

# ANNUAL REPORT

APRIL 2013 - MARCH 2014



CENTRAL BANK OF SWAZILAND



# BOARD OF DIRECTORS



M.V. Sithole - Chairman



Dr. P. N. Joubert



HRH Prince David



Dr. K.D. Dlamini



D.E. Masilela



C.M. Muir



T.L. Vilakati - Jele



T.L.R. Vilakati



**CENTRAL BANK OF SWAZILAND**  
**UMNTSHOLI WEMASWATI**

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**18<sup>th</sup> July, 2014**

Senator Martin G. Dlamini  
Honourable Minister  
Ministry of Finance  
P.O. Box 443  
**MBABANE**  
**H100**

Dear Minister

In accordance with Section 52 (1) of the Central Bank Order of 1974, I have the honour to transmit: -

- (i). A copy of the Financial Statements for the year ended 31st March, 2014 certified by Auditors; and
- (ii). A report of the Central Bank operations and activities including coverage of economic developments during the financial year 2013/14.

Yours faithfully

.....  
**MAJOZI V. SITHOLE**  
**GOVERNOR**

# SENIOR MANAGEMENT

Governor	M.V. Sithole
Deputy Governor	Vacant
Assistant Governor	Vacant
GM, Financial Regulation	Vacant
GM, Finance & Financial Markets	B.M. Vilakati
GM, Operations	M.E. Dlamini
GM, Economic Policy Research & Stats	B.T. Mamba
GM, Corporate Services	C. Lukumba
Executive Assistant to Governor	P.B. Ndzinisa
Head of Internal Audit	R.T. Manyathi
Head of Risk	J.S. Dlamini
Head of Communication	S.G. Mngadi
Secretary to the Board	M.P. Dlamini

## DEPARTMENTAL MANAGEMENT

Statistics & Publications Manager	A.M. Dlamini
BOP & International Economics Manager	J.C. Dlamini
Policy Research Manager	Vacant
Settlements Manager	B.M. Dlamini
Compliance & Risk Manager	O.Z. Makhanya
Investments & Domestic Markets Manager	N.I. Mthethwa
National Payments Systems Manager	M.L. Dlamini
Currency Division Manager	N.S. Msibi
Banking Manager	R.M. Mamba
Bank Supervision Manager (On-Site)	B. Dlamini
Bank Supervision Manager (Off-Site)	W. Motsa
Exchange Control Manager	B. N. Gilbert
ICT (Systems) Manager	K.M. Mashaba
IT Infrastructure & Security Manager	I. Dlamini
General Services Manager	J.E. Dlamini
Human Resource Manager	P.P. Dlamini
Institutional Development Unit Manager	P. Mthupha
Internal Finance Manager	Q.T. Jele

# VISION, MISSION AND VALUES

## VISION STATEMENT

“To be a proficient Central Bank in the Eastern and Southern African Region by 2022”

## MISSION STATEMENT

“To foster financial sector stability conducive to development in Swaziland”

## MANDATE

The Bank seeks to achieve this mission by among other things:

- ❖ Formulating and implementing sound monetary policy to achieve financial stability.
- ❖ Regulating and supervising the financial sector to the end, achieving a sound and efficient system.
- ❖ Issuing and redeeming currency (notes and coins), which is legal tender in Swaziland.
- ❖ Acting as a banker, adviser and agent to the Swaziland Government on monetary and financial matters.
- ❖ Facilitating the development and operation of an efficient national payment system.
- ❖ Acting as lender of last resort to financial institutions and facilitate the development of domestic financial markets.
- ❖ Conducting research on monetary, financial and economic matters to support monetary policy formulation.
- ❖ Improving stakeholder relationships.

## VALUES

- ❖ **Integrity** - we work honestly and with integrity.
- ❖ **Transparency** - we ensure transparency and openness in all we do.
- ❖ **Respect** - we respect each other.
- ❖ **Excellence** - we create a culture of quality and timeliness in our work.
- ❖ **Accountability** - we are accountable to all our stakeholders.
- ❖ **Trust** - we believe in our people and empower them.

# ACCRONYMS AND ABBREVIATIONS

AACB	-	Association of African Central Banks
ACH	-	Automated Clearing House
AfDB	-	African Development Bank
AGOA	-	African Growth Opportunity Act
AIDS	-	Acquired Immune Deficiency Syndrome
ASYCUDA	-	Automated System for Customs Data Administration
AU	-	African Union
BCM	-	Business Continuity Management
BOE	-	Bank of England
BoP	-	Balance of Payments
BPM	-	Balance of Payments Manual
BSA	-	Bank Supervision Application
BSC	-	Balance Score Card
BSD	-	Bank Supervision Division
CAATS	-	Computer Assisted Audit Techniques
CBS	-	Central Bank of Swaziland
CCBG	-	Committee of Central Bank Governors
CFTA	-	Continental Free Trade Area
CMA	-	Common Monetary Area
COMESA	-	Common Market for Eastern and Southern Africa
CPI	-	Consumer Price Index
CRP	-	Common Revenue Pool
CSO	-	Central Statistical Office
DFD	-	Development Finance Division
EAC	-	Eastern African Community
ECA	-	Economic Commission for Africa
ECB	-	European Central Bank
ECGS	-	Export Credit Guarantee Scheme
EFTA	-	European Free Trade Association
EPA	-	Economic Partnership Agreement
EPRS	-	Economic Policy Research and Statistics Department
ERM	-	Enterprise Risk Management
EU	-	European Union
FDI	-	Foreign Direct Investment
Fed	-	US Federal Reserve
FIP	-	Finance and Investment Protocol
FSRA	-	Financial Services Regulatory Authority
FTA	-	Free Trade Area
GCI	-	Global Competitiveness Index

# ACRONYMS AND ABBREVIATIONS

<b>GDP</b>	-	Gross Domestic Product
<b>GMO</b>	-	Genetically Modified Organism
<b>GSP</b>	-	Generalised System of Preferences
<b>HIV</b>	-	Human Immuno Virus
<b>IAA</b>	-	Internal Audit activity
<b>IBRD</b>	-	International Bank for Reconstruction and Development
<b>ICT</b>	-	Information and Communication Technology
<b>IMF</b>	-	International Monetary Fund
<b>IRM</b>	-	Investor Road Map
<b>ITF</b>	-	Individual Tenure Farms
<b>LUSIP</b>	-	Lower Usuthu Smallholders Irrigation Project
<b>MEFMI</b>	-	Macroeconomic and Financial Management Institute of Eastern & Southern Africa
<b>MFA</b>	-	Multi-Fiber Agreement
<b>MMA</b>	-	Multilateral Monetary Agreement
<b>MMT</b>	-	Mobile Money Transfer
<b>MPC</b>	-	Monetary Policy Committee
<b>Mt</b>	-	Metric Tonnes
<b>NBFI</b>	-	Non-Bank Financial Institutions
<b>NEER</b>	-	Nominal Effective Exchange Rate
<b>NGOs</b>	-	Non-Governmental Organisations
<b>NMC</b>	-	National Maize Corporation
<b>NORSAD</b>	-	Nordic
<b>NPSS</b>	-	National Payments and Settlements System
<b>PAYE</b>	-	Pay As You Earn Tax / Personal Income Tax
<b>PPI</b>	-	Producer Price Index
<b>PTA</b>	-	Preferential Trade Agreement
<b>QAR</b>	-	Quality Assurance Review
<b>RBIA</b>	-	Risk Based Internal Audit
<b>RBS</b>	-	Risk Based Supervision
<b>REC</b>	-	Regional Economic Communities
<b>REER</b>	-	Real Effective Exchange Rate
<b>REPSS</b>	-	Regional Payment and Settlement System
<b>RSA</b>	-	Republic of South Africa
<b>RSF</b>	-	Revenue Sharing Formula
<b>RTGS</b>	-	Real Time Gross Settlement
<b>SACU</b>	-	Southern African Customs Union
<b>SADC</b>	-	Southern African Development Community
<b>SAECH</b>	-	Swaziland Automated Electronic Clearing House

# ACCRONYMS AND ABBREVIATIONS

<b>SARB</b>	-	South African Reserve Bank
<b>SARS</b>	-	South African Revenue Services
<b>SCB</b>	-	Swaziland Cotton Board
<b>SDB</b>	-	Swaziland Dairy Board
<b>SEC</b>	-	Swaziland Electricity Company
<b>SEDCO</b>	-	Small Enterprise Development Company
<b>SERA</b>	-	Swaziland Energy Regulatory Authority
<b>SG</b>	-	Swaziland Government
<b>SIDC</b>	-	Swaziland Industrial Development Company
<b>SIPA</b>	-	Swaziland Investment Promotion Authority
<b>SIRESS</b>	-	SADC Integrated Regional Electronic Settlement System
<b>SITF</b>	-	Swaziland International Trade Fair
<b>SMEs</b>	-	Small and Medium Enterprises
<b>SMI</b>	-	Swaziland Meat Industries
<b>SMME</b>	-	Small Micro Medium Enterprises
<b>SNHB</b>	-	Swaziland National Housing Board
<b>SNL</b>	-	Swazi Nation Land
<b>SPS</b>	-	Sanitary and Phyto-Sanitary
<b>SRA</b>	-	Swaziland Revenue Authority
<b>SSAFI</b>	-	Swaziland Staff Association for Financial Institutions
<b>SSELGS</b>	-	Small Scale Enterprise Loan Guarantee Scheme
<b>STA</b>	-	Swaziland Tourism Authority
<b>SUFIAW</b>	-	Swaziland Union of Financial Institutions & Allied Workers
<b>SWIFT</b>	-	Society for Worldwide Interbank Financial Telecommunication
<b>SWIPSS</b>	-	Swaziland Inter-Bank Payment and Settlement System
<b>SWSC</b>	-	Swaziland Water Services Corporation
<b>TIDCA</b>	-	Trade, Investment and Development Cooperation Agreement
<b>UK</b>	-	United Kingdom
<b>UN</b>	-	United Nations
<b>USA/US</b>	-	United States of America
<b>VAT</b>	-	Value Added Tax
<b>WEO</b>	-	World Economic Outlook

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# 1. GOVERNOR'S STATEMENT



**Mr. Majozi Sithole - Governor**

*In line with the Bank's mission statement which is "To foster financial sector stability conducive to economic development in Swaziland," the Bank operationalized the Financial Stability Unit in April 2014, as a Unit within the Financial Regulation Department. The Unit is mandated to conduct macro-prudential surveillance of the financial system in Swaziland.*

The IMF's latest World Economic Report forecasts global growth to average 2.9 percent in 2013, below the 3.2 percent recorded in 2012. The sluggish global growth in 2013 was accounted for by the world's major economies which continued to face structural flaws and policy constraints that hindered increased investment and faster economic growth during the year. Furthermore, in advanced economies growth remains unbalanced and sluggish with output far below potential and unemployment at all-time highs.

Global activity however strengthened in the second half of 2013 and is expected to improve further in 2014 to 2015, largely driven by advanced economies. In advanced economies, growth is expected to increase to about 2¼ percent in 2014 to 2015, an improvement of about 1 percentage point compared with 2013. Key drivers to this outlook are continued fiscal tightening and highly accommodative monetary conditions. Growth will however not be evenly robust across the globe, and more policy efforts are needed to fully restore confidence, ensure robust growth, and lower downside risks.

In developing economies and emerging economies, overall growth was 4.7 percent in 2013 compared to 5 percent in 2012. The Asian sub-continent has been a key driver of global economic growth in 2013. Consumption was the biggest driver of growth

coupled with increases in capital formation and exports. China continues to drive economic growth in Asia posting an annual growth rate of 7.9 percent in 2013, up from 7.7 percent in 2012. Overall, growth in emerging and developing economies is expected to remain strong at 4.9 percent in 2014 and 5.3 percent in 2015, supported by solid domestic demand, robust growth in exports, supportive fiscal, monetary and financial conditions.

Sub-Saharan African economies grew by 4.9 percent in 2013, remaining at the same level recorded in 2012. The growth in these economies was propelled by strong growth in oil exporting and low income countries. Growth in Sub-Saharan African countries is expected increase to around 5½ percent in 2014, benefiting from improved global and domestic conditions coupled with strong investment demand. The Regional Economic Outlook for Sub-Saharan Africa indicates that the region's economy continues to grow at a sustained pace despite rising external financing costs, a deceleration in key export markets, and weaker commodity prices.

Preliminary estimates for 2013 reflect that the Swaziland economy performed relatively better than in 2012. Recent estimates show that the real economy expanded by 2.8 percent in 2013 compared to a revised estimate of 1.9 percent in 2012. The notable increase in 2013 benefited

from improvements in the secondary and tertiary sectors. The secondary sector is estimated to have accelerated by 4.2 percent in 2013 compared to 0.5 percent the previous year. The manufacturing sector grew by 2.5 percent in 2013 compared to 0.2 percent in 2012 mainly driven by increased production of zippers, soft drinks concentrates and beverages, timber products, fruit-cups and increased production lines by manufacturing companies. Growth in the tertiary sector mainly benefited from expansions in the 'wholesale and retail trade', 'transport and communication' and 'government services'. Central government services registered positive growth as a result of the suspension of freezing posts and the hiring freeze in 2013/14 which were implemented for 3 years to 2012/13 fiscal years.

Swaziland's consumer inflationary pressures were subdued in 2013 mainly benefiting from lower food and transport prices as well as slower increases in administered prices. Headline inflation averaged 5.6 percent in 2013, down from 8.9 percent in 2012. The slower increase in overall prices coincided with introduction of new weights at the beginning of 2013 which resulted in a decrease in the weight for 'food and non-alcoholic beverages' from 37.7 percent to 29.2 percent and 'housing and utilities' component weight doubled from 14 to 29.2 percent. The change in weights had a mild effect on inflation outcomes.

The major contributor to the decline in domestic inflation were food prices; food inflation subsided to single digit levels in 2013 averaging 5.7 percent compared to 13.1 percent in 2012. Food inflation benefited mainly from decreases in the price of rice and slower increases in the price of meat and other cereal products. Transport inflation also decreased significantly from 8.1 percent in 2012 to 2.4 percent in 2013 mainly due to "base effects" as administered fuel prices remained unadjusted for most part of 2013 despite increasing pressures from high international fuel prices coupled with a weaker Rand/Lilangeni exchange rate in the period under review.

In the short to medium term, elevated international oil and food prices coupled with the weaker Rand/Lilangeni against major trading currencies continue to pose upside risks to the inflation outlook. Inflationary pressures from the neighbouring South Africa, where Swaziland sources nearly 90 percent of its imports, will filter through to Swaziland inflation developments. Upward adjustment in administered prices such as the 9.5 percent increase in electricity tariffs effected in May 2014 and a 25 percent hike to be effected in July will exert pressure on inflation.

In addition, further fuel prices adjustments remain on the upside. Since fuel and electricity are inputs cost (for manufacturers) their price increases will filter through to other components in the CPI basket.

The Bank's monetary policy stance remained stable in 2013 allowing interest rates particularly the cost of borrowing to be at historically low levels in an effort to spur economic growth. Also underpinning the stance were subdued inflationary pressures resulting in lower inflation outcomes compared to the previous year. Consequently, interest rates were unchanged as the discount rate stood at 5 percent and the bank's prime lending rate at 8.5 percent throughout the year under review. Year-on-year growth in credit extended to the private sector turned around from negative to double digit growth rates particularly in the last quarter of 2013 and the first quarter of 2014 reaching 20 percent at the end of March 2014. This was a reflection of recovering demand for credit largely underpinned by improving economic activity and renewed confidence in the economy after the fiscal crisis. Credit to the industry sector, which is the main driver of the country's economic growth accelerated by 22.6 percent while credit to the household sector increased by 17.1 percent.

