

# Central Bank of Lesotho



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## **Financial Statements**

### **for the year ended 31 December 2023**

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# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## General Information

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<b>Nature of business and principal activities</b>	Statutory body duly continuing in existence in terms of the Central Bank of Lesotho Act No. 2 of 2000
<b>Registered office</b>	Cnr Airport & Moshoeshoe Roads Maseru 100 Lesotho
<b>Auditors</b>	Statutory Auditors are Moteane Quashie & Associates and SNG Grant Thornton
<b>Secretary</b>	Mr. N. Rantsane (Adv.)
<b>Lawyer</b>	Webber & Newdigate

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

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# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Corporate Governance Report

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This report provides a high-level overview of corporate governance of the Central Bank of Lesotho for the Financial Year 2023. The Bank is committed to ensuring that its policies and business practices comply with principles of good corporate governance and best practice. The Board of Directors is committed to ensuring that the Bank conducts its business ethically and engages with its stakeholders with integrity, respect, accountability, and transparency.

### Report for the year.

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

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

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

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

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

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

In line with section 13 (2) of the Act, the Board meets as frequently as possible, but not less than once in every two months. During the Financial Year 2023, the Board convened ten (10) meetings, seven (7) Regular Meetings and three (3) Special Meetings.



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Adv. N. Rantsane  
Secretary to the Board

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Audit Committee Report

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### Introduction

The report serves to outline the activities of the Audit Committee (AC) of the Central Bank of Lesotho for the year ended 31 December 2023.

The AC as the statutory body/entity established in terms of the Central Bank Act, "2000 continued to discharge its obligations during the financial year. During the year, the Committee had been scheduled for six (6) regular meetings and it managed to convene all six (6) regular meetings and two special meetings.

### Governance issues

The fully constituted Committee commenced and closed its business in 2023 without any governance challenges.

### Activities covered in 2023

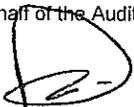
The Committee was also able to consider and transmit to the Board the following items:

- The quarterly reports from both the Internal Audit Department and the Bank;
- Management letter as well as management responses to 2022 AFS;
- The Supplementary budget for the year 2023 as well as the proposed Operational and Capital Budget for the Bank as well as Lehakoe Recreation and Cultural Centre(LRCC) for the year, 2024.
- The Monitoring of the performance of the Budget of the Bank through consideration of cumulative quarterly Management Accounts Reports from the Finance Department;
- The signing of the engagement letter with SNG Grant Thornton/ Quashie Moteane Associates.

### Conclusion

In conclusion, the Bank was considered to have discharged its obligations in line with the CBL Act,2000, relevant charters and policies as well as observing the relevant audit best practices befitting of an institution of its nature.

On behalf of the Audit Committee



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Mrs. R. Tlali  
Chairperson of the Audit Committee

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Directors' Responsibilities and Approval

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In accordance with the CBL Act No. 2 of 2000, the Directors are responsible for the preparation of the annual financial statements. These financial statements are prepared in accordance with the Central Bank of Lesotho Act No. 2 of 2000 and in line with the policies set out in note 1 of the financial statements. The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates, and fairly present the affairs of the Bank as at 31 December 2023, and the results of its operations, net profit and cash flows for the year then ended.

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

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

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

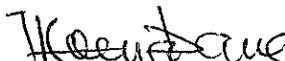
These financial statements have been prepared on the going concern basis, and the Directors have every reason to believe that the Bank has adequate resources in place to continue in operation for the foreseeable future.

The financial statements were approved by the Board of Directors on 27 March 2024 and are signed on its behalf by:



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Dr. E.M Letete  
Governor



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Mrs. K. Thabane (Adv)  
Director

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Directors' Report

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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 2023. The annual financial statements are expressed in Maloti, the local currency of Lesotho and the functional currency of the Bank that is at par with the South African Rand. These financial statements were prepared on a going concern basis taking into account that the Bank is a lender of last resort and continues to be the banker of the Government of Lesotho.

### 1. Review of financial results and activities

#### Nature of business

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

#### Financial results

The Bank has chosen to use International Financial Reporting Standards (IFRS) as a guide in deciding on the most 'appropriate' accounting policies to adopt and as a model for the presentation and disclosure framework followed in its annual financial statements. However, the Act takes precedence over IFRS in areas where there are conflicts between the Act and IFRS. As a result, certain criteria set out in IFRS have not been followed where appropriate. In addition, the Bank considers certain recognition and measurement principles as well as disclosures 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 gains and losses arising from any changes in the valuation of the Bank's assets or liabilities in, or denominated in, gold or foreign currencies, or Special Drawing Rights as a result of changes in the exchange rate for the Maloti or of any change in the values, parities or exchange rates of such assets with respect to the Maloti shall be carried to a special account called the Revaluation Reserve Account and SDR Revaluation Reserve Account 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 in terms of the Act were as follows:

31 December 2023 **M'000**  
(151,276)

### 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 11.

### 3. Share capital

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

### 4. Directorate

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

<b>Name</b>	<b>Date of appointment</b>	<b>Position held</b>
Dr. E.M Letete	June, 2022	Governor and Chairman
Mr. P.L Mohapi	June, 2022	First Deputy Governor
Vacant	Vacant	Second Deputy Governor
Mrs. K. Thabane (Adv)	June, 2018	Non-Executive Director
Mr. M. Letsoela	June 2019	Non-Executive Director
Mr. R. Thamae	September, 2020	Non-Executive Director
Mrs. R. Tlali	February, 2021	Non-Executive Director
Mr. O. 'Nete	February, 2021	Non-Executive Director

### 5. Secretary

<b>Name</b>	<b>Date of appointment</b>	<b>Position held</b>
Mr. N. Rantsane (Adv.)	March, 2015	Director of Corporate Affairs

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Directors' Report (continued)

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### 6. Events after the reporting period

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

### 7. Auditors

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



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**Dr. E.M Letete**  
Governor  
27 March 2024



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**Mrs. R.Tlali**  
Director  
27 March 2024

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDER OF THE CENTRAL BANK OF LESOTHO

#### Opinion

We have audited the financial statements of the Central Bank of Lesotho ("the Bank"), set out on pages 11 to 65, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements of the Bank for the year ended 31 December 2023 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 of Lesotho Act No.2 of 2000.

#### Basis for opinion

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

#### Emphasis of matter

##### *Basis of preparation*

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

#### Other Information

The Bank's directors are responsible for the other information. The other information comprises the information included in the document titled "Central Bank of Lesotho Financial statements for the year ended 31 December 2023". The other information does not include the financial statements and our auditors' report thereon.

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

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

**SizweNtsalubaGobodo Inc., 221 Garsfontein Road, Menlyn, 0081, Private Bag X2008, Menlyn, 0063**  
T: +27 (86) 117 6782, F: +27 (11) 234 0933, E: [info@sng.za.com](mailto:info@sng.za.com)  
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Victor Sekese [Chief Executive]  
A comprehensive list of all Directors is available at the company offices or registered office  
SizweNtsalubaGobodo Grant Thornton Incorporated Registration Number: 2005/034639/21

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

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

### **Responsibilities of directors for the financial statements**

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

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

### **Auditor's responsibilities for the audit of the financial statements.**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

*Moteane Quashie  
& Associates*

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**Kobla Quashie**

Moteane, Quashie & Associates  
Chartered Registered Auditor  
29 March 2024  
Plot 582 Hoohlo  
Maseru  
100

*SizweNtsalubaGobodo Grant Thornton Inc.*

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**Agnes Dire**

SizweNtsalubaGobodo Grant Thornton Inc.  
Chartered Registered Auditor  
29 March 2024  
221 Garsfontein Road  
Menlyn  
0063

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Statement of Financial Position as at 31 December 2023

	Note(s)	2023 M'000	2022 Restated M'000	2021 Restated M'000
<b>Assets</b>				
Cash and cash equivalents *	2	5,143,180	5,016,709	5,124,500
Deposit Floaters & Fixed Deposit **	3	783,887	850,000	1,265,635
Investment in Swift	4	474	395	328
Treasury notes and bonds	5	5,371,483	5,639,000	5,943,017
Treasury bills at amortised cost	6	623,331	448,203	80,464
IMF Subscription Account	7	1,725,295	1,589,772	1,484,227
IMF Holding of Special Drawing Rights (SDR)	8	2,206,877	1,594,810	1,519,373
IMF Funded PRGF Advances	9	-	38,810	139,332
Lesotho Government Securities	10	-	946	-
Currency Inventory	11	58,821	44,991	44,456
Loans and Advances	12	165,766	135,575	110,642
Other assets	13	32,945	15,788	154,385
Property, plant and equipment	14	860,999	996,206	986,988
Intangible assets	15	32,777	28,451	20,521
Current tax receivable	24	-	1,081	18,253
Deferred tax	29	25,798	83,979	53,050
<b>Total Assets</b>		<b>17,031,633</b>	<b>16,484,716</b>	<b>16,945,171</b>
<b>Equity and Liabilities</b>				
<b>Liabilities</b>				
Notes and coins issued	16	2,399,728	1,806,697	1,830,228
Deposits	17	371,970	528,062	568,257
Lesotho Government Deposits	18	2,499,333	2,866,980	3,622,150
Government Projects *	19	265,540	502,100	436,126
IMF Maloti Currency Holding	20	1,911,423	1,828,867	1,708,138
IMF Special Drawing Rights Allocation	21	2,461,688	2,272,562	2,227,462
IMF-PRGF Facility	22	-	38,810	139,332
IMF Rapid Credit Facility	23	288,208	265,569	247,938
Taxation payable	24	80,481	-	-
Dividends Due to Government of Lesotho	25	151,276	28,449	11,646
Trade and other payables	26	126,787	203,466	137,503
Long-term employee benefit obligation	27	116,368	108,305	122,790
<b>Total Liabilities</b>		<b>10,672,802</b>	<b>10,449,867</b>	<b>11,051,570</b>
<b>Equity</b>				
Share capital	30	100,000	100,000	100,000
General reserve		358,560	328,305	322,615
Rand compensation reserve		1,198,854	1,089,248	996,339
SDR revaluation reserve		109,630	151,922	185,421
Foreign exchange revaluation reserve		4,473,380	4,111,428	3,933,060
Property revaluation reserve		16,274	239,993	222,581
Bond revaluation reserve		46,247	(35,442)	40,431
Loss allowance for debt investments at FVTOCI		55,886	49,395	93,154
		<b>6,358,831</b>	<b>6,034,849</b>	<b>5,893,601</b>
<b>Total Equity and Liabilities</b>		<b>17,031,633</b>	<b>16,484,716</b>	<b>16,945,171</b>

\* The Bank holds various amounts on behalf of the Government of Lesotho, these accounts were off balance sheet and kept as Memorandum Accounts. The Bank has changed how these funds are treated in its operations and for the year ending 31 December 2023, have reported them in the bank's Balance sheet.

\*\* The Bank's cash and cash equivalents has been reconsidered resulting in the classification of deposit floaters of the three months or more out of cash and cash equivalents.

