Liquidity

The banking industry's liquidity dropped to 71.7 per cent in 2018, from 74.3 per cent in 2017. The fall was driven by 17.5 per cent fall in "Balances Due from Banks in SA" as well as well as the 12.3 per cent rise in total deposits. The credit to deposit ratio continued to decline as it stood at 54.6 per cent in 2018, compared to 55.2 per cent in the preceding year. This reflects the deposit accumulation rate that is higher than the increase in credit extension. It is important to note that for the past five years, credit to deposit ratio has been generally declining. This is indicative of a declining intermediation level and may warrant more effort to unlock credit extension particularly from the demand side

Table 6 Commercial Banks' Liquidity (Millions of Maloti)

	2014	2015	2016	2017	2018
Credit to Deposit Ratio	**61.40%**	**59.80%**	**64.55%**	**55.18%**	**54.56%**
Private Sector Credit	4918.20	5432.19	5584.59	6045.47	6712.99
Total Deposits	8004.30	9084.45	8651.19	10956.02	12303.56
Liquidity Ratio	**85.20%**	**82.59%**	**72.38%**	**74.30%**	**71.70%**
Notes and Coins	361.60	476.34	582.42	740.98	741.60
Balances Due from Banks in Lesotho	2149.50	2343.95	2127.76	2157.63	1779.25
Balances Due from Banks in SA	3142.70	3760.57	2533.81	4198.18	4949.68
Surplus funds	303.90	96.34	170.39	41.02	-45.72
Government Securities	864.00	825.42	846.96	1002.12	1396.23
Total	**6821.70**	**7502.62**	**6261.34**	**8139.94**	**8821.04**

Source Central Bank of Lesotho

Interest Rates

During the period under review, Central Bank rate stood at 6.69 per cent compared to 6.88 per cent registered during the previous year. Similarly, the Lesotho prime lending rate declined from 11.58 per cent to 11.35 per cent during the same period. However, other money markets interest rates displayed mixed performance. The Lesotho interest rate remained largely aligned to other Common Monetary Area member states money market rates.

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

The fiscal surplus is on account of an estimated increase in total revenue by 9.3 per cent which surpassed a 3.9 per cent increase in expenditure.

Table 7 Interest Rates

	2014	2015	2016	2017	2018
Central Bank Rate	-	6.25	7	6.88	6.69
91-days TB Rate	6.25	6.49	6.58	6.41	6.47
Lombard Rate	10.25	10.49	10.58	10.41	10.47
Commercial Banks					
Call	0.99	1.03	1.19	1.13	1.19
Time					
31 days	1.23	0.48	0.44	0.40	0.36
88 days	2.85	1.04	1.12	1.22	1.39
6 months	2.31	2.26	2.53	2.45	2.25
1 year	3.21	3.26	3.52	3.64	4.3
Savings	0.86	0.51	0.56	0.64	0.72
Prime*	10.44	10.94	11.69	11.58	11.35
South Africa					
Repo	5.75	6.25	7	6.75	6.88
T Bill Rate – 91 Days	6.12	6.98	7.61	7.6	7.33
Prime	9.25	9.75	10.5	10.25	10.38

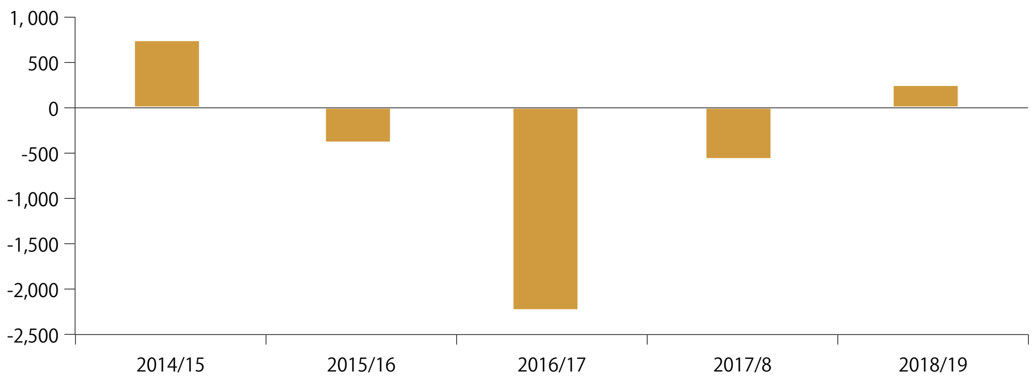
Source Central Bank of Lesotho and South African Reserve Bank (SARB)

1.2.3 Government Finance

Fiscal Performance in 2018/19

The Government budgetary operations are estimated to register a surplus of 0.6 per cent of GDP during the fiscal year 2018/19 compared with a deficit of 1.5 per cent of GDP realised in 2017/18. The fiscal surplus is on account of an estimated increase in total revenue by 9.3 per cent which surpassed a 3.9 per cent increase in expenditure. The Government debt stock is estimated at 42.4 per cent of GDP in the fiscal year 2018/19, compared with 36.0 per cent of GDP at end of 2017/18. This was a result of increase in both domestic and external debt.

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



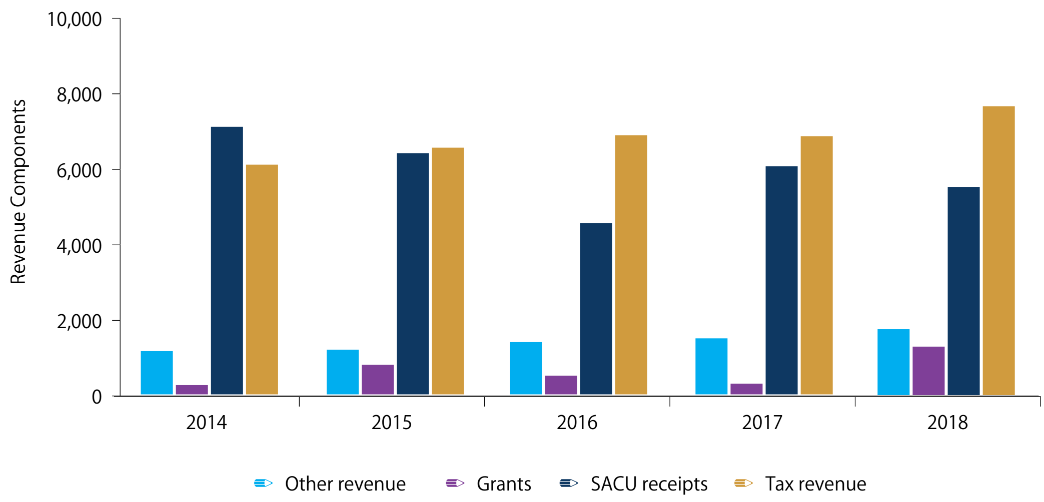
Source: Ministry of Finance (MoF) and CBL estimates

Revenue

Government revenue was estimated to improve by 9.3 per cent during the fiscal year 2018/19, mainly due to better collections of revenue despite lower SACU receipts. The breakdown in revenue shows that 'tax revenue' increased by 11.3 per cent, 'grants' by 336.4 per cent and 'other revenue' by 13.4 per cent, while SACU receipts fell by 9.9 per cent. However, the increase in revenue in the fiscal year 2018/19 was lower than the 12.4 per cent increase recorded in the preceding year 2017/18. Total revenue as a percentage of GDP was estimated to rise by 41.3 per cent compared with 43.2 per cent in 2017/18.

Government expenditure was estimated to rise by 3.9 per cent during the fiscal year 2018/19, compared with a slight decline of 0.04 per cent in 2017/18.

Figure 10 Sources of Government Revenue (Million Maloti)

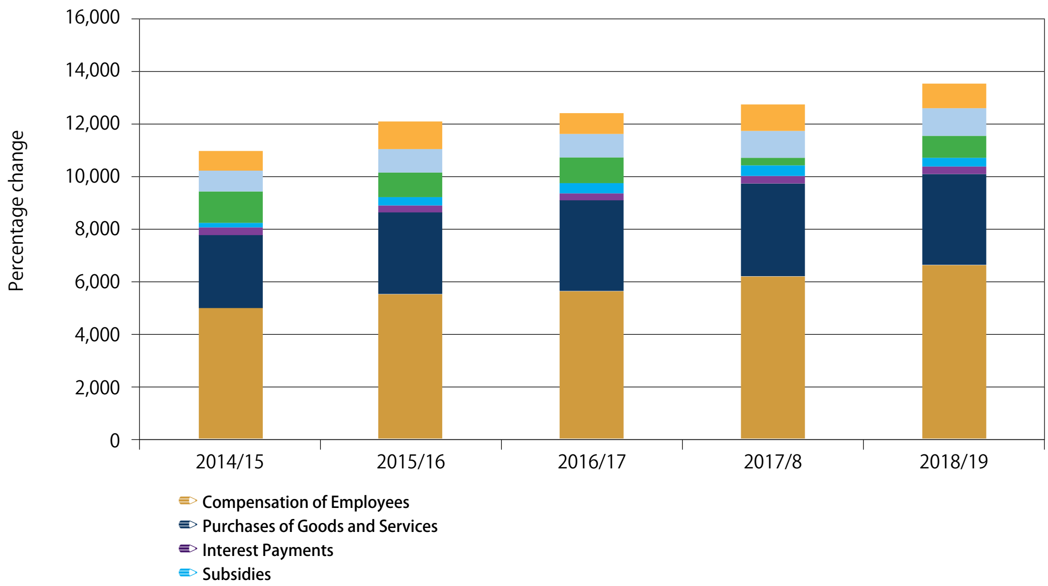


Source: Ministry of Finance (MoF) and CBL estimates

Expenses

Government expenditure was estimated to rise by 3.9 per cent during the fiscal year 2018/19, compared with a slight decline of 0.04 per cent in 2017/18. Expenses were estimated to increase by 6.3 per cent owing to a growth in all components but 'use of goods and services', 'subsidies' and 'other expense' which were estimated to decrease by 1.7 per cent, 24.9 per cent and 6.1 per cent, respectively. The increase in expenses was in particular, due to an increase in 'compensation of employees' by 6.7 per cent, recording a 16.8 per cent of GDP and 49.0 per cent share of total expenses. Expenses, as a percentage of GDP, were estimated at 40.7 per cent during the period under review, compared with 43.8 per cent of the preceding fiscal year.

Figure 11 **Components of Expense** (Million Maloti)



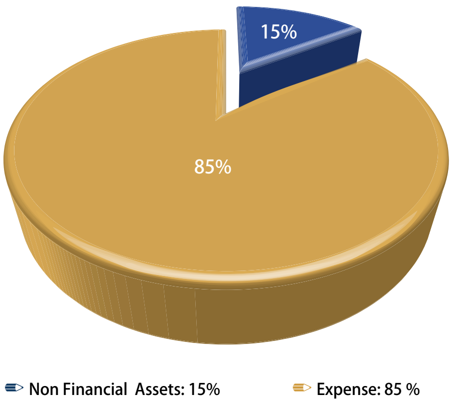
Source: Ministry of Finance (MoF) and CBL estimates

Non-Financial Assets

Non-financial assets were estimated to decline by 7.4 per cent during the period under review, compared with a 10.3 per cent decline in the fiscal year 2017/18. It accounted for 15.0 per cent of the total expenditure. Both years were hit by a decline in maintenance of fixed assets, with ‘buildings and structure’, particularly ‘other structures’ plummeting by 38.6 per cent in 2018/19 and 46.7 per cent in 2017/18. As a share of GDP, non-financial assets were estimated at 6.3 per cent.

The increase in domestic financing was overshadowed by a settlement in Government arrears amounting M859.29 million.

Figure 12 Composition of Total Expenditure

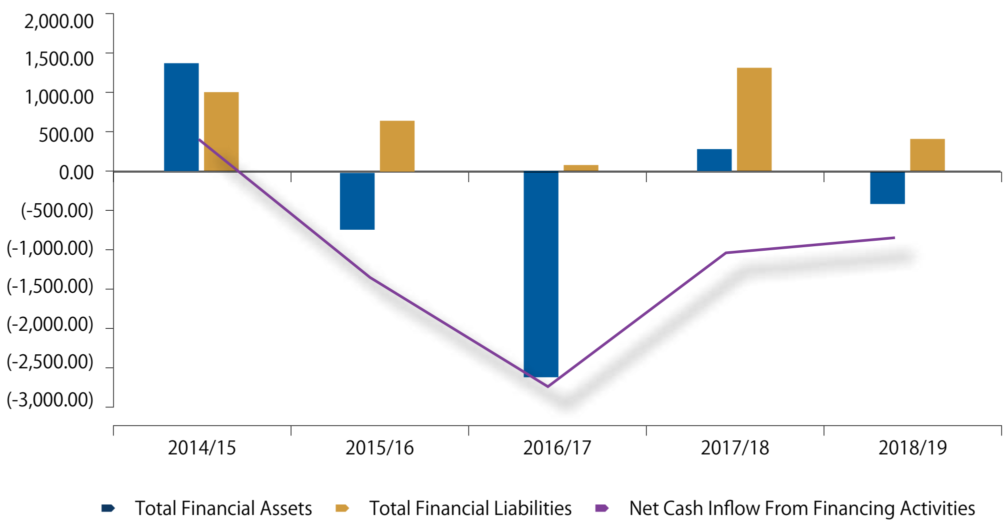


Source: MOF and CBL Projections

Financial Assets and Liabilities

The 'net cash inflow from financing activities' (total financing) was estimated at M835.17 million in 2018/19 compared with a M1,041.46 million recorded in the preceding fiscal year. Financial assets were estimated to register M416.46 million from a negative M293.22 million in 2017/18, indicating a drawdown in domestic deposits from the banking system. Financial liabilities were estimated to decline by 68.6 per cent, in spite of an increase in domestic loans, as a result of issuance of Treasury bills amounting M556.17 million. The increase in domestic financing was overshadowed by a settlement in Government arrears amounting M859.29 million.