Over the twelve months ended March 2014, gross official reserves grew by 30.1 percent to E8,062.1 million. At this level, the reserves reflected an estimated import cover of 4.2 months notably higher than the 3.2 months cover recorded in March 2013. The rise in gross official reserves was to a large extent a result of persistently high SACU revenue during the fiscal year 2013/14 combined with the notable depreciation of the lilangeni/rand exchange rate against major trading currencies over the year under review. Short-term prospects for the country's official reserves are positive as SACU revenue for the 2014/15 fiscal year is expected to remain high. Medium to longer term prospects for the reserves greatly depend on the government's commitment to programmes aimed at revenue broadening and expenditure restraint. A threat on the reserves may emanate from uncertainty posed by unresolved issues surrounding a proposal of a new revenue sharing formula within SACU member states.

The Minister of Finance presented an expansionary 2014/15 budget to Parliament under the theme: *"Invigorate Economic Growth, Create Employment Opportunities and Accelerate Public Sector Reforms"*. The Budget was in line with His Majesty's Speech from the Throne when opening the 1st Session of the 10th Parliament. The Minister emphasised

that increased interventions will be on Agriculture, Infrastructure development, Communications and Information Technology, Mining, Tourism Development, Energy, Trade and Industry and Financial Sector. These sectors will stimulate economic growth, maintain macroeconomic stability, and create employment opportunities and thereby improving the welfare of the Swazi citizens.

Budget estimates for 2014/15 indicate that Government will run a budget deficit of approximately E1.05 billion, an equivalent to 3 percent of GDP. To finance the deficit, the Minister of Finance indicated that about E800 million will be sourced from the domestic debt market. To support that, the Ministry of Finance in consultation with the Bank has worked out an auction calendar for Government securities' issuance that can best support Government financing needs and at the same time address investors' diverse needs. The calendar has been published to enable investors plan for their investments and thereby invest more efficiently.

The full E800 million will be raised through domestic, fixed-interest rate bonds. Reasons for raising the funds through bonds issuances are mainly to lengthen the yield curve and reduce roll-over risk considering that as at end of March 2014, 63 percent of the outstanding government securities were held in T-bills with the remaining 37 percent held in Bonds.

Given the limited availability of local instruments, government bonds are an attractive investment for local fund managers. The Government Bond Issuance Programme is aimed at building the domestic debt market and assisting the country to establish a yield curve by issuing benchmark bonds. The benchmark bonds have been set at 3, 5 and 10 year tenures. These objectives are in line with the regional objectives of SADC, which would aid in establishing a regional benchmark index for Southern Africa. The establishment of the yield curve will also provide a benchmark for the private sector to price its securities.

The budget indicates that there has been an improvement in domestic revenue collection especially in Value Added Tax, Corporate Tax and Personal Income Tax; courtesy of the Swaziland Revenue Authority's (SRA) efficiency in tax collection and administration. There were no tax reforms mentioned in the 2014/15 budget as Government was still assessing if the reforms implemented in 2013/14 were yielding the desired results. Government should continue to explore means of

enhancing revenue collection in a bid to mitigate overreliance on SACU revenue. Efforts made by the SRA to intensify domestic revenue collections are commendable.

Swaziland's balance of payments improved further to a surplus of E1,826.4 million in 2013 from a surplus of E1,303.3 million in the previous year. The overall surplus in 2013 was largely accounted for by an increase in net inflows in current transfers coupled with a higher trade surplus during the year.

The current account registered an improved surplus of E2,305.8 million in 2013 from a revised surplus of E1,270.2 million the previous year. This surplus is equivalent to 6.6 percent of GDP, higher than the 4 percent in 2012. Accounting for this positive development were sustained surpluses in both the trade balance and current transfers. The trade account posted a surplus of E1,950.8 million in 2013, a significant increase from the surplus of E639.2 million recorded in 2012. Exports f.o.b. rose by 15.7 percent to E18,294.7 million in 2013, with 63 percent of the export earnings coming from South Africa. Exports of miscellaneous edibles continue to lead in terms of its share of export earnings with export revenue amounting to E8,800.5 million in 2013. Sugar remained the second largest contributor to the country's export earnings in 2013, with export earnings of E6,509.8 million.

The import bill increased by 7.7 percent to E16,343.8 million in 2013, reflecting increased demand for imports coupled with high world oil prices and the depreciation of the local currency against major currencies.

The total stock of Foreign Direct Investment (FDI) increased by 3 percent to E8,075.1 million in 2013 from E7,841.4 million in 2012. The key driver of this movement was an increase in stocks of reinvested earnings combined with a rise in the stock of other short term capital. An analysis of FDI by type reflects that reinvestment of earnings is still the major driver of FDI in Swaziland, accounting for 51.8 percent of the total stock of FDI in 2013. The stiff competition for FDI in the region and globally also puts a strain in the country's ability to attract fresh investments resulting in minimal growth in fresh FDI inflows over the past years. On the other hand, the partial implementation of the Investor Road Map (IRM) has started to yield positive results, though some challenges still remain. The IRM specifically targets to improve all deficient areas identified by the World Bank ease of doing business report. During 2013, there was notable progress on improving conditions

# GOVERNOR'S STATEMENT

of starting a business and getting electricity. However, high level corporation and commitment is needed for full implementation of the IRM.

The Swaziland banking sector was stable, financially sound and conformed to statutory prudential requirements in terms of capital adequacy and liquidity. The asset quality of banks improved during the year with non-performing loans and advances expressed as a percentage of gross loans at 7.6 percent in December 2013, lower than the 10.6 percent recorded in December 2012. However, their profitability showed signs of deteriorating when compared to the previous year, mainly due to a decrease in net interest from core banking functions. The banking sector assets grew by 16.1 percent to E12.9 billion during the year ended December 2013 from E11.1 billion at the end of December 2012. Net loans and advances consisted of 61.5 percent of the banking sector assets, increasing from the 57.2 percent reported at the end of December 2012.

In line with the Bank's mission statement which is "To foster financial sector stability conducive to economic development in Swaziland," the Bank operationalized the Financial Stability Unit in April 2014, as a Unit within the Financial Regulation Department. The Unit is mandated to conduct macro-prudential surveillance of the financial system in Swaziland. Among its objectives, the Unit will assess the robustness and efficiency of the financial system and engage the relevant stakeholders to strengthen the regulatory environment. This collaboration is envisaged to inform policy makers on appropriate

intervention and sanctions with respect to financial stability.

The Bank has also embarked on the preparation of the Financial Sector Strategy, with technical assistances from the IMF and the World Bank. The Strategy is expected to facilitate financial intermediation and promote private sector development and inclusive growth. To effectively implement the Strategy, a comprehensive Financial Sector Development Implementation Plan, with a prioritized time-bound sequence of actions and roadmaps, will be prepared.

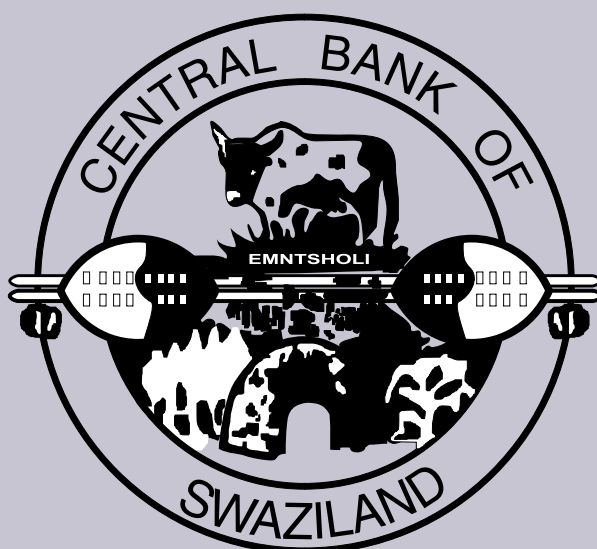
To foster cooperation and monetary integration at the regional level, the Bank continues to participate in the meetings of the Committee of Central Bank Governors in the CMA, SADC, COMESA and Africa as a continent.

I would like to extend my sincere thanks to the Minister of Finance and his Officials, Board of Directors, all staff of the Central Bank of Swaziland as well as financial institutions and other key stakeholders for their cooperation, commitment and dedication to the attainment of financial stability in Swaziland.



M. V. Sithole  
Governor

# **PART A**



**CENTRAL BANK OF SWAZILAND**

**REVIEW OF THE ECONOMY**

## 2. INTERNATIONAL DEVELOPMENTS

### 2.1 GLOBAL ECONOMIC DEVELOPMENTS

According to the International Monetary Fund's (IMF) April 2014 World Economic Outlook (WEO) report, global activity strengthened by the year-end and is expected to improve further in 2014 to 2015, largely driven by advanced economies. The strengthening of the recovery from the Great Recession in the advanced economies is a welcome development. But growth is not evenly robust across the globe, and more policy efforts are needed to fully restore confidence, ensure robust growth, and lower downside risks.

Looking ahead, global growth is projected to strengthen from 3 percent in 2013 to 3.6 percent in 2014 and 3.9 percent in 2015. In advanced economies, growth is expected to increase to about 2¼ percent in 2014 to 2015, an improvement of about 1 percentage point compared with 2013. Key drivers to this outlook being continued fiscal tightening and still highly accommodative monetary conditions.

The world's major economies continued to face structural flaws and policy constraints that hindered more investment and faster economic growth during 2013. Global growth of Gross Domestic Product (GDP), adjusted for inflation, remained sluggish at 2.9 percent in 2013 lower than 3.2 percent recorded in 2012.

The global recovery is still fragile despite improved prospects and significant downside risks-both old and new-remain aggravated by the recent emergence of some new geopolitical risks. Overall, the balance of risks, while improved, remained on the downside.

The IMF remained concerned about emerging markets (EMs), and downgraded growth forecasts of Brazil to 1.8 percent from 2.3 percent; South Africa to 2.3 percent from 2.8 percent and Russia to 1.3 percent from 2 percent among others. The US is seen driving global growth helping the world to withstand weakness of emerging economies. The IMF also warned that most emerging markets are going to face the reversal of flows in capital which is likely to flow back to developing economies.

Overall, economic growth in emerging market and developing economies is projected to pick up gradually from 4.7 percent in 2013 to about 5 percent in 2014 and 5¼ percent in 2015. Growth is expected to benefit from stronger external demand from advanced economies, but tighter financial conditions may dampen the emergence of domestic demand in these countries.

World Economic Outlook GDP Projections			
	2012	2013	2014
World Economy	3.2	3.0	3.6
Advanced Economies	1.4	1.3	2.2
Emerging and Developing Economies	5.0	4.7	4.9
Sub-Saharan Africa	4.9	4.9	5.4

Source: IMF & WEO

April 2014

In emerging market and developing economies, inflation is expected to decline from about 6 percent in 2013 to about 5¼ percent by 2015. Softer world commodity prices in U.S. dollar terms should help reduce price pressures, although in some economies this reduction will be more than offset by recent exchange rate depreciation. In addition, activity related price pressures will ease with the recent growth declines in many emerging market economies.

According to the IMF World Economic Outlook, for sub-Saharan Africa GDP growth is expected to be around 5½ percent in 2014 from around 4.9 percent in 2013. The Regional Economic Outlook for sub-Saharan Africa indicates that the region's economy continues to grow at a sustained pace despite rising external financing costs, a deceleration in key export markets, and weaker commodity prices. In 2014, real GDP growth is expected to benefit from improved global and domestic conditions coupled with strong investment demand.

### 2.2 INDUSTRIALIZED COUNTRIES

Global activity and world trade picked up in the second half of 2013. Recent data even suggest that global growth during this period was somewhat stronger than anticipated. Final demand in advanced economies expanded broadly as expected-much of the upward surprise in growth was due to higher inventory demand.

Financial conditions in advanced economies have eased since the release of the October 2013 WEO, with little change since the announcement by the U.S. Federal Reserve on 18 December 2013 that it will begin tapering its quantitative easing measures. This includes further declines in risk premiums on government debt of crisis-hit euro area economies. In emerging market economies, however, financial conditions have remained tighter following the surprise U.S. tapering announcements, not withstanding fairly resilient capital flows.

# INTERNATIONAL DEVELOPMENTS (Continued)

The US Federal Reserve policy changes included gradual tapering of its bond buying program, which began in January 2014. By March 2014, the Fed had scaled back its asset purchase programme to \$55 billion from \$85 billion in early January 2014. This development saw the rise in sovereign bond yields and putting some currencies under pressure.

In the United States, overall Gross Domestic Product grew by 1.9 percent in 2013 compared with an increase of 2.8 percent in 2012. US GDP contracted by 0.1 percent quarter on quarter in the first quarter 2014, due to the harsh weather during the quarter that hampered business activity and consumer demand, resulting in the disappointing growth data. US GDP growth is expected to increase to 2.8 percent in 2014, same as the 2012 GDP growth rate. The pickup in 2014 will be carried by final domestic demand.

US labour market indicators continue to reflect significant improvement. The unemployment rate declined to 6.7 percent in December 2013 from 7.8 percent in December 2012. Household spending and business fixed investment advanced more quickly in the second half of 2013, while the recovery in the housing sector slowed somewhat. A positive outlook for the US economy and sustained recovery bodes well for a global recovery.

Inflation has been largely subdued all year and remains well below the Fed's target level of 2 percent. Inflation has been running below the Fed's longer-run objective, with longer-term inflation expectations having remained stable. The average inflation rate for 2013 was 1.5 percent reflecting a decline from 1.7 percent in 2012. US CPI was recorded at 1.5 percent, year on year, in March 2014, the same level as in March the previous year. US consumer price index inflation for 2014 is estimated at 1.6 percent.

In 2013, the Eurozone economic recovery remained very subdued and low inflation along with subdued lending remained a concern, but signs of recovery were seen in the latter part of the year. Data suggests that the recovery in Germany, which is Eurozone's largest economy, seems to be improving. However, the slow momentum in Eurozone growth may put a damper on Germany's recovery in the medium term.

For the year 2013, Eurozone GDP contracted by a lower -0.4 percent compared to -0.7 percent in 2012. In the first quarter of 2014, Eurozone GDP rose by 0.2 percent amid signs of persistent weakness in the peripheral economies.

As the Euro area turns the corner from recession to recovery, growth is projected to strengthen to 1.2 percent in 2014 and 1.5 percent in 2015, but the recovery will differ between the various countries within the Euro zone. The pickup will generally be more modest in economies under stress. High debt, both public and private, and financial fragmentation will hold back domestic demand, while exports should further contribute to growth.

Eurozone annual inflation in 2013 was recorded at 0.8 percent, a significant decline compared to 2.2 percent recorded in 2012. Eurozone CPI reached a low of 0.5 percent year on year in March 2014, which remains less than half of the European Central Bank's (ECB) target of 2 percent and the lowest in four years.

The ECB refinancing rate has been maintained at 0.5 percent for the first three quarters of 2013; in November 2013 the ECB slashed the rate by 25 basis points to a record low of 0.25 percent. The refinancing rate was maintained at this level up to the end of the review period and the ECB President, Draghi emphasized clearly the Bank's commitment to leave policy accommodative for as long as necessary.

Eurozone unemployment remained high during 2013 unchanged at 12 percent month-on-month in December 2013. Continued deflationary pressures, high unemployment and sluggish growth is likely to spur ECB into considering further policy easing measures in order to boost the fragile Eurozone recovery.