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Statement of Profit or Loss and Other Comprehensive Income

	Note(s)	2023 M'000	2022 M'000
Interest income	31	854,572	543,907
Interest expense	32	(112,727)	(54,913)
<b>Net interest income</b>		<b>741,845</b>	<b>488,994</b>
Other income	33	111,514	43,438
<b>Total Income</b>		<b>853,359</b>	<b>532,432</b>
Expected credit (losses)/gains on financial assets		(43)	36,991
Operating costs and expenses	34	(548,948)	(509,714)
<b>Operating (loss) /profit</b>		<b>304,368</b>	<b>59,709</b>
Actuarial gains and( losses )on employee benefits	27	3,376	(8,910)
<b>Profit /(Loss) before taxation</b>		<b>307,744</b>	<b>50,799</b>
Tax expense	35	(126,213)	(16,660)
<b>Profit /(Loss) for the period</b>		<b>181,531</b>	<b>34,139</b>
<b>Other comprehensive income:</b>			
<b>Bond fair values</b>			
Decrease in bond fair values		53,004	(108,923)
Tax effect		28,685	33,050
<b>Net movement</b>		<b>81,689</b>	<b>(75,873)</b>
<b>Property revaluation reserve</b>			
(Increase)Decrease in property revaluations		(167,131)	20,045
Tax effect		(56,588)	(2,633)
<b>Net movement</b>		<b>(223,719)</b>	<b>17,412</b>
<b>Rand compensation reserve</b>			
Increase in reserve		109,606	92,909
Tax effect		-	-
<b>Net movement</b>		<b>109,606</b>	<b>92,909</b>
<b>Loss allowance</b>			
Loss allowance for financial instruments at fair value through other comprehensive income		(6,491)	(43,759)
<b>Net movement</b>		<b>(6,491)</b>	<b>(43,759)</b>
<b>Other comprehensive losses for the period net of taxation</b>		<b>(38,915)</b>	<b>(9,311)</b>
<b>Total comprehensive income for the year</b>		<b>142,616</b>	<b>24,828</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Statement of Changes in Equity

	Share capital	General reserve	Rand compensation reserve	SDR revaluation reserve	Foreign exchange revaluation reserve	Property revaluation reserve	Bond revaluation reserve	Loss allowance recognised for debt investments at fair value through other comprehensive income	Accumulated profit/(loss)	Total equity
	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000
<b>Balance at 1 January 2022</b>	<b>100,000</b>	<b>322,615</b>	<b>996,339</b>	<b>185,421</b>	<b>3,933,060</b>	<b>222,581</b>	<b>40,431</b>	<b>93,154</b>	-	<b>5,893,601</b>
Profit for the year	-	-	-	-	-	-	-	-	34,139	34,139
Loss allowance recognised for debt investments at fair value through other comprehensive income	-	-	-	-	-	-	-	(43,759)	-	(43,759)
Foreign exchange translation to designated reserve	-	-	-	(33,499)	178,368	-	-	-	-	144,869
Movement in bond/unit trust fair values	-	-	-	-	-	-	(75,873)	-	-	(75,873)
Asset revaluation for the year	-	-	-	-	-	17,412	-	-	-	17,412
Rand compensatory receipts	-	-	92,909	-	-	-	-	-	-	92,909
Transfer to General Reserve	-	5,690	-	-	-	-	-	-	(5,690)	-
Dividends payable to Government of Lesotho	-	-	-	-	-	-	-	-	(28,449)	(28,449)
<b>Total changes</b>	-	<b>5,690</b>	<b>92,909</b>	<b>(33,499)</b>	<b>178,368</b>	<b>17,412</b>	<b>(75,873)</b>	-	<b>(34,139)</b>	<b>150,868</b>
<b>Balance at 1 January 2023</b>	<b>100,000</b>	<b>328,305</b>	<b>1,089,248</b>	<b>151,922</b>	<b>4,111,428</b>	<b>239,993</b>	<b>(35,442)</b>	<b>49,395</b>	-	<b>6,034,849</b>
Profit for the year	-	-	-	-	-	-	-	-	181,531	181,531
Foreign exchange translation to designated reserve	-	-	-	(42,292)	361,952	-	-	-	-	319,660
Movement in bond/unit trust fair values	-	-	-	-	-	-	81,689	-	-	81,689
Asset revaluation for the year	-	-	-	-	-	(223,719)	-	-	-	(223,719)
Rand compensatory receipts	-	-	109,606	-	-	-	-	-	-	109,606
Transfer to General Reserve	-	30,255	-	-	-	-	-	-	(30,255)	-
Dividends payable to Government of Lesotho	-	-	-	-	-	-	-	-	(151,276)	(151,276)
<b>Total changes</b>	-	<b>30,255</b>	<b>109,606</b>	<b>(42,292)</b>	<b>361,952</b>	<b>(223,719)</b>	<b>81,689</b>	-	<b>(181,531)</b>	<b>135,960</b>
<b>Balance as at 31 December 2023</b>	<b>100,000</b>	<b>358,560</b>	<b>1,198,854</b>	<b>109,630</b>	<b>4,473,380</b>	<b>16,274</b>	<b>46,247</b>	<b>55,886</b>	-	<b>6,358,831</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Statement of Changes in Equity

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### Explanatory notes

\* **General reserve** has been allocated in terms of Section 21(2)(b) of the Central Bank of Lesotho Act No. 2 of 2000. The Act stipulates that in the case of any year at the end of which general reserve exceeds the minimum paid-up capital of the Bank, but does not exceed four times the paid-up capital of the Bank, one sixth of the net profits will be allocated to general reserve.

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

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

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

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

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

\***Loss allowance recognised for debt investments at fair value through other comprehensive income**, typically refers to an estimate of potential losses that CBL might experience on its financial assets ( Bonds ). This is often associated with credit risk where there's a possibility that borrowers may not fully repay their debts. The recognition of loss allowance involves accounting practices to reflect the potential losses in financial statements using Expected Credit Loss (ECL) model.

\* **Accumulated Profit** In terms of Section 21.

(1) The net profits of the Bank for each financial year shall be determined by the Board after making provision for bad and doubtful debts, depreciation in assets, contributions to staff and superannuation funds and for all other matters for which provision is to be made by or under this Act.

(2) The Bank shall establish a general reserve to which shall be allocated at the end of each financial year of the Bank (a) in the case of any year at the end of which the general reserve of the Bank does not exceed the minimum paidup capital of the Bank, one-third of the net profits of the Bank for the financial year;

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

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

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

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Statement of Cash Flows

	Note(s)	2023 M'000	2022 Restated M'000	2021 Restated M'000
<b>Cash flows from operating activities</b>				
Cash used in operations	36	(1,724,671)	(1,203,592)	(1,505,534)
Interest received	31	851,880	532,959	446,134
Interest expense	32	(112,727)	(25,058)	(4,691)
Tax paid	24	(14,374)	-	-
Rand compensation reserve		109,605	92,910	94,845
Payments to Government of Lesotho Consolidated Fund	25	(38,361)	(11,646)	(46,999)
Increase/(decrease) in Other assets		(17,158)	138,599	(148,295)
Decrease /(increase) in Lesotho Government Securities		946	(946)	4,329
Sale of Treasury notes and bonds		344,876	389,837	(953,928)
Movements in notes and coins	16	593,030	(23,530)	92,661
Increase in staff loans		(30,191)	(24,931)	(8,682)
Increase/ Decrease in Funds from Government Projects		(236,559)	74,150	427,658
<b>Net cash from operating activities</b>		<b>(273,704)</b>	<b>(61,248)</b>	<b>(1,602,502)</b>
<b>Cash flows from investing activities</b>				
Purchase of property, plant and equipment	14	(42,629)	(58,638)	(115,781)
Purchase of other intangible assets	15	(16,955)	(13,481)	(749)
Disposal of property, plant and equipment		-	2,281	-
Sale of investment in SWIFT		(79)	(67)	178
<b>Net cash from investing activities</b>		<b>(59,663)</b>	<b>(69,905)</b>	<b>(116,352)</b>
<b>Cash flows from financing activities</b>				
Movement in IMF Funded PRGF	22	(41,156)	(106,785)	(100,511)
<b>Total cash movement for the year</b>		<b>(374,523)</b>	<b>(237,938)</b>	<b>(1,819,365)</b>
Cash at the beginning of the year		5,016,709	5,116,324	6,767,458
Effect of exchange rate movement on cash balances		500,994	138,323	176,407
<b>Total cash and cash equivalents at end of the year</b>	2	<b>5,143,180</b>	<b>5,016,709</b>	<b>5,124,500</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1. Presentation of financial statements

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

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

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

#### 1.1 Property, plant and equipment

##### *Owner-occupied properties*

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

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

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

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

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

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

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

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

The most recent independent valuation for buildings was performed in May 2023.

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 using the applicable rates as follows:

The Bank has decided to review its fixed asset management policy on depreciation rates as per the schedule below.

Item	Depreciation method	Rates
CBL Buildings	Straight line	1.5%
CBL and Lehakoe Land		Nil
Lehakoe buildings	Straight line	1.5%
Residential land and buildings	Straight line	1.5%
Housing Furniture	Straight line	5%
Office furniture	Straight line	5%
Motor vehicles	Straight line	20%
Office equipment	Straight line	10%
IT Equipment	Straight line	10%
Lehakoe Furniture	Straight line	5%
Sports/ Music equipment	Straight line	10%
Housing equipment	Straight line	10%
Security equipment	Straight line	10%

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.1 Property, plant and equipment (continued)

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

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

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

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

### 1.2 Intangible assets

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis at a rate of 10% on all software inclusive of SAGE and Quantum Central Banking System (QCBS).

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

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

Item	Rates
Computer software (general)	10%
SAGE & QCBS	10%

### 1.3 Current and deferred income tax

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

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

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

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

#### 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 goodwill, or initial recognition of an asset or liability in a transaction which business combination and 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 and to the extent that a transaction is not a business combination. 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).

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.3 Current and deferred income tax (continued)

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

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

### 1.4 Share capital

*(a) Share capital is classified as equity*

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

*(b) Dividends on ordinary shares*

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

### 1.5 Employee benefits

#### (a) Post employment benefits

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

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

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

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

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

#### (b) Other long-term employee benefits

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

Long-term employee benefits include:

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

#### (c) Actuarial gains/losses

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

#### (d) Accrual for leave pay

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.6 Provisions

Contingent liabilities are not disclosed because the Bank believes that they may not become an actual liability therefore may not be incurred due to a result of uncertain future event. The Bank holds a belief that the possibility of future outflow of settlement embodying economic benefits is remote.

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

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

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

### 1.7 Revenue

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

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

### 1.8 Translation of foreign currencies

#### (a) Functional and presentation

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

#### (b) Transactions and balances

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

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

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

### 1.9 Impairment of non-financial assets

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

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

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

### 1.10 Loans and Advances

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.11 Currency Inventory

The cost of new Lesotho bank notes and coins are treated as inventory. The cost comprise of printing and minting costs, carriage, insurance and freight landed at the Bank 's premises. Currency is issued using the First In First Out method.

### 1.12 Dividend distribution

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

### 1.13 Notes and coins

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

### 1.14 IMF Holding of Special Drawing Rights and IMF subscription account

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

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

### 1.15 IMF Funded PRGF Advances

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

### 1.16 General Reserve

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

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

### 1.17 Rand Compensation Reserve

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

### 1.18 Foreign Exchange Revaluation Reserve Account

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

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

### 1.19 SDR Revaluation Reserve

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

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# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.20 Property Revaluation Reserve

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

### 1.21 Bond Revaluation Reserve

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

### 1.22 Financial Risk Management

#### (a) Market Risk

##### (i) Foreign Exchange Risk

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

In order to manage the foreign exchange risk exposure, the Bank holds functional currencies in which its obligations are denominated in the ratio of their historic cash flows. As of 31 December 2023, if the currency had weakened/strengthened by 5% against the functional currencies, the Bank's foreign assets would have been 1.08% (2022:1.08%) 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 the value of a financial instrument due to the variability in interest rates. The Bank owns significant financial instruments and this makes it exposed to interest rate risk.

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

##### (iii) Price risk

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

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

#### (b) Credit risk

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

#### (c) Liquidity risk

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

Refer to the Risk Management Statements on pages 48 to 62.

### 1.23 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the No.1 and No.2 accounts which total SDR 57,021,266 (2022: SDR 57,057,629) 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.

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.24 Critical accounting estimates and judgements

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

#### *Critical accounting estimates and assumptions*

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

#### *(a) Employee benefits*

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

The key assumptions used in the calculations are economic and demographic assumptions, withdrawal and mortality rates. In the valuation the real discount rate of 13.16% pa has been used.

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

*The key assumptions used in the valuation are discount rate 13.16%, price inflation rate of 7.80%, salary increase of 9.05% and the 80% resignations based on the previously applied rates.*

#### *(b) Fair values*

The following bases are used in determining fair value:

#### *i) Balances due to and from banks*

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

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

Estimates have been used for the implementation of the ECL model, Refer to Accounting policy 1.25.