Figure 13 Financial Assets and Liabilities (Million Maloti)



Source: Ministry of Finance (MoF) and CBL estimates

Table 8 Summary of Government Budgetary Operations (Millions of Maloti)

	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue	**14,618.77**	**14,886.57**	**13,273.64**	**14,916.91**	**16,297.66**
Tax revenue	5,999.59	6,511.93	6,802.27	6,895.21	7,672.68
Social Contributions	0.00	0.00	0.00	0.00	0.00
Grants	346.91	705.29	521.57	298.80	1,303.82
Other revenue	1,238.21	1,270.73	1,430.83	1,568.70	1,778.91
SACU receipts	7,034.07	6,398.62	4,518.97	6,154.20	5,542.24
Expense	**-11,000.79**	**-12,118.86**	**-12,461.27**	**-12,762.04**	**-13,564.84**
Compensation of Employees	-4,984.49	-5,538.41	-5,637.02	-6,225.16	-6,641.97
Use of goods and services	-2,819.08	-3,085.89	-3,469.10	-3,507.02	-3,447.44
Interest Payments	-263.06	-289.84	-263.61	-280.88	-308.22
Subsidies	-207.99	-309.19	-381.22	-410.30	-308.19
Grants	-1,195.94	-938.65	-984.24	-306.09	-846.56
Social benefits	-779.07	-897.90	-884.47	-1,023.83	-1,065.36
Other expense	-751.18	-1,058.97	-834.45	-1,008.77	-947.09
Net Operating Balance	**3,617.98**	**2,767.71**	**812.37**	**2,154.87**	**2,732.82**
Non-financial Assets	**-2,862.45**	**-3,129.99**	**-2,994.11**	**-2,686.48**	**-2,486.58**
Fixed Assets	**-2,862.45**	**-3,129.99**	**-2,994.11**	**-2,686.48**	**-2,486.58**
Buildings and structures	-1,845.33	-779.80	-2,446.95	-1,481.14	-1,158.97
Machinery and equipment	-123.45	-212.74	-109.32	-216.20	-252.05
Other fixed assets	0.00	0.00	0.00	0.00	0.00
Unidentified	-893.67	-2,137.45	-437.84	-989.13	-1,075.56
Non-Produced Assets	0.00	0.00	0.00	0.00	0.00
Net lending (+) / Net borrowing (-) (1-2M)	**755.53**	**-362.27**	**-2,181.75**	**-531.61**	**246.24**
Financing	**-378.62**	**1,393.53**	**2,681.69**	**1,041.46**	**835.17**
Transactions in Financial assets	**-1,385.74**	**740.66**	**2,613.62**	**-293.22**	**416.46**
Domestic	-1,385.74	740.66	2,613.62	-293.22	416.46
Foreign	0.00	0.00	0.00	0.00	0.00
Transactions in Liabilities	**1,007.12**	**652.88**	**68.07**	**1,334.68**	**418.71**
Domestic	38.14	439.55	-144.64	1,264.95	399.27
Foreign	968.98	213.32	212.70	69.73	19.43
Statistical Discrepancy	**376.91**	**1,031.26**	**499.94**	**509.86**	**1,081.41**

Source Ministry of Finance (MoF) and CBL estimates

The Government debt-to-GDP was estimated at 42.4 per cent in the fiscal year 2018/19.

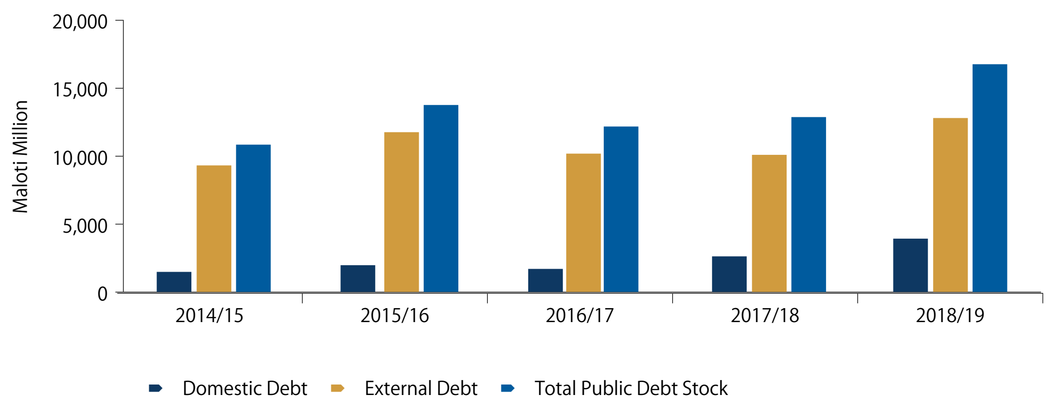
Public Debt

Overview

The Government debt-to-GDP was estimated at 42.4 per cent in the fiscal year 2018/19. This was equivalent to 31.7 per cent increase from the previous year, with a surge registered in both domestic and foreign debt. External debt on the one hand increased by 26.8 per cent in contrast to a 1.8 per cent decline in the previous year. The increase was mainly attributed to the depreciation of the Loti against major currencies in which the country's external liabilities are denominated during the review period, as well as, the acquisition of new debt. As a share of GDP, external debt was estimated at 32.2 per cent.

Domestic debt, on the other hand, was estimated to increase by 50.0 per cent, on account of the issuance of Treasury Bills and Bonds to meet the financing requirement during the fiscal year 2018/19. This was equivalent to 10.3 per cent of GDP. The proportion between domestic and external debt stood at 24.2 per cent domestic and 75.8 per cent external, which reflects a slight increase from the 21.2 per cent for domestic debt and a slight decline from 78.8 per cent for external debt registered at the end of the preceding year.

Figure 14 **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)

	2014/15	2015/16	2016/17	2017/18	2018/19
Total Public Debt Stock	**10,820.69**	**13,715.28**	**12,025.47**	**12,718.20**	**16,498.97**
External Debt	**9,209.16**	**11,769.06**	**10,203.79**	**10,016.36**	**12,696.66**
Bilateral Loans (concessional)	840.39	1,134.78	905.47	828.71	1,027.44
Multilateral Loans	7,549.35	9,714.31	8,576.27	8,536.65	10,788.39
Concessional	6,321.25	8,266.84	6,932.14	6,920.95	9,206.20
Non-concessional	1,228.10	1,447.46	1,644.13	1,615.69	1,582.18
Financial Institutions (non-concessional)	54.28	0.64	0.60	0.34	0.11
Suppliers' Credit (non-concessional)	765.14	919.33	721.44	650.67	880.73
Domestic Debt	**1,611.53**	**1,946.22**	**1,821.69**	**2,701.84**	**4,052.30**
Banks	1,187.33	1,538.29	1,309.24	1,822.39	2,803.11
Treasury Bonds	336.90	472.04	471.68	526.59	880.87
Treasury Bills	566.10	582.44	592.33	620.88	621.48
Central Bank (IMF-ECF)	850.43	1,066.26	837.56	729.70	700.76
Non-bank	424.20	407.93	512.45	879.46	1,249.19
Treasury Bonds	308.61	283.23	260.21	252.37	254.88
Treasury Bills	236.27	210.15	281.21	570.85	994.32
Total debt as % of GDP	37.7	41.3	35.4	36.0	42.4
External debt as % of GDP	32.1	35.4	30.0	28.4	32.2
Domestic debt as % of GDP	5.6	5.9	5.4	7.7	10.3
External debt as % of total	85.1	85.8	84.9	78.8	75.8
Domestic debt as % of total	14.9	14.2	15.1	21.2	24.2
Concessional as % of External debt	77.8	79.9	76.8	77.4	77.9

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

1.2.4 External Sector Developments

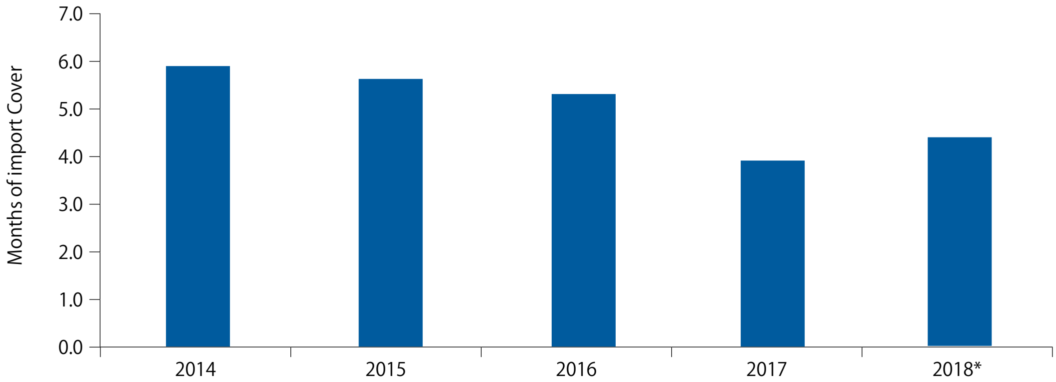
Overall Balance

Lesotho's external sector position switched to a surplus equivalent to 3.9 per cent of GDP in 2018 from a 6.5 per cent deficit registered in the previous year. The overall balance of payments benefitted from improved performances of the current account coupled with the healthier financial account balance. The current account was supported by the lower deficit on the goods account whereas the financial account was boosted by higher foreign assets held by commercial banks as well as the growth in reserve assets in 2018. Measured in months of import cover, gross official reserves rose to 4.4 months in 2018 from 3.9 months in 2017.

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

The goods account deficit fell to M9.99 billion or 27.5 per cent of GDP during the review year from M10.65 billion or 31.0 per cent of GDP in 2017.

Figure 15 Reserves in Months of Imports



Source: Central Bank of Lesotho, * Preliminary estimates

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

	2014	2015	2016	2017	2018*
Current Account	**-4.71**	**-3.09**	**-8.51**	**-7.06**	**-4.40**
Goods	-36.24	-31.76	-31.49	-30.97	-27.52
Services	-11.45	-10.75	-10.56	-11.97	-11.63
Primary Income	12.15	12.54	12.90	12.82	12.89
Secondary Income	30.82	26.88	20.63	23.06	21.86
Capital Account	**1.26**	**1.53**	**2.09**	**1.53**	**1.36**
Financial Account	**-5.47**	**-11.22**	**-10.52**	**-2.53**	**6.02**

Source Central Bank of Lesotho

Current Account

In 2018, the current account deficit narrowed further to M1.60 billion, equivalent to 4.4 per cent of GDP, following a deficit contraction to M2.43 billion or 7.1 per cent of GDP in the previous year. The observed performance of the current account stemmed from the improved balances of the goods account and the primary income account.

The goods account deficit fell to M9.99 billion or 27.5 per cent of GDP during the review year from M10.65 billion or 31.0 per cent of GDP in 2017. This resulted as merchandise exports rose more than merchandise imports during the same year. Merchandise exports rose by 12.7 per cent in 2018 from an increase of 5.9 per cent of GDP in 2017. The growth in exports was driven by an increase in the largest components being; exports of diamonds and clothing and textiles exports. The increase in diamonds resulted from the recovery of high valued carat diamonds in one of the mines while clothing and

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

textile exports rose on account of higher exports orders from the US. Merchandise imports rose by 4.4 per cent during the review year from a 2.8 per cent increase in the preceding year. Imports rose highest for work of art, photographic and medical equipment as well as machinery.

Lesotho continued to be a net importer of services. The services account deficit expanded to M4.22 billion, which constituted 11.6 per cent of GDP in 2018 compared to M4.11 billion, equivalent to 11.8 per cent in 2017. The worsened balance on the services account was explained by the higher payments for business-related travel during the review year. Additionally, payments rose for freight services on imported goods and thus worsened the services account further. Nonetheless, the deficit on the services account was partly offset by inflows related to tourism activities.

The primary income account surplus rose by 6.1 per cent in 2018 following a slight decline of 0.04 per cent in 2017. Expressed as a share of GDP, the primary income account surplus accounted for 12.9 per cent in the review year compared to 12.8 per cent in the preceding year. The observed performance of the primary income account was underpinned by the growth in remuneration of Basotho workers employed in South Africa in line with the increase in inflation. Also, the rise in investment income as a result of higher interest receipts to the Central Bank for investments held abroad, further supported the primary income account in 2018. Conversely, interest receipts to commercial banks for foreign assets and receipts for operational and maintenance costs of the phase I of the LHWP dropped in 2018. This was coupled with higher interest payments by the government for its foreign loans, which all moderated the primary income account surplus.

The secondary income account surplus remained broadly unchanged in 2018 compared to the previous year. The surplus on the secondary income registered a tepid growth of 0.1 per cent in 2018 following a 12.43 per cent increase in the previous year. Relative to GDP, the secondary income account surplus registered 21.7 per cent in 2018 compared to 23.1 per cent in 2017. The observed performance was due to higher receipts of the rand compensation, which is paid to Lesotho for its use of the SA currency as a legal tender. However, the secondary income account surplus was dampened by the fall in the largest component of this account, the SACU receipts, which declined by 0.1 per cent in 2018 relative to an increase of 16.1 in the previous year. A further drag stemmed from the rise in subscriptions to international organisations during the same year.