The United Kingdom continued to record positive GDP growth in 2013, reaching 1.8 percent against a meagre 0.3 percent in 2012. UK GDP growth in the first quarter of 2014 was confirmed at 0.8 percent quarter on quarter seasonally adjusted after the economy expanded by 0.7 percent in quarter four of 2013. UK economic activity has been buoyed by easier credit conditions and increased confidence. Growth is expected to average 2¼ percent in 2014-15, but economic slack will remain high.

UK inflation was elevated for a large part of 2013, remaining above the Bank of England's (BOE) target of 2 percent, but has fallen in recent months. The average CPI in the UK was 2.0 percent in 2013 down from 2.7 percent in 2012. The UK CPI eased to 1.6 percent year on year rise in March 2014 against 2 percent recorded in December 2013, moving below the BOE's target of 2 percent and to the lowest level since November 2009.

The Bank of England (BOE) continued to maintain interest rates at their historically low levels of 0.5 percent during the review period in an effort to support GDP growth. The BOE has indicated that it will keep interest rates low even after UK's unemployment reaches its 7 percent target because there 'remained scope to absorb the spare capacity'.

Japan, the world's third largest economy expanded by 1.5 percent in 2013 compared to 1.4 percent in 2012. Japan showed signs of a sustained recovery in the second half of 2013, registering 0.3 percent in the fourth quarter after the economy grew by the same level in the third quarter. Japanese's GDP expanded 1.5 percent in the first quarter of 2014.

The average inflation rate for 2013 in the Japanese economy was 1.6 percent, much higher compared to 0.6 percent the previous year. Japanese CPI rose to 1.6 percent year-on-year in December, from 1.5 percent in November. The uptick was mainly due to increases in the cost of utilities and commodity prices. By the end of March 2014, Japanese CPI had risen by 1.6 percent year on year, but still below the Bank of Japan's target of increasing inflation to 2 percent. The unemployment rate in Japan declined to 3.7 percent in December, from 4 percent in November, maintaining the lowest level since September 2007.

As at December 2013, the Bank of Japan left its monetary base target unchanged at ¥270 trillion, while the monetary base expansion was left unchanged at ¥60-70 trillion. The purchase of Japan Government Bonds will increase at an annual pace of ¥50 trillion.

## 2.3 DEVELOPING COUNTRIES AND EMERGING ECONOMIES

In developing and emerging markets economies (EMs), growth picked up slightly in the second half of 2013. Emerging markets and developing economies recorded 4.7 percent GDP growth rate in 2013 compared to 5 percent growth in 2012. The emerging and developing economies continue to contribute more than two-thirds of global growth, and their growth is projected to increase from 4.7 percent in 2013 to 4.9 percent in 2014 and 5.3 percent in 2015.

China, the second largest economy in the world, continued to record significant growth in 2013, though showing some signs of slowing down. Chinese annual GDP expanded by 7.9 percent in 2013 from 7.7 percent in 2012. In the first quarter of 2014 China's annual GDP grew by 7.4 percent, slowing

from a 7.7 percent expansion in the previous period, as exports and imports contracted and growth in fixed asset investment slowed.

Inflation in the Chinese economy remained within the target of 3.5 percent in 2013. Average CPI for China in 2012 was recorded at 2.0 percent, rising to 2.5 percent in 2013. As at end March 2014, Chinese CPI was recorded at 2.4 percent with food prices remaining the biggest driver of inflation. A bottoming and reversal in the recent Chinese slowdown will be required to bolster growth expectations in 2014.

The South African economy continues to face domestic and international headwinds, keeping inflation high and GDP growth low. Over the year 2013 as a whole, the economy expanded by a modest 1.9 percent down from 2.5 percent in 2012. The SA economy regained some lost ground in the final quarter of 2013 recording 3.8 percent growth, up from a weak 0.7 percent in the third quarter. Labour unrests constrained economic growth in the South African economy during 2013. The 2014 first quarter GDP contracted by 0.6 percent largely due to the protracted mining sector strikes and a decline in manufacturing sector output.

South Africa inflation remained below the targeted 3-6 percent for a large part of 2013, though breaching the upper ceiling of the target in early 2014. The average annual consumer inflation declined to 5.5 percent in 2013 from 5.7 percent the previous year. The main drivers of inflation during 2013 were food and non-alcoholic beverages and transport.

The latest figures highlight the inflationary pressures emanating directly from the weaker currency as the monthly rise mainly stems from higher food and fuel prices. The South African Reserve Bank expects inflation to average 6.2 percent in 2014, with a peak of 6.5 percent expected in the fourth quarter of 2014. Looking ahead, inflation is still expected to remain outside the target band from the second quarter of 2014 until the second quarter of 2015. The biggest risk to consumer inflation remains the volatile currency, with the upward pressure assessed to be a response to the lagged effects of the exchange rate depreciation rather than evidence of strong domestic demand pressures. This scenario will be further exacerbated by high wage settlements and perhaps food prices.

Growth in South Africa (RSA) is projected to improve only modestly as a result of stronger external demand. The Reserve Bank of South Africa's GDP forecasts have been revised lower in January, with

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the 2014 projection revised to 2.8 percent from 3 percent while that for 2015 was revised to 3.3 percent from 3.4 percent.

The South African Reserve Bank's Monetary Policy Committee (MPC) maintained the repo rate at its historical low of 5 percent during 2013 and decided to hike it by 50 basis points to 5.5 percent in the first quarter of 2014.

RSA's unemployment rate declined to 24.1 percent in quarter four 2013 from 24.5 percent in quarter three, reflecting mainly a strong increase in informal sector jobs.

## 2.4 REGIONAL DEVELOPMENTS

For small economies, linking up with larger, fast growing markets is usually an important driver of growth; Swaziland is no exception to this rule. Since independence, Swaziland's trade to GDP ratio has consistently remained above 100 percent. Its major trading partners are South Africa (with whom it is linked through SACU and through the CMA), USA (through AGOA), and the EU (through the interim EPA).

The country is also a member of COMESA and SADC. This reliance on trade comes at a cost. Swaziland remains vulnerable to developments that are beyond its control, such as the erosion of trade preferences, terms of trade shocks or shocks such as the global financial crisis of 2009. In the recent past, external demand for some of Swaziland's exports has suffered because of the end of the Multi-Fiber Agreement (MFA), the reform of the EU's Sugar Regime and the extension of sugar preferences to Least Developed Countries under the "Everything But Arms" (EBA) programme.

Membership in SACU and in the CMA plays an important role in determining the country's economic environment as well as the policy instruments available to Government.

Following below is a brief synopsis of some of the regional groups:

### 2.4.1 Southern African Customs Union

SACU comprises of Botswana, Lesotho, Namibia, Swaziland and South Africa. The main objective of the SACU is to promote trade amongst its member countries through the free flow of goods amongst themselves. SACU currently represents the largest market for Swaziland's exports and is the main source of the country's imports.

The Customs Union is currently engaged in the review of the current Revenue Sharing Formula (RSF) which could result in the amendment of the 2002 SACU agreement. Other areas being reviewed include the institutionalization of Summit, Common Negotiating Mechanism, Competition Policy, Industrial Policy and Unfair Trade Practices Annex.

### 2.4.2 Common Monetary Area

CMA comprises four members, namely Lesotho, Namibia, South Africa and Swaziland. The CMA is premised on the Multilateral Monetary Agreement (MMA) which allows the South African Rand to circulate freely in all three-member states alongside national currencies. The agreement allows the free flow of capital amongst the member states.

The main objectives of the MMA can be summarised as the sustained economic development of the CMA with special emphasis on the advancement of the less developed member states and the acquisition of equitable benefits for all members. The MMA recognises that each of the contracting parties is responsible for its own monetary policy and the control of its financial institutions.

In 2013 the Central Bank of Swaziland continued to participate in CMA discussions through its quarterly meetings. Key to these discussions were the review of the MMA, the pilot project on the cross-border payments system and the usual review of economic members performance.

### 2.4.3 Southern African Development Community

The SADC/FTA came into effect on 1<sup>st</sup> January, 2008 and it was launched in August of the same year. Since 1<sup>st</sup> January 2008 trade among SADC member states has been 85 percent duty free, with the remaining 15 percent including sensitive products and exclusion lists for member states' schedules of commitments to the FTA. Some of the benefits of SADC/FTA include the reduction and elimination of tariffs and non-tariff barriers (NTBs), easy cross-border trade, increased market opportunities, the creation of a value chain across the region, the lowering of input costs, creating regional competition to reduce consumer prices, and the possible increase of employment opportunities.

SADC in the period under review continued to negotiate an Economic Partnership Agreement with the European Union. Other members of the SADC/EPA grouping include Angola, Botswana, Lesotho, Mozambique, Namibia and South Africa. The deadline for concluding the negotiations is October 2014, after which EU will withdraw the Market

Access Regulation (MAR 1528/2007). The regulation allows Duty Free Quota Free access of goods from SADC Member States to the EU market.

SADC also provide a forum for central banks under the Committee of Central Bank Governors. The CCBG held a number of meetings during the year 2013/14 where issues of monetary integration and harmonization were topical. The CCBG also has a number of subcommittees on different economic sectors affecting monetary developments in the region. Paramount amongst these was the SADC Finance and Investment Protocol. Swaziland also participated in the revived Peer Review Mechanism Panel which brought together Ministers of Finance and Trade, and Central Bank Governors. SADC has also developed a Macro-economic Convergence Criteria which is monitored on a regular basis for further deepening the integration.

Following the successful implementation of the SADC Integrated Regional Payment and Settlement System as a Proof of Concept in the CMA countries, the system is now being rolled out to three non-CMA SADC countries, that is, Malawi, Tanzania and Zimbabwe. The Rand continues to be the settlement currency pending a conclusion of the discussions on the appropriate currency by member countries.

## 2.4.4 COMESA

Swaziland is a founder member of the Preferential Trade Area of Eastern and Southern Africa, the predecessor to COMESA, whose main objective is to strengthen the process of regional integration that was initiated under the PTA to help Member States achieve sustainable economic growth. COMESA launched its Customs Union in 2009 and Swaziland continues to trade in COMESA under a derogation which allows her goods preferential entry to the COMESA market without an obligation to reciprocate. Since Swaziland is trading under derogation in COMESA and the derogation has been linked to the conclusion of the Tripartite FTA, if negotiations are not concluded in the agreed timeframe there is a possibility that discussions can be re-opened on the derogation.

COMESA Regional Payment and Settlement System continued its activities during the review period. The Central Banks of Malawi and Uganda joined the COMESA Regional Payment and Settlement System during the period under review. The addition of the two countries increased the membership to the REPSS to five (5) countries after Mauritius, Rwanda and Swaziland.

## 2.4.5 Other Regional and International Arrangements

### 2.4.5.1 *The African Growth and Opportunity Act*

Swaziland is among the countries that benefit from AGOA, a trade initiative by the United States Government for sub-Saharan Africa. This initiative enables products from qualifying countries to be imported into the US Duty Free, Quota Free. AGOA III came into force in 2004, and benefits to eligible countries have been enhanced by the extension to 2012 of the Third Country Fabric Provision, which allows for raw materials to be sourced from third parties. AGOA beneficiaries have requested for an extension of the Third Country Provision to 2015 when AGOA expires. This is an issue which is still under discussion in the US. Swaziland currently exports mainly textile and clothing products to the US under AGOA. The major challenge is that the US Government is concerned about the alleged Government of Swaziland's lack of measurable progress on workers' rights issues and the lack of legal recognition for union federations.

Since the extension of the third country fabric until 2015 when AGOA expires, AGOA eligible countries are lobbying for its extension beyond 2015.

### 2.4.5.2 *COMESA-SADC-EAC Tripartite Free Trade Area*

Negotiations for the Tripartite FTA were first discussed when the Heads of States and Governments of COMESA, EAC and SADC met in Kampala on 22<sup>nd</sup> October 2008 and conveyed their message through a communiqué. They called for the establishment of a single Free Trade Area covering the 26 countries of COMESA, EAC and SADC. The Tripartite was launched with three main pillars namely the market integration, industrial development and infrastructure development. Currently, on-going is the market integration pillar where negotiations have commenced after the adoption of the modalities for the negotiations. Regional Economic Communities are currently in the process of preparing offers for exchange and commencement of negotiations. Substantial progress has been achieved on a number of areas such as Customs Cooperation, Sanitary and Phyto-Sanitary and Technical Barriers to Trade. Outstanding work is on Trade Remedies and Dispute Settlement.

Timeframe on the conclusion of negotiations will be extended as it is not possible to conclude negotiations in 2014 given that there are still outstanding issues mainly the exchange of offers and concluding the

# INTERNATIONAL DEVELOPMENTS

texts on Trade Remedies and Dispute Settlement. Also outstanding is the Rules of Origin Annex which will be subject to the tariff offers exchanged. This will delay the commencement of negotiations of the Continental FTA.

## **2.4.5.3 Proposed Continental Free Trade Area**

The African Union Summit endorsed an African Union Commission proposal for the establishment of a Continental Free Trade Area (CFTA) covering all the members of the African Union by an indicative date of 2017. Furthermore, the AU Summit has mandated the Conference of African Ministers of Trade to convene a meeting for the adoption of the work plan, modalities and principles towards the effective launch of the CFTA negotiations in 2015.

## **2.4.5.4 Association of African Central Banks**

The Association of African Central Banks is a continental body where Governors of Central Banks in the African continent meet to discuss issues of monetary integration in the continent. Governors meet to discuss various topics affecting central banks in the continent and share their views and experiences. One of the main agenda items in the AACB is the formation of the African Central Bank. Swaziland is an active member of the AACB and has attended meetings of this forum.

## **2.4.5.5 Generalised System of Preference**

Swaziland is a beneficiary of the GSP scheme, which provides for goods that originate from developing countries to be imported into industrialised countries at reduced customs duties. The countries that grant GSP include some of the EU member states, USA, Canada, Japan, Australia, Russia and New Zealand. A wide range of export products from Swaziland enjoys market access to some of these economies through the GSP scheme.

The European Union has since reviewed its GSP and the possible implication could be that some products that were receiving preference under the previous regime might be subjected to customs duties.

## **2.4.5.6 SACU-EFTA FTA**

Swaziland is party to other trade arrangements, under SACU with third party configurations. These include the SACU-EFTA (European Free Trade Association), which comprises Norway, Switzerland, Iceland and Liechtenstein. The EFTA agreement has been ratified by all member states and became operational in May 2008.

## **2.4.5.7 SACU-MERCOSUR PTA**

The other agreement at SACU level is the SACU-MERCOSUR (Common Market of the South) Preferential Trade Agreement (PTA) with Brazil, Argentina, Uruguay and Paraguay. This has been signed and will come into effect once the internal national ratification process has been finalised by all parties. Swaziland has ratified this agreement and is still awaiting ratification by all Parties before entry into force.

## **2.4.5.8 SACU-India PTA**

SACU-India, negotiations are on-going; request and offers have been exchanged between the Parties. Negotiations on this agreement are moving at a slow pace and there is a possibility that it would be suspended due to the differing views by Parties based on the level of ambition on the number of tariff lines offered for negotiations.

## **2.4.5.9 SACU-TIDCA**

The SACU-United States Trade, Investment and Development Cooperation Agreement (TIDCA) is an agreement on possible areas of cooperation on various issues including Customs and Trade Facilitation, Standards and Technical Barriers to Trade, Sanitary and Phytosanitary measures, trade and investment promotion and technical capacity building.

Not much progress has been realized in the implementation of this agreement and there are no possible changes that are foreseen except that a study has since been commissioned to identify constraints affecting SACU's exports to the US.