### 1.25 Financial Instruments

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

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

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

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

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.25 Financial Instruments (continued)

#### 1.25.1 Financial assets

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

Specifically:

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

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

- The Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is not held for trading in OCI; and.
- The Bank may irrevocably designate a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).
- Instruments at amortised cost or at FVTOCI
- Instruments at amortised cost
- Cash and cash equivalents
- Treasury bills
- Deposit floaters
- Loans and advances
- IMF Holding Account
- Lesotho Government Securities
- Instruments at FVTOCI
- Self managed bonds

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

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

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

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

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

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

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

#### Financial assets at FVTPL

Financial assets at FVTPL are:

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

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.25 Financial Instruments (continued)

#### Reclassifications

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

#### Foreign exchange gains and losses

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

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

#### Impairment of financial assets

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

- Loans and advances;
- Debt investment securities;
- Deposits at other institutions
- Loan commitments issued;

No impairment loss is recognised on equity investments.

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

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

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

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

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

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

#### Credit-impaired financial assets

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

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

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.25 Financial Instruments (continued)

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

#### Definition of default

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

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

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

#### Significant increase in credit risk

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

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

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

The PDs used are forward looking and the Bank uses the same methodologies and data used to measure the loss allowance for ECL.

Qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly.

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

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

#### Modification and derecognition of financial assets

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

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

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

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.25 Financial Instruments (continued)

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

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

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

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

#### Write-off

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

### 1.25.2 Financial liabilities and equity

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

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

#### Equity instruments

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

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

#### Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.25 Financial Instruments (continued)

#### Other financial liabilities

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

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

#### Derecognition of financial liabilities

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

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Accounting Policies

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### 1.26 Standards and interpretations not yet effective

The Bank has chosen not to early adopt the following standards and interpretations, which are relevant to its operations, which have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2024, or later periods. It is expected that the Bank will adopt the new pronouncements on their effective dates in accordance with the requirements of the pronouncements. The Bank is in the process of assessing the impact of these standards and interpretation on the annual financial statements.

Standard	New and Amended Standard:	Effective for Annual Period beginning on or after
IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information	This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.	Annual periods beginning on or after 1 January 2024.
IFRS S2 Climate-related Disclosures	This Standard requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and opportunities are collectively referred to as 'climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.	Annual periods beginning on or after 1 January 2024

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### 1.27 Related Parties

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

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>2. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
<b>Cash and Balances with Banks</b>		
Cash on hand	3,706	2,580
Bank balances	373,328	361,174
Short-term deposits	17,257	7,139
Total cash in hand and cash at bank	<u>394,291</u>	<u>370,893</u>
<b>Current and Call Accounts</b>		
Foreign Banks	307,743	650,585
South African Banks	1,884,635	1,774,343
Total Current and Call Accounts	<u>2,192,378</u>	<u>2,424,928</u>
<b>Fixed Deposits</b>		
Foreign Banks	1,525,312	1,458,744
Interest Accrued	32,101	19,493
South African Banks	1,000,000	750,000
Expected credit loss for cash and cash equivalents	(902)	(7,349)
Total Fixed deposits (with maturity shorter than 3 months)	<u>2,556,511</u>	<u>2,820,888</u>
<b>Total cash and cash equivalents restated</b>	<b><u>5,143,180</u></b>	<b><u>5,016,709</u></b>

Refer to note 39 Financial Instruments and Financial risk management and note 43 Prior year errors for details of currency risk management for cash and cash equivalents and corrected errors.

The Bank had previously made a classification error of the Deposit Floaters with original maturities of three months or more out of cash and cash equivalents as defined in IAS 7, Statement of Cash Flows. These instruments had previously been treated as cash and cash equivalents due to the fact that interest was resetting every three months though was considered insignificant. These instruments were initially acquired in 2017. In the current year there is need for reclassification as reset date was used as opposed to initial contract dates. The reclassification of financial information has resulted in the comparative being restated for years ended 31 December 2021 and 31 December 2022.

### 3. Deposit Floaters & Fixed Deposit

SA Banks Deposits	600,000	850,000
Foreign Banks Deposits	183,887	-
	<b><u>783,887</u></b>	<b><u>850,000</u></b>

Refer to note 39 Financial Instruments and Financial risk management and note 43 Prior year errors for details of currency risk management for Deposit floaters and corrected errors.

### 4. Investment in SWIFT

Investment in SWIFTshares	<u>474</u>	<u>395</u>
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The investment in Society of Worldwide Interbank Financial Telecommunication (SWIFT) relates to share allocation based on the financial contribution to SWIFT for network - based services. The share allocation is done in accordance with clause 9.2 of the By - laws General Membership Rules. The shares allocation applies to all shareholders (Members) in live operations. The shares are measured at amortised cost.

Refer to note 39 Financial Instruments for details of currency risk management for SWIFT shares.

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
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### 5. Treasury notes and bonds

2023	Fair value through Profit and loss	Fair value through OCI	Total
US Bonds at fair value	1,874,585	1,019,249	2,893,834
ZAR Bonds at fair value	-	2,405,939	2,405,939
US Bonds accrued interest	15,747	8,193	23,940
ZAR Bonds accrued interest	-	47,770	47,770
	<b>1,890,332</b>	<b>3,481,151</b>	<b>5,371,483</b>

2022	Fair value through Profit and loss	Fair value through OCI	Total
US Bonds at fair value	1,785,183	926,777	2,711,960
ZAR Bonds at fair value	-	2,845,416	2,845,416
US Bonds accrued interest	7,574	5,638	13,212
ZAR Bonds accrued interest	-	68,412	68,412
	<b>1,792,757</b>	<b>3,846,243</b>	<b>5,639,000</b>

### 6. Treasury bills at amortised cost

#### US Treasury Bills

Treasury bills at amortised cost	623,331	448,203
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The Treasury bills are debt securities issued by the United States Treasury Departments and South African Government for a term of one year and are treated as securities at amortised cost. All treasury bills are subject to interest risk rate ranging from 5.09% - 5.57% and 5.58% - 8.27% respectively.

### 7. IMF Subscription Account

Balance at beginning of year	1,589,772	1,484,227
Exchange revaluation	135,523	105,545
<b>Balance at end of year</b>	<b>1,725,295</b>	<b>1,589,772</b>

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

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

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 69,800,000 in 2023. The local currency equivalent of the subscription account in the statement of financial position is converted at the rate of 0.040470500000 (2022: SDR 69,800,000 at 0.046993900000).

### 8. IMF Holding of Special Drawing Rights (SDR)

Balance at beginning of year	1,594,810	1,519,373
Net transactions - (decrease) / increase in rights	523,572	157,461
Exchange revaluation	88,495	(82,024)
<b>Balance at end of year</b>	<b>2,206,877</b>	<b>1,594,810</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>8. IMF Holding of Special Drawing Rights (SDR) (continued)</b>		
<p>Holding of SDRs is potentially a claim on freely usable currencies of IMF members, in that holders of SDR can exchange their currencies for SDRs. The SDR's value as a reserve asset derives from the commitments of members to hold and accept SDRs and to honour various obligations connected with the operation of the SDR system. The IMF ensures that the SDR's claim on freely usable currencies is being honoured in two ways: by designating IMF members with a strong external position to purchase SDRs from members with weak external positions, and through the arrangement of voluntary exchanges between participating members in a managed market. During the year IMF credited the Bank with SDR allocation of SDR 66,900,161 which was equivalent to 99.8455 of the quota. There will be no charge on this transfer and the only existing charge for SDRs is the annual administrative levy.</p> <p>The value of SDR 89,450,223 (2022: SDR 70,186,463) allocated by the International Monetary Fund less utilisation is converted at 0.040470500000 (2022:0.046993900000).</p>		
<b>9. IMF Funded PRGF Advances</b>		
Balance at beginning of year	38,810	139,332
Paid during the year	(41,156)	(106,785)
Exchange revaluation	2,346	6,263
<b>Balance at end of year</b>	<b>-</b>	<b>38,810</b>
<p>These are funds secured under the IMF Poverty Reduction and Growth Facility (PRGF) and on-lent to the Government of Lesotho, the corresponding asset is maintained primarily to track payments and revaluations of the loan. The SDR equivalents and translation thereof are shown in note 22.</p>		
<b>10. Lesotho Government Securities</b>		
Maturing within 1 month	-	946
<p>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.</p>		
<b>11. Currency Inventory</b>		
Balance at beginning of year	44,991	44,456
Currency issued	(20,495)	(24,171)
Currency addition	34,325	24,706
<b>Balance at end of year</b>	<b>58,821</b>	<b>44,991</b>
<b>12. Loans and Advances</b>		
Housing loans	59,131	54,757
Car loans	31,067	28,999
Furniture loans	479	1,319
Personal loans and comprehensive insurance	75,089	50,500
	<b>165,766</b>	<b>135,575</b>
<p>The loans issued to staff members during the period are paid in monthly instalments and attract interest rate of 3% per annum. Refer to related parties note 37 and risk management note 40 for further details.</p>		
<b>13. Other assets</b>		
Other prepayments	20,075	7,508
Other receivables	8,976	4,802
Commemorative coins	3,894	3,478
	<b>32,945</b>	<b>15,788</b>

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

Other receivables relate to LRCC advances.

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 14. Property, plant and equipment

	2023			2022		
	Cost or revaluation M'000	Accumulated depreciation M'000	Carrying value M'000	Cost or revaluation M'000	Accumulated depreciation M'000	Carrying value M'000
CBL buildings	496,485	(63,015)	433,470	660,517	(55,011)	605,506
CBL and Lehakoe Land	10,225	-	10,225	10,225	-	10,225
Lehakoe buildings	130,315	(34,698)	95,617	144,355	(32,957)	111,398
Residential land and buildings	24,321	(3,039)	21,282	15,682	(2,758)	12,924
Housing furniture	640	(587)	53	640	(569)	71
Office furniture	26,409	(15,389)	11,020	24,021	(14,043)	9,978
Motor vehicles	14,868	(11,959)	2,909	15,878	(12,789)	3,089
Office equipment	93,543	(67,938)	25,605	91,042	(58,557)	32,485
Office computers	56,627	(33,108)	23,519	48,908	(25,932)	22,976
Lehakoe furniture	5,645	(5,021)	624	5,642	(4,298)	1,344
Sports/music equipment	16,620	(13,948)	2,672	14,596	(11,200)	3,396
Housing equipment	350	(331)	19	350	(311)	39
Security equipment	37,757	(30,954)	6,803	34,114	(28,736)	5,378
Work in progress	227,181	-	227,181	177,397	-	177,397
<b>Total</b>	<b>1,140,986</b>	<b>(279,987)</b>	<b>860,999</b>	<b>1,243,367</b>	<b>(247,161)</b>	<b>996,206</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 14. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Depreciation on Disposal	Transfers	Revaluations	Other changes, movements	Depreciation	Total
	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000
CBL buildings	605,506	582	-	-	-	(164,614)	-	(8,004)	433,470
Land	10,225	-	-	-	-	-	-	-	10,225
Lehakoe buildings	111,398	-	-	-	-	(14,040)	-	(1,741)	95,617
Residential land and buildings	12,924	-	-	-	-	8,639	-	(281)	21,282
Housing furniture	71	-	-	-	-	-	-	(18)	53
Office furniture	9,978	9	-	-	-	57	2,322	(1,346)	11,020
Motor vehicles	3,089	-	-	-	-	117	1,319	(1,616)	2,909
Office equipment	32,485	1,198	-	-	-	1,281	22	(9,381)	25,605
Office computers	22,976	4,323	-	-	-	420	2,976	(7,176)	23,519
Lehakoe furniture	1,344	-	-	-	-	4	-	(724)	624
Sports/music equipment	3,396	-	-	-	-	135	1,889	(2,748)	2,672
Housing equipment	39	-	-	-	-	-	-	(20)	19
Security equipment	5,378	606	-	-	-	11	3,025	(2,217)	6,803
Work in progress	177,397	35,911	-	-	-	-	13,873	-	227,181
	<b>996,206</b>	<b>42,629</b>	-	-	-	<b>(167,990)</b>	<b>25,426</b>	<b>(35,272)</b>	<b>860,999</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 14. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Depreciation on Disposal	Transfers	Revaluations	Depreciation	Revaluation Excess	Total
	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000	M'000
CBL buildings	623,958	2,626	-	-	-	-	(9,240)	(11,838)	605,506
Land	10,225	-	-	-	-	-	-	-	10,225
Lehakoe buildings	112,930	617	-	-	-	-	(2,024)	(125)	111,398
Residential land and buildings	12,165	-	-	-	-	-	(277)	1,036	12,924
Housing furniture	71	-	-	-	-	72	-	(72)	71
Office furniture	11,172	110	-	-	-	1,232	(1,332)	(1,204)	9,978
Motor vehicles	5,383	2,398	(8,687)	4,883	-	1,535	(766)	(1,657)	3,089
Office equipment	10,157	668	-	-	23,296	6,744	(1,721)	(6,659)	32,485
Office computers	17,986	10,229	-	-	-	1,381	(5,750)	(870)	22,976
Lehakoe furniture	1,412	-	-	-	-	546	(83)	(531)	1,344
Sports/music equipment	3,511	-	-	-	-	1,561	(146)	(1,530)	3,396
Housing equipment	38	-	-	-	-	39	-	(38)	39
Security equipment	5,632	164	-	-	-	3,589	(411)	(3,596)	5,378
Work in progress	172,348	41,826	-	-	(36,777)	-	-	-	177,397
	<b>986,988</b>	<b>58,638</b>	<b>(8,687)</b>	<b>4,883</b>	<b>(13,481)</b>	<b>16,699</b>	<b>(21,750)</b>	<b>(27,084)</b>	<b>996,206</b>

Analysis at carrying amount as at 31 December 2023 had the Bank remained on cost.