Capital Account

In 2018, the capital account inflows dropped further by 6.4 per cent following a decline of 26.3 per cent a year earlier. The fall in the capital account inflows was on the back of the reduction in capital transfers for government related projects during the quarter under review. However, transfers for construction activities pertaining to phase II of the LHWP rose during the same year and therefore partly offset the decline in capital inflows. Expressed as a shared of GDP, the capital account inflows accounted for 1.4 per cent in 2018 relative to 1.5 per cent in the previous year.

Contrary to 2017, the financial account balance registered a surplus amounting to M2.19 billion in 2018, after a deficit of M870.60 in 2017.

Financial Account

Contrary to 2017, the financial account balance registered a surplus amounting to M2.19 billion in 2018, after a deficit of M870.6 million in 2017. The improved balance was mainly ascribed to the increase in foreign assets held by commercial banks, as banks increased their placements on call accounts to manage excess liquidity. The lower rate of disbursements on government foreign loans also supported the improved performance of the financial account. The financial account was further underpinned by the increase in the stock of official reserves, which rose by 12.8 per cent in 2018 relative to a decline of 16.9 per cent in the previous year. This was a reflection of the increased government deposits with the Central Bank in 2018, in line with the fiscal surplus registered during the review year. Relative to GDP, the financial account recorded a surplus equivalent to 6.0 per cent in 2018, after a deficit of 2.5 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.

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

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 financial inclusion.

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*.

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

In 2018 the Bank published four issues of the *Quarterly Economic Review*, two issues of the bi-annual *Macroeconomic Outlook* and five issues of the *Monthly Economic Review*. The latter was a result of the development of a high frequency indicator of economic activity in June. Statutorily, the reports on the state of the economy are submitted to the office of the Minister of Finance. Pursuant to that, each issue of the *Quarterly Economic Review* is submitted to the office of the Minister of Finance in the form of a Cabinet Information Paper prior to publication.

Advisory Notes and Briefs

The Bank, as the advisor to Government, periodically conducts advisory research and submits the same to the office of the Minister of Finance. These submissions are in the form of short notes and policy briefs. Some briefs are prepared for Management of the Bank. In the review period, nine advisory briefs were prepared six of which were for the office of the Minister of Finance while the other three were for the Management of the Bank.

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

Research

The research culture in the Bank continues to grow. In 2018, twenty-two full research papers were written by staff of the Bank. Of these, thirteen were published in external journals, four were published in the June issue of the *CBL Research Bulletin*, one was prepared for the Monetary Policy Committee and the other four were unpublished manuscripts still to be sent for external review and possible publication.

In addition to the economic reports and the full thematic research, the Bank responded to the demand for outlet for short analytical articles on topical issues. An outlet in the form of a publication titled *Occasional Analytical Note* was approved.

2.3 FINANCIAL STABILITY

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

Financial Soundness Indicators

Capital adequacy

During the review period, the ratio of total regulatory capital to risk-weighted assets (the broad measure of capital adequacy) increased by 0.1 percentage points to 17.9 per cent. Similarly, the ratio of tier-1 capital to risk-weighted assets (the core measure of capital adequacy) decreased by 0.7 percentage points to 20.2 per cent. Despite the marginal decrease in core measure of capital adequacy, the banking industry continued to maintain regulatory and core capital above the minimum regulatory requirements[1]. This level of 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) increased by 1.1 percentage points to 3.4 per cent. Similarly, the return on equity (ROE) increased by 10.6 percentage points to 28.6. The ratio of interest margin to gross income increased by 0.8 percentage points to 60.4 per cent relative the ratio observed in December 2018, relative to the rate observed in the same period in the previous year. At this level, it shows that over half of banks income came from their core business, which is intermediation. The ratio of non-interest expense to gross income decreased from 62.2 per cent in December 2017 to 60.7 per cent in December 2018.

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

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

Banks strengthened their liquidity positions during 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, declined by 1.8 percentage points, year-on-year, to 3.7 per cent in December 2018. 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 82.1 per cent during the review period, 1.4 percentage points higher than in December 2017.

Liquidity

Banks strengthened their liquidity positions during the review period. The ratio of liquid assets to short-term liabilities increased from 52.8 per cent in December 2017 to 52.9 per cent in December 2018. Both the liquid assets and short term liabilities increased during the review period. In contrast, the ratio of liquid assets to total assets decreased by 0.2 percentage points from 36.3 per cent that was observed in December 2017.

Sensitivity to market risk

The ratio of net open position in foreign exchange to capital decreased marginally from 24.6 per cent in December 2017 to 23.6 per cent in December 2018. 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)

		2014	2015	2016	2017	2018
		Dec	Dec	Dec	Dec	Dec
Capital Adequacy	Regulatory capital to risk-weighted assets	15.7	18.1	18.9	17.8	17.9
	Regulatory Tier 1 capital to risk-weighted assets	14.4	16.0	17.9	21.2	20.2
	Nonperforming loans net of provisions to capital	5.5	6.5	5.8	6.4	5.8
Assets Quality	Nonperforming loans to total gross loans	3.8	3.9	3.7	4.4	3.7
	Large exposures to capital	184.8	124.4	107.1	80.7	82.1
Earnings & Profitability	Return on assets	3.1	3.4	3.3	2.4	3.4
	Return on equity	31.4	33.6	28.4	18.0	28.6
	Interest margin to gross income	58.3	57.2	58.0	59.6	60.4
	Noninterest expenses to gross income	52.3	52.2	54.7	62.2	60.7
Liquidity	Liquid assets to total assets	41.9	40.4	31.9	36.3	36.1
	Liquid assets to short-term liabilities	59.8	62.9	47.3	52.8	52.9
	Customer deposits to total (non-interbank) loans	172.9	163.6	154.6	184.6	179.8
Sensitivity to Market Risk	Net open position in foreign exchange to capital	5.5	14.4	31.9	24.5	23.6

Source Central Bank of Lesotho

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

2.4 Regulation and Supervision

Progress towards Basel II.5 Migration

In 2018, a number of initiatives were undertaken in preparation for migration to Basel 2.5. Three pillar 1 guidelines, namely credit, operational and market risks were drafted and shared with the industry for comments. This was in addition to Pillar 2 and 3 guidelines that were shared with the market for validation in 2017 and were finalised in the review period. The pillar 1 guidelines would be finalised in 2019 and shared with the industry in preparation for full migration.

Furthermore, as part of the pilot implementation, draft reports on Internal Capital Adequacy Assessment Program, Stress testing and Basic Disclosure Requirements were received from the four banks licensed in Lesotho. The Bank had distributed guidelines with which banks would align their submissions. The submitted reports were analysed and feedback was provided to the banks with some recommendations, were gaps were observed.

Summary of Banking Sector Performance in 2018

The banking industry registered total assets amounting to M17.4 billion as at December 2018, and were heavily concentrated on the top two banks. There were four licenced banks in Lesotho, three of which were subsidiaries of South African banks and one Government-owned bank. The three foreign banks constituted 91.7 per cent of the entire banking industry assets. The assets were dominated by loans and advances, balances with local and foreign banks, and investments in government securities. The risk aversion behaviour of the banks continued to be observed as evidenced by their increased position in Government securities. An improved performance was observed in the credit portfolio, recording a 12 per cent increase when compared with December 2017.

An improvement in asset quality was observed as evidenced by a decline in Non-Performing Loans, and the ratio was below the industry average of 4 per cent. However, past due loans still remained high owing to early repayment of salaries by employers during the festive season and customers withdrawing before instalments could be processed.

Total liabilities amounted to M15.1 billion in December 2018, with deposits and balances with local banks as the major contributors. Deposit liabilities constituted 82 per cent of the entire liabilities. The banks continued to be challenged by liquidity funding structure which was dominated by wholesale deposits which are volatile in nature. In terms of profitability, the banks reflected good profits and strong capital positions.

In terms of national outreach, the industry had a total of 49 branches in the country, 204 ATMs and 1522 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.

The review year saw the completion of the review of Deposit Taking and Credit Only MFIs Regulations.

Strengthening Non-Bank Financial Institutions Supervision & Regulation

The review year saw the completion of the review of Deposit Taking and Credit Only MFIs Regulations. The Amendments to these Regulations were published in May 2018 and a lot of work has already gone into relicensing existing MFIs and Money Lenders in accordance with the new regulations. The amendments shall pave way for the repeal of the Money Lenders (Amendment) Act of 1989 which is out-dated and obsolete. This will ensure a much more professional MFIs industry that embraces good market conduct and governance principles, thereby contributing to financial inclusion of the unbanked and the micro, small and medium enterprises (MSMEs).

Under Financial Leasing, the Bank embarked on trying to understand the lack of uptake of the leasing market. Following the research and review undertaken in the previous year, the Financial Institutions (Financial Lease) (Amendment) Regulation of 2013 were published in October 2018, paving way for a much more market friendly environment.

As at the end of December 2018, the total number of individuals' records in the bureau constituted over 14 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

For the year 2018, the Bank consolidated its effort on projects that were running from previous years in respect of Insurance and Pensions Supervision. Following the implementation of Risk Based Supervision in 2017, the focus in 2018 has been to roll it over to other regulated entities with the objective of covering all entities within a reasonable timeframe in order to allocate resources on risk bases going forward.

Advances in Insurance Sector Regulation

The Bank has further continued the implementation of the Insurance Regulations of 2016, which were addressing a number of deficiencies. It will be noted that the Regulations introduce an important regulatory tool – Administrative Penalties, which assist the Commissioner to enforce the provisions of the Law and the Regulations without necessarily having to resort to the Courts of laws for conviction. This has brought positive disruptions to the industry and it has led to the insurance industry being cognizant of all provision of the Laws that govern them due to financial consequences, which are immediate, following failure to comply. The response to this has been an improved compliance by the industry compared to the past, and this is expected to free some resources of a need to focus on compliance supervision to risk based supervision.

Industry Developments in 2018

There were nine licenced insurance companies at the close of the reporting period. This followed the revocation of licenses of the three companies namely, Legal Voice Ltd, Law Protection Clinic Ltd and Medi Life Assurance Ltd following their consistent non-compliance with the Insurance Act of 2014. All three companies are no longer in operation and issues relating their grievances are in the Courts of Laws. The three companies did not threaten the stability of the insurance sector, given their smaller sizes and minimal contribution the assets of the insurance sector. From a stability point of view, the insurance industry remains well capitalised and financially sound.

The Pensions Bill

In the Pensions sector, the Pension Funds Bill progressed past National Assembly in 2018 and is expected to pass through the Senate in the following year. To that effect, the Bank has readied itself in anticipation of the new industry which is expected to bring new challenges and dynamics in the regulatory sphere as the industry has not been regulated for years. Following the enactment of the Bill, the snow ball is expected to roll at a higher pace from mid-2019 while the Pension industry will be in transition to full compliance with the Pension Act.

2.5 Financial Markets

Reserves Management

Divergent global market developments continued to exert pressure on reserves management activities in 2018. Major themes that prevailed in global markets were continued policy normalization in a form of four rate hikes in the US, escalating global trade tensions exemplified by the US-China trade war, failure to agree on terms of UK's exit from the Eurozone and to a large extent, political developments in South Africa that saw the replacement of the president. Ensuing noise in the market resulted in higher risk sentiment and a depreciation of emerging market currencies including the South African Rand. Rising risk climate and declining value of the rand posed challenges on levels of reserves under management at the time that Bank was experiencing significant net-outflows.

In the midst of rising challenges, the Bank embarked on a review of its reserves management frameworks through a review of its reserves management policy and guidelines as well credit risk guidelines. The Bank also continued to shore up confidence with its trading counterparts by implementing sanction screening solutions in an effort to comply with emerging global standards for combating money laundering and terrorist financing activities. More efforts were invested at developing internal policies such as development of KYCs to keep abreast with emerging global standards for compliance. The Bank also managed to deliver on the reasonable return mandate by forging ahead with deepening the process for active management to ensure that sufficient revenues are generated.

Maseru Securities Market

In an effort to operationalize the Maseru Securities Market, the Bank continues to engage the potential issuers. As a result of these engagements, the exchange had been in consultation with four (4) potential issuers who demonstrated interest

In an effort to operationalize the Maseru Securities Market, the Bank continues to engage the potential issuers.

– one in fixed income securities and the other three in issuance of equity securities. The Bank continues to work on these prospects, as issuing and listing are lengthy processes that require issues of corporate governance and information disclosures to be addressed adequately.

The Bank also continued to review the exchange's operational and regulatory instruments together with other laws that could potentially keep companies away from approaching the exchange with proposal of raising capital by way of issuing financial securities and listing on the exchange. In review of regulatory instruments, the Stamp Duties levy on marketable securities that had been one of salient barriers to participation was removed by deleting item 19 of the schedule to the Stamp Duties Act of 1972. This removal was effected by gazzetment and publication of the Stamp Duties (Amendment of Schedule) Regulations of 2018.

Domestic Market Operations

Pursuant to its mandate of developing capital markets and issuing debt instruments for the Government of Lesotho, the Bank continued to promote participation in capital markets through sensitization and engagement with various stakeholders. Channels used to promote participation in capital markets included public campaigns, road shows, media communication and bilateral meetings. The results of the Bank's efforts were noted in mostly successfully auctions of 7-year and 10-year maturity bonds for the Government. The success of the auctions was largely pioneered by the Bank's efforts that attracted new participants in government bond auctions from local insurance companies and a vast array of retail investors.