# 3. DOMESTIC ECONOMY

## 3.1 ANNUAL REAL GDP DEVELOPMENTS

Preliminary estimates reflect that the real economy expanded by 2.8 percent in 2013 compared to a revised estimate of 1.9 percent in 2012. The notable increase in 2013 benefited from improvements in the secondary and tertiary sectors.

The primary sector is estimated to have remained muted in 2013 despite continuous resilience of the mining and quarry sector and improvements in the crops produced under Swazi Nation Land. Maize production recovered from 76,100 tonnes produced the previous year to 81,900 in 2013 whilst cotton production grew from 1,951 tonnes to 2,400 tonnes over the same period. Production of crops (mainly sugarcane and citrus) in the Individual Tenure Farms (ITFs) was however affected by unfavourable weather conditions characterized by storms and heavy rains which partially affected the quality of the produce. This resulted in a meagre 0.1 percent growth in the ITFs sub-sector which carries a greater weight in the agriculture sector. The mining and quarry sector on the other hand is estimated to have grown by 28.8 percent mainly benefiting from increased coal and iron ore production in 2013.

The secondary sector is estimated to have accelerated by 4.2 percent in 2013 compared to 0.5 percent the previous year. The manufacturing sector grew by 2.5 percent in 2013 compared to 0.2 percent in 2012 mainly driven by increased production of zippers,

soft drinks concentrates and beverages, timber products, fruit-cups and increased production lines by manufacturing companies. However, growth in the manufacturing sector could have been higher if it were not for muted growth in sugar production which suffered the effects of poor quality cane due to heavy rains during the harvesting period. On the positive side, the heavy rains benefitted the domestic-hydro-power generation resulting in a 12.7 percent increase in the subsector of 'Electricity, gas and Water supply' in 2013 recovering from a 5.8 percent decline the previous year. The construction sector is estimated to have mainly benefited from a notable increase in real capital expenditure and improvement in the rate of implementation of construction projects in 2013/14. Most of the capital expenditure was directed towards road construction and completion of the King Mswati III International Airport.

The tertiary sector is estimated to have grown by 3.2 percent in 2013 improving from 2.5 percent in 2012. Growth in the tertiary sector mainly benefited from expansions in the 'wholesale and retail trade', 'transport and communication' and 'government services'. Central government services registered positive growth as a result of the suspension of freezing posts and the hiring freeze in 2013/14 which were implemented for 3 years to 2012/13 fiscal years.

Real GDP Growth Rates					
Sectors	2009	2010	2011*	2012*	2013#
<b>Primary Sector</b>	<b>-1.3</b>	<b>3.5</b>	<b>8.5</b>	<b>3.8</b>	<b>0.0</b>
Agriculture & Forestry	-2.0	3.3	8.7	3.6	-0.3
Mining & Quarry	-21.0	27.0	-16.6	37.1	28.8
<b>Secondary Sector</b>	<b>-2.8</b>	<b>-2.7</b>	<b>-2.1</b>	<b>0.5</b>	<b>4.2</b>
Manufacturing	-2.0	-3.2	1.5	0.2	2.5
Electricity, Gas & Water	5.7	9.9	-5.5	-5.8	12.7
Construction	-3.0	-2.6	-34.8	9.5	23.6
<b>Tertiary Sector</b>	<b>5.1</b>	<b>5.3</b>	<b>-1.2</b>	<b>2.5</b>	<b>3.2</b>
Wholesale & Retail	4.9	4.5	-16.9	-4.3	4.0
Transport & Communication	5.6	9.2	2.7	19.3	8.5
Financial Intermediation	5.0	1.0	4.2	1.7	3.1
General Government	4.0	5.4	5.9	-1.8	1.2
<b>Total</b>	<b>1.2</b>	<b>1.9</b>	<b>-0.7</b>	<b>1.9</b>	<b>2.8</b>

Source: CSO, CBS and MEPD; \*represents official provisional estimates by CBS and MEPD forecasting team as of January 2013 and # represent preliminary 2013 projections (not-official). (NB: The CBS uses these estimates pending availability of official actual data produced by the CSO National Accounts section.). Estimations are based on data collected during Annual Company Surveys, half year data collected from big companies, trade accounts and government accounts.

Medium term growth prospects would be mainly reliant on developments in the export sector. Such developments include among others extension of preferential trading agreements such as AGOA and EPAs. The loss of the AGOA market for 2015 would affect the performance of the textile, fruit canning (fruit-cups), curios and other agricultural products that benefited from the access to the USA market through the AGOA arrangement. EPAs on the other hand, support a sizable proportion of total exports which are destined to the EU market including sugar, meat, citrus and forestry products among others. Thus, preserving trading agreements with the EU will be critical for growth. On the other hand, the expansionary fiscal policy in 2013/14 and 2014/15 fiscal years especially increases in the allocation and implementation of government capital program is expected to feed positively to growth in the medium term.

## 3.1.1 Maize

The distribution of rainfall during 2012/13 cropping season was favourable and encouraged farmers to cover more maize growing areas. The area under maize cultivation improved by 17.7 percent to 61.3 thousand hectares in 2012/13 compared to 52.1 thousand hectares in the previous season. In line with the increase in area planted, maize production

rose from 76,019 metric tonnes in 2011/12 season to 81,934 metric tonnes in the period under review. However, due to erratic weather conditions characterised by dry-spells in the middle of the season, yields were lower at 1.34 tonnes per hectare in 2012/13 compared to 1.46 tonnes per hectare in the previous season.

Despite the improved harvest in 2012/13, maize production fell short of domestic consumption requirements necessitating continued dependence on imports to cover the deficit. Commercial maize imports (from RSA) by National Maize Corporation amounted to 22,760 metric tonnes in 2012/13 marketing season, 4.7 percent lower than 2011/12 import volumes. The decrease in commercial imports by NMC was mainly associated with increased food aid by NGOs and a shift in preferences for starch products from maize to other cereal products.

Maize trading continues to be dominated by the informal market which retains artificially high prices. Despite increasing prices from E1,950 per ton in 2011/12 to E2,435 per ton in 2012/13, NMC who is also a buyer of last resort for domestic produce, was only able to source 4,032 metric tonnes from local growers in 2012/13 compared to 6,364 metric tonnes in the previous year.

Maize Production				
	2009/10	2010/11	2011/12	2012/13
Area ('000 Ha)	58.3	70.3	52.1	61.3
Production ('000 Mt)	75.1	84.7	76.0	82.0
Imports ('000 Mt)	40.0	33.2	23.9	22.8

Source: Ministry of Agriculture and Cooperative and National Maize Corporation

Prospects for maize industry are positive in the medium term. In 2013/14 planting season, there was adequate rainfall received in most parts of the country aided a significant improvement in area planted. Area planted increased by 40 percent to 86,754 metric tonnes in 2013/14 with an estimated output of 101,000 metric tonnes. Future prospects for 2014/15 heavily rely on the disbursement of an Indian loan that will focus on the increasing fleet of subsidized tractors to farmers to minimize delay in cultivation. The project will potentially add about 132 tractors to the existing fleet. Challenges still remain especially the increasingly erratic weather conditions associated with climate change. Dry-spells in weather conditions are frequently experienced during January and February when most produce is at its critical stage resulting in lower yields per hectare harvested. In addition, crop failures can be

attributed to other agronomic factors such as poor variety selection, non-fertilizer application, weeds and soil sustainability.

## 3.1.2 Cotton

Cotton production improved by 23 percent from 1,951 metric tonnes produced in 2011/12 season to 2,485 metric tonnes in the 2012/13 season. Good rainfall which was received during the planting season (September-January) allowed on-time planting and contributed to the increased production. The domestic cotton price rose to E5.15 per kg in 2012/13 from E4.90 per kg in 2011/12, encouraging farmers to increase their produce. The total number of small-holder farmers involved in cotton production increased from 2,222 in 2012 to 2,951 in 2013. This, coupled with improved technical support provided by the Swaziland Cotton Board and government

# DOMESTIC ECONOMY (Continued)

extension services, significantly enhanced cotton production. Area under cotton cultivation increased to 3,000 hectares in the 2012/13 season from 2,800 hectares planted in 2011/12 season. However, there

were difficulties in the supply of (non-GMO) delta cotton seed varieties which prevented the area planted from reaching the initial projection of 4,000 hectares.

Cotton Production				
	2009/10	2010/11	2011/12	2012/13
Production (Mt)	2,349	2,138	1,951	2,485
Area ('000 Ha)	3.0	2.9	2.8	3.0
Value to Growers (E'Million)	10.2	9.8	9.6	12.8
Average Price (E/Kg)	4.40	4.70	4.90	5.15
Planting Seed Sales (Mt)	40.4	42.0	35.0	36.0

Source: Swaziland Cotton Board

In line with the rise in seed cotton production, cotton lint and fuzzy seed production increased in 2012/13 season. Lint production improved to 941 tonnes in 2012/13 from 785 tonnes the previous year. Fuzzy seed production increased by 23 percent to reach 1,342 tonnes in the period under review. Cotton lint and fuzzy seed continue to be sold in the local market though demand continues to outstrip supply. In the period under review, sales for the lint and fuzzy seed amounted to E12.3 million and E3.1 million respectively.

Prospects for 2013/14 season are mixed. On the positive side, the industry will benefit from the persistent increase in the prices over the years as this provides incentive to the farmers. Prices are set to increase by 7 percent in 2013/14 season with the top grade attracting E5.30/kg from E5.15/kg in 2012/13. The good prospects are however hindered by the GMO legislation that discourages potential investment in the industry. Sourcing non-GMO seed varieties is becoming scarce; there are emerging problems in the supply of seed varieties (Delta- a short-season variety) which in the recent years has been converted to GMO. This is imported from South Africa and requires special permit to import. Swaziland now relies on the long-season variety (Alba) imported from Zimbabwe. Also, with the long

dry spells in November 2013 and the heavy rains that delayed cotton planting for the 2013/14 season, cotton production may be slightly affected.

## 3.1.3 Citrus

The citrus industry performed better in 2013 compared to 2012 despite the continued reduction in the area under citrus production due to high competition with profitable cash crops (i.e. sugarcane). Citrus production increased by 8.9 percent to 57,536 tonnes in 2013 compared to 56,819 tonnes the previous year. The increase in production boosted total sales volumes as they increased by 7.4 percent in the period under review.

Export volumes rose by 4.2 percent from 28,647 tonnes in 2012 to 29,863 tonnes in 2013. However, the increase in export volumes did not translate to increased receipts due to generally dampened fruit prices in the overseas markets. In addition, the quality of the fruits was affected by weather conditions coupled with the traffic congestion in the Durban port during the marketing period which delayed fruits reaching intended destination on time. As a result, exports receipts fell from E87.4 million in 2012 to E84 million in 2013. The decrease in export receipts would have been more pronounced were it not for the weaker exchange rate which cushioned export revenue in local currency terms.

Citrus Production				
	2010	2011*	2012 *	2013#
Area Planted (Ha)	1,818.2	1,731.5	1280.0	1217.2
Production (Mt)	69,170	78,418	56,819	57,536
Exports (Mt)	31,909	36,060	28,647	29,863
Exports (E'Million)	95.0	103.5	87.4	84.0
Domestic Sales (Mt)	35,371	43,235	23,573	26,207
Domestic Sales (E'Million)	31.9	40.0	35.4	42.1

Source: Central Bank Surveys

\*Revised # preliminary

# USUTU FOREST COMPANY (FORMERLY SAPPI)

View of Usutu Forests (Currently Supplying Montigny Investments)



# TAMBANKULU SUGARCANE ESTATE



## RSSC SUGAR MILL



The domestic market continued to provide an alternative market for citrus fruits. Domestic sales volumes increased by 11.2 percent to 26,207 tonnes in 2013. Domestic sales revenue surged from E35.4 million in 2012 to E42.1 million in 2013 benefitting from the combination of increased domestic sales volumes and improved prices.

Prospects for the citrus industry are not promising. Citrus production continues to be compromised by changing climatic conditions caused by global warming. During the last quarter of 2013, there was a severe hailstorm that destroyed nearly two-thirds of the citrus crop and 20 percent of bananas in one of the largest citrus plantations in the country. This will significantly decrease citrus production in the medium term. On the market front, the changing consumption patterns in the European market remains a long-term threat to this sector.

### 3.1.4 Forestry

The forestry sector in Swaziland involves the farming of pine, eucalyptus and wattle trees for the production of round wood timber, saw logs, pulp and biofuel, mining timber and different varieties of finished products from timber. Following severe forest fires experienced in 2007/08 that destroyed a sizable proportion of forest plantations in the country and culminated into closure of the pulp mill at Bhunya in 2010, the forestry sector has been on a recovery trajectory in recent years. Most plantations have shifted from planting pine which had a maturity life span of 16-30 years to planting eucalyptus which have a shorter lifespan of 8-12 years thereby enabling companies to earn returns that recover their investments much quicker.

Production and sales of round timber and saw logs improved significantly in 2013 relative to 2012. The production of round-wood logs grew by 6.5 percent whilst production of saw-logs more than doubled in 2013. On the negative side, the production of mining timber was muted mainly due to slowing demand for the product as mining companies (mainly in South Africa) continuously shift from using mining timber to steel for their underground support.

Prospects for the timber sector are bright. Most of the trees that were replanted after the 2007/08

forest fires have started maturing hence the stock for harvest have increased. This is expected to increase the forestry output in the medium term. There has been continuous investment towards value addition in this sector including production of fine finished products. These include inter alia; laminated desk tops, doors, ceilings, skirting, flooring and chip boards. However, the sustainability of this sector requires huge minimization of potential threats such as forest fires, hailstorms, droughts and invasive forest insects such as sires wasp and pitch canker fungus.

### 3.1.5 Livestock

The livestock subsector benefited from abnormally high rains which improved the conditions of rangelands throughout the country. However due to the hypothermia disease which attacked malnourished cattle in September 2012, the stock of cattle decreased marginally in the period under review. According to the livestock census undertaken by the Ministry of Agriculture and Co-operatives, cattle population stood at 627,486 in 2013 compared to 633,954 in 2012. Cattle mortalities remained relatively high at 5.6 percent in 2013 but slightly lower than 5.9 percent recorded the previous year.

Total cattle slaughters (including commercial abattoirs, butcheries and those slaughtered for home consumption) increased by 5 percent from 53,914 in 2012 to 56,607 in 2013. About 52 percent of total slaughters were done at a commercial scale including those done by the export abattoir, SMI. Commercial slaughters recorded 29,278 in 2013 compared to 27,929 in 2012. Slaughters done at household level, which represent informal sector remained on an upward trend increasing from 25,985 in 2012 to 27,329 in 2013. Other livestock such as goats and sheep slaughters remain highly informal at home consumption level with a small proportion reported in commercial abattoirs. Only 384 commercial goats' slaughters were recorded in 2013 compared to 314 the previous year. On the other hand, there is notable commercial activity in the piggery sub-sector. Commercial pigs' slaughters amounted to 15,579 in 2013 with an estimated carcass value of E19.7 million. This is however lower than 16,366 pigs slaughtered the previous year with a carcass value of E20.7 million.