#### Analysis at carrying amount as at 31 December 2023 had the Bank remained on cost.

	Cost Analysis M'000	Revalued Amount M'000
CBL Building	636,643	605,506
LRCC Building	22,000	111,398
Residential Building	1,312	12,924

#### Revaluations

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

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
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### 14. Property, plant and equipment (continued)

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

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

Unrealised surpluses or deficits arising on revaluation of buildings are transferred to a Revaluation Reserve Account. The most recent independent valuation for buildings was performed in the current year 2023 effective date being 1 May .

The items of property, plant and equipment which were fully depreciated were revalued by Management. There was no surplus arising from the revaluation therefore no distribution to the Government of Lesotho.

### 15. Intangible assets

	2023			2022		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
	M'000	M'000	M'000	M'000	M'000	M'000
Computer software	134,100	(101,323)	32,777	117,156	(88,705)	28,451

#### Reconciliation of intangible assets - 2023

	Opening balance M'000	Additions M'000	Revaluations M'000	Amortisation M'000	Total M'000
Computer software	28,451	16,944	-	(12,618)	32,777

#### Reconciliation of intangible assets - 2022

	Opening balance M'000	Additions M'000	Revaluations M'000	Amortisation M'000	Total M'000
Computer software	20,521	13,481	5,072	(10,623)	28,451

The new amortization figure is based on the new reassessed useful life. 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 on a straight line basis at a rate of 10% on all software inclusive of SAGE and Quantum Central Banking System (QCBS)

#### Details of valuation for fully amortised Intangibles

The effective date of the revaluations was Saturday, 31 December 2022. Revaluations were performed internally by management by giving fully amortised intangible assets 20% of their original cost price. The revaluations are posted to property revaluation reserve.

The carrying value of the revalued assets under the cost model would have been:

Computer software	-	1
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### 16. Notes and coins issued

Notes	2,365,535	1,771,819
Coins	34,193	34,878
	<b>2,399,728</b>	<b>1,806,697</b>

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>17. Deposits</b>		
Current liabilities	371,970	528,062
<b>Deposits from Banks &amp; Large Financial Corporatives - Non-interest bearing</b>		
Banks	365,849	525,524
Large financial cooperative	1,077	-
<b>Other Deposits - Non-interest bearing</b>		
International Institutions	787	930
Parastatals and others	4,257	1,608
	<b>371,970</b>	<b>528,062</b>

## 18. Lesotho Government Deposits

### Lesotho Governments Deposit

Government Deposit	2,499,333	2,866,980
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Lesotho Government Deposit typically refers to funds that are with or held by the Government entity, they include deposits from various sources, such as revenues collected fees or revenue related to their specific functions. This funds are subject to Government regulations and are managed in accordance with specific policies and objectives.

## 19. Government project accounts

### Government project

Government Project Accounts	265,540	502,100
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The Bank holds various amounts of monies on behalf of the Government of Lesotho, these accounts were off balance sheet and kept as Memorandum Accounts. The Bank held USD 31 million and EUR 2.2 million in government project deposits with the Deutsche Bank Company Americas and Deutsche Bundes Bank respectively. The Bank previously asserted that the monies are controlled by the Government and any gains and losses related to these amounts accrue to the Government. All memorandum accounts balances were kept off Balance Sheet. As a result of this, the Bank erroneously recorded these funds off balance sheet.

In the current reporting period, management has corrected this error as they have assessed that the Bank has always had control of these funds in terms of the Conceptual Framework and these Funds can be recognised as a financial asset which is cash in terms of IAS 32. A corresponding liability was also identified that should be reflected in the statement of financial position with regards to the obligation the Bank has to pay over the Funds to government upon demand.

## 20. IMF Maloti Currency Holding

Securities account	748,217	755,841
General resources account	1,163,206	1,073,026
	<b>1,911,423</b>	<b>1,828,867</b>

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

## 21. IMF Special Drawing Rights Allocation

Balance at beginning of year	2,272,562	2,227,462
Exchange revaluation	189,126	45,100
<b>Balance at end of year</b>	<b>2,461,688</b>	<b>2,272,562</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

2023	2022
M'000	M'000

### 21. IMF Special Drawing Rights Allocation (continued)

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

Lesotho's allocation by IMF of SDR99,778,347 is converted at 0.040470500000 (2022: SDR99,778,347 is converted at 0.0469939300000)

### 22. IMF-PRGF Facility

Balance at beginning of year	38,810	139,332
Paid during the year	(41,157)	(106,785)
Exchange revaluation	2,347	6,263
<b>Balance at end of year</b>	<b>-</b>	<b>38,810</b>

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

The facility was settled in 30 September 2023 and had a zero balance as at 31 December 2023 (2022: SDR 1,704,000 at 0.046993900000 ). The loan was on-lent to the Government of Lesotho, as per note 8. Interest expense and exchange rate differences are borne by the Government of Lesotho. The corresponding interest receivable and exchange gains were recognised.

### 23. IMF Rapid Credit Facility

Balance at beginning of year	265,569	247,938
Exchange revaluation	22,639	17,631
<b>Balance at end of year</b>	<b>288,208</b>	<b>265,569</b>

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

The value of RCF 11,660,000 (2022: SDR 11,660,000) allocated by the International Monetary Fund is converted at 0.040470500000 (2022:0.046993900000).

### 24. Taxation receivable/ (payable)

Balance at beginning of year	1,081	18,253
Paid during the year	14,374	-
Current year charge	(95,936)	(17,172)
<b>Balance at end of year</b>	<b>(80,481)</b>	<b>1,081</b>

### 25. Dividend payable

Balance at beginning of year	28,449	11,646
Paid during the year	(28,449)	(11,646)
Profit appropriation for the current year	151,276	28,449
<b>Balance at end of year</b>	<b>151,276</b>	<b>28,449</b>

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.

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>25. Dividend payable (continued)</b>		
<b>Profit after tax appropriates as follows:</b>		
Profit/(Loss) after tax & after actuarial (loss)/gain on employee benefits	181,532	34,139
Profit after tax net of gain on foreign exchange activities	181,532	34,139
Transfer to General Reserve	(30,256)	(5,690)
<b>Balance at end of year</b>	<b>151,276</b>	<b>28,449</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>26. Trade and other payables</b>		
Various accruals	85,294	61,829
Divisional cheque accounts	1,047	92,424
Other	37,475	46,656
Accrued leave pay	2,971	2,557
	<b>126,787</b>	<b>203,466</b>

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

Various accruals relate to accrued expenses as at year end.

### 27. Retirement benefits

#### Provision for severance pay

Opening obligation	24,807	27,258
Interest cost	3,114	3,040
Current service cost	3,200	3,044
Actuarial (gain)/ loss on employee benefits	(817)	(1,859)
Benefits paid	(2,854)	(6,676)
	<b>27,450</b>	<b>24,807</b>

#### Provision for gratuity

Opening obligation	83,498	95,532
Interest cost	9,896	9,540
Current service cost	14,027	12,639
Actuarial (gain)/ loss on employee benefits	4,043	10,377
Benefits paid	(22,546)	(44,590)
	<b>88,918</b>	<b>83,498</b>
	<b>116,368</b>	<b>108,305</b>

The Bank's liability is valued using the Projected Unit Credit Method by the independent Actuarial Valuer. The Valuer has used assumptions based on Statistics South African market data as at 31 December 2023. The valuer has determined the discount rate to be equal 13.16% p.a., implied inflation assumption rate to be 7.80% p.a for future inflation. Future salaries can be expected to increase in line with salary inflation. It is assumed that salary inflation will exceed general inflation by 1.25% 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 31 December 2023 based on yields from the zero coupon South African government bond curve with the duration of between 10-15 years. The computation has been determined taking into consideration the cash-flow weighted duration of the liabilities. The recommended discount rate is 13.16%. The benefits paid for severance and gratuity payments have been recognised in the statement of profit or loss.

#### Key assumptions used

Discount rates used	13.16 %	12.47 %
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#### Sensitivity Analysis 2023

	Current Assumption 13.16%	1% decrease 12.16%	1% increase 14.16%
Bank	116,368	115,204	117,532

#### Sensitivity Analysis 2022

	Current Assumption 12.47%	1% decrease 11.47%	1% increase 13.47%
Bank	108,305	107,222	109,388

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>28. Post-employment retirement fund benefits</b>		
Post-employment retirement fund benefits	-	-
<p>In terms of the rules and regulations of the Defined Benefit Plan of the Fund, the Fund Manager is required to perform actuarial valuation assessment every three years.</p> <p>Statutory actuarial valuations of the Corporate Bodies Pension Scheme has been performed on the 14th March 2023 for the year ended 31 December 2022 and found that the fund is in a sound financial position as funding level stood at 96.44%. The next actuarial Valuation will be performed in the year ended 31 December 2025.</p>		
<b>Financial position of the scheme</b>		
Value of assets	210,515	210,515
Value of liabilities	(218,291)	(218,291)
Active member liabilities	(103,891)	(103,891)
Pensioner liabilities	(110,775)	(110,775)
Deferred liabilities	(3,625)	(3,625)
Surplus/(deficit)	(7,776)	(7,776)
Funding level	96.44 %	96.44 %
<b>Surplus/(deficit) attributable to the contributors</b>	<b>(7,776)</b>	<b>(7,776)</b>

The plan assets were invested in the following different asset classes as at 31 December 2022 per the Actuarial valuation:

<b>Investment</b>		
Property	60,341	60,341
Lesotho Bank 24 Hour Call Account	9,757	9,757
Stanlib Income Fund	37,578	37,578
Government Bonds	35,000	35,000
Accrued Interest	1,127	1,127
Creditors	(1,207)	(1,207)
Bank Account	304	304
Stanlib Balanced Fund	67,615	67,615
<b>Total</b>	<b>210,515</b>	<b>210,515</b>

### Assumptions

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

<b>Assumption</b>		
Discount rate	12.30 %	12.30 %
Price inflation	7.30 %	7.30 %
Salary increases	8.30 %	8.30 %
Pension increases	-	-
Pre-retirement real rate	3.69 %	3.69 %
Post-retirement real rate	12.30 %	12.30 %
Pre-retirement mortality	125%*SA56/62	125%*SA56/62
Post-retirement mortality	a(55)	a(55)
Commutation	25.00 %	25.00 %

Discount rate is considered to be the only significant assumption.

There were no significant changes in the valuation of the fund's assets and liabilities.