2.6 Payment Systems Performance

Lesotho Wire

Lesotho Wire (LSW) is the only large value payment system that provides real time and intraday settlement of financial transactions on a continuous and gross basis. It has five participants consisting of the four commercial banks [namely Standard Lesotho Bank, First National Bank, Nedbank Lesotho and Lesotho Post Bank) as well as the Banking Division of the Central Bank of Lesotho (CBL)]. Since its launch in 2006, the LSW system remained the backbone of the payment and settlement system in Lesotho. In 2018, LSW settled a total of 25,880 transactions valued at M51.46 billion compared to a total of 29,968 transactions worth M43.05 billion settled in 2017. This represents growth rates of 15.08 per cent and 16.4 per cent in terms of transaction volumes and values, respectively from the preceding year. The growth in LSW transaction volumes and values in 2018 was among others driven by huge interbank transfers and increased government transactions made through LSW.

As part of its transactions, LSW also settles transactions related to the trading of government securities (Treasury bills and Treasury bonds). The trading of these government securities is usually initiated from the Central Securities Depository (CSD) system at the Central Bank of Lesotho. In 2018, LSW settled a total of 9,213 government securities' transactions valued at M3.59 billion. This represents growth rates of 12 per cent and 44 per cent in terms of transaction volumes and values, respectively, from 2017. The growth in transaction volumes and values related to the sale of government securities in 2018 was largely on account of huge treasury bills auctions (in terms of the value of the auctioned amount) that took place during the year and the growing number of bids received in the year.

In terms of system availability, LSW maintained an average system uptime of 99.64 per cent in 2018, a similar system uptime was achieved in the 2017. Therefore, the system operated smoothly and remained available to settle all large value and time-critical payments in 2018. This provided a conducive environment for efficient circulation of funds, conduct of monetary policy, supported monetary and financial stability and consequently supported overall economic activities in the country.

Lesotho Automated Clearing House (LACH)

The LACH hosts both cheques and Electronic Funds Transfers (EFTs) clearing systems, and it is operated by the Payment Association of Lesotho (PAL). Just like the LSW, the LACH also has five participants consisting of the four commercial banks and the Central Bank of Lesotho through its Banking Division. In 2018, the cheque clearing system processed a total of 56,901 transactions worth about M826.17 million compared to 60,355 transaction valued at M881.53 million cleared in 2017. This represents the rates of decline of 5.72 per cent and 6.28 per cent in terms of transaction volumes and values, respectively, from 2017.On the other hand, EFT system cleared a total of about 666,541 transactions valued at M5.32 billion compared to 557,916 transactions amounting to M4.42 billion recorded in 2017. This accounts for growth rates of 19.47 per cent and 20.26 per cent in terms of transaction volumes and values, respectively, from 2017. The decline in cheque usage and the growth in EFT usage over time is in line with the shift by consumers towards electronic payments methods (such as EFT), which are efficient and safe in processing of payments.

Mobile Money

By the end of 2018, mobile money (EcoCash and M-Pesa Systems) cumulatively had a total of 9,249 registered agents, 48 per cent and 54 per cent of which were active on 30-days and 90-days basis, respectively. In addition, there were a total of 1,261,985 registered mobile money accounts, 45 per cent and 53 per cent of which were active on 30-days and 90-days basis. In terms of transactions, mobile money processed a total of 55.66 million transactions worth M8.08 billion in 2018 compared to 40.34 million transactions valued at M5.94 million in 2017. This represents growth rates of 38 per cent and 35 per cent in terms of transaction volumes and values, respectively compared with the respective growth rates of 25 per cent and 35.5 per cent in 2017. In line with an increase in processed transactions, the trust account balances also grew

> In the year 2018, the regional transaction volumes and values settled by SADC-RTGS system marginally increased.

between 2017 and 2018. Specifically, the trust account had accumulated a total of M176.95 million in 2018 compared M143.31 million recorded in 2017.

In terms of the services provided, mobile money usage in Lesotho has grown beyond electronic money transfer and retail electronic payments, and it is increasingly used as a platform which opens access to key adjacent or value-added services. The platform is currently evolving at a faster pace to integrate with commercial banks, microfinance firms and insurance companies and plans to introduce virtual savings accounts in the very near future. Among others, the platform currently provides cross-border remittance services in partnership with money transfer operators and insurance services in partnership with insurance companies and funeral parlours. Despite low level of collaboration between the mobile money providers and other financial services providers, these partnerships have the potential to reduce the cost of access to and use of financial services by consumers in the country. Therefore, there is a need for all stakeholders to work together to form partnerships in order to increase financial inclusion.

SADC Real Time Gross Settlement (SADC-RTGS)

In the year 2018, the regional transaction volumes and values settled by SADC-RTGS system marginally increased. In particular, the system settled a total of 348,600 regional transactions valued at M1.27 Trillion in 2018 compared to a total of 314,705 regional transactions worth M1.24 Trillion settled in 2017. This represents growth rates of 10.77 per cent and 2.47 per cent in terms of transaction volumes and values, respectively, between 2017 and 2018. The growth in transaction volumes and values in total regional transactions were driven by economic activities in the region.

In line with this upward trend associated with the total SADC-RTGS system, the Lesotho transaction volumes and values settled by the SADC-RTGS system also grew between 2017 and 2018. The system settled a total of 50,977 local transactions worth M122.71 billion in 2018 compared to 45,075 domestic transactions valued at M104.25 billion settled in the preceding year. On the one hand, this accounts for a growth rate of 13.09 per cent in terms of transaction volumes from 2017. On the other hand, it represents a rate of decline of 17.71 per cent from the same period. The volume and values of domestic transactions settled by SADC-RTGS system were mainly driven by Standard Lesotho Bank (SLB) as the largest bank in Lesotho in terms of market share.

2.7 Financial Consumer Protection and Market Conduct

As more individuals are continuously being included in the financial system via several financial inclusion initiatives, financial consumer protection (FCP) becomes imperative. Equally important is the conduct of the financial services providers (FSPs). It is against this background that in 2018 the Bank established the Financial Consumer Protection and Market Conduct Unit. The Unit was established with the main objective of protecting the financial consumers from unfair, deceptive or abusive practices by and taking action against FSPs that break the financial sector provisions. At the initial stages of operations, the Unit supervises the commercial banks only and the plan is to include Other Financial Institutions (OFIs) such as insurance companies, financial intermediaries, pension funds, Micro-Finance Institutions (MFIs), Money lenders, Savings and Credit Cooperatives (SACCOs), Mobile Network Operators going forward.

Policy Development and Legal Framework

During the course of 2018 a Draft Policy document for FCP was developed with the assistance of the World Bank. The Draft Policy was presented to the Ministry of Finance for tabling before Cabinet. The ultimate objective is to eventually enact the FCP Act.

Complaints Handling and Redress

In the past the Bank had handled complaints, mediated and in some instances provided redress. The FCP Unit will provide an organised and dedicated avenue for this task and in the process permit the other units to focus on prudential regulation matters.

Transparency and Disclosure

Transparency and disclosure are important tenets of consumer protection and ethical business conduct. To ensure that these become part and parcel of the financial sector, the Unit conducts on-site examination and off-site monitoring of financial consumer protection and market conduct issues in the banking industry. In the reporting period, on-site examinations were conducted on two banks where it was established that disclosure with respect to banking fees, charges and interest rates can be improved.

2.8 Financial Inclusion and Financial Education

Money Month Campaign

The financial literacy and education campaign is held every year in Lesotho, and in 2018 the Money Month Campaign was held in October. The theme for the year under review was titled “Money Matters Matter”. The campaign was aimed at equipping members of the public with the necessary skills and techniques to assist in managing their personal finances effectively. It was also aimed at inspiring students about money matters and improving their entrepreneurial skills.

The financial literacy and education campaign is held every year in Lesotho, and in 2018 the Money Month Campaign was held in October.

The campaign culminated with the holding of a Money Week Event in the district of Thaba-Tseka. The event was hailed as one of the most successful partnerships by the financial sector. Furthermore, the event has also created awareness among the Basotho people with respect to available products and services being offered by the financial sector, consumer rights and responsibilities and emerging issues within the operating space of the financial sector such as illegal operations like cryptocurrencies, pyramid schemes and forex trading activities.

Financial Inclusion Day

In November 2018, the Bank in collaboration with the Ministry of Finance and the World Bank Group organised the inaugural financial inclusion day under the theme *'broadening the horizons for all',* and this was the culmination to annual Money Month Campaign for the year.

As such, the event was intended to create awareness on the importance of financial inclusion, inform the community about the CBL's regulatory and policy advances and listen to the challenges and successes of the different market participants in the country. The event was also aimed at providing an opportunity for domestic stakeholders to draw some lessons from other countries leading in some of these areas.

The event was attended by over 120 participants representing Government Ministries and departments, development partners, parastatals, Non-Governmental Organisations, civil society groups, financial institutions, mobile network operators and other stakeholders.

2.9 International Cooperation

The Bank participates in meetings and conferences of various international organisation to which it is a member. These include the International Monetary Fund (IMF) / World Bank, 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) ❑

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.

CORPORATE ACTIVITIES REPORT

3.1 GOVERNANCE MATTERS

The Bank has a unitary Board which comprises of five (5) Non-Executive Directors and three (3) Executive Directors. The Non-Executive directors are independent of 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, the Board convened ten (10) meetings during the 2018 Financial Year.

3.2 ASSURANCE MATTERS

The Internal Audit Function

The Internal Audit Department (IAD) has maintained the provision of objective, independent assurance on the adequacy and effectiveness of the Banks's governance, risk management and control processes. The Head of Internal Audit reports jointly to the Governor and to the Chairperson of the Audit Committee. All IAD activities are governed by an Internal Audit Charter approved by the Audit Committee.

Assurance Services

The Internal Audit Department is responsible for conducting independent appraisals of the Bank's activities, functions and operations. This responsibility ensures that adequate framework of internal control system; risk management and governance initiatives were established and are operating effectively. The audit activities are carried out following a risk-based internal auditing methodology. The risk-based approach places emphasis on high risk auditable areas as reflected in the Internal Audit Plan for 2018. The execution of the audit activities in 2018 were carried out as planned. The overall assessment of Bank's activities, functions and operations pertaining to the planned engagements indicates that the system of internal control is adequate and effective with room for improvement. Similarly, a significant improvement was made regarding the implementation of issues tracked in 2018. The tone at the top, IAD consultancy services and new strategies adopted by Senior Management influenced positive actions to address the findings.

Consultancies Services

The primary objective of the internal audit function is to add value to the organization. In 2018, two value-adding engagements were undertaken. These were Fraud and Whistle Blowing Policy, and the SWIFT Security upgrade. The SWIFT Security was upgrading from version 7.1 to 7.2. IAD's participation was intended to harmonise both the new and existing internal controls, risks management and governance structures. These consultancies provided advisory services to management on issues pertaining to internal controls, risk management and governance systems. The main objective of Fraud and Whistle Blowing Policy was alignment with Bank's roles, existing rules and regulations. The exercise ensured the policy is adequate and comprehensive to respond to the needs of the Bank before they are approved for implementation.

Combined Assurance Model

The Internal Audit Department has resuscitated implementation of Combined Assurance Model in 2018. The IAD objective for the Combined Assurance Model was a two-fold project. Firstly, the model would ensure that Internal Audit resources focus on high to very high-risk areas of the Bank. Secondly, the model is expected to promote collaboration and co-ordination among all assurance providers in the Bank to avoid duplication of efforts. The planned Combined Assurance (CA) activities for 2018 were largely geared towards piloting implementation of this model to selected business areas. The department of Financial Markets (DFM) was unanimously selected for the pilot activities by the Combined Assurance Forum. The pilot of CA in Financial Markets was a success as demonstrated by milestone achieved in 2018. In addition, the CA champions have continued to collaborate with all assurance providers including External Auditors.

Enterprise Risk Management

Risk Management

The Bank continued to manage its risk exposure in order to achieve its mandate and strategic objectives. This was done by aligning all risk management efforts with the approved framework and adopted international standards and best practices. As a result of the revised Bank strategic plan and emerging risks, the corporate risk register and profile were also revised. The Bank also put in place the risk appetite and tolerance framework. This ensured that risks were being managed within set limits and clear key risk indicators giving warning signals for areas that could potentially increase in their risk ratings. More efforts were also geared towards the improvement of the risk management culture within the Bank.

Business Continuity Management

Regarding business continuity management (BCM), the Bank's agenda for the year focused on developing a BCM policy and framework to guide its day-to-day programme in this area as well as giving assurance to continuity of critical functions. Critical systems at the temporary disaster recovery (DR) site were tested during the year. Further, business area recovery plans (BARPs) for individual critical divisions were developed to further aid the implementation of the Bank's business continuity plan. In order to benchmark regionally, its BCM maturity, the Bank conducted a self-assessment using a SADC adopted BCM maturity assessment tool. The results indicated that the Bank can recover most of its critical functions in the case of business disruptions.

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

The Internal Audit Department has resuscitated implementation of Combined Assurance Model in 2018.