# DOMESTIC ECONOMY (Continued)

Livestock - Cattle					
Year	Total Population	Total Slaughters #	Commercial Slaughters	Deaths	Mortality Rate (%)
2010	611,581	47,902	21,897	30,103	3.5
2011	616,459	48,414	24,263	27,417	4.5
2012	633,954	53,914	27,929	37,341	5.9
2013	627,486	56,582	29,278	35,096	5.6

Source: Min. of Agriculture & Cooperatives

Note: # Total slaughters include commercial slaughters at abattoirs and slaughters for home consumption

Developments in the beef export markets were mixed. On the positive side, Swaziland was able to meet and exceed its Norwegian market quota of 500 metric tonnes for the second consecutive year. SMI exported 701 metric tonnes of boneless beef to the European market in 2013 compared to 692 metric tonnes in 2012. On the negative side, the Mozambique market performed sluggishly due to lack of a VAT-refund system between Swaziland and Mozambique. Walk-in Mozambicans who purchase beef directly from SMI do not receive the 14 percent VAT refund (on basis of exports being zero-rated) yet

they face an additional 17 percent VAT charge from the Mozambican side. This has seriously discouraged trade between Swaziland and Mozambique for the Mozambican importers. Owing to the muted performance of the Mozambique market total beef volume exports dipped by 18.3 percent from 1,402 metric tonnes in 2012 to 1,146 metric tonnes in 2013. A better performance from the European market coupled with a weaker Rand/Lilangeni exchange rate cushioned a fall in exports receipts as they fell marginally from E85.9 million in 2012 to E85.3 million in 2013.

Beef Exports					
	2009	2010	2011	2012	2013
Exports (Mt)	1,238	1,400	1,339	1,402	1,146
Value of Exports (E'000)	50,338	62,178	70,637	85,888	85,252

Source: SMI

Prospects for the livestock sector are mixed. Poor range management, poor animal husbandry practices, poor take-off rates (high calf mortalities), and poor quality due to high cost associated with cattle breeding and feedlotting are some of the main challenges that persist in the livestock sub-sector. On the positive side, production of processed meat is projected to remain on the upward trend as there is continuous investment on improving productivity and efficiencies mainly by the export abattoir. Subject to continuity of trade agreements with the EU (mainly the EPA), the EU market and Norwegian market are a good prospect for the beef industry in the medium term.

### 3.1.6 Sugar

Sugar production decreased marginally by 0.7 percent to 653,337 metric tonnes in the 2013/14 cropping season from 658,137 metric tonnes produced in the 2012/13 season. Heavy rains during the peak months for harvesting caused delays in the harvesting and

haulage of cane. This affected the quality of cane delivered to the mill thereby resulting in poor sugar and sucrose yields in the season under review.

In line with the decrease in production, total sugar sales fell by 2.9 percent in the 2013/14 marketing season. Export sales to the EU market decreased by 6.7 percent to 339,250 metric tonnes in the 2013/14 marketing season compared to a record high of 363,666 metric tonnes in the 2012/13 season. Penetration of the EU market was marginalized by oversupply of world sugar in this market in the period under review. Despite lower volume sales and depressed EU sugar prices, export receipts increased by 21.3 percent to reach E2.2 billion in 2013/14 season compared to E1.8 billion in the previous season. The notable increase in export receipts benefited from a weak Rand/Lilangeni exchange rate against the Euro. On average, the Rand/Lilangeni depreciated by 21.6 percent in 2013.

# DOMESTIC ECONOMY (Continued)

## Sugar Production and Sales

	2010/11	2011/12	2012/13	2013/14
Production (Mt)	582,019	646,781	658,137	653,337
Exports (Mt)	333,192	305,377	363,666	339,250
Value of Exports (E'Million)	1,103.9	1,185.3	1,818.3	2,205.1
Domestic (SACU) Sales (Mt)	309,483	309,611	302,043	307,918
Value of Domestic (SACU) Sales (E'Million)	1,330.6	1,481.7	1,574.9	1,662.8

Source: Swaziland Sugar Association

Sales to the domestic (SACU) market rose slightly by 1.9 percent to 307,918 metric tonnes in 2013/14 season compared to 302,043 tonnes sold in the previous season. Domestic sales were however 30,000 metric tonnes lesser than targeted because of increasing influx of Brazilian sugar to the SACU market which restrained Swazi sugar volumes destined to this market. Domestic sales revenue amounted to E1,662 million in 2013/14 marketing season from E1,575 million in the previous marketing season.

Prospects for the sugar industry are mixed. Production is expected to increase buoyed by increased sugarcane production as a result of expansion of area under cane mainly under the Lower Usuthu Smallholder Irrigation Project. The area under sugarcane production is projected to increase by 607 hectares with an anticipated increase in yields; sugar production is projected to increase by 4 percent in 2014/15. On the marketing side, international sugar prices are expected to decrease in the medium term mainly due to over-supply of sugar from major sugar producers (i.e. Brazil and India). The decreases in world sugar prices would also inevitably affect the preferential EU market prices and thereby affect sales returns from this market. On the positive side, exchange rate movements will also be an important factor in the 2014/15 marketing season. A sustained depreciation in the Rand/Lilangeni exchange rate against major trading currencies will somewhat cushion returns from non-SACU sales.

### 3.1.7 Mining and Quarrying

The mining sector output has grown by more than 4 times in the past two years mainly due to the coming on stream of iron ore production and improvements in coal production during this period. Coal production increased significantly following the construction of 30 metre upthrow in 2012 linking to new coal seam which has higher coal yields. Coal production volumes jumped by 68 percent to record 257,090 metric tons in 2013 from 152,284 metric tons produced in 2012. Coal sales revenue amounted to E245.7 million in 2013, up from E158.3 million in

2012 benefiting from the combination of increased volumes and slight increases in coal prices.

Iron ore production which commenced in the last quarter of 2011 recorded a 22 percent increase to 1.26 million metric tonnes in 2013 from 1.03 million metric tons in 2012. The iron ore mining company invested a sum of E300 million in 2012 and 2013 commissioning a treatment plant and grinding plant that was aimed at improving its product quality. The completion of the two plants resulted in more iron (and less waste) extracted and transported compared to the previous year when the project was initiated. The improvement in quality significantly enhanced the value of sales of iron ore. Extracts worth E558.6 million were exported to Mainland China in 2013 compared to E393.7 million exported in 2012.

On the contrary, quarry production lost momentum, declining by 5.1 percent in 2013 following a significant 49.5 percent jump in 2012. Quarry volumes recorded 297,704 cubic metres in 2013 compared to 308,440 cubic metres in 2012. Despite the decrease in quarry production volumes, sales revenue increased by 39 percent from E20.6 million recorded in 2012 to E28.5 million in 2013. The increase in sales revenue can be attributed to increases in the price and quality of the quarry produced in the period under review.

Prospects in the mining and quarry subsector remain positive in the short to medium term. Coal production is expected continue benefiting from the coal seam with relatively high yields. However, the coal mine experienced geological and technical problems in the beginning of 2014 which somewhat disrupted their operations, thereby affecting projected production volumes. Improved quality iron ore production is expected to stay positive in the medium term. In addition to coal and iron ore, prospects for gold mining remain in the medium term though moving at a slower pace than expected. Prospects for quarry production are also promising in line with anticipated construction developments from both private and public sector.

# DOMESTIC ECONOMY (Continued)

Production and Value of Mineral Sales			
	2011	2012	2013
Production Volumes			
Coal (Mt)	121,050	152,284	257,090
Quarried Stone (M <sup>3</sup> )	206,341	308,440	292,704
Iron Ore <sup>1</sup> (MT)	79,553	1,032,230	1,258,560
Sales Value (E'Million)			
Coal	116.6	158.3	245.7
Quarried Stone	21.4	20.6	28.5
Iron Ore <sup>1</sup>	46.6	393.7	558.6
<b>Total Sales</b>	<b>179.6</b>	<b>572.7</b>	<b>832.6</b>

<sup>1</sup>Iron ore production commenced in October 2011 through the re-opening of the Ngwenya Iron Ore mine

Source: Mining Department, Ministry of Natural Resources and Energy

Notes: Mt = Metric Tonnes, M<sup>3</sup> = Cubic Metres

## 3.1.8 Electricity Consumption

After falling for two consecutive years, domestic power generation expanded by 25.1 percent, hitting a record high of 346.6 GWh in 2013/14 compared to 277 GWh in 2012/13. The significant improvement benefitted from good rains in 2013 which kept dams and reservoirs at high levels, thereby supporting internal hydro-power generation. In addition, complementary power generation from the Ubombo Sugar co-generation project continued to contribute positively to the national grid. Excess power generating from Ubombo Sugar amounted to 44.4 GWh in 2013/14 from 37.2 GWh in 2012/13,

accounting for 12.8 percent of total domestic power generation.

Domestic electricity consumption increased in 2013/14 with total consumers recording an 11.5 percent increase from the previous financial year level. Notable increases were observed in the 'commercial' and 'irrigation power and bulk' customer categories which account for the largest proportion in sales volumes. In line with the increase in the number of customers, sales volumes rose to 1,035 GWh in 2013/14 from 939.3 GWh in 2012/13.

Electricity Consumption				
	2010/11	2011/12	2012/13*	2013/14#
Domestic Generation (GWh)	333.4	312.8	277.4	346.6
Imports (GWh)	805.5	813.4	821.9	859.9
SEC Sales (GWh)	976.8	955.1	939.9	1,035
Feature of the year	Wet	Medium	Medium	Wet

NB: \* revised figures # Preliminary (unaudited) figures, Domestic generation for 2011/12 and 2012/13 includes power generated by Ubombo Sugar

Source: Swaziland Electricity Company

Despite the significant increase in internal power generation, Swaziland Electricity Company (SEC) was only able to satisfy a third of the total electricity demand in the country, with the rest of the demand met through imports predominately from ESKOM South Africa. Imports amounted to 859.6 GWh in 2013/14 from 821.9 GWh the previous year.

SEC continued to work on projects geared towards improving efficiency, quality and reliability and stability of supply. Efficiency gains are envisaged through a system with distribution management capability known as the SCADA Project. To improve quality and reliability of supply SEC continued its construction of new and rehabilitation of existing

# **KHANYISA HOUSE (SEC REGIONAL OFFICE)**



# DOMESTIC ECONOMY (Continued)

substations. However, the major challenge for this subsector is the continued over reliance on imports which are increasingly uncertain and more expensive due to electricity supply shortages in the

region. Hence the need for the country to intensify and implement projects that will increase domestic power generation to self-sufficiency levels cannot be overemphasized.

## 3.1.9 Water Consumption

Treated Water Consumption				
	2010	2011	2012	2013
No. of active Connections	31,243	29,613	31,165	32,555
Consumption (Million KL) M <sup>3</sup>	12.260	12.630	12.885	12.861

Source: Swaziland Water Services Corporation

Notes: M<sup>3</sup>= Cubic Metres

The total number of connections for treated water reached 32,815 in 2013 compared to 31,165 in 2012. Domestic connections which account for more than 90 percent of total connections grew by 4.9 percent while commercial and other connections increased by 9.5 percent. The supply of treated water which is mainly in urban areas currently has coverage of 93 percent. Treated water consumption increased by 2.7 percent to 13.23 million kilolitres cubic metres in 2013 compared to 12.86 million kilolitres cubic metres in 2012. The increase in consumption mainly benefited from a 9.7 percent increase in commercial sales

Within its mandate to supply clean treated water in Swaziland, the Swaziland Water Services Corporation (SWSC) in collaboration with the Government of Swaziland and other partners continued to facilitate major treated water projects in the country. Projects to improve water supply include pipeline upgrading in Nhlanguano, refurbishment of the Ngwane Park sewer treatment plant and upgrading of water supply at Ezulwini among others. Rural areas are also targeted for improved water supply; on-going projects include treatment plants at Lomahasha, Sontongo, Matsanjeni and Siphofaneni. To assist in maintaining water sustainability in the country, SWSC aims at increasing the water storage reservoirs.

Despite continuous improvements by the relevant entity, there still remain concerns on the security and sustainability of water supply which can potentially affect development especially for fast growing industrial towns.

There is an urgent need for the construction of raw water storages in the country, in particular, the proposed Nondvo Dam which will improve the reliability of water supply in the Mbabane-Manzini corridor. Projects like the new Bio-Tech Park stand to benefit from this dam for without it water supply

to the Park and other upcoming projects will be compromised. This is because the Matsapha water treatment plant has almost reached maximum capacity whilst the quota for raw water abstraction from the Usushwana River has reached the limit.

## 3.1.10 Construction

The construction sector expanded in 2013 mainly driven by growth in real capital expenditure and improvement in the implementation rate of government capital projects in 2013/14 fiscal year. Government capital program focused on road construction and continued implementation of millennium projects. These projects included Mbhadlane - Sikhuphe link road, Siphofaneni - St. Phillips road, completion of the King Mswati III International Airport: most of which are still on-going projects. Apart from public sector works, the private sector continued to expand on buildings construction for residential and commercial purposes - mainly for office spaces and shopping centres.

Different indicators for construction activity however depicted mixed trends. The total number of building plans completed was somewhat stagnant recording 147 units in 2013 compared to 149 units the previous year. The slight decrease was mainly explained by the fact that most of the big private construction activity was still on-going (about 90 percent complete) at the end of 2013, thus not yet reflected in total buildings completed. This also translated to a huge drop in the value of building plans completed as they declined from E765.2 million in 2012 to E144.2 million in 2013. Quarried stone production also slowed by 5.1 percent in 2013 following a huge jump of 49.5 percent in 2012. On the other hand, the value of real imports for construction material (mainly cement) surged by 10.4 percentage points in 2013 compared to the level observed in the previous year.

Construction				
Year	Approved Building Plans		Completed Buildings	
	No. of Plans	E'Million	No. of Buildings	E'Million
2010	487	563.2	85	72.7
2011	729	684.9	134	123.2
2012	653	438	149	765.2
2013	728	656.3	147	144.2

Source: All Municipalities

Prospects for the construction sector remain positive in the medium term. The leading indicator for private sector construction activity, total building plans approved, increased by 10.3 percent to 728 units in 2013 compared to 653 units in 2012. The total number of building plans approved amounted to E656.3 million in 2013 from E438 million in the previous year. The number of units approved was mainly driven by residential buildings whilst commercial buildings dominate in terms of the value of the approved buildings. Huge growth is also expected from the public sector. The 2014/15 fiscal year budget allocation depicts a 44 percent increase in envisaged capital expenditure. Approximately 81 percent of the total capital expenditure focuses on completing on-going projects while 19 percent is a provision for new capital projects.

### 3.1.11 Investment and Development Projects

Investment is a major factor for sustainable growth. Investment ratios for the country have been on a downward trend for the past decade as Swaziland increasingly struggled to attract fresh FDI and changing global landscape characterised by trade liberalization has intensified competition and affected competitiveness of domestic firms in global markets. Perception based indicators of global competitiveness index and World Bank ease of doing business for Swaziland has worsened in recent past. The 2014 ease of doing business ranked Swaziland badly in indicators for starting a business, enforcing contracts, getting electricity, trading across borders and protecting investors.

In response to the challenges faced by the Swaziland investment environment, His Majesty King Mswati III, in April 2012 launched an Investor Road Map (IRM) which is mainly aimed at improving Swaziland rankings in the GCI and the World Bank Ease of Doing Business. The IRM specifically targets to improve all deficient areas identified by the World Bank ease of doing business report. During 2013, there was notable progress on improving conditions of starting a business and getting electricity. However, high

level corporation and commitment is needed for full implementation of the IRM.

The partial implementation of the IRM has started to yield positive results, though some challenges still remain. Swaziland Investment Promotion Authority (SIPA) whose mandate is, among others, luring and promoting FDI in the country and is one of the main stakeholders facilitating the implementation of the IRM, recorded a notable increase in investment projects approved. At the end of 2013/14 financial year SIPA had attracted 48 investment projects (cumulatively) worth E15,694 million compared to 26 projects at the end of 2012/13. Of the approved projects, 7 projects commenced in 2013, of which 3 are new with a capital value of E100 million. Investment was mainly towards the forestry and manufacturing sectors. The seven projects started in 2013 are expected to create 2,500 employment opportunities.