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>29. Deferred tax</b>		
<b>Deferred tax asset</b>		
Property plant and equipment	25,798	83,979
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 asset	25,798	83,979
<b>Reconciliation of deferred tax asset / (liability)</b>		
At beginning of year	83,979	53,050
Movements in profit and loss	(30,278)	(513)
Movement in equity - current year	(27,903)	31,442
	<b>25,798</b>	<b>83,979</b>
<b>Reconciliation of deferred tax asset / (liability)</b>		
Accelerated capital allowance for tax purposes	1,805	1,037
Liabilities for Health care benefits accrued	29,835	27,716
Deferred expenses	24,299	(2,818)
Bond/unit trust revaluation reserve	(24,287)	(22,831)
Property revaluation reserve	(5,854)	80,875
	<b>25,798</b>	<b>83,979</b>
<b>Recognition of deferred tax asset</b>		
Deferred taxation assets are recognised for all deductible temporary differences, the carry forward of unused taxation losses and the carry forward of unused taxation credits. Deferred taxation assets are recognised for unused taxation losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Deferred taxation assets and liabilities are offset when the deferred taxation assets and liabilities relate to income taxation levied by the same taxation authority/jurisdiction on the same taxable entity. Management holds a strong view that there will be future taxable incomes against which the deferred tax will be utilised.		
The bank's profitability was considered in determining the appropriateness of recognising deferred taxation assets.		
<b>30. Share capital</b>		
<b>Authorised</b>		
Authorised capital	100,000	100,000
<b>Issued</b>		
Issued and fully paid	100,000	100,000

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>31. Investment income</b>		
<b>Interest income</b>		
Foreign currency deposits (Armortised cost)	458,833	227,085
Interest treasury bills and SDR holdings (Armortised cost)	125,541	19,590
Debt instrument at fair value through Other Comprehensive Income and Profit and Loss	270,198	297,232
<b>Total interest income</b>	<b>854,572</b>	<b>543,907</b>
<b>Interest Income Reconciliation</b>		
Total Interest Income	854,572	543,907
Less Accrued interest Cash Equivalents	(32,100)	(19,493)
Less Accrued interest US Bonds	(23,940)	(13,213)
Less: Accrued interest ZAR Bonds	(47,770)	(68,412)
Add: Prior year interest Cash Equivalents	19,493	10,674
Add: Prior year interest US Bonds	13,213	8,205
Add: Prior year interest ZAR Bonds	68,412	71,290
<b>Interest Income Actually recieved</b>	<b>851,880</b>	<b>532,958</b>
<b>32. Interest expense</b>		
Interest on non-financial Public Enterprises	90	59
Accrued premium amortisation	-	29,855
IMF SDR allocation account	112,637	24,999
<b>Total interest expense</b>	<b>112,727</b>	<b>54,913</b>
Since implementation of Reserves Management System, the Bank has adopted effective interest rate on its securities .		
<b>33. Other income</b>		
Profit on sale of bonds	4,983	(458)
Interest on staff loans (Armortised cost)	2,774	2,201
Lehakoe income	21,625	14,333
Other income	5,319	4,988
Gain on instruments as at fair value through profit and loss	76,813	22,374
	<b>111,514</b>	<b>43,438</b>

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>34. Operating costs and expense per nature</b>		
Administration and other expenses	130,155	83,275
Auditors remuneration	2,697	2,556
Currency Printing and Minting	20,213	24,164
Computer software amortisation	12,684	10,623
Depreciation and impairment	34,549	48,366
Property, plant and equipment maintenance expenses	43,059	16,310
Loss on sale of other instruments	18,489	28,480
Loss on fair valuation of treasury notes and bonds	17,823	60,329
<b>Personnel costs:</b>		
Staff welfare expenses	31,725	29,367
Non-executive directors' fees	1,737	2,425
Executive directors' salaries	7,443	2,033
Key management (heads of departments)	17,267	9,803
Staff salaries and expenses	164,047	146,695
Pension fund contributions	8,168	7,828
Gratuity and severance pay (interest and service cost)	38,892	37,460
	<b>548,948</b>	<b>509,714</b>
<b>35. Taxation</b>		
<b>Major components of the tax (income) expense</b>		
<b>Current</b>		
Local income tax - current period	126,213	16,660
<b>Reconciliation of the tax expense</b>		
Reconciliation between applicable tax rate and average effective tax rate.		
Chargeable profit ( before foreign exchange gain/loss and after actuarial gain/loss)	-	(26,735)
Statutory tax rate	25.00 %	25.00 %
<b>Permanent differences:</b>		
Donations	0.01 %	0.02 %
Depreciation on Buildings	0.05 %	0.01 %
<b>Effective tax rate</b>	<b>25.06 %</b>	<b>25.03 %</b>
Accounting (loss) profit	307,744	50,799
Add: Permanent differences disallowed for tax purposes	8,216	21,905
Add: Temporary differences disallowed for tax purposes	67,780	(4,015)
<b>Taxable profit</b>	<b>383,740</b>	<b>68,689</b>
Taxation @ 25% (2022: 25%)	95,935	17,172
Add: Tax expense	30,278	(513)
<b>Total Tax due</b>	<b>126,213</b>	<b>16,659</b>

Temporary differences entail wear and tear of other asset classes except buildings , Provisions and prepayments.

Permanant differences entail Depreciation on buildings , donations , entaitainment and training.

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>36. Cash used in operations</b>		
Profit before taxation	307,745	50,799
<b>Adjusted for:</b>		
Depreciation	34,548	48,367
Computer software amortised	12,684	10,623
Interest income	(854,572)	(543,907)
Interest paid	112,727	25,058
Currency Printing and Minting	(13,830)	(535)
Movement in FV through profit (loss) instruments	(97,575)	(83,443)
Movement in Deposits	(523,739)	(795,365)
Treasury bills at amortised cost	(175,128)	(367,739)
Movement in IMF Maloti Currency Holding	82,557	120,729
Movement in IMF Subscription	(135,524)	(105,545)
Trade and other payables	(76,682)	65,956
Movement in IMF Holding of Special Drawing Rights (SDR)	(612,068)	(75,437)
Movement in IMF Special Drawing Rights Allocation	189,127	45,100
Movements in Long-term employee benefit obligation	8,063	(14,485)
Deposit Floaters	66,113	415,635
Gain on ECL	43	(43,758)
Expected credit loss for Amortised Cost	(902)	6,768
Profit on sale of bonds	(4,983)	458
Gain on FVTPL instruments	(76,813)	(22,374)
(Gain)/Loss on sale of other instruments	18,489	(28,480)
Loss on fair valuation of treasury notes and bonds	17,823	60,329
Accrued premium amortisation	-	29,855
Interest on staff loans	(2,774)	(2,201)
	<b>(1,724,671)</b>	<b>(1,203,592)</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>37. Related parties</b>		
<b>Gross advances made during the year to:</b>		
Hheads of Departments		
Car loans	1,929	2,469
Furniture loans	-	100
Personal loans	5,190	3,695
Comprehensive insurance	82	113
	<b>8,281</b>	<b>6,377</b>
<b>Balances due at end of December:</b>		
Hheads of Departments		
Car loans	5,285	2,220
Furniture loans	41	83
Housing loans	1,475	-
Personal loans	6,913	3,088
Comprehensive insurance	67	67
	<b>13,781</b>	<b>5,458</b>
<b>Interest charged for the year:</b>		
Hheads of Departments		
Car loans	116	8
Furniture loans	1	1
Housing loans	38	-
Personal loans	122	16
Comprehensive insurance	1	1
	<b>278</b>	<b>26</b>
<p>During the period ended 31 December 2023 a personal loans was advanced to First Deputy Governor and a car loan was advanced to the Governor.</p> <p>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,</p> <p>The Bank however requires and accordingly has the following as collateral:</p> <ul style="list-style-type: none"> <li>-terminal benefits to the tune of M94,742.09 for car, furniture and personal loans.</li> <li>-title deeds, insurance cover and registered mortgages in relation to housing loan</li> </ul> <p>Further, all long term loans are covered by insurance policies to ensure recoveries in instances of death of employees.</p> <p>Mortgages amounting to M59,130,748 (2022: M61,823,963) are registered with the Bank's attorneys and life cover policies ceded to the Bank.</p> <p>During the year the terminal benefits amounting to M2,674,326.69 (2022: 5,454,257.07) were paid to key management staff while accrued benefits payable upon termination amount to M7, 679,339.94 .</p> <p>Annual remuneration to Key Management and Executive Directors includes basic salaries, car allowances, housing allowances and utilities allowances:</p> <p>(2022) disclosures only reflected basic salaries.</p>		
Executive Director's remuneration	7,443	2,033
Key management remuneration	17,267	9,803
	<b>24,710</b>	<b>11,836</b>
<b>Non - Executive Directors emoluments</b>		
Directors fees	1,737	2,425
<p>The Bank is wholly owned by the Government of Lesotho.</p> <p>These are related parties with the Government as the Bank also acts as banker to the Government.</p>		
Government Deposits	2,499,333	2,866,980
Government Projects	265,540	502,100
	<b>2,764,873</b>	<b>3,369,080</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 38. Financial assets by category

The financial assets have been categorised as follows:

#### 2023

	Amortised cost	Fair value through OCI	Assets at fair value through profit and loss	Total
	M'000	M'000	M'000	M'000
Cash and cash equivalents	5,143,180	-	-	5,143,180
Deposit Floaters	783,887	-	-	783,887
Investment in Swift	474	-	-	474
Treasury notes and bonds	-	3,481,151	1,890,332	5,371,483
Treasury bills at amortised cost	623,331	-	-	623,331
IMF Subscription Account	1,725,295	-	-	1,725,295
IMF Holding of Special Drawing Rights (SDR)	2,206,877	-	-	2,206,877
Loans and advances	165,766	-	-	165,766

#### 2022

	Amortised cost	Fair value through OCI	Assets at fair value through profit and loss	Total
	M'000	M'000	M'000	M'000
Cash and cash equivalents	5,016,709	-	-	5,016,709
Deposit Floaters	850,000	-	-	850,000
Investment in Swift	395	-	-	395
Treasury notes and bonds	-	3,846,243	1,792,757	5,639,000
Treasury bills at amortised cost	448,203	-	-	448,203
IMF Subscription Account	1,589,772	-	-	1,589,772
IMF Holding of Special Drawing Rights (SDR)	1,594,810	-	-	1,594,810
IMF Funded PRGF Advances	38,810	-	-	38,810
Lesotho Government Securities	946	-	-	946
Loans and advances	135,575	-	-	135,575
	<b>9,675,220</b>	<b>3,846,243</b>	<b>1,792,757</b>	<b>15,314,220</b>

#### Gains and losses per financial instrument category 2023

	Armortised cost	FV through P/L	FV through OCI	Total
	M'000	M'000	M'000	M'000
Interest Income	458,833	-	270,198	729,031
Interest treasury bills and SDR holdings	-	125,541	-	125,541
Gain on instruments at FVTPL	-	76,813	-	76,813
Subtotal	458,833	202,354	270,198	931,385
	<b>458,833</b>	<b>202,354</b>	<b>270,198</b>	<b>931,385</b>

#### Gains and losses per financial instrument category 2022

	Armortised cost	FV through P/L	FV through OCI	Total
	M'000	M'000	M'000	M'000
Interest Income	227,085	-	297,232	524,317
Interest treasury bills and SDR holdings	-	19,590	-	19,590
Gain on instruments at FVTPL	-	22,374	-	22,374
Subtotal	227,085	41,964	297,232	566,281
	<b>227,085</b>	<b>41,964</b>	<b>297,232</b>	<b>566,281</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 39. Financial liabilities by category

The financial liabilities have been categorised as follows:

#### 2023

	Financial liabilities at amortised cost M'000	Total M'000
Notes and coins issued	2,399,728	2,399,728
Deposits	371,970	371,970
Lesotho Government Deposits	2,499,333	2,499,333
IMF Maloti Currency Holding	1,911,423	1,911,423
IMF Special Drawing Rights Allocation	2,461,688	2,461,688
Government Projects	265,540	265,540
IMF Rapid Credit Facility	288,208	288,208
Trade and other payables	126,139	126,139
Dividend due to Government of Lesotho	151,277	151,277
	<b>10,475,306</b>	<b>10,475,306</b>

#### 2022

	Financial liabilities at amortised cost M'000	Total M'000
Government Projects	502,100	502,100
Notes and coins issued	1,806,697	1,806,697
Deposits	528,062	528,062
Lesotho Government Deposits	2,866,980	2,866,980
IMF Maloti Currency Holding	1,828,867	1,828,867
IMF Special Drawing Rights Allocation	2,272,562	2,272,562
IMF-PRGF Facility	38,810	38,810
IMF Rapid Credit Facility	265,569	265,569
Trade and other payables	111,680	111,680
Dividends due to Government of Lesotho	28,449	28,449
	<b>10,249,776</b>	<b>10,249,776</b>

#### 2023

##### Gains and losses per financial instrument category

Interest expense

**Amortised cost  
M'000**  
(112,727)

#### 2022

##### Gains and losses per financial instrument category

Interest expense

**Amortised cost  
M'000**  
(54,913)

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

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### 40. Financial instruments and risk management

#### Financial risk management

##### General risk management

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

##### Management structures

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

##### Risk elements

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

##### Operational risk

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

##### Human resource risk

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

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

##### Legal risk

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

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

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

##### Reputational risk

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

##### Foreign currency risk

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

The foreign currency risk is reported on daily, monthly and quarterly basis to the Bank's Management and different Committees.