Occupational Health and Safety

During the reporting period, the Bank continued to ensure a safe occupational health and safety (OHS) of its employees as required under the Lesotho Labour Code, Order of 1992 and its amendments. In this regard, the Bank developed an OHS policy to guide its practices. In addition, Management of the Bank also continued to give support and show commitment to OHS by including a monthly agenda item in its meetings that focused on potential hazards. Further, in order to instil improved OHS culture, workshops were held for all members of staff including induction of new members. As a result of these improved OHS management efforts, during the reporting period there were no critical cases related to injury on duty.

3.3 CORPORATE SERVICES

Human Resources

As a service organisation, and in particular as a sector regulator, the most important resources for the Bank to fulfil its mandate and functions are competent and motivated people. It was therefore fitting that the Human Resources function was elevated to a strategic level.

The reporting period saw the re-organised Human Resources Department deploy the Business Partnership Model supported by the Shared Services sub-function. This configuration has improved the efficiency and effectiveness of services to business units.

The HR Department performs all the functions related to employee lifecycle from recruitment to exit. In pursuit for retention the Bank approved the dual-career progression policy which enables people with highly specialised skills, who are consistent high performers to be eligible for promotion without necessarily having to become managers. With respect to recruitment and exit, the Bank in 2018 made 20 new appointments while 13 people separated with the Bank through resignations and retirement. This resulted in a head count increase of 7 employees at the end of the reporting period.

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.

There has been a notable improvement on security posture of a key payment and settlement system of the Bank: SWIFT. Implementations of SWIFT Customer Security Program 2018 (CSP 2018), as well as the ability to recover the same, in case of its failure on the production site, were successfully completed in 2018. CSP 2018 was intended amongst others to enforce end-point security resilience to cyber threats in the wake of major attacks to the financial system, and to ensure that the global payments and settlements community acts in a consistent manner against this imminent threat. In the interest of proactive approach, the Bank went on to subscribe to Financial Services Intelligence Sharing and Analysis Center (FS-ISAC); a non-profit making international organization for intelligence gathering and distribution to affiliated members. Efforts are underway to lead information sharing within the local financial sector.

Efforts made to improve stability and performance of financial systems and their interfaces bore fruits within this reporting period; it is all thanks to hard working technical and business function teams across the Bank.

Cyber resilience was identified as one of the Bank's necessary priorities for the reporting period. Capacity building efforts were made for staff at different levels and from across the Bank through trainings and awareness campaigns. It is evident that the threat of cyber-attacks has the capacity to undermine the very key mandate of the Bank, as such all necessary efforts continue to be put in place to minimize its impact ranging from technical to processes to people resilience ❑

4

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 2018

General Information

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

Registered office
Cnr Airport & Moshoeshoe Roads Maseru 100 Lesotho

Postal address
P.O. Box 1184 Maseru 100 Lesotho

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

Secretary
Mr. Napo Rantsane (Adv.)

Lawyer
Webber & Newdigate

Contents

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

Corporate Governance Report

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

Report for the year

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

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

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

In order to assist the Board to 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 with by these Committees are referred to the Board with clear recommendations for consideration and decision. Further, each Committee provides reports to the Board on the matters that it dealt with periodically.

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

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

In line with section 13 (2) of the Act, which requires the Board to meet as frequently as possible and not less than once in every two months, the Board of Directors convened ten (10) meetings during the 2018 Financial Year.

Mr. Napo Rantsane
Secretary to the Board

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Audit Committee Report

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

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

The Committee commenced its business in 2018 with one vacancy resulting from the expiration of a term of appointment of an External Non-Board Member, Mrs. M.Hongwa. In June 2018, the term of appointment of Mrs. O. Letebele, a Non-Executive Director and the Chairperson of the Committee, also came to an end. In the same month two new appointments were made to fill the above vacancies. Mr. Setsoto Ranthocha was appointed as an External Non-Board Member, Mrs K. Thabane was appointed as a Non-Executive Member of the Board and a Member of the Committee. Mrs S. Mohapi, who was already serving as a Non-Executive Member of the Board, was appointed as the Chairperson of the Committee.

The above appoinments led to full composition of the Committee. The Committee currently comprises of four independent Non-Executive Directors, one of whom serves as the Chairperson. The Head of Internal Audit Department sits in the Committee meetings. The Head of Internal Audit Department reports functionally to the Committee and administratively to the Governor. The first and second deputy Governors sit at the meeting of Audit Commitee representing Management of the Bank.

During the financial year ended 31 December 2018, the Committee convened eight times and approved the Internal Audit Department Annual Plan for 2018, and the reports of the Internal Audit Department on identified areas of internal control, risk management and governance weaknesses and management of corrective actions in response thereto. The Committee also considered and approved the external auditor's audit scope, audit approach, and fees for the year under review in consultation with Management. The Committee also considered and approved the audited Annual Financial Statements for the Year Ended 31 December 2018.

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

The Committee is satisfied with the independence of the external auditors of the Bank. This assessment is made after considering the representations of independence from external auditors, continuous monitoring and approval of the non-audit services performed by the external auditors for the Bank, as well as a formal external audit lead partner rotation process.

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

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

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

On behalf of the Audit Committee:

SMohapi

Mrs. Sophia Mohapi
Chairperson of the Audit Committee

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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Directors' Responsibilities and Approval

The Directors are required in terms of the Central bank of Lesotho Act. No.2 of 2000 to ensure that proper financial and managerial controls are in place, adequate and effective. Directors are also responsible for the content and integrity of the annual financial statements and related disclosures in this report.

It is the Directors' responsibility to ensure that the annual financial statements fairly present the state of affairs of the Bank at the end of the financial year and the results of its operations and cash flows for the year ended 31st December, 2018, 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 control established by the Bank and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Board of Directors sets standards for internal controls aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Bank and all employees are required to maintain the highest ethical standards in ensuring that the Bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Bank is on identifying, assessing, managing and monitoring all known forms of risk across the Bank. While operating risk cannot be fully eliminated, the Bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

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

The financial statements were approved by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Dr. Retšelisitsoe Matlanyane
Governor

Mrs. K. Thabane (Adv)
Director

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

Directors' Report

The Directors present their annual report, which forms part of the audited annual financial statements of Central Bank of Lesotho for the year ended 31 December 2018. The annual financial statements are expressed in Maloti, the local currency of Lesotho and the functional currency of the Bank that is at par with South African Rand.

1. Review of financial results and activities

Nature of business

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

Financial results

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

The financial results of the Bank are set out in the statement of profit or loss and other comprehensive income on page 12. The residual profits, after a transfer of the foreign exchange currency translation to the designated foreign currency translation reserves, and after appropriations have been allocated to the general and other reserves, are paid over to the Government of Lesotho Consolidated Fund as dividends in accordance with Section 21(5) of the Act. These appropriations have been fully disclosed in the statement of changes in equity on page 13. Amounts paid and due in terms of the Act were as follows:

	M '000
31 December 2018	108 062
31 December 2017	84 396

2. Amounts due to Government of Lesotho

Amounts due to the Government of Lesotho Consolidated Fund in terms of Section 21 (5) of the Act are set out in the statement of financial position on page 56.

3. Share capital

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

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

4. Directors

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

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

5. Secretary

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

6. 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.

7. Auditors

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

Dr. Retšelisitsoe Matlanyane
Governor

Mrs. Sophia Mohapi
Director

LETACC FIRM
OF CHARTERED ACCOUNTANTS

LETUKA ACCOUNTING FIRM
Reg. No 2013/1462 • BUSINESS CONSULTANTS
VAT Registration Number 50013895 • TIN 200016558 - 5
Number 7 Arrival Centre • Kofi Annan Road
P.O. Box 2368 • Maseru 102 • Lesotho

email: reception@letacc.co.ls / sephelane@letacc.co.ls
Fax: +266 223 20071 • Tel: +266 223 14504 • Cell: +266 5885 2357

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 2018 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 50 to 104 including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Bank for the year ended 31 December 2018, 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, Economic Report, Activities Report, Corporate Activities 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 audit 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.

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 Letuka Sephelane.

LETACC
Firm of Chartered Accountants and Auditors
Per Letuka Sephelane C.A. (L) Membership number 30034
Director
29 March 2019

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Statement of Financial Position as at 31 December 2018

	Note(s)	2018 M '000	2017 M '000
Assets			
Cash and cash equivalents	2	5 407 813	4 778 747
Accrued interest due from Banks	3	24 714	9 817
Investment in unit trust	4	750 487	635 604
Investment in SWIFT	5	399	700
Treasury notes and bonds	6	3 260 895	3 121 639
Treasury bills at amortised cost	7	71 603	91 813
IMF Subscription Account	8	1 397 173	1 223 196
IMF Holding of Special Drawing Rights (SDR)	9	437 554	530 125
IMF Funded PRGF Advances	10	692 091	753 413
Lesotho Government Securities	11	524	58
Deferred currency expenditure	12	7 074	8 303
Loans to staff	13	95 910	86 196
Other assets	14	7 775	11 953
Property, plant and equipment	15	742 870	695 445
Intangible assets	16	32 464	41 761
Current tax receivable	22	-	26 882
Total Assets		**12 929 346**	**12 015 652**
Equity and Liabilities			
Liabilities			
Notes and coins issued	17	1 520 217	1 616 489
Deposits	18	342 136	401 824
Lesotho Government Deposits		3 371 412	3 208 374
IMF Maloti Currency Holding	19	1 144 226	1 002 220
IMF Special Drawing Rights Allocation	20	658 116	576 167
IMF-PRGF Facility	21	692 091	753 413
Taxation payable	22	4 929	-
Due to Government of Lesotho Consolidated Fund	23	142 177	84 396
Changes in Other Liabilities	24	24 168	26 944
Long-term employee benefit obligation	25	104 842	101 879
Deferred tax	26	11 652	19 344
		8 015 966	**7 791 050**
Equity			
Share capital	27	100 000	100 000
General reserve	6	296 744	299 795
Rand compensatory reserve		745 057	674 708
SDR revaluation reserve		63 903	(42 297)
Foreign exchange revaluation reserve		3 585 462	3 046 502
Property revaluation reserve		137 140	141 413
Bond/unit trust revaluation reserve		(14 926)	4 481
		4 913 380	**4 224 602**
Total Equity and Liabilities		**12 929 346**	**12 015 652**

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

Central Bank of Lesotho

Financial Statements for the year ended 31 December 2018

Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2018 M '000	2017 M '000
Interest income	28	450 352	445 145
Interest expense	29	(7 104)	(6 471)
Net interest income		**443 248**	**438 674**
Other income	30	30 688	28 834
Revaluation gain/(loss) on foreign exchange activities		645 160	(399 726)
Operating profit (loss)		**1 119 096**	**67 782**
Operating expenses	31	(317 367)	(332 918)
Profit/(Loss) before taxation		**801 729**	**(265 136)**
Taxation	32	(24 920)	(35 144)
Profit/(Loss) for the period		**776 809**	**(300 280)**
Other comprehensive income:			
Bond/ unit trusts fair values			
Increase in bond/unit trusts fair values		(24 459)	31 861
Tax effect		5 052	(7 965)
Net movement		**(19 407)**	**23 896**
Property revaluation reserve			
(Decrease)/Increase in property revaluations		(3 418)	-
Tax effect		(855)	-
Net movement		**(4 273)**	**-**
Rand compensatory reserve			
Increase in reserve		70 349	111 508
Tax effect		-	-
Net movement		**70 349**	**111 508**
Actuarial gains and losses on employee benefits			
Actuarial (loss)/ gain for the year		(1 975)	2 439
Tax effect		493	(609)
Net movement		**(1 482)**	**1 830**
Other comprehensive income for the year net of taxation		**45 187**	**137 234**
Total comprehensive income/(loss)		**821 996**	**(163 046)**

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

Statement of Changes in Equity

	Share capital	General reserve	Rand compensatory reserve	SDR revaluation reserve	Foreign Exchange revaluation reserve	Property revaluation reserve	Bond /Unit trust revaluation reserve	Accumulated profit/(loss)	Total equity
	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000
Balance at 01 January 2017	**100 000**	**282 916**	**563 200**	**43 433**	**3 360 498**	**141 413**	**(19 415)**	**-**	**4 472 045**
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**		**51 008**
Balance at 01 January 2018	**100 000**	**299 795**	**674 708**	**(42 297)**	**3 046 502**	**141 413**	**4 481**	**-**	**4 224 602**
Loss for the period	-	-	-	-	-	-	-	776 809	776 809
Actuarial fair value gain	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**776 809**	**776 809**
Transfer of foreign exchange translation to designated reserve	-	-	-	106 200	538 960	-	-	(645 160)	-
Movement in bond/unit trust fair values	-	-	-	-	-	-	(19 407)	-	(19 407)
Asset revaluation for the year	-	-	-	-	-	(4 273)	-	-	(4 273)
Rand compensatory receipts	-	-	70 349	-	-	-	-	-	70 349
IFRS 9 1 January 2018 transition adjustment	-	(31 486)	-	-	-	-	-	-	(31 486)
Actuarial fair value gain	-	-	-	-	-	-	-	(1 975)	(1 975)
Transfer to General Reserve	-	28 435	-	-	-	-	-	(21 612)	6 823
Dividends	-	-	-	-	-	-	-	(108 062)	(108 062)
Total changes	**-**	**(3 051)**	**70 349**	**106 200**	**538 960**	**(4 273)**	**(19 407)**	**(776 809)**	**(88 031)**
Balance at 31 December 2018	**100 000**	**296 744**	**745 057**	**63 903**	**3 585 462**	**137 140**	**(14 926)**	**-**	**4 913 380**

Central Bank of Lesotho

Financial Statements • Statement of Cash Flows

for the year ended 31 December 2018

	Notes	2018 M '000	2017 M '000
Cash flows from operating activities			
Cash used in operations	33	638 832	(2 149 827)
Interest income	28	450 352	445 145
Interest expense	29	(7 104)	(6 471)
Tax paid	22	(6 707)	(68 802)
Rand compensatory reserve		70 349	63 295
Payments to Government of Lesotho Consolidated Fund	23	(84 396)	(147 566)
Net cash from operating activities		**1 061 326**	**(1 864 226)**
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(65 689)	(145 697)
Sale of property, plant and equipment	15&30	45	48
Purchase of other intangible assets	16	(2 188)	(918)
Purchase of Deferred currency expenditure	12	(8 316)	(429)
Movement in Other assets	14	4 178	1 224
Movement in loans to staff	13	(9 714)	(5 932)
Movement in Lesotho Government Securities	11	(466)	(51)
Movement in Treasury notes, bonds and unit trust	6	(254 139)	803 905
Movement in investment in SWIFT		301	(145)
Net cash from investing activities		**(335 988)**	**652 005**
Cash flows from financing activities			
Movements in notes and coins	17	(96 272)	280 654
Total cash movement for the year		**629 066**	**(931 567)**
Cash at the beginning of the year		4 778 747	5 710 314
Total cash at end of the year	2	**5 407 813**	**4 778 747**

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

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

1.1 Property, plant and equipment

Owner-occupied properties

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

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

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

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

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

The most recent independent valuation for buildings was performed for the year ended December 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	Straight line	1.5%
Furniture and fixtures	Straight line	10%
Motor vehicles	Straight line	20%
Office equipment	Straight line	10%
SAGE and QCBS	Straight line	10%
Lehakoe Furniture	Straight line	20%
Housing equipment	Straight line	20%
Security equipment	Straight line	20%
Intangible assets	Straight line	33,3%

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 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.