With a notable increase in the number of projects in the pipeline, the future prospects on investment from SIPA perspective are bright. The continuous implementation of the IRM will help improve investment climate and make Swaziland more competitive in attracting investment. SIPA anticipates an implementation of 10 projects in 2014. Major investments for 2014/15 are envisaged in the energy sector. On a commitment basis, about E7.85 billion worth of investment has been pledged in the energy sector promising at least 3,250 jobs. A majority of investments are Greenfield projects, mostly for renewable energy. Investment interests in this sub-sector spans from Solar PV energy, natural gas, biomass and thermal power generation. Other investments are foreseen in the agri-business, construction and engineering and manufacturing sectors with a potential of more than 4,000 jobs.

The Swaziland Investment Development Corporation (SIDC), a private development finance institution which finance projects in different sectors through equity, loans, finance leasing and factory buildings

# DOMESTIC ECONOMY (Continued)

for lease recorded stagnant growth in 2013/14 in most portfolios except equity. This was mainly due to liquidity constraints arising from limited access to funding and increased competition from other financial sector players in the market.

For the financial period ended June 2013, SIDC approved 17 new projects worth E15.6 million compared to 14 projects that were worth E29.5 million in the financial year ended June 2012. From previously approved projects, 5 projects commenced in 2013 with a value of E17.5 million and promising 250 job opportunities. The implemented projects are mainly in the agricultural sector.

Future prospects for SIDC are positive following a capital injection by Nordic/Southern Africa Development Community which will provide adequate financing for projects in the pipeline. New investment opportunities are envisaged in the agricultural sector especially for cattle and baby vegetables. However, opportunities in the manufacturing sector remain muted as incentives for new manufacturing investors remain limited.

## 3.2 PRICES

### Price Developments

Consumer inflationary pressures were subdued in 2013 mainly benefiting from lower food and transport prices as well as slower increases in administered prices (such as fuel and electricity). Headline inflation averaged 5.6 percent in 2013 compared to 8.9 percent in 2012. The slower increase in overall prices coincided with introduction of new weights in the beginning of 2013 which resulted in a decrease in the weight for 'food and non-alcoholic beverages' from 37.7 percent to 29.2 percent and 'housing and utilities' component weight doubled from 14 to 29.2 percent. The change in weights had a mild effect on inflation outcomes.

After recording double digits throughout 2012, food inflation subsided to single digit levels in 2013 averaging 5.7 percent in 2013 compared to 13.1 percent the previous year. Food inflation mainly benefited from decreases in the price of rice and slower increases in the price of meat and other cereal products. Transport inflation also decreased significantly from 8.1 percent in 2012 to 2.4 percent in 2013 mainly due to "base effects" as administered

fuel prices remained unadjusted for most part of 2013 despite increasing pressures from high international fuel prices coupled with a weaker Rand/Lilangeni exchange rate in the period under review.

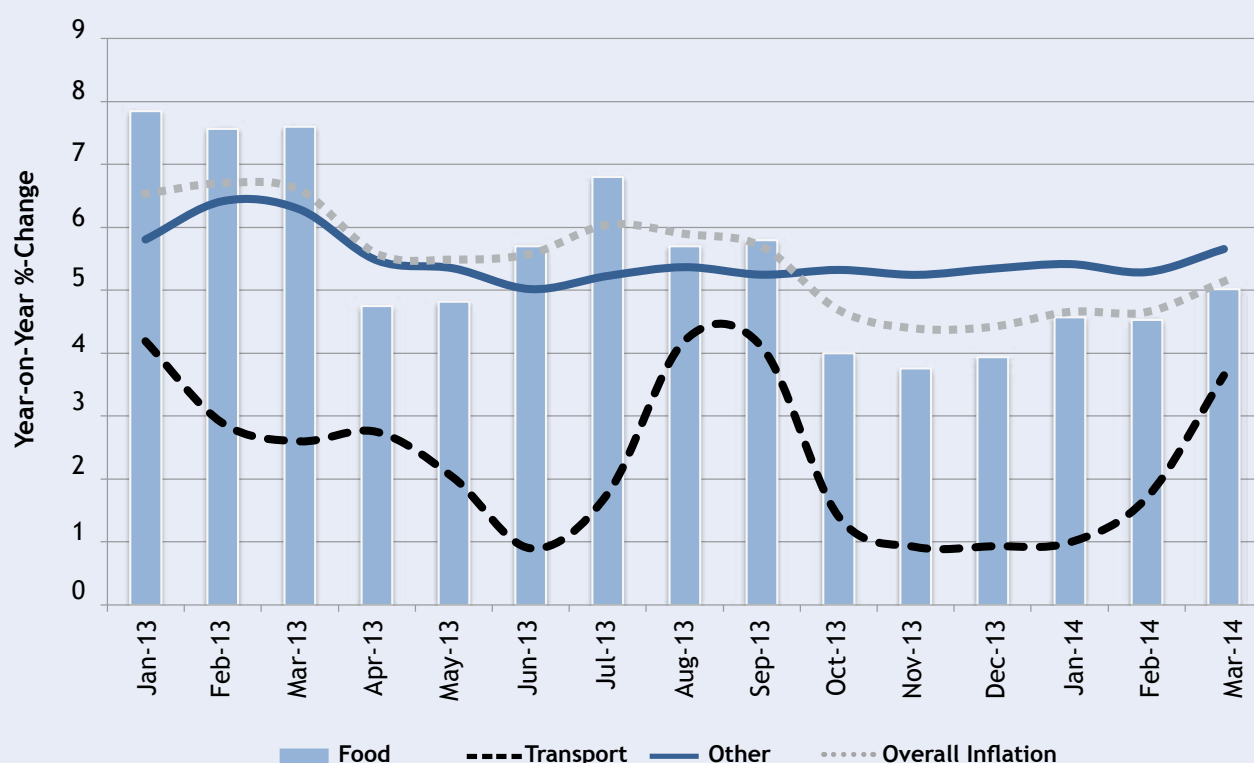
Further slower increases were observed in the price index for 'housing and utilities' which rose by 5.5 percent in 2013 compared to 8.6 percent the previous year. The slower increase in prices for 'housing and utilities' resulted from a 3.9 percent decrease in the growth rate of prices for 'actual rentals' and a smaller than proposed increase in electricity tariffs. Electricity tariffs rose by 5 percent in 2013 which was lower than both the 9.5 percent tariff hike offered by the Swaziland Energy Regulatory Authority in 2013 and the previous year tariff increase of 8 percent.

Minimal inflationary pressures were noted in the price indices for 'education', 'health' and 'recreation and culture'. The price index for education grew by 9.4 percent in 2013 to 7.5 percent in 2012 whilst the index for health increased from 10.2 percent to 12.9 percent. The index for 'recreation and culture' accelerated to 6.7 percent in 2013 from 2.8 percent the previous year mainly due to a notable increase in prices for audio-visual, photographic and information processing equipment.

The sustained weakness of the Rand/Lilangeni against major trading currencies poses an upside risk in the medium-term inflation outlook. Inflationary pressures from the neighbouring South Africa where Swaziland sources nearly 90 percent of its imports will filter through to Swaziland inflation developments. South Africa has raised concerns of drought in some parts of the maize producing areas which could lead to a surge in food prices. Relatively high international fuel prices and a weaker Rand/Lilangeni resulted in domestic fuel prices adjusting by 90 cents per litre in March 2014. As a result, in the first quarter of 2014, food and fuel prices depicted upward trends which are expected to be sustained in the short to medium term. In addition, administered prices effected in 2014 which include inter alia; a 9.5 percent increase in electricity tariffs and a 25 percent increase in public transport fares will exert pressure on inflation outcomes in the short to medium term. The increases in fuel and electricity which are inputs costs (for manufacturers) will filter through to other components on the CPI basket.

# DOMESTIC ECONOMY

Inflation Components



National Consumer Inflation

All Group	2010	2011	2012	2013
Food and Non-alcoholic Beverages	0.4	6.0	13.1	5.7
Alcohol and Tobacco	6.8	4.5	5.6	4.5
Clothing and Footwear	6.8	1.1	4.6	3.7
Housing, Water, Electricity and Gas	8.8	6.7	8.6	5.6
Household Furniture & Maintenance	5.0	3.4	5.2	4.9
Health Care	2.1	3.0	10.2	12.6
Transport	5.0	13.3	8.2	2.4
Communication	7.5	0.4	0.0	-0.1
Recreation & Culture	16.2	3.19	2.8	6.5
Education	12.0	12.3	7.5	9.3
Restaurants & Hotels	1.4	2.6	5.9	-0.1
Miscellaneous	5.0	6.1	2.4	0.3
All Index	4.5	6.1	8.9	5.6

Source: Central Statistics Office

## 4. BALANCE OF PAYMENTS

Swaziland Balance of Payments						
ANALYTICAL PRESENTATION (in millions of Emalangeni)	2008	2009	2010	2011	2012*	2013#
<b>A. CURRENT ACCOUNT EXCLUDING GROUP E</b>	<b>-1,866.6</b>	<b>-3,477.5</b>	<b>-2,946.6</b>	<b>-2,458.7</b>	<b>1,270.2</b>	<b>2,305.8</b>
Goods: credit	12,958.5	14,066.9	13,217.4	13,837.9	15,813.4	18,294.7
Exports f.o.b.	12,302.1	13,260.6	13,216.9	13,837.3	15,812.5	18,292.0
Other	656.3	806.3	0.5	0.6	0.9	2.7
Goods: debit	-13,040.0	-15,094.4	-14,314.6	-14,157.1	-15,174.2	-16,343.8
Imports f.o.b.	-12,633.4	-14,344.1	-14,303.6	-14,085.0	-15,157.3	-16,277.3
Other	-406.6	-750.3	-11.0	-72.1	-17.0	-66.6
<b>Balance on Goods</b>	<b>-81.6</b>	<b>-1,027.5</b>	<b>-1,097.2</b>	<b>-319.2</b>	<b>639.2</b>	<b>1,950.8</b>
Services: credit	1,855.8	1,694.9	1,884.7	2,175.7	1,988.4	2,250.3
Transportation	75.0	63.3	154.7	390.2	483.1	396.0
Other	1,780.8	1,631.7	1,729.9	1,785.5	1,505.3	1,854.4
Services: debit	-5,561.7	-5,106.0	-5,046.6	-6,304.0	-6,787.0	-7,107.6
Transportation	-1,531.2	-1,608.4	-592.9	-449.0	-522.2	-647.7
Other	-4,030.6	-3,497.6	-4,453.7	-5,855.0	-6,264.8	-6,459.9
<b>Balance on Services</b>	<b>-3,705.9</b>	<b>-3,411.1</b>	<b>-3,161.9</b>	<b>-4,128.3</b>	<b>-4,798.6</b>	<b>-4,857.3</b>
<b>Balance on Goods and Services</b>	<b>-3,787.5</b>	<b>-4,438.6</b>	<b>-4,259.1</b>	<b>-4,447.5</b>	<b>-4,159.4</b>	<b>-2,906.4</b>
Income: credit	2,461.2	2,463.7	1,555.6	1,396.2	1,646.2	1,816.8
Income: debit	-2,504.6	-3,103.9	-3,211.2	-3,252.7	-4,222.3	-5,302.9
Net Income	-43.4	-640.2	-1,655.7	-1,856.5	-2,576.1	-3,486.1
Balance on goods, services, and income	-3,830.9	-5,078.8	-5,914.8	-6,304.1	-6,735.5	-6,392.6
Current transfers: credit	3,682.9	3,518.2	3,576.4	4,481.5	8,787.7	10,019.6
Current transfers: debit	-1,718.6	-1,917.0	-608.2	-636.0	-782.0	-1,321.3
Net Current Transfers	1,964.3	1,601.2	2,968.2	3,845.4	8,005.7	8,698.4
<b>B. CAPITAL ACCOUNT EXCLUDING GROUP E</b>	<b>323.2</b>	<b>91.1</b>	<b>105.5</b>	<b>146.9</b>	<b>930.3</b>	<b>249.1</b>
Capital account: credit	339.2	173.6	162.5	157.9	968.1	258.4
Capital account: debit	-16.0	-82.4	-57.0	-11.0	-37.8	-9.4
Total, Groups A plus B	-1,543.4	-3,386.4	-2,841.1	-2,311.8	2,200.4	2,554.9
<b>C. FINANCIAL ACCOUNT EXCLUDING GROUP E</b>	<b>3,701.7</b>	<b>2,298.6</b>	<b>785.2</b>	<b>835.5</b>	<b>-654.0</b>	<b>-56.2</b>
Direct investment abroad	65.6	-59.5	-7.0	65.4	52.5	-3.1
Direct investment in reporting economy	873.5	556.8	993.2	676.8	736.6	233.7
Net Direct Investment	939.1	497.3	986.2	742.2	789.1	230.6
Portfolio investment assets	-623.8	400.2	363.5	-753.3	-107.8	-137.6
Equity securities	-635.3	29.3	-733.3	-72.2	-6.0	0.0
Debt securities	11.5	370.9	1,096.8	-681.0	-101.8	-137.6
Portfolio investment liabilities	362.3	-178.1	91.9	0.0	0.0	0.0
Equity securities	362.3	-178.1	57.2	0.0	0.0	0.0
Debt securities	0.0	0.0	34.6	0.0	0.0	0.0
Net Portfolio Investment	-261.5	222.1	455.4	-753.3	-107.8	-137.6
Other investment assets	1,570.3	1,265.6	-1,182.3	305.4	-567.7	-462.5
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0
General government	3,623.9	2,128.0	0.0	0.0	0.0	0.0
Banks	-738.2	-725.6	-747.0	583.1	-488.3	254.7
Other sectors	-1,315.5	-136.8	-435.3	-277.7	-79.4	-717.2
Other investment liabilities	1,453.9	313.5	525.8	541.2	-767.6	313.3
Monetary authorities	-5.0	443.0	138.3	-3.1	-73.8	2.8
General government	-76.8	-179.2	-132.8	-53.6	-140.0	52.9
Banks	257.6	-31.0	83.1	728.5	-418.0	404.3
Other sectors	1,278.1	80.7	437.2	-130.6	-135.7	-146.7
<b>Net Other Investment</b>	<b>3,024.2</b>	<b>1,579.1</b>	<b>-656.5</b>	<b>846.5</b>	<b>-1,335.3</b>	<b>-149.2</b>
<b>TOTAL GROUP A THROUGH C</b>	<b>2,158.3</b>	<b>-1,087.8</b>	<b>-2,055.9</b>	<b>-1,476.3</b>	<b>1,546.4</b>	<b>2,498.7</b>
<b>D. NET ERRORS AND OMISSIONS</b>	<b>-1,006.5</b>	<b>1,095.6</b>	<b>363.1</b>	<b>786.3</b>	<b>-243.1</b>	<b>-672.3</b>
<b>TOTAL, GROUPS A THROUGH D (Overall balance)</b>	<b>1,151.8</b>	<b>7.8</b>	<b>-1,692.8</b>	<b>-690.0</b>	<b>1,303.3</b>	<b>1,826.4</b>
<b>E. FINANCING ITEMS</b>	<b>-1,152.0</b>	<b>463.2</b>	<b>1,755.5</b>	<b>959.2</b>	<b>-837.5</b>	<b>-1,022.7</b>
Reserve assets	-1,153.4	-14.4	1,688.8	690.0	-1,303.3	-1,826.4
Use of Fund credit and loans from the Fund	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	1.6	6.6	2.0	269.4	466.0	803.5
(insert non-zero lines of EF)						
Liabilities constituting foreign authorities' reserves	-0.3	471.0	60.7	-0.2	-0.2	0.2