The below tables discuss impact of different risk exposures that the Bank is exposed to.

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and risk management (continued)

#### Currency 2023

Currency risk

##### Cash and balances with Banks

	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
South Africa	3,905,727	1.0000	3,905,727
United States	103,948	18.3887	1,911,469
Botswana	63	1.3689	86
England	2,062	23.4005	48,252
European Union	1,057	20.3535	21,514
IMF	89,450	24.6716	2,206,875

##### Treasury notes and bonds

	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
South Africa	2,453,709	1.0000	-
United States	158,672	18.3887	-

##### Treasury Bills

	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
United States	11,652	18.3887	214,265
South Africa	409,051	1.0000	409,051

#### Currency 2022

##### Cash and balances with Banks

	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
South Africa	3,748,586	1.0000	3,748,586
United States	88,987	16.9560	1,508,864
Botswana	80	1.3294	106
England	2,770	20.3999	56,505
European Union	2,705	18.0974	48,961
IMF	70,186	22.5657	1,583,798

##### Treasury notes and bonds

	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
South Africa	2,845,416	1.0000	2,845,126
United States	159,940	16.9560	2,206,852

##### Treasury Bills

	Value of Currency '000	Exchange Rate	Maloti Equivalent M'000
United States	9,920	16.9560	168,204
South Africa	280,002	1.0000	280,002

#### Foreign exchange risk

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

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

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### 40. Financial instruments and risk management (continued)

#### Credit risk

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

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

#### Quantitative information

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

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

The reserves are managed conservatively in highly liquid investment grade instruments with exception only in ZAR bonds that were down graded to junk status. Despite the junk status, the Bank still invests in them due to the inherent nature of high allocation of reserves to ZAR as per the Strategic Asset Allocation of the Bank. For other instruments the Bank manages risk by proper exposure limits, benchmarks and durations. 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

For simplicity, the Bank has used the simplified matrix as the Bank has reckoned that we have low risk securities and majority of the Bank's securities are Investment grade except for South African investments. Also this is based on the Bank's historical default rates over the expected life and adjusted for forward-looking estimates. ECL has been computed for both 12-month and lifetime.

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

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

#### 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 Standards & Poor, Fitch and Moody's.
- The transition matrix is the S&P's global corporate from 1981 to 2023.
- A default probability of 1 bps is assumed for AAA rated securities and 1.5 basis points (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).

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and 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.

2023

Cash	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ZAR	374,770	374,770	ZAR	none	n/a
USD	3,453	3,453	USD	none	n/a
GBP	44	44	GBP	none	n/a
EUR	209	209	EUR	none	n/a
	<b>378,476</b>	<b>378,476</b>			

Current and call accounts	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	50	50	ZAR	none	Ba2/P-2
ABSA Maloti Repatriation	16,752	16,752	ZAR	none	Ba2/P-2
ABSA Credit Card	1,630	1,630	ZAR	none	Ba2/P-2
B.I.S	7	7	GBP	none	Supranational
B.I.S	129	129	USD	none	Supranational
B.I.S	20	20	EUR	none	Supranational
Bank of England	42,951	42,951	GBP	none	Aa3/P-1
Bank of N.Y	41,634	41,634	USD	none	A1/P-1
Bank of N.Y	52,500	52,500	ZAR	none	A1/P-1
Bank of N.Y (RAMP)	13,369	13,369	USD	none	A1/P-1
Crown Agents	203	203	GBP	none	BB
Crown Agents	4,296	4,296	USD	none	BB
Deutsche Bankers trust	121,053	121,053	USD	none	A2/P-1
Deutsche Bundersbank	21,323	21,323	EUR	none	A3/P-2
Federal Reserve Bank of N.Y	148,558	148,558	USD	none	Aaa
First Rand	106	106	ZAR	none	Ba2/P-2
International Monetary Fund Holdings	2,206,880	2,206,880	SDR	none	Supranational
Investec Bank	104	104	ZAR	none	Ba2/P-2
NedBank	33	33	ZAR	none	Ba2/P-2
Special Rand Deposit	263,966	263,966	ZAR	none	Ba2/P-2
Standard Bank	94	94	ZAR	none	Ba2/P-2
Standard Chartered Botswana	86	86	BWP	none	A2
Standard Chartered London	5,047	5,047	GBP	none	A3/P2
South African Reserve Bank	1,595,404	1,595,404	ZAR	none	Ba2/P-2
	<b>4,536,195</b>	<b>4,536,195</b>			

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and risk management (continued)

Fixed deposits	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	201,587	201,587	ZAR	none	Ba2/P-2
African Import-Export Bank	372,334	372,334	USD	none	Baa1/P-2
BIS	186,052	186,052	ZAR	none	Supranational
ICBC ASIA	470,652	470,652	USD	none	A1/P-1
Investec	405,387	405,387	ZAR	none	Ba2/P-2
Standard Bank PLC	81,052	81,052	USD	none	Baa1/P-2
Standard Bank PLC	508,100	508,100	ZAR	none	Baa1/P-2
Sumitomo Mitsui USD	469,080	469,080	USD	none	Baa1/P-2
Rand Merchant Investment Bank	251,762	251,762	ZAR	none	Ba2/P-2
Standard Bank South Africa	251,804	251,804	ZAR	none	Ba2/P-2
	<b>3,197,810</b>	<b>3,197,810</b>			

Treasury bills	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ZAR Tbills	409,051	409,051	ZAR	none	BB-
RAMPT Bill	214,280	214,280	ZAR	none	AA+
	<b>623,331</b>	<b>623,331</b>			

Treasury notes and bonds	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
South Africa	2,453,709	2,453,709	ZAR	none	BB+
United States-RAMP	15,746	15,746	USD	none	AA+
United States	2,902,028	2,902,028	USD	none	AA+
	<b>5,371,483</b>	<b>5,371,483</b>			

Loans to staff	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
Housing Loans	59,131	59,131	LSL	Title deeds	n/a
Car loans	31,067	31,067	LSL	Terminal benefits	n/a
Furniture loans	479	479	LSL	Terminal benefits	n/a
Other loans and advances	75,089	75,089	LSL	Terminal benefits	n/a
	<b>165,766</b>	<b>165,766</b>			

### 2022

Cash	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ZAR	359,411	359,411	ZAR	none	n/a
USD	126	126	USD	none	n/a
GBP	2	2	GBP	none	n/a
EUR	14	14	EUR	none	n/a
	<b>359,553</b>	<b>359,553</b>			

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and risk management (continued)

Current and call accounts	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	47	47	ZAR	none	Baa3/P-3
ABSA Maloti Repatriation	11,587	11,587	ZAR	none	Baa3/P-3
ABSA Credit Card	489	489	ZAR	none	Baa3/P-3
B.I.S	7	7	USO	none	Supranational
B.I.S	1	1	EUR	none	Supranational
Bank of England	2,692	2,692	GBP	none	Aa2/P-1
Bank of N.Y	44	44	USD	none	Aa2/P-1
Bank of N.Y (RAMP)	596	596	USD	none	Aa/P-1
Crown Agents	9	9	GBP	none	B BB
Crown Agents	6	6	USD	none	B BB
Deutsche Bankers trust	1,644	1,644	USD	none	Baa11P-1
Deutsche Bundersbank	2,691	2,691	EUR	none	Aaa
Federal Reserve Bank of N.Y	253	253	USD	none	Aaa
First Rand	100	100	ZAR	none	Baa3/P-3
International Monetary Fund Holdings	70,186	70,186	ZAR	none	Supranational
Investec Bank	96	96	ZAR	none	Baa3/P-3
NedBank	32	32	ZAR	none	Baa3/P-3
SIRESS	10,026	10,026	ZAR	none	Baa3/P-3
Standard Bank	95	95	ZAR	none	Baa3/P-3
Standard Chartered Botswana	80	80	BWP	none	A2
Standard Chartered London	67	67	GBP	none	A1/P-1
South African Reserve Bank	1,751,972	1,751,972	ZAR	none	Baa3/P-3
	<b>1,852,720</b>	<b>1,852,720</b>			

Fixed deposits	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	200,000	200,000	ZAR	none	Ba2/P-2
African Import-Export Bank	10,000	10,000	USD	none	Baa1/P-2
BIS	10,000	10,000	ZAR	none	Supranational
Federal Reserve Bank of NY	10,900	10,900	USD	none	Aaa
Firststrand	250,000	250,000	ZAR	none	Ba2/P-2
ICBC ASIA	24,762	24,762	USD	none	A1/P-1
Investec	250,000	250,000	ZAR	none	Ba2/P-2
Standard Bank	400,000	400,000	ZAR	none	Ba2/P-2
Standard Chartered London	5,048	5,048	ZAR	none	A1/P-1
Standard Bank PLC	14,172	14,172	USD	none	Baa3/P-3
Standard Bank PLC	500,000	500,000	ZAR	none	Baa3/P-3
Sumitomo Mitsui USD	11,150	11,150	USD	none	A-
	<b>1,686,032</b>	<b>1,686,032</b>			

Accrued interest due from Banks	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	1,333	1,333	ZAR	none	Ba2/P-2
African Import-Export Bank	28	28	ZAR	none	Baa1/P-2
BIS	29	29	ZAR	none	Supranational
Firststrand	1,769	1,769	ZAR	none	Ba2/P-2
ICBC ASIA	108	108	USD	none	A1/P-1
Investec	3,616	3,616	ZAR	none	Ba2/P-2
Standard Chartered London	36	36	ZAR	none	A11P-1
Standard Bank PLC	3,603	3,603	ZAR	none	Baa3/P-3
Standard Bank	4,407	4,407	USD	none	Baa3/P-3
Sumitomo Mitsui	39	39	USD	none	Baaa3/P-3
Standard Bank PLC	40	40	USD	none	A-
	<b>15,008</b>	<b>15,008</b>			

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and risk management (continued)

Treasury bills	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
Federal Reserve Bank of New York	9,920	168,204	USD	none	Aaa
ZAR Tbills	280,002	280,002	ZAR	none	Ba2/P-2
	<b>289,922</b>	<b>448,206</b>			

Treasury notes, bonds and unit trusts	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
South Africa	2,845,416	2,845,416	ZAR	none	Ba2/P-3
United States-RAMP	1,785,183	1,785,183	USD	none	Aaa
United States	926,767	926,767	USD	none	Aaa
	<b>5,557,366</b>	<b>5,557,366</b>			

Loans to staff	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
Housing Loans	54,757	54,757	LSL	Title deeds	n/a
Car loans	28,999	28,999	LSL	Terminal benefits	n/a
Furniture loans	1,319	1,319	LSL	Terminal benefits	n/a
Other loans and advances	50,500	50,500	LSL	Terminal benefits	n/a
	<b>135,575</b>	<b>135,575</b>			

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.