1.4 Leases

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

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).

1.5 Share capital

(a) Share capital is classified as equity.

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

(b) Dividends on ordinary shares

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

1.6 Employee benefits

(a) Post employment benefits

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

(b) Other long-term employee benefits

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

Long-term employee benefits include:

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

(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.

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

1.7 Provisions

Contingent assets and contingent liabilities are not recognised.

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

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

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

1.8 Revenue

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

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.

1.9 Translation of foreign currencies

1.10 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.

1.11 Claims on staff

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

1.12 Deferred currency expenditure

Expenditure incurred in connection with printing, minting and issue of Maloti Notes and Coins is amortised over a period of three years. The appropriateness of this amortisation period is reviewed from time to time by the Directors.

1.13 Dividend distribution

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

1.14 Notes and coins

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

1.15 IMF Holding of Special Drawing Rights and IMF subscription account

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

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

1.16 IMF Funded PRGF Advances

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

1.17 Comparative figures

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

1.18 General Reserve

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.Additional text

1.19 Rand Compensation Reserve

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

1.20 Foreign Exchange Revaluation Reserve Account

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

1.21 SDR Revaluation Reserve

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

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

1.22 Property Revaluation Reserve

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

1.23 Bond/Unit Trust Revaluation Reserve

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

1.24 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 2018, if the currency had weakened/strengthened by 5% against the functional currencies, the Bank's foreign assets would have been 2.31% (2017: 2.12%) higher/lower as a result of foreign exchange losses/gains on valuation of foreign currency denominated assets.

(ii) Interest Rate Risk

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

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

As at 31 December 2018, if interest rates had fallen by 1%, the Bank's revenue would decline by 22%, 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 41 to 55.

1.25 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the No.1 and No.2 accounts which total SDR 57,214,433 (2017: SDR 31,063,193) in favour of the IMF. GOL chose to substitute non-interest bearing notes for a portion of the balance held in its Fund's No. 1 account and the securities substituted for currency are recorded in the Securities Account. GOL's holding in IMF SDR Department is posted in the No.1 account and is used for the Fund's operational transactions e.g. purchases and repurchases, whereas the No. 2 account is used for the payment of operational expenses incurred by the Fund in Maloti. The Bank revalues the IMF accounts in its Statement of Financial Position in accordance with the practices of the IMF Treasury Department. The revaluation of the SDR rates by the IMF is effected annually on 30 April, and whenever there are IMF transactions using the Maloti. The IMF accounts have been revalued using the latest prevailing SDR rates in IMF website.

1.26 Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

(a) Employee benefits

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

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

The assets and liabilities relating to the employees of the company cannot be separately determined and is therefore treated as defined contribution plan. Refer to further disclosure in note 25 and 35.

(b) Fair values

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

i) Balances due to and from banks

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

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

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

1.27 Memorandum Accounts

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

1.28 New Standards

(IFRS 9)- Financial Instruments

The IASB has issued a final version of IFRS 9 which brings together the clssification 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 has assesed and determined 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.

The date of initial application (i.e. the date on which the Bank has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Bank has applied the requirements of IFRS 9 to instruments that have not been derecognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. Comparatives in relation to instruments that have not been derecognised as at 1 January 2018 have not been restated. Instead, cumulative adjustments to retained earnings have been recognised in the general reserve as at 1 January 2018.

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

The measurement requirements are summarised below:

Debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortised cost.

Debt investments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at fair value through other comprehensive income.

All other debt investments and equity investments are subsequently measured at fair value through profit or loss, unless specifically designated otherwise.

The Bank may irrevocably designate a debt investment that meets the amortised cost or fair value through other comprehensive income criteria as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.
When a debt investment measured at fair value through other comprehensive income is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. In contrast, for an equity investment designated as measured at fair value through other comprehensive income, the cumulative gain or loss previously recognised in other comprehensive income is not subsequently reclassified to profit or loss.

Debt instruments that are subsequently measured at amortised cost or at fair value through other comprehensive income are subject to new impairment provisions using an expected credit loss (ECL) model.

The Management reviewed and assessed the Bank's existing financial assets as at 01 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Bank's financial assets as regards to their classification and measurement: Refer to accounting policy 1.30.

1.28 New Standards (continued)

Impairment of financial assets

Specifically, IFRS 9 requires the Bank to recognise a loss allowance for expected credit losses on debt investments subsequently measured at amortised cost or at fair value through other comprehensive income. In particular, IFRS 9 requires the Bank to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. On the other hand, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Bank is required to measure the loss allowance for that financial instrument at an amount equal to 12 months expected credit losses.

Under IFRS 9, expected credit losses would be recognized from the point at which financial instruments are originated or purchased. With limited exceptions, a 12-month expected credit losses must be recognized initially for all assets subject to impairment. 12-month expected credit losses are defined as the expected credit losses that result from those default events on the financial instrument that are possible within the 12 months after the reporting date With limited exceptions, IFRS 9 requires that at each reporting date, an entity shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.
Significant increase in credit risk

Credit risk exists where there is a possibility that a counterparty may default on its obligations when they fall due. Uncertainties over whether the expected returns will be earned or the ability of the counterparty to make good on its obligations when they fall due contribute directly to the creation of credit risk.

Classification and measurement of financial liabilities

One major change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognised. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the company's financial liabilities.

1.29 Impact of new standards not yet effective

IFRS 16 is effective for periods beginning periods 01 January 2019. It is not expected to have an impact on the Bank due to the fact that there are no leases held by Bank.

		2018	2017
		M '000	M '000
2.	**Cash and balances with Banks**		
	Cash and cash equivalents consist of:		
	Cash and cash equivalents		
	Cash on hand	3 227	2 055
	Bank balances	150 618	173 157
	Short-term deposits	7 719	20 700
	Total cash and cash equivalents	161 564	195 912
	Current and Call Accounts:		
	Foreign Banks	70 420	84 775
	South African Banks	1 080 605	1 836 781
	Total Current and Call Accounts	1 151 025	1 921 556
	Fixed Deposits:		
	Foreign Banks	2 319 370	1 341 469
	South African Banks	1 775 854	1 319 810
	Total Fixed deposits (with maturity shorter than 3 months)	4 095 224	2 661 279
	Balances with banks (with maturity shorter than 3 months)	5 246 249	4 582 835
	Total cash and balances with Banks	**5 407 813**	**4 778 747**

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

3.	**Accrued interest due from Banks**		
	Accrued interest receivable:		
	ZAR call accounts	100	92
	ZAR fixed deposits	20 822	8 687
	Foreign call and fixed deposit accounts	3 792	1 038
		24 714	**9 817**
4.	**Investment in unit trust**		
	2018	Fair Value through OCI	Total
	Unit trusts at fair value	750 487	750 487
	2017	Fair Value through OCI	Total
	Units trusts at fair value	635 604	635 604

The unit trusts were purchased from the Bank for International Settlement (BIS) in 2012. These are equity instruments and measured at Fair value through other comprehensive income and changes in market values are recorded directly in the Bond/unit trust revaluation reserve. The number of units remained constant at 376,076 converted at $136.848153 (2018: 376,076 at $138.918052) at an exchange rate of 14.36510 (2017: 12.35015) to the US Dollar.

		2018 M '000	2017 M '000
5.	**Investment in Swift**		
	Investment in SWIFT	399	700

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

6. Treasury notes and bonds

2018

	Armortised cost	At fair value through profit and loss	Available-for- sale	Total
US Bonds at fair value	-	1 479 657	326 525	1 806 182
ZAR Bonds at fair value	-	-	1 429 840	1 429 840
US Bonds accrued interest	-	7 570	1 267	8 837
ZAR Bonds accrued interest	-	-	37 819	37 819
Provision for Impairment	-	-	(21 783)	(21 783)
	-	**1 487 227**	**1 773 668**	**3 260 895**

Impairment		
IFRS 9 01 Jan 2018 Transition Adjustment	(31 485)	-
IFRS 9 Provision for Impairment closing balance	21 783	-
Movement in Provision for 2018	**(9 703)**	**-**

IFRS 9 transition adjustments for impairment requires adjustment of prior period retained earnings which in this case is the General Reserve.

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**

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

In accordance with IFRS 9, an ECL has been calculated for the Treasury notes and bonds measured at fair value through other comprehensive income, a 01 January 2018 transition adjustment was calculated for this ECL.

7. Treasury bills at amortised cost

US Treasury Bills

	2018	2017
Treasury Bills at amortised cost	71 603	91 813

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

		2018 M '000	2017 M '000
8.	**IMF Subscription Account**		
	Balance at beginning of year	1 223 196	1 284 076
	Exchange revaluation	173 977	(60 880)
	Balance at end of year	**1 397 173**	**1 223 196**

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 69,800,000 in 2018. The local currency equivalent of the subscription account in the statement of financial position is converted at the year end rate of 0.0559372 (2017: SDR 69,800,000 at 0.0570636).

9. IMF Holding of Special Drawing Rights (SDR)

	2018 M '000	2017 M '000
Balance at beginning of year	530 125	641 390
Net transactions - (decrease) / increase in rights	(149 475)	(165 275)
Exchange revaluation	56 904	54 010
Balance at end of year	**437 554**	**530 125**

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

10. IMF Funded PRGF Advances

	2018 M '000	2017 M '000
Balance at beginning of year	753 413	877 458
Paid during the year	(150 472)	(85 413)
Exchange revaluation	89 150	(38 632)
Balance at end of year	**692 091**	**753 413**

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

	2018 M '000	2017 M '000
Maturing within 1 month	524	58

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

12. Deferred currency expenditure

	2018 M '000	2017 M '000
Balance at beginning of year	8 303	15 775
Expenditure incurred	8 316	429
Amortised during the year	(9 545)	(7 901)
Balance at end of year	**7 074**	**8 303**

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

	2018 M '000	2017 M '000
13. Loans to staff		
Housing loans	42 038	41 629
Car loans	26 179	22 124
Furniture loans	1 408	1 701
Other loans and advances	26 285	20 742
	95 910	**86 196**

The loans issued to staff members during the year are repayable monthly and attract interest rate of 3% per annum. Refer to related parties note 36 and risk management note 40 for further details.