Source: Central Bank of Swaziland

\* Revised #Preliminary

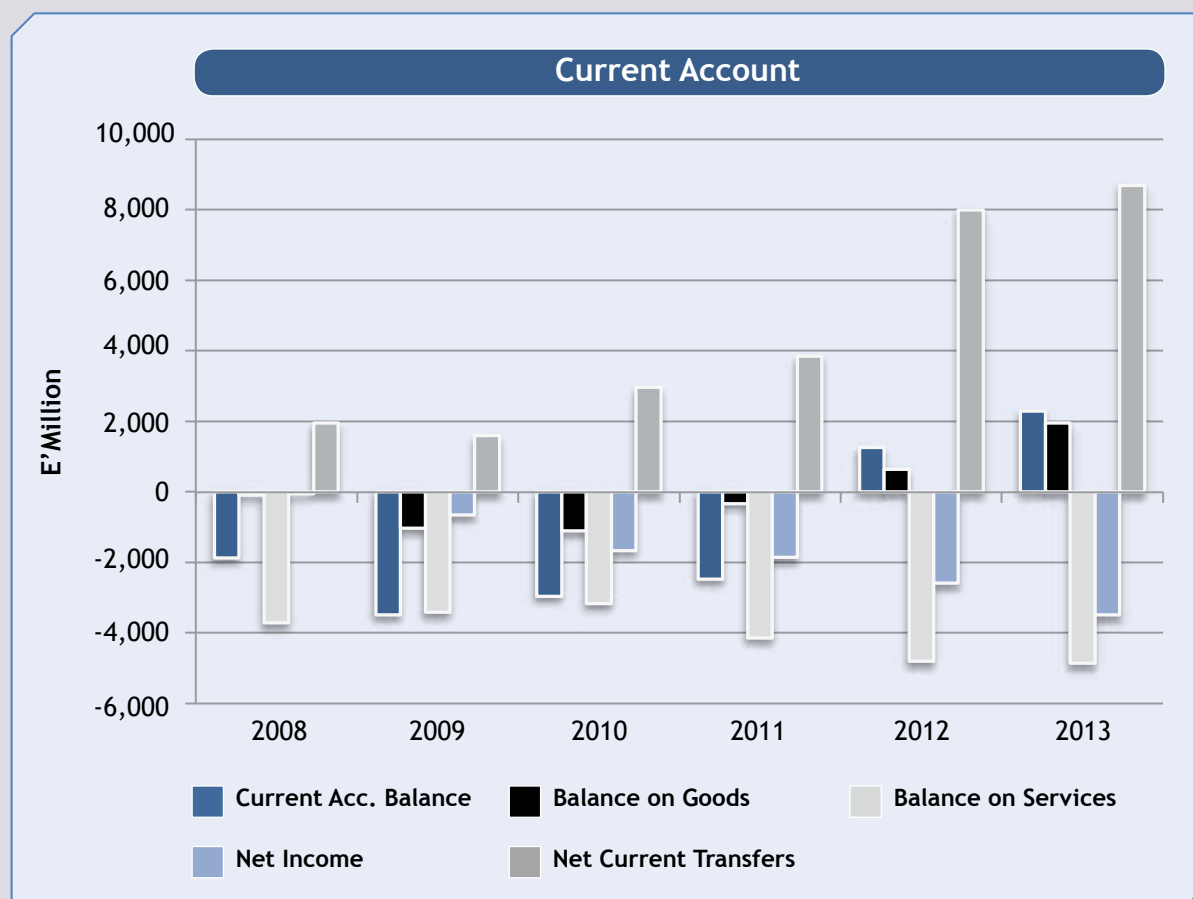
# BALANCE OF PAYMENTS (Continued)

## 4.1 OVERVIEW

Swaziland's balance of payments continued to show an improved overall position for the second year running, posting a surplus of E1,826.4 million in 2013 from a lower surplus of E1,303.3 million

in the previous year. The overall surplus in 2013 is largely accounted for by an increase in net inflows in current transfers coupled with a higher trade surplus during the year.

### 4.1.1 Current Account

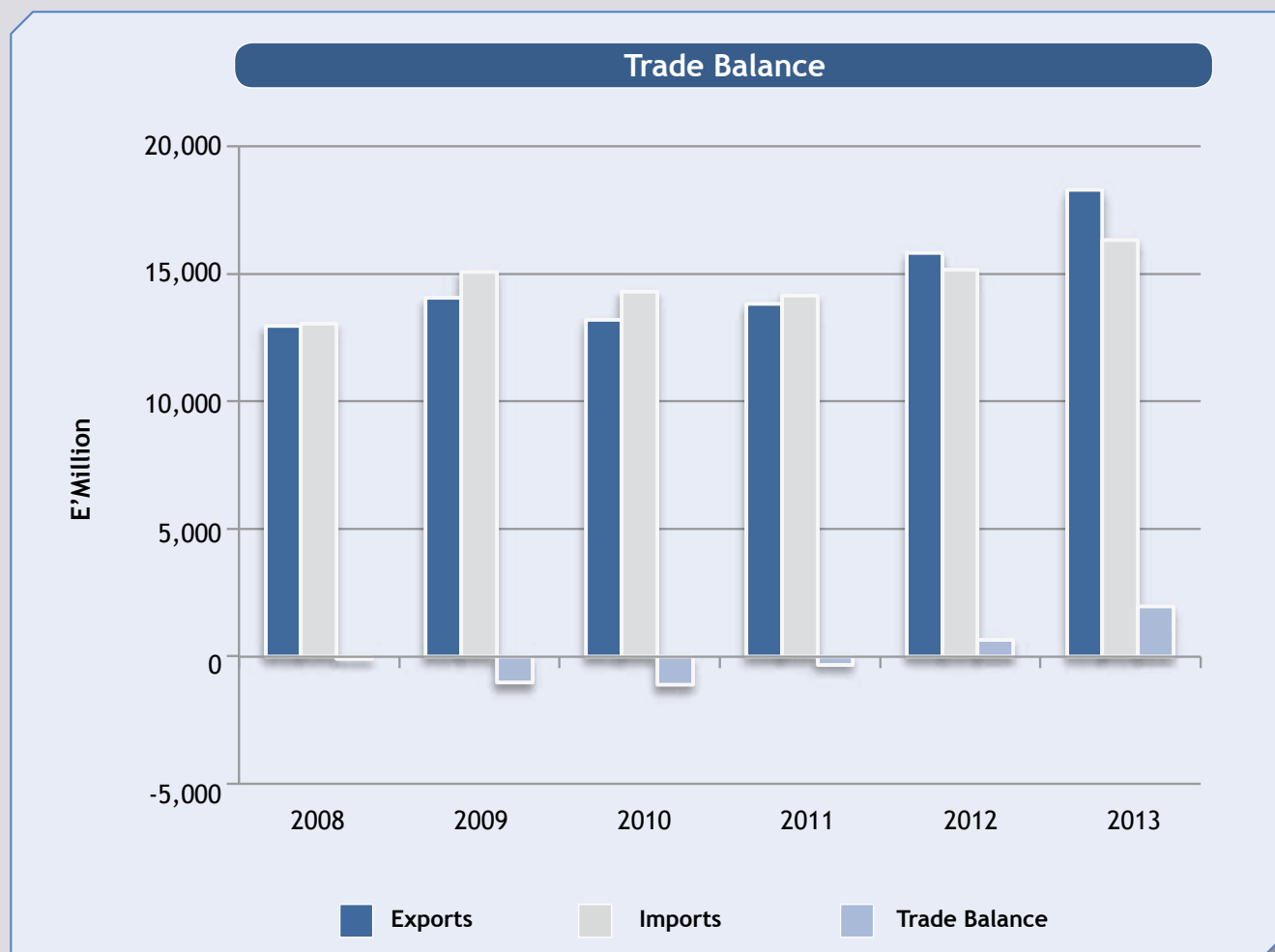


In 2013, the current account registered a marked improvement posting a much wider surplus of E2,305.8 million from a revised surplus of E1,270.2 million the previous year. This surplus is equivalent to 6.6 percent of GDP from 4 percent in 2012. Accounting for this positive development is a persistent positive trade balance and a sustained

surplus in current transfers. The net inflow in current transfers widened by a moderate 8.7 percent in 2013 after a 108.2 percent surge in 2012, mainly reflecting a rise in SACU receipts. The surge in the current account surplus in 2013 would have been much higher if substantial net outflows were not recorded in the services and income accounts.

# BALANCE OF PAYMENTS (Continued)

## 4.1.2 Trade Account



Swaziland's trade account has shown resilience in the face of slow global economic growth. A trade surplus amounting to E1,950.8 million was recorded in 2013, reflecting a significant rise from the surplus of E639.2 million recorded in 2012. Developments in the trade account in the last 2 years indicate that the country's trade has taken a turn for the better after posting persistent deficits in recent years. Exports rose 15.7 percent year-on-year to E18,294.7 million in 2013, with 63 percent of the export earnings coming from South Africa, which is traditionally the country's largest trade partner. The depreciation of the lilangeni against major world currencies has also contributed to the increase in export revenue during the period under review.

Imports of goods rose to E16,343.8 million in 2013, reflecting a 7.7 percent year-on-year increase from the previous year. Data shows that, in 2013, 88 percent of the country's total imports came from South Africa. Imports of goods from countries

outside the SACU region declined by 13.1 percent in 2013, signalling the effect of the exchange rate depreciation against major world currencies on importers.

Revenue from the exports of miscellaneous edibles increased by 5.8 percent, year-on-year, in 2013 to E8,800.5 million. Gains, during the period, were largely driven by a rise in orders that were influenced mainly by favourable weather conditions coupled with operational strategies towards volume growth by the industry. Exports of miscellaneous edibles continue to make a large impact on the trade account and remain the largest contributor to total export revenue in the economy. Textiles and textile products export earnings increased, marginally, from E2,752.5 million in 2012 to E2,783.3 million in 2013. During the period under review, 51.9 percent of exports of textiles went to South Africa, where the industry has found a niche market as an alternative to the US, AGOA markets which have been reduced

# BALANCE OF PAYMENTS (Continued)

due to low demand from the US following the economic slowdown in recent years.

Mineral exports remained narrow comprising coal and raw iron ore in 2013. Mining sector exports posted a moderate growth in 2013, rising to E1,352.7 million from E1,343.8 million in 2012. A combination of volume and price increases in 2013 for both coal and iron ore resulted in improved earnings in the sector.

Export receipts from sugar fell in 2013, posting a 2.7 percent decline from E6,509.8 million in the previous year. This comes after an impressive performance in 2012 after there was an increase in shipments after stock adjustments. The sluggish performance of sugar export earnings was due to a decline in sugar production during the year 2013, partly explained by heavy rains experienced during harvesting of cane resulting in poor quality yields.

Total merchandise imports posted an annual increase of 7.7 percent to E16,343.8 million in 2013. Attributable to this increase are imports of machinery, mechanical appliances and parts thereof and “mineral fuels, mineral oils and products of their distillation which together contribute over 30 percent to total merchandise imports.

Machinery, mechanical appliances and parts thereof which contributed 18.7 percent of total imports rose 24.8 percent to E3,042.9 million in 2013 as government rolls out the implementation of capital projects. The continuously rising world oil prices combined with the depreciation of the local currency has had an effect on the import bill, with fuel imports recorded at E2,295.1 million in 2013.

## 4.1.3 Services Account

The deficit in the services account increased from E4,798.6 million in 2012 to E4,857.3 million in 2013. The deteriorating services balance was largely due to a 4.2 percent increase in services outflows to E7,107.6 million in 2013 from a previous year's recording of E6,787 million. Though services inflows increased by a higher 13 percent from E1,988.4 million in 2012 they had a lower impact in the services account as they were increasing from a lower base.

Net transportation outflows in 2013 stood at E251.7 million, a wider gap compared to 2012. This was largely attributable to a 18 percent decline in inflows of transportation services from E483.1 million in 2012 to E396 million in 2013. Transport services outflows increased from E522.2 million in

2012 to E647.7 million in 2013. The country remains a net importer of this particular service.

Travel services net outflows increased from E340.5 million in 2012 to E602.4 million in 2013. Travel inflows posted a decline of 48 percent to stand at E129.1 million in 2013 from E248.5 million recorded the previous year.

Other business services which comprise of miscellaneous business, professional and technical services have consistently recorded a net outflow in previous years. Other business services inflows were recorded in the communication services, construction services, and computer and information services.

## 4.1.4 Income Account

The deficit in the income account widened in 2013, rising to E3,486.1 million from E2,576.1 million in 2012. This was due to a 24.5 percent increase in outflows to E5,300.9 million in 2013. Whereas inflows only increased by 10.4 percent from E1,646.2 million to E1,816.8 million in the review period.

The major contributor to the worsening income deficit was an increase in outflows of dividends and distributed branch profits, which grew from E3,825.7 million in 2012 to E4,762.8 million in 2013. This development is an indicator that domestic companies continued to be profitable during the review period. Compensation of employees posted a net inflow of E180.2 million in 2013 from E165.0 million the previous year. Compensation of employees' inflows stood at E253.8 million in 2013 whilst outflows amounted to E73.6 million. Inflows of compensation of employees continue to be dominated by earnings of Swazis employed in South African mines.

Interest income posted a net inflow of E462.7 million in 2013, an improved position from a net inflow of E325.3 million in 2012. Interest inflows amounted to E682.9 million in the review period whilst outflows amounted to E220.2 million in 2013. Interest earned was dominated by earnings by the Central Bank, commercial banks and other sectors including pension funds and other retirement funds.