### Credit quality per class of financial assets - 2023

	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Treasury notes and bonds	1,019,249	2,405,939	-	3,425,188
<b>FVOCI Instruments</b>	<b>1,019,249</b>	<b>2,405,939</b>	<b>-</b>	<b>3,425,188</b>

	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Cash and cash equivalents	5,144,082	-	-	5,144,082
Deposit Floaters	783,887	-	-	783,887
Treasury bills at amortised cost	623,331	-	-	623,331
IMF Subscription Account	1,725,295	-	-	1,725,295
IMF Holding of Special Drawing Rights (SDR)	2,206,877	-	-	2,206,877
Loans and Advances	165,765	-	-	165,765
<b>Instruments at amortised cost</b>	<b>10,649,237</b>	<b>-</b>	<b>-</b>	<b>10,649,237</b>
<b>Balance as at 31 December 2023</b>	<b>11,668,486</b>	<b>2,405,939</b>	<b>-</b>	<b>14,074,425</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and risk management (continued)

#### Credit quality per class of financial assets - 2022

	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Treasury notes and bonds	926,777	2,845,416	-	3,772,193
<b>FVOCI Instruments</b>	<b>926,777</b>	<b>2,845,416</b>	<b>-</b>	<b>3,772,193</b>
	Stage 1 M'000	Stage 2 M'000	Stage 3 M'000	Total M'000
Cash and cash equivalents	5,024,058	-	-	5,024,058
Deposit Floaters	850,000	-	-	850,000
Treasury bills at amortised cost	448,203	-	-	448,203
IMF Subscription Account	1,589,772	-	-	1,589,772
IMF Holding of Special Drawing Rights (SDR)	1,594,810	-	-	1,594,810
IMF Funded PRGF Advances	38,810	-	-	38,810
Lesotho Government Securities	946	-	-	946
Loans and Advances	135,574	-	-	135,574
<b>Instruments at amortised cost</b>	<b>9,682,173</b>	<b>-</b>	<b>-</b>	<b>9,682,173</b>
<b>Balance as at 31 December 2022</b>	<b>10,608,950</b>	<b>2,845,416</b>	<b>-</b>	<b>13,454,366</b>

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

#### Expected credit loss per class of financial assets

2023	Stage 1 M'000	Stage 1 12- month ECL M'000	Stage 2 M'000	Stage 3 M'000	Stage 3 Lifetime ECL M'000	Total M'000
FVOCI Instruments	1,019,249	-	55,886	-	-	55,886
Instruments at amortised cost	10,649,237	902	-	-	-	902
<b>Balance as at 31 December 2023</b>	<b>11,668,486</b>	<b>902</b>	<b>55,886</b>	<b>-</b>	<b>-</b>	<b>56,788</b>
2022	Stage 1 M'000	Stage 1 12- month ECL M'000	Stage 2 M'000	Stage 3 M'000	Stage 3 Lifetime ECL M'000	Total M'000
FVOCI Instruments	926,777	-	43,759	-	-	43,759
Instruments at amortised cost	9,682,173	(6,768)	-	-	-	(6,768)
<b>Balance as at 31 December 2022</b>	<b>10,608,950</b>	<b>(6,768)</b>	<b>43,759</b>	<b>-</b>	<b>-</b>	<b>36,991</b>

#### Reconciliation of the expected credit loss allowance

2023	Stage 1 12- month ECL M'000	Stage 2 Lifetime ECL M'000	Stage 3 Lifetime ECL M'000	Total M'000
<b>Balance as at 1 January 2023</b>	<b>49,395</b>	<b>7,349</b>	<b>-</b>	<b>56,744</b>
- Instruments at amortised cost	49,395	-	-	49,395
- FVOCI Instruments	-	7,349	-	7,349
<b>Net charge for the year</b>	<b>6,491</b>	<b>(6,447)</b>	<b>-</b>	<b>44</b>
- Instruments at amortised cost	6,491	-	-	6,491
- FVOCI Instruments	-	(6,447)	-	(6,447)
<b>Balance as at 31 December 2023</b>	<b>55,886</b>	<b>902</b>	<b>-</b>	<b>56,788</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and risk management (continued) 2022

	Stage 1 12- month ECL M'000	Stage 2 Lifetime ECL M'000	Stage 3 Lifetime ECL M'000	Total M'000
<b>Balance as at 01 January 2022</b>	<b>1,250</b>	<b>18,236</b>	<b>-</b>	<b>19,486</b>
- Instruments at amortised cost	581	-	-	581
- FVOCI Instruments	669	18,236	-	18,905
<b>Net charge for the year</b>	<b>6,099</b>	<b>11,406</b>	<b>-</b>	<b>17,505</b>
- Instruments at amortised cost	7,349	11,406	-	18,755
- FVOCI Instruments	(1,250)	-	-	(1,250)
<b>Balance as at 31 December 2022</b>	<b>7,349</b>	<b>29,642</b>	<b>-</b>	<b>36,991</b>

Changes in the ECL are due to the movements in the probability of defaults. There were no movements between levels. There were no instruments written off as the bank does not have a history of writing off instruments. There were no modifications in cashflows that took place. There are no changes in estimation techniques. The instruments are currently at stage 1 and stage 2.

### Sensitivity Analysis for the year ended 31 December 2023

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

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

Table 1 provides a comparative view of holdings in original currency, along with the closing foreign exchange rates for 2023 and 2022 financial years.

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

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

	31 December 2023		31 December 2022	
	Portfolio level M'000	Exchange Rate M'000	Portfolio level M'000	Exchange Rate M'000
South Africa	3,905,727	1.00	10,473,688	1.00
United States	103,948	18.39	165,774	18.39
Botswana	63	1.37	60	1.37
England	2,062	23.40	136	23.40
European Union	1,057	20.35	149	20.35
IMF	89,450	24.67	70,186	24.67

Base case Data for currency and foreign investment risk Currency composition	31 December 2023			31 December 2022		
	Portfolio level M'000	Portfolio level in %	Exchange Rate	Portfolio level M'000	Portfolio level in %	Exchange Rate
ZAR	3,905,727	48.26 %	1.00	10,473,688	78.39 %	1.00
USD	1,911,469	23.62 %	18.39	2,810,856	21.04 %	18.39
EUR	21,514	0.27 %	18.07	2,705	0.02 %	18.10
GBP	48,252	0.60 %	23.40	2,770	0.02 %	23.40
BWP	86	- %	1.36	80	- %	1.33
SDR	2,206,875	27.27 %	24.67	70,186	0.53 %	24.67
	<b>8,093,923</b>	<b>100 %</b>		<b>13,360,285</b>	<b>100 %</b>	

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and risk management (continued)

#### 31 December 2023

##### 5% Increase in exchange rate for currency and foreign investment risk

##### Currency composition

	Portfolio level M'000	Portfolio level in %	Level change M'000	Exchange Rate
ZAR	3,905,727	47.04 %	-	1.0000
USD	2,007,042	24.17 %	(95,573)	19.3081
EUR	22,589	0.27 %	(1,075)	21.3712
GBP	50,665	0.61 %	(2,413)	24.5706
BWP	91	- %	(5)	1.4373
SDR	2,317,218	27.91 %	(110,343)	25.9052
	<b>8,303,332</b>	<b>100 %</b>		

#### 31 December 2022

##### 5% Increase in exchange rate for currency and foreign investment risk

##### Currency composition

	Portfolio level M'000	Portfolio level in %	Level change M'000	Exchange Rate
ZAR	10,473,688	77.56 %	-	1.0000
USD	2,951,399	21.85 %	(140,543)	19.3081
EUR	2,841	0.02 %	(136)	21.3712
GBP	2,908	0.02 %	(138)	24.5706
BWP	84	- %	(4)	1.4373
SDR	73,695	0.55 %	(3,509)	25.9052
	<b>13,504,615</b>	<b>100 %</b>		

%change 1.08%

#### 31 December 2023

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

##### Currency composition

	Portfolio level M'000	Portfolio level in %	Level change M'000	Exchange Rate
ZAR	3,905,727	49.54 %	-	1.00
USD	1,815,895	23.03 %	95,574	17.47
EUR	20,438	0.26 %	1,076	19.34
GBP	45,839	0.58 %	2,413	22.23
BWP	82	- %	4	1.30
SDR	2,096,531	26.59 %	110,344	23.44
	<b>7,884,512</b>	<b>100 %</b>		

#### 31 December 2022

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

##### Currency composition

	Portfolio level M'000	Portfolio level in %	Level change M'000	Exchange Rate
ZAR	10,473,688	79.25 %	-	1.00
USD	2,670,314	20.21 %	140,542	17.47
EUR	2,570	0.02 %	135	19.34
GBP	2,631	0.02 %	139	22.23
BWP	76	- %	4	1.30
SDR	66,676	0.50 %	3,510	23.44
	<b>13,215,955</b>	<b>100 %</b>		

% Change -2.11%.

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and 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.

#### 31 December 2023

	Cash	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	M'000	M'000	M'000	M'000	M'000	M'000
ZAR	1,179,626	1,144,237	454,018	651,922	475,921	3,905,724
USD	249,633	725,451	233,317	703,067	-	1,911,468
EUR	21,343	-	-	-	-	21,343
GBP	48,207	-	-	-	-	48,207
Other	2,206,966	-	-	-	-	2,206,966
	<b>3,705,775</b>	<b>1,869,688</b>	<b>687,335</b>	<b>1,354,989</b>	<b>475,921</b>	<b>8,093,708</b>

#### 31 December 2022

	Cash	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years	Total
	M'000	M'000	M'000	M'000	M'000	M'000
ZAR	359,411	7,787,969	280,002	1,645,492	400,815	10,473,689
USD	126	592,491	433,949	1,784,291	-	2,810,857
EUR	14	2,692	-	-	-	2,706
GBP	2	2,768	-	-	-	2,770
Other	-	71,402	-	-	-	71,402
	<b>359,553</b>	<b>8,457,322</b>	<b>713,951</b>	<b>3,429,783</b>	<b>400,815</b>	<b>13,361,424</b>

#### 31 December 2023

#### Base case yields

	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	7.86 %	7.91 %	5.00 %	9.96 %
USD	5.46 %	3.32 %	4.85 %	4.09
EUR	3.09 %	5.30	-	-
GBP	4.33 %	4.71	-	-
Other	3.59 %	3.88 %	- %	- %

#### 31 December 2022

#### Base case yields

	0 to 6 Months	6 months to 1 year	1 year to 5 years	More than 5 years
ZAR	5.80 %	6.49 %	6.35 %	8.00 %
USD	3.32 %	3.32 %	1.44 %	-
EUR	0.39 %	-	-	-
GBP	1.96 %	-	-	-

#### 31 December 2023

#### 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	8.86 %	8.91 %	6.00 %	10.96 %
USD	6.46 %	4.32 %	5.85 %	5.09
EUR	4.09 %	6.30	-	-
GBP	5.33 %	5.71	-	-
	- %	4.88 %	- %	- %

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and risk management (continued)

31 December 2022

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	6.80 %	7.49 %	7.35 %	9.00 %
USD	4.32 %	4.32 %	2.44 %	1.00
EUR	1.39 %			
GBP	2.96 %			

31 December 2023

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	6.86 %	6.91 %	4.00 %	8.96 %
USD	4.46 %	2.32 %	3.85 %	3.09
EUR	2.09 %	4.30		
GBP	3.33 %	3.71		
	2.59 %	2.88 %	- %	- %

31 December 2022

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	4.80 %	5.49 %	5.35 %	7.00 %
USD	2.32 %	2.32 %	0.44 %	
GBP	0.96 %			

31 December 2023

Nominal return in base case yields

	0 to 6 Months M'000	6 months to 1 year M'000	1 year to 5 years M'000	More than 5 years M'000	Nominal Income M'000
ZAR	147,169	58,807	53,368	77,574	-
USD	112,282	21,941	96,616	-	-
	-	-	-	-	483,827