14. Other assets

	2018 M '000	2017 M '000
Other prepayments	3 628	6 490
Other receivables	640	1 956
Commemorative coins	3 507	3 507
	7 775	**11 953**

15. Property, plant and equipment

	2018 M '000			2017 M '000		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
CBL land and building	106 267	(19 277)	86 990	106 267	(16 794)	89 473
Lehakoe land and buildings	149 020	(24 543)	124 477	149 020	(20 558)	128 462
Residential land and buildings	20 177	(2 646)	17 531	20 177	(2 182)	17 995
Housing furniture	359	(356)	3	383	(379)	4
Office furniture	8 946	(7 010)	1 936	9 409	(7 047)	2 362
Motor vehicles	11 932	(10 180)	1 752	11 955	(10 317)	1 638
Office equipment	40 269	(31 171)	9 098	34 400	(28 295)	6 105
Office computer	16 077	(8 171)	7 906	30 724	(20 396)	10 328
Lehakoe furniture	3 512	(3 007)	505	3 384	(2 926)	458
Sports/music equipment	7 894	(7 639)	255	8 002	(7 634)	368
Housing equipment	195	(193)	2	205	(199)	6
Security equipment	19 004	(15 956)	3 048	20 232	(14 279)	5 953
Work in progress	489 367	-	489 367	432 293	-	432 293
Total	**873 019**	**(130 149)**	**742 870**	**826 451**	**(131 006)**	**695 445**

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

15. Property, plant and equipment

	2018 M '000			2017 M '000		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
CBL land and building	106 267	(19 277)	86 990	106 267	(16 794)	89 473
Lehakoe land and buildings	149 020	(24 543)	124 477	149 020	(20 558)	128 462
Residential land and buildings	20 177	(2 646)	17 531	20 177	(2 182)	17 995
Housing furniture	359	(356)	3	383	(379)	4
Office furniture	8 946	(7 010)	1 936	9 409	(7 047)	2 362
Motor vehicles	11 932	(10 180)	1 752	11 955	(10 317)	1 638
Office equipment	40 269	(31 171)	9 098	34 400	(28 295)	6 105
Office computer	16 077	(8 171)	7 906	30 724	(20 396)	10 328
Lehakoe furniture	3 512	(3 007)	505	3 384	(2 926)	458
Sports/music equipment	7 894	(7 639)	255	8 002	(7 634)	368
Housing equipment	195	(193)	2	205	(199)	6
Security equipment	19 004	(15 956)	3 048	20 232	(14 279)	5 953
Work in progress	489 367	-	489 367	432 293	-	432 293
Total	**873 019**	**(130 149)**	**742 870**	**826 451**	**(131 006)**	**695 445**

15. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers	Transfer to intangibles	Depreciation	Totals
CBL land and buildings	90 878	-	-	-	(1 405)	89 473
Lehakoe land and buildings	129 554	-	984	-	(2 076)	128 462
Residential land and buildings	18 297	-	-	-	(302)	17 995
Housing furniture	6	-	-	-	(2)	4
Office furniture	2 834	20	-	-	(491)	2 362
Motor vehicles	1 545	670	-	-	(577)	1 638
Office equipment	8 429	378	187	-	(2 889)	6 105
Office computer	8 529	5 085	-	-	(3 286)	10 328
Lehakoe furniture	375	144	-	-	(61)	458
Sports/music equipment	440	156	-	-	(228)	368
Housing equipment	13	-	-	-	(7)	6
Security equipment	5 014	1 414	2 035	-	(2 511)	5 953
Work in progress	351 839	137 941	(3 206)	(54 281)	-	432 293
	617 753	**145 808**	**-**	**(54 281)**	**(13 835)**	**695 445**

	2018	2017
	M'000	M'000

16. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	95 983	(63 519)	32 464	95 291	(53 530)	41 761

Reconciliation of intangible assets - 2018

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

Reconciliation of intangible assets - 2017

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

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

17. Notes and coins issued

	2018	2017
Notes	1 501 489	1 599 707
Coins	18 728	16 782
	1 520 217	**1 616 489**

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

	2018	2017
Deposits from Banks - Non-interest bearing		
Banks	339 570	398 488
Other Deposits - Non-interest bearing		
International Institutions	393	324
Parastatals and others	2 173	3 012
	342 136	**401 824**

19. IMF Maloti Currency Holding

	2018	2017
Securities account	274 823	236 912
General resources account	869 403	765 308
	1 144 226	**1 002 220**

20. IMF Special Drawing Rights Allocation

	2018	2017
Balance at beginning of year	576 167	604 844
Exchange revaluation	81 949	(28 677)
Balance at end of year	**658 116**	**576 167**

Lesotho's allocation by IMF of SDR32,878,186 is converted at 0.0570636 (2017: 0.0497992).

	2018 M'000	2017 M'000
21. IMF-PRGF Facility		
Balance at beginning of year	753 413	877 458
Paid during the year	(150 472)	(85 413)
Exchange revaluation	89 150	(38 632)
	692 091	**753 413**

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 2018 (2017: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.

	2018 M'000	2017 M'000
22. Taxation payable/(receivable)		
Balance at beginning of year	(26 882)	4 599
Paid during the year	(6 707)	(68 802)
Current year charge	38 518	37 321
	4 929	**(26 882)**
23. Dividend payable		
Balance at beginning of year	84 396	147 566
Paid during the year	(84 396)	(147 566)
Profit appropriations for the current year	108 062	84 396
Prior year correction of foreign exchange activities that mistated due to GOL	34 115	-
Balance at end of year	**142 177**	**84 396**

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.

	2018 M'000	2017 M'000
Profit after tax appropriates as follows:		
(Loss)/profit after tax (after actuarial (loss)/gain on employee benefits)	776 809	(298 450)
Gain on foreign exchange activities	(645 160)	399 725
Profit after tax net of gain on foreign exchange activities	131 649	101 275
Transfer to General Reserve	10 528	(16 879)
	142 177	**84 396**
24. Changes in Other Liabilities		
Divisional cheques accounts	1 487	3 337
Other	13 222	12 917
Various accruals	**9 459**	**10 690**
	24 168	**26 944**

	2018 M'000	2017 M'000
25. Long-term employee benefit obligation		
Provision for severance pay		
Opening obligation	24 661	25 671
Interest cost	2 437	2 346
Current service cost	2 919	2 723
Actuarial (gain)/ loss on employee benefits	(201)	(1 754)
Benefits paid	(3 961)	(4 325)
Closing obligation	25 855	24 661
Provision for gratuity		
Opening obligation	77 218	79 789
Interest cost	7 360	7 109
Current service cost	13 183	10 070
Actuarial (gain)/ loss on employee benefits	2 902	(713)
Benefits paid	(21 938)	(19 037)
Closing obligation	78 725	77 218
Total	**104 842**	**101 879**

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%.

	2018 M'000	2017 M'000
Net expense recognised in profit and loss (inclusive of leave pay provision)		
Current service cost	16 102	9 859
Interest cost	10 232	12 793
	26 334	**22 652**
Key assumptions used		
Discount rates used	10,19 %	10,09 %
General inflation	6,00 %	6,78 %
Real Rate (Gap)	2,09 %	1,90 %
Salary inflation	7,94 %	8,03 %

26. Deferred tax

	2018 M'000	2017 M'000
Deferred tax liability		
Property plant and equipment	(11 652)	(19 344

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:

Deferred tax liability	(11 652)	(19 344)

	2018 M'000	2017 M'000
26. Deferred taxation (continued)		
Reconciliation of deferred tax asset / (liability)		
At beginning of year	(19 344)	(12 946)
Movements in profit and loss	(201)	1 567
Movement in equity - current year	7 893	(7 965)
	(11 652)	**(19 344)**
Reconciliation of deferred tax asset / (liability)		
Accelerated capital allowance for tax purposes	5 302	5 532
Liabilities for Health care benefits accrued	27 107	26 590
Deferred expenses	(3 333)	(2 835)
Bond/unit trust revaluation reserve	4 985	(1 494)
Property revaluation reserve	(45 713)	(47 137)
	(11 652)	**(19 344)**

27. Share capital

	2018 M'000	2017 M'000
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.

28. Interest income

	2018 M'000	2017 M'000
Interest income		
Foreign currency deposits	301 331	286 781
Interest treasury bills and SDR holdings	8 021	5 036
Interest on bonds	141 000	153 328
Total interest income	**450 352**	**445 145**

29. Interest expense

	2018 M'000	2017 M'000
Interest on non financial Public Enterprises	83	27
Amortisation of held to maturity liabilities	1 652	3 678
IMF SDR allocation account	5 369	2 766
	7 104	**6 471**

	2018 M'000	2017 M'000
30. Other income		
Rental income	-	81
Profit on sale of bonds	833	751
Interest on staff loans	1 660	1 487
Lehakoe income	7 031	13 737
Other income	4 195	2 847
Gain on instruments designated as fair value through profit and loss	16 969	9 883
Loss/profit on sale of fixed assets	-	48
	30 688	**28 834**
31. Operating costs and expense per nature		
Administration and other expenses	59 875	63 414
Auditors remuneration	2 963	2 993
Deferred currency expenses amortised	7 915	7 472
Intangible assets amortised	11 413	22 857
Depreciation and impairment	14 804	13 838
Property, plant and equipment maintenance expenses	13 005	15 736
Loss on sale of other instruments	8 159	908
Loss on revaluation of treasury notes and bonds	10 419	12 896
Impairment	(9 703)	-
Personnel costs:		
Staff welfare expenses	17 685	19 234
Non-executive directors' fees	849	964
Executive directors' salaries	8 339	7 600
Key management (heads of departments)	11 832	8 710
Staff salaries and expenses	127 998	124 313
Pension fund contributions	5 915	5 653
Gratuity and severance pay (interest and service cost)	25 899	26 330
	317 367	**332 918**
32. Taxation		
Major components of the taxation expense		
Current		
Local income tax - current period	24 920	36 711
Deferred		
Deferred taxation arising on other profit and loss items	-	(1 567)
	24 920	**35 144**

	2018 M'000	2017 M'000
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)	(146 866)	(137 029)
Statutory tax rate	25,00 %	25,00 %
Permanent differences:		
Donations	0,62 %	0,10 %
50 % Entertainment	0,27 %	0,31 %
Training expenses additional 25%	(0,93)%	(2,02)%
Other	2,38 %	2,77 %
Effective tax rate	**27,34 %**	**26,16 %**

33. Cash (used in) generated from operations

	2018 M'000	2017 M'000
Profit(Loss) before taxation	801 729	(265 136)
Adjustments for:		
Depreciation	14 804	14 004
Deferred computer software armotised	11 413	22 808
Profits/Losses on RAMP Bonds	7 326	-
Loss on sale of assets	-	(48)
Interest income	(450 352)	(445 145)
Interest expense	7 104	6 471
Deferred currency amortisation	7 915	7 901
Impairment of financial assets through OCI	(9 703)	-
FV Gains on RAMP Bonds	(6 551)	-
OCI Movements	4 030	31 861
Other Movements	(282)	(282)
Movement in Deposits	103 350	(1 773 825)
Movement in accrued interest	(14 897)	2 232
Treasury bills at amortised cost	20 210	154 202
Movement in IMF Maloti Currency Holding	142 006	(50 325)
Changes in IMF Subscription	(173 977)	60 880
Changes in Other Liabilities	(2 776)	3 129
Changes in IMF SDR Holdings	92 571	111 265
Changes in IMF SDR Allocations	81 949	(28 677)
Movements in Long-term employee benefit obligation	2 963	2 439
Movements in employee benefits	-	(3 581)
	638 832	**(2 149 827)**

	2018 M'000	2017 M'000

34. Commitments

	2018 M'000	2017 M'000
Contracted	-	55 000

These capital commitments are in respect of professional fees for the Bank's extension which was funded from internal resources in 2018.

35. Post retirement obligations

	2018 M'000	2017 M'000
Total employer contributions	5 915	6 045

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.

36. Related parties

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.

		2018 M'000	2017 M'000
Gross advances made during the year to:	Car loans	3 110	1 147
Heads of Departments and Division Heads	Furniture loans	48	150
	Housing loans	-	1 000
Balances due at end of December:			
Heads of Departments and Division Heads	Car loans	6 656	4 599
	Furniture loans	143	299
	Housing loans	7 345	6 204
General Staff	Car loans	19 523	17 664
	Furniture loans	1 140	1 252
	Housing loans	34 693	34 425
General Staff and Heads of Department	Other loans	27 712	20 742
Interest charged for the year:			
Heads of Departments and Division Heads	Car loans	129	53
	Furniture loans	11	9
	Housing loans	110	80

	2018 M'000	2017 M'000

36. Related parties (continued)

There were no loan advances made to the Governors in the current year, and previous loans were paid up as at 31 December 2018. No provisions have been recognised in respect of loans given to related parties.

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

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

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

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

Annual remuneration to key management which includes car allowances and housing allowances:	2018 M'000	2017 M'000
Executive Directors' salaries	9 499	7 599
Key management salaries	13 660	8 710

37. Changes in accounting policy

Application of IFRS 9 Financial Instruments

In the current year, the Bank has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRSs. IFRS 9 replaces IAS 39 Financial Instruments and introduces new requirements for

2. Impairment of financial assets

3. Hedge Accounting

Details of these new requirements as well as their impact on the Bank's financial statements are described below: The Bank has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

Classification and measurement of financial assets

Investments in equity instruments

The Bank's investments in equity instruments that were previously classified as available-for-sale financial assets and were measured at fair value at each reporting date under IAS 39 have been designated as at fair value through other comprehensive income. The change in fair value on these equity instruments continues to be accumulated in other comprehensive income.

Debt instruments

Debt instruments classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

37. Changes in accounting policy (continued)

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Bank to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Reconciliation of the reclassifications and remeasurements of financial assets as a result of adopting IFRS9

The following table presents a summary of the financial assets as at 01 January 2018. The table reconciles the movement of financial assets from their IAS 39 into their new IFRS 9 measurement categories. “FTVPL” denotes “fair value through profit or loss” and “FVOCI” denotes “fair value through other comprehensive income.