31 December 2022

Nominal return in base case yields

	0 to 6 Months M'000	6 months to 1 year M'000	1 year to 5 years M'000	More than 5 years M'000	Nominal Income M'000
ZAR	451,360	18,160	104,489	32,065	-
USD	19,569	14,399	25,673	-	-
EUR	10	-	-	-	-
GBP	54	-	-	-	-
	-	-	-	-	483,827

31 December 2023

Nominal return in increasing yields

	0 to 6 Months M'000	6 months to 1 year M'000	1 year to 5 years M'000	More than 5 years M'000	Nominal Income M'000
ZAR	143,261	34,457	(10,883)	(10,904)	-
USD	101,457	7,989	(7,566)	-	-
	-	-	-	-	465,534

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and risk management (continued)

31 December 2022

Nominal return in increasing yields	0 to 6 Months	6 months to 1	1 year to 5	More than 5	Nominal Income M'000
	M'000	year M'000	years M'000	years M'000	
ZAR	529,239	16,656	68,040	5,070	-
USD	25,584	11,052	(8,184)	-	-
EUR	37	-	-	-	-
GBP	82	-	-	-	-
	-	-	-	-	465,534

31 December 2023

Nominal return in decreasing yields	0 to 6 Months	6 months to 1	1 year to 5	More than 5	Nominal Income M'000
	M'000	year M'000	years M'000	years M'000	
ZAR	11,114	27,166	10,883	10,904	-
USD	71,019	6,149	7,566	-	-
	-	-	-	-	502,121

31 December 2022

Nominal return in decreasing yields	0 to 6 Months	6 months to 1	1 year to 5	More than 5	Nominal Income M'000
	M'000	year M'000	years M'000	years M'000	
ZAR	373,480	19,663	140,937	59,061	-
USD	13,735	17,746	59,531	-	-
EUR	(16)	-	-	-	-
GBP	27	-	-	-	-
	-	-	-	-	502,121

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

The Bank's policy is to minimise interest rate cash flow risk exposure on long-term financing. Longer-term borrowings are therefore usually at fixed rates. At 31 December 2023, the Bank is exposed to changes in market interest rates through bank borrowing at variable interest rates. Other borrowings are at fixed interest rates. The exposure to interest rates for the Bank's money market funds is considered immaterial.

The following table illustrates the sensitivity of profit and equity to a reasonably possible change in interest rates +/- 1% (2022: +/-1%) These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on a change in the average market interest rate for each period and the financial instruments held at each reporting date are sensitive to change in interest rates. All other variables are held constant.

	Profit for the year		Equity	
	+1%	-1%	+1%	-1%
	M'000	M'000	M'000	M'000
31 December 2023	8,546	(8,546)	6,409	(6,409)
31 December 2022	5,439	(5,439)	4,079	(4,079)

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and risk management (continued)

#### Liquidity Risk

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

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

#### 31 December 2023

Financial assets	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 1 year but within 5 years	Maturing after 5 years	Total
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
Cash and balances with banks	2,310,933	1,584,399	2,069,733	-	-	-	5,965,065
Accrued interest due from Banks	-	19,817	28,047	745,611	-	23,597	817,072
Expected interest cashflows from Bonds	-	18,000	84,524	91,926	8,847	69,000	272,297
Treasury Notes and Bonds	-	-	250,000	738,002	683,322	850,000	2,521,324
	<b>2,310,933</b>	<b>1,622,216</b>	<b>2,432,304</b>	<b>1,575,539</b>	<b>692,169</b>	<b>942,597</b>	<b>9,575,758</b>

#### 31 December 2023

Financial liabilities	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 1 year but within 5 years	Maturing after 5 years	Total
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
Notes & coins issued	2,399,728	-	-	-	-	-	2,399,728
Deposits	384,509	-	-	-	-	-	384,509
Lesotho Government Deposits	2,498,642	-	-	-	-	-	2,498,642
IMF Accounts	2,461,688	-	-	-	-	-	2,461,688
	<b>7,744,567</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,744,567</b>
<b>Net liquidity gap</b>	<b>(5,433,634)</b>	<b>1,622,216</b>	<b>2,432,304</b>	<b>1,575,539</b>	<b>692,169</b>	<b>942,597</b>	<b>1,831,191</b>

#### 31 December 2022

Financial assets	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 1 year but within 5 years	Maturing after 5 years	Total
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
Cash and balances with banks	2,856,600	1,914,470	1,622,530	698,340	-	-	7,091,940
Accrued interest due from Banks	100	39,540	57,130	16,370	-	-	113,140
Expected interest cashflows from Bonds	-	17,290	65,010	67,440	325,290	94,000	569,030
Treasury Notes and Bonds	1,528,860	207,020	91,160	56,180	1,701,230	336,020	3,920,470
	<b>4,385,560</b>	<b>2,178,320</b>	<b>1,835,830</b>	<b>838,330</b>	<b>2,026,520</b>	<b>430,020</b>	<b>11,694,580</b>

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

### 40. Financial instruments and risk management (continued)

31 December 2022

Financial liabilities	Redeemable on demand	Maturing within 1 month	Maturing after 1 month but within 6 months	Maturing after 6 months but within 12 months	Maturing after 1 year but within 5 years	Maturing after 5 years	Total
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
Notes & coins issued	1,806,697	-	-	-	-	-	1,806,697
Deposits	562,435	-	-	-	-	-	562,435
Lesotho Government Deposits	2,799,967	-	-	-	-	-	2,799,967
IMF Accounts	2,538,131	-	-	-	-	-	2,538,131
	<b>7,707,230</b>	-	-	-	-	-	<b>7,707,230</b>
<b>Net liquidity gap</b>	<b>(3,321,670)</b>	<b>2,178,320</b>	<b>1,835,830</b>	<b>838,330</b>	<b>2,026,520</b>	<b>430,020</b>	<b>3,987,350</b>

### Price risk

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

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

	2023 M'000	2022 M'000
10% increase	556,495	556,495
10% decrease	455,314	455,314

### 41. Fair value information

#### Levels of fair value measurements

#### Level 1

#### Recurring fair value measurements

#### Assets

#### Fair value through profit or loss

Treasury notes and bonds	1,890,332	1,792,757
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#### Financial assets at fair value through OCI

Treasury notes and bonds	3,481,151	3,772,193
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#### Total

	<b>5,371,483</b>	<b>5,564,950</b>
	<b>5,371,483</b>	<b>5,564,950</b>

Fair value is based on quoted prices (unadjusted) in active markets for identical assets. These are readily available in the market and are normally obtainable from multiple sources. The fair value of financial instruments traded in active markets are based on quoted market prices as obtained from the custodians at the reporting date.

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>41. Fair value information (continued)</b>		
<b>Level 2</b>		
<b>Recurring fair value measurements</b>		
<b>Assets</b>		
<b>Financial assets at amortised cost</b>		
Cash	5,144,082	5,024,058
Deposit Floaters & Fixed Deposit ( maturity over 3 months)	783,887	850,000
Treasury bills	623,331	448,203
IMF Subscription Account	1,725,295	1,589,772
IMF Holding of Special Drawing Rights	2,206,877	1,594,810
IMF PRGT Advances	-	38,810
Loans and Advances	165,765	135,574
Lesotho Government Securities	-	946
<b>Total financial assets at amortised cost</b>	<b>10,649,237</b>	<b>9,682,173</b>
<b>Total</b>	<b>10,649,237</b>	<b>9,016,711</b>

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

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

### Level 3

#### Recurring fair value measurements

##### Assets

##### Financial assets

Investment in SWIFT	474	394
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##### Non-financial assets

Property, plant and equipment	550,369	727,129
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<b>Total</b>	<b>550,843</b>	<b>727,523</b>
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The buildings have in previous years been revalued based on the open market value of the property which is defined under the International Assets Valuation Standards Committee as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing. The market value is estimated through the application of valuation methods and procedures that reflect the nature of the property. The most common methodologies which the valuer has used include the Sales Comparison Method the Capitalized Earnings of Discounted Cash flow and the cost method.

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

##### Valuation processes applied by the Bank

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

Inputs into the valuation:

For commercial buildings the valuer used the Gross Replacement Cost method.

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

For residential buildings the valuer used the Income Approach to value the building using the rentals earned from these buildings.

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

	2023 M'000	2022 M'000
<b>41. Fair value information (continued)</b>		
The Bank uses the estimated rental for vacant land:		
Should the price decrease this would decrease the Property revaluation reserve and should the price increase there would be a corresponding increase to the Property revaluation reserve.		
The fair value is based on input for the asset that is not based on observable market data (i.e. unobservable inputs).		
<b>Impact on the fair value of property, plant and equipment</b>		
10% increase	605,406	799,841
10% decrease	495,332	654,770

## 42. Events after the reporting period

On the 12 March 2024, the Bank was served with civil summons issued by one of its suppliers claiming an unpaid money for the service that they provided to the Bank, amounting to M3.4 million. The position of the Bank is that all funds relating to the service provided by the supplier have been paid in full, therefore the Bank has good prospects of successfully defending the matter.

## 43. Going concern

The financial statements have been prepared on a going concern basis, and the Directors have every reason to believe that the Bank has adequate resources in place to continue in operation for the foreseeable future. This assumption is enshrined by the Constitution. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The directors are responsible for governance, which is monitored on an ongoing basis. The assessment covers twelve months from year end.

## 44. Prior period errors

The Bank holds various amounts of monies on behalf of the Government of Lesotho, these accounts were off balance sheet and kept as Memorandum Accounts. The Bank held USD 31 million and EUR 2.2 million in government project deposits with the Deutsche Bank Company Americas and Deutsche Bundes Bank respectively. The Bank previously asserted that the monies are controlled by the Government and any gains and losses related to these amounts accrue to the Government. All memorandum accounts balances were kept off Balance Sheet. As a result of this, the Bank erroneously recorded these funds off balance sheet.

In the current reporting period, management has corrected this error as they have assessed that the Bank has always had control of these funds in terms of the Conceptual Framework and these Funds can be recognised as a financial asset which is cash in terms of IAS 32. A corresponding liability was also identified that should be reflected in the statement of financial position with regards to the obligation the Bank has to pay over the Funds to government upon demand.

In the prior year, the bank had erroneously classified the deposit floaters with original maturities of three months or more into cash and cash equivalents based on the the reset dates as opposed to initial contract dates which resulted in a classification error. In the current reporting period, management has thus corrected the classification error by presenting the Deposit Floaters as a separate line item on the SOFP since they do not meet the definition of cash and cash equivalents.

The correction of the error(s) results in adjustments as follows:

### Statement of Financial Position 2022

	As previously reported M'000	Correction of errors M'000	Restated Total M'000
Cash and Cash Equivalents	5,114,609	(97,900)	5,016,709
Government Projects	-	(502,100)	(502,100)
Deposit floaters	250,000	600,000	850,000

### Statement of Financial Position -2021

	As previously reported M'000	Correction of errors M'000	Restated Total M'000
Cash and Cash Equivalents	4,688,374	436,126	5,124,500
Government Projects	-	(436,126)	(436,126)

# Central Bank of Lesotho

Financial Statements for the year ended 31 December 2023

## Notes to the Financial Statements

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### 44. Prior period errors (continued)

#### Statement of Cash Flows 2022

	As previously reported M'000	Correction of errors M'000	Restated Total M'000
Change in Deposit Floaters	1,015,635	(600,000)	415,635
Change in Project Accounts	-	65,974	65,974
Cash used in operations	(216,132)	(534,026)	(750,158)
Net cash from Operating Activities	801,145	(534,026)	267,119
Movement in Cash	624,455	(534,026)	90,429
Cash and Cash Equivalents at the beginning of the year	4,688,374	436,126	5,124,500
Cash and Cash Equivalents at the end of the year	5,114,609	(97,900)	5,016,709

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#### Statement of Cash Flows 2021

	As previously reported M '000	Correction of errors M'000	Restated Total M '000
Cash used in operation	(1,505,534)	436,126	(1,069,408)
Net Cash from Operating Activities	(2,106,681)	436,126	(1,670,555)
Movement in Cash	(2,323,544)	436,126	(1,887,418)
Cash and Cash Equivalents at the end of the year	4,677,700	436,126	5,113,826

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