37. Changes in accounting policy (continued)

	Previous measurement IAS 39 as at 31 December 2017	New measurement category: IFRS 9 on 1 January 2019						
		FVTPL - Mandatory	FVTPL - Designated	Amortised cost	FVOCI - equity	FVOCI - debt	Re-measurement changes – Adjustment to equity	Change Attributable to:
Previously Fair value through profit or loss (Held for trading):								
Treasury notes and bonds (RAMP)	1 241 767	1 241 767	1 241 767	-	-	-	1 241 767	No Change
Previously Loans and Receivables:								
Cash and balances with banks		4 778 747	-	4 778 747	-	-	-	No Change
Accrued interest due from banks		9 817	-	9 817	-	-	-	No Change
IMF Subscription account		1 223 196	-	1 223 196	-	-	-	No Change
IMF Holding of Special Drawing Rights		530 125	-	530 125	-	-	-	No Change
IMF Funded PRGF Advances		753 413	-	753 413	-	-	-	No Change
Lesotho Government Securities		58	-	58	-	-	-	No Change
Loans to staff		86 196	-	86 196	-	-	-	No Change
		7 381 552	**-**	**7 381 552**	**-**	**-**	**-**	
Previously Held to maturity:								
US Treasury Bills	91 813	-	-	91 813	-	-	-	No Change
Previously Available for sale:								
Investment in unit trusts	635 604	-	-	635 604	-	-	-	No Change
Investment in Society for Worldwide Interbank Financial Telecommunications (SWIFT)	700	700	-	-	-	-	-	Change in measurement category
Treasury notes and bonds	1 879 872	-	-	-	-	1 879 872	-	No Change
	2 516 176	**700**	**-**	**-**	**635 604**	**1 879 872**	**-**	
	11 231 308	**1 242 467**	**1 241 767**	**7 473 365**	**635 604**	**1 879 872**	**1 241 767**	

37. Changes in accounting policy (continued)

Reconciliation of the reclassifications and remeasurements of financial liabilities as a result of adopting IFRS9

The following table presents a summary of the financial liabilities as at 01 January 2018. The table reconciles the movement of financial liabilities from their IAS 39 measurement categories and into their new IFRS 9 measurement categories. "FVPL" denotes "fair value through profit or loss".

	Previous measurement	New measurement category: IFRS 9				
	IAS 39	FVPL - mandatory	FVPL - designated	Amortised cost	Re- measurement changes - Retained earnings	Change attributable to:
Previously Amortised cost:						
Notes and coins issues	1 616 489	-	-	1 616 489	-	No Change
Deposits	401 824	-	-	401 824	-	No Change
Lesotho Government Deposits	3 208 374	-	-	3 208 374	-	No Change
IMF Maloti Currency Holding	1 002 220	-	-	1 002 220	-	No Change -
IMF Special Drawing Rights Allocation	576 167	-	-	576 167	-	No Change
IMF PRGF Facility	753 413	-	-	753 413	-	**No Change**
	7 558 487	-	-	7 558 487	-	

* Discounted cash flows

38. Financial assets by category

The financial assets have been categorised as follows :

2018 - M '000

Financial assets	Amortised cost	FVTPL	FVTOCI	Total
Cash and balances with Banks	5 407 813	-	-	5 407 813
Accrued interest due from Banks	24 714	-	-	24 714
Investment in SWIFT	-	399		399
Treasury notes and bonds	-	1 487 227	1 795 438	3 282 665
Treasury bills	71 603	-	-	71 603
IMF Subscription Account	1 397 173	-	-	1 397 173
IMF Holding of Special Drawing Rights	437 554	-	-	437 554
IMF Funded PRGF Advances	692 091	-	-	692 091
Lesotho Government Securities	524	-	-	524
Loans to staff	95 910	-	-	95 910
	8 127 382	**1 487 626**	**1 795 438**	**11 410 446**

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
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
Investment in SWIFT	-	700	-	700
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
Unit Trusts	-	635 604	-	635 604
	7 473 365	**2 516 176**	**1 241 767**	**11 231 308**

39. Financial liabilities by category

The financial liabilities have been categorised as follows:

2018 - M '000

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

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

39. Financial liabilities by category (continued)

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**

40. Risk management

General risk management

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

Management structures

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

Risk elements

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

Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people, systems and external factors.

Human resource risk

The particular nature of the Bank's activities necessitates specialised knowledge in certain areas.
In order to ensure an adequate knowledge base at all times, the Bank invests significantly in staff training and succession planning for key personnel.

Legal risk

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

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

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

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

40. Risk management (continued)

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.

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 2018	**Value of Currency 000**	**Exchange Rate**	**Maloti Equivalent M'000**
Cash and balances with Banks			
South Africa	4 840 033,00	1,0000	4 840 033
United States	322 907,00	14,3651	4 638 591
Botswana	137,00	1,3417	184
England	2 264,00	18,3888	41 632
European Union	137,00	16,4567	2 255
Switzerland	266,00	14,5972	3 883
IMF	21 900,00	19,9788	437 536
Treasury notes, bonds and unit trusts			
South Africa	1 429 840,00	1,0000	1 429 840
United States	125 734,00	14,3651	1 806 181
Unit trust - US Dollar based	52 243,00	14,3651	750 476
Treasury Bills			
United States	4 984,00	14,3651	71 596

Currency 2017	**Value of Currency M'000**	**Exchange Rate**	**Maloti Equivalent M'000**
Cash and balances with Banks			
South Africa	3 447 415,00	1,0000	3 447 415
United States	90 807,00	12,3502	1 121 485
Botswana	608,00	1,2548	763
England	12 078,00	16,6937	201 627
European Union	545,00	14,8140	8 074
Switzerland	725,00	12,6603	9 179
IMF	**9 932,00**	**17,5459**	**174 266**

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

40. Risk management (continued)

Treasury notes, bonds and unit trusts			
South Africa	1 406 994,00	1,0000	1 406 994
United States	138 835,00	12,3502	1 714 640
Unit trust - US Dollar based	51 510,00	12,3502	636 159
Treasury Bills			
United States	7 433,00	12,3502	91 799

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

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

Foreign exchange risk

The company has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the company's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The company reviews its foreign currency exposure, including commitments on an ongoing basis. The company expects its foreign exchange contracts to hedge foreign exchange exposure.

Liquidity risk

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities.

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterpart to meet its contractual obligations. Credit risks arises from advances to and deposits the Bank makes with other institutions, and the settlement of financial instruments. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

40. Risk management (continued)

Credit risk (continued)

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

Implementation of ECL model- Central Bank of Lesotho

For simplicity, we have used the practical expedient model, as we have reckoned that we have low risk securities and majority of the Bank's securities are Investment grade except for South African investments. As a result we have only computed 12-month ECL unless there has been a significant increase in credit risk since initial recognition, in which case a lifetime ECL is recognised

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

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

Assumptions of the CBL MODEL

- Loss given default follows the recovery rates of the international swaps and derivatives association (ISDA) CDS standard model, as a function of the seniority and the region.
- The rating given to each security is the lowest between the ratings of S&P, Fitch and Moody's.
- The transition matrix is the S&P's global corporate s from 1981 to 2016.
- A default probability of 1 bps is assumed for AAA rated securities and 1.5 bps for AA+ rated securities.

Probability of Default (PD)

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

40. Risk management (continued)

Credit risk analysis

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

2018

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

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

40. Risk management (continued)

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

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

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	71 603	71 603	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	1 467 659	1 467 659	ZAR	none	P-3/Baa3
United States-BIS	750 487	750 487	USD	none	Aaa
United States-RAMP	1 487 239	1 487 239	USD	none	Aaa
United States	327 779	327 779	USD	none	Aaa
	4 033 164	**4 033 164**			

40. Risk management (continued)

Loans to staff	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
Housing Loans	42 038	42 038	LSL	Title deeds	n/a
Car loans	26 179	26 179	LSL	Terminal benefits	n/a
Furniture loans	1 408	1 408	LSL	Terminal benefits	n/a
Other loans and advances	26 285	26 285	LSL	Terminal benefits	n/a
	95 910	**95 910**			

Current and call accounts	Carrying amount M '000	Maximum e xposure 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**			

Cash	Carrying amount M '000	Maximum e xposure M '000	Held in Denomination	Type of collateral held	Credit rating
ABSA	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-2/Baa3
Investec Bank	7 665	7 665	ZAR	none	P-2/Baa3
NedBank	3 861	3 861	ZAR	none	P-2/Baa3
SIRESS	4 253	4 253	ZAR	none	P-2/Baa3
South African Reserve Bank	1 773 212	1 773 212	ZAR	none	P-2/Baa3
Special Rand Deposit	5 000	5 000	ZAR	none	P-2/Baa3
Standard Bank	222	222	ZAR	none	P-2/Baa2
Standard Chartered Botswana	764	764	BOP	none	A2
Standard Chartered London	6 949	6 949	GBP	none	P-1/Aa1
Union Bank of Switzerland	9 176	9 176	CHF	none	P-1/Aa3
	1 921 556	**1 921 556**			

40. 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	GBP	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/Baa3
Standard Bank	190 471	190 471	ZAR	none	P-2/Baa3
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	none	PA1/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	ZAR	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 Bank	671	671	ZAR	none	P-2/Baa2
Standard Chartered London	230	230	USD	none	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
	9 817	**9 817**			

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	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**			

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

40. Risk management (continued)

Loans to staff	Carrying amount M '000	Maximum exposure M '000	Held in Denomination	Type of collateral held	Credit rating
Housing Loans	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			

All financial assets were fully performing at year end.

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

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

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

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

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

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

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

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

Sensitivity Analysis for the year ended 31 December 2018

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)	31 December 2018		31 December 2017	
Currency ('000)	**Portfolio level**	**Exchange rate**	**Portfolio level**	**Portfolio level**
ZAR	4 840 033	1,00	4 830 022	1,00
USD	322 907	14,37	288 544	12,35
EUR	137	16,46	545	14,81
GBP	2 265	18,39	12 079	16,69
BWP	137	1,34	609	1,25
CHF	266	14,60	725	12,66
SDR	21 901	19,98	9 933	17,55

40. Risk management (continued)

Base case

Data for currency and foreign investment risk (figures in M '000) — **31 December 2018**

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

Base case

Data for currency and foreign investment risk (figures in M '000) — **31 December 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 %	

5% decrease in exchange rate

Data for currency and foreign investment risk (figures in M'000) — **31 December 2018**

Currency	**Portfolio level**	**Portfolio level in %**	**Level Change**	**Exchange rate**
ZAR	4 840 033	47,36 %	-	1,0000
USD	4 870 524	47,66 %	(231 930)	15,0834
EUR	2 375	0,02 %	(113)	17,2795
GBP	43 724	0,43 %	(2 082)	19,3082
BWP	193	- %	(9)	1,4088
CHF	4 082	0,04 %	(194)	15,3271
SDR	459 432	4,50 %	(21 878)	20,9777
	10 220 363	**100 %**		

40. Risk management (continued)

5% decrease in exchange rate

Data for currency and foreign investment risk (figures in M '000) — **31 December 2018**

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

% Change -2.57%

5% increase in exchange rate

Data for currency and foreign investment risk (figures in M '000) — **31 December 2017**

Currency	Portfolio level	Portfolio level in %	Exchange rate
ZAR	4 830 023	53,75 %	1,00
USD	3 741 734	41,64 %	12,97
EUR	8 479	0,09 %	15,55
GBP	211 730	2,36 %	17,53
BWP	802	0,01 %	1,32
CHF	9 635	0,11 %	13,29
SDR	182 996	2,04 %	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) — **31 December 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	8 717	0,10 %	459	12,03
SDR	165 567	1,93 %	8 714	16,67
	8 589 647	**100 %**		

% Change -2.21%

40. Risk management (continued)

Interest rate risk

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

2018

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

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

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

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

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

40. Risk management (continued)

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

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

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

2017

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
	172 000	**5 012 000**	**473 000**	**2 628 000**	**503 000**	**8 788 000**

Base case yields	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
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 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	7,87 %	8,10 %	8,00 %	8,88 %
USD	2,21 %	2,13 %	2,23 %	1,00 %
EUR	0,60 %	- %	- %	- %
GBP	1,48 %	- %	- %	- %

40. Risk management (continued)

100 Basis points decrease in yields	**0 to 6 Months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**
ZAR	5,87 %	6,10 %	6,00 %	6,88 %
USD	0,21 %	0,13 %	0,02 %	- %

Nominal return in base case yields	**0 to 6 Months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	Nominal Income	% Change
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	224 000	7 000	56 000	40 000		
USD	16 000	4 000	22 000	-		
EUR	0	-	-	-		
GBP	1 000	-	-	-		
Other	0	-	-	-		
					513 000	-

Nominal return in increasing yields	**0 to 6 Months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	Nominal Income	% Change
	M'000	**M'000**	**M'000**	**M'000**		
ZAR	256 000	8 000	64 000	45 000		
USD	30 000	8 000	41 000		-	
GBP	4 000		-	-	-	
					455 000	23

Nominal return in decreasing yields	**0 to 6 Months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	Nominal Income	% Change
ZAR	191 000	6 000	48 000	35 000		
USD	3 000,00	-	4 000	-		
	-	-	-	-	287 000	(22)

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

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

40. Risk management (continued)

Liquidity risk

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

2018

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

40. Risk management (continued)

Liquidity risk

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
Financial assets	**M'000**	**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	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 Trust	-	-	-	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
Lesotho Government Deposits	4 878 626	-	-	-	-	-	4 878 626
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**

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

	Notes	2018	2017 M'000
41. Fair value information			
Levels of fair value measurements			
Level 1			
Available for sale financial assets:			
Treasury notes and bonds		1 487 227	1 879 872
Unit trusts		750 487	635 604
Financial assets at fair value through OCI:			
Treasury notes and bonds		1 787 744	1 241 767
Investment in SWIFT		399	700
		4 025 857	**3 757 943**

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

42. Memorandum Accounts

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

	2018	2017
Amounts in USD		
Deutsche Bank Trust Company America	**14 846 277**	**2 098 315**
Amounts in Euro		
Deutsche Bundesbank	**653 118**	**535 390**

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

43. 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

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

Notes

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

Notes

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

Notes

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

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

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