## 4.1.5 Current Transfers

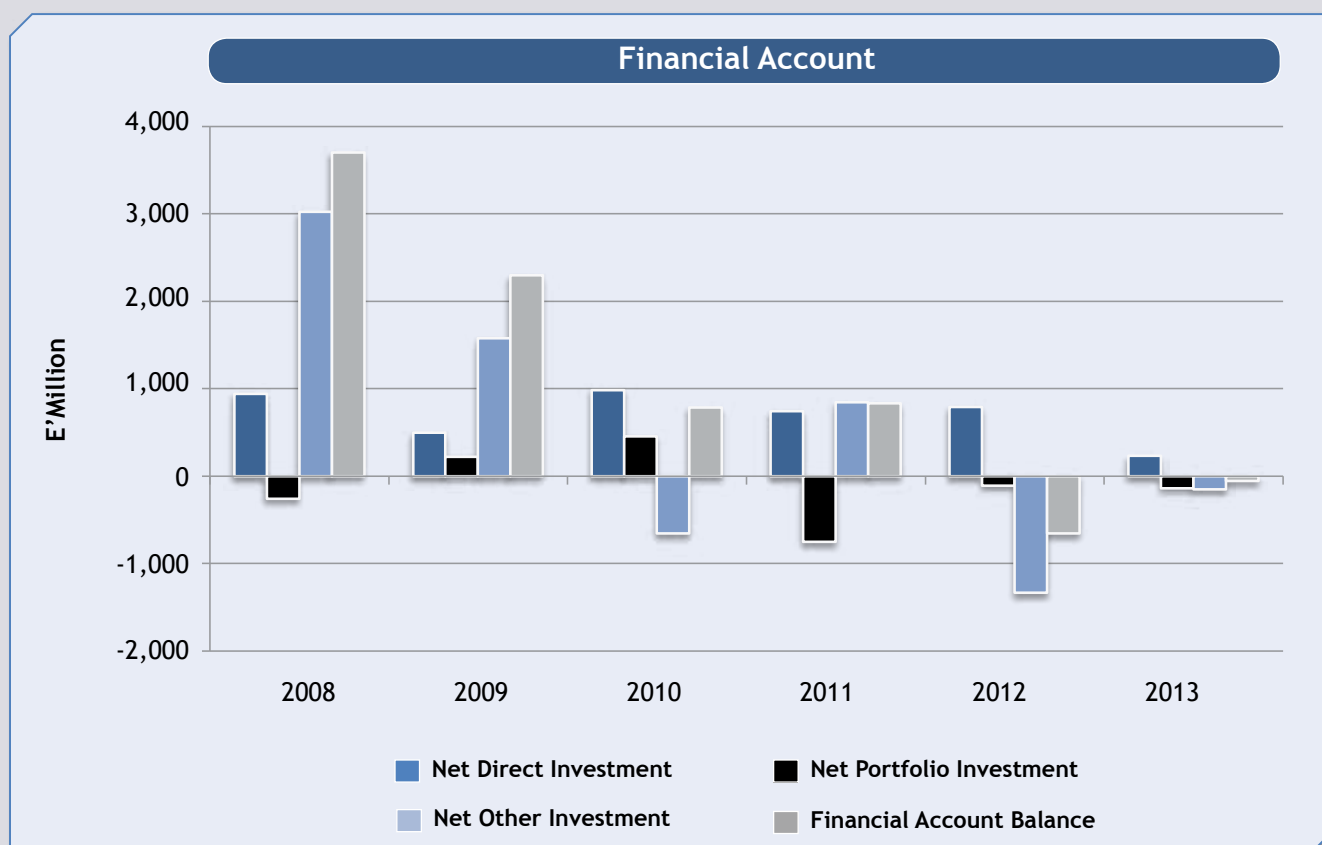
Consistently recording a surplus over the past years, this account maintained this trend, with a 6.9 percent growth in the surplus which increased from E8,005.7 million in 2012 to E8,698.4 million in 2013. SACU receipts remained the major contributor to this net inflow, accounting for E7,131.1 million of total inflows during 2013.

# BALANCE OF PAYMENTS (Continued)

Total inflows in this account amounted to E10,019.6 million in 2013, increasing from E8,787.7 million the previous year. Further contributing to current transfers inflows in 2013 were technical assistance and grants, amounting to E802.3 million. Outflows

amounted to E1,321.3 million in 2013 from a lower E782 million the previous year. Workers remittances posted a small increase to E130.8 million. Adding to the outflows was official sector contributions to international organisations as well as other transfers.

## 4.1.6 Financial Account



The financial account recorded a deficit of E56.2 million in 2013, which was much lower compared to a revised deficit of E654 million posted in 2012. The decline in the deficit in this account is largely explained by a contraction in net outflows of other investment from E1,335.3 million in 2012 to E149.2 million during 2013.

Net foreign direct investment (FDI) in Swaziland posted an inflow of E230.6 million during 2013 compared to a net inflow of E789.1 million the previous year. The year-on-year fall in the net position of this account is attributable to a decline in net inflows of capital between foreign direct investors and resident companies from E714.6 million during 2012 to a net inflow of E3.9 million in 2013.

The equity component of FDI continued to record minimal movements as greenfield investment/fresh FDI into the country remained low in the review period. This component posted net outflows of E16.4 million from the net inflows of E21.3 million registered during 2012. Reinvested earnings net inflows amounted to E246.2 million in the review period from a low of E0.7 million inflows recorded in 2012.

The foreign portfolio investment account recorded a net outflow of E137.6 million in 2013, about 27 percent higher than the revised outflow of E107.8 million in 2012. This position reflects a net increase of debt securities assets held by resident entities in South African money markets and the rest of the world. Investments by resident Fund Managers

# BALANCE OF PAYMENTS (Continued)

mainly in South Africa continue to increase as they place their assets in more lucrative markets after complying with the 30 percent local asset requirement. According to fund managers, domestic investment avenues continue to be limited with lower yields compared to the more developed South African money and capital markets.

There is a need to develop the domestic stock market to create a lucrative market that will be an incentive for domestic institutional investors to place their funds locally. The setting up of capital projects such as the proposed thermal power generating plants would also be useful in attracting foreign investors under the Public Private Partnership initiative which has been recently launched by government.

There is need for an economic transformation agenda that will hinge on institutionalised policies/ incentives aimed at creating a sustainable business environment that would enhance the global competitiveness of the economy and make it the preferred investment destination in the region. Such policies could include the development of the stock market to attract foreign portfolio investment inflows.

The residual category of the financial account (other investment) posted a lower net outflow of E149.2 million during 2013 against a high net outflow of E1,335.3 million in 2012 mainly driven by an increase in investment assets against a reduction in liabilities. Other investment assets continued to increase in 2013, rising by E462.5 million in the review period

from a decrease of E567.7 million observed during 2012. This development was due to an increase of E717.2 million in other assets held abroad by the private sector, dominated by trade credits extended to non-resident entities by resident companies. Assets held abroad by the banking sector posted a net decrease of E254.7 million.

Investment liabilities during 2013 decreased by E313.3 million, reflecting a turnaround from the E767.6 million increase recorded the preceding year. Liabilities of banks to non-resident institutions increased by E404.3 million during the year under review from a decrease of E418 million in the preceding period. Government liabilities, which records drawdowns and repayments on public and publicly guaranteed debt posted a net inflow of E52.9 million resulting from drawdowns amounting to E215.8 million against repayments of E162.9 million. On the contrary, other sectors continued to reduce their liabilities for the third year in succession. They fell by E146.7 million during 2013.

## 4.2 ANALYSIS OF FOREIGN DIRECT INVESTMENT INTO SWAZILAND

Preliminary data for 2013 indicate that the total stock of Foreign Direct Investment (FDI) increased by 3 percent to reach E8,075.1 million in 2013 from a revised stock of E7,841.4 million in 2012. The key drivers of this movement in the stock of FDI was a 6.7 percent annual increase in stocks of reinvested earnings combined with a 8.7 percent rise in the stock of other short term capital.

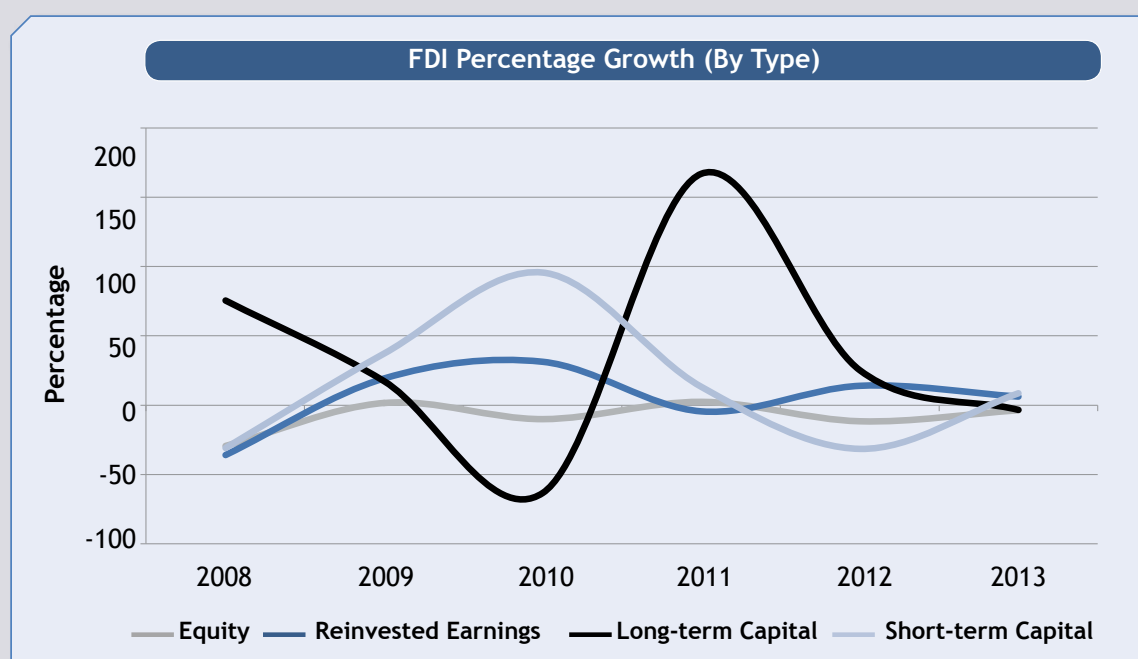
**Total Foreign Direct Investment into Swaziland by Type (E'Million)**

Type	2008	2009	2010	2011	2012*	2013#
Equity	567.5	577.3	520.0	533.4	472.2	455.8
Reinvested Earnings	2,302.4	2,748.4	3,611.9	3,451.9	3,936.8	4,183.0
Long-term Capital	1,694.3	1,987.5	727.5	1,942.6	2,431.8	2,348.5
Short-term Capital	478.3	657.0	1,286.3	1,458.3	1,000.5	1,087.8
<b>Total FDI</b>	<b>5,042.5</b>	<b>5,970.2</b>	<b>6,145.7</b>	<b>7,386.3</b>	<b>7,841.4</b>	<b>8,075.1</b>
Change in Total FDI (%)	(16.7)	18.4	2.9	20.2	6.2	3.0
Change excluding Reinvested Earnings (%)	11.4	17.6	(21.4)	55.3	(0.8)	(0.3)

Source: Central Bank of Swaziland

\* Revised # Preliminary

# BALANCE OF PAYMENTS (Continued)



The equity component of FDI fell from E472.2 million recorded in 2012 to E455.8 million in 2013, reflecting a 3.5 percent decline, mainly on account of the merger of some establishments within the insurance industry thereby resulting in other entities being wholly owned locally. The stiff competition for FDI in the region and globally also puts a strain in the country's ability to attract fresh investments resulting in minimal growth in FDI inflows over the past years.

Reinvested earnings component of FDI increased from E3,936.8 million during 2012 to register a stock of E4,183 million in 2013. Data indicate that more dividends were declared and paid to foreign shareholders during the review period. Nevertheless, a portion of profits in some companies were retained and reinvested for expansion as reflected by the

6.3 percent rise in stock. This continues to provide evidence that existing foreign investors have confidence in the economy.

FDI analysis in intercompany capital, comprising loans and trade credits, revealed that borrowing from affiliates was dominated by stocks of long-term capital for the last two years. The long-term component of FDI, however, decreased from E2,431.8 million in 2012 to register E2,348.5 million by year end 2013. The slight decline in long-term capital in this category reflects the ability of resident companies to repay their liabilities. Worth noting is that intercompany financial support from parent companies abroad leveraging their local investments is still available as reflected in the data reported on the stock of capital held by the direct investment enterprises.

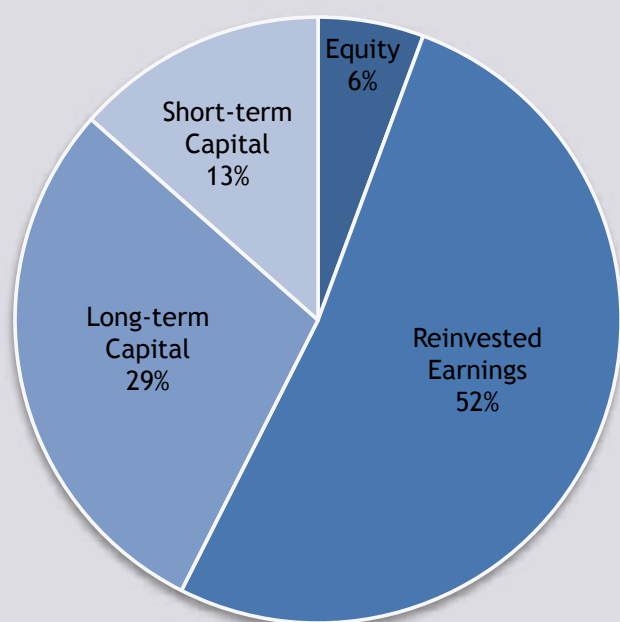
Total Foreign Direct Investment into Swaziland by Sector (E'Million)										
Sector	2009		2010		2011		2012*		2013#	
	Stock	Change (%)	Stock	Change (%)	Stock	Change (%)	Stock	Change (%)	Stock	Change (%)
Manufacturing	3,025.5	12.7	3,870.7	27.9	4,450.2	15.0	4,298.8	(3.4)	4,991.9	16.1
Services	905.5	36.7	784.3	(13.4)	1,003.8	28.0	916.1	(8.7)	794.9	(13.2)
Investment	254.7	6.3	201.7	(20.8)	179.8	(10.9)	196.3	9.2	242.0	23.3
Agriculture	864.8	-	643.1	(25.6)	1,054.1	63.9	1,792.7	70.1	1,158.2	(35.4)
Finance	925.5	26.6	576.9	(37.7)	678.0	17.5	720.8	6.3	705.1	(2.2)
Mining	(5.8)	(216.0)	68.9	1,288.6	63.1	(8.5)	220.4	249.6	183.1	(16.9)
<b>Total</b>	<b>5,970.2</b>		<b>6,145.7</b>		<b>7,428.9</b>		<b>8,145.0</b>		<b>8,075.1</b>	

Source: Central Bank of Swaziland

\*Revised # Preliminary

# BALANCE OF PAYMENTS (Continued)

FDI Components (2013)



The short-term capital component of FDI, on the other hand, was up by 8.7 percent to settle at E1,087.8 million in 2013, an indicator that most foreign owned enterprises engaged in intercompany funding to minimize on operational costs during the year under review. Although this component is often volatile in its nature, the stock depicted in the last two years has somehow been stable.

A sectoral analysis of FDI in the various sectors of the economy indicates that the manufacturing sector dominated, accounting for 61.8 percent of total FDI stock at E4,991.9 million during 2013. Although the sector's contribution was somehow subdued at 61.8 percent from a 62.5 percent share in 2012, the total stock was up by 1.8 percent from E4,901.9 million in 2012. Most private sector players, especially in the manufacturing sector, increased their FDI stock through concessionary funding from parent companies against the formal banking sector finance.

The Agricultural sector's FDI stocks have been somehow consistent in the last two years following the slow recovery of the forestry industry which has, been affected by major disruptions due to forest fires in previous years. Huge losses are still being provided for as the forestry sector engage in recovery strategies that tend to require significant spending on forest estates. Efforts to resuscitate the forest industry have resulted to an increase in external financing channelled towards the agricultural sector. As a result this sector has become the second largest

component in the sectoral analysis of FDI stock accounting, for 14.3 percent in 2013, though lower than its share of 15.2 percent in 2012. The sector's total stock was however down by 2.7 percent at E1,158.2 million in 2013 from E1,190.8 million the previous year.

The FDI stock in the services sector increased by 17.9 percent to stand at E794.9 million during 2013 mainly supported by an increase in the stock of short term capital, with its contribution to the total FDI stock remaining significant at 9.8 percent in 2013 from 8.6 percent in 2012. FDI stock towards the investment sector remained almost flat at E242 million during 2013 from E241.6 million in 2012, with its share of total stock stagnating at 3 percent in the review period. The stock of FDI into the financial sector declined from E713.5 million in 2012 to E705.1 million in the period under review. This indicates a 1.2 percent fall which was mainly as a result of 1.2 decline in reinvested earnings into the domestic economy by the non-resident investors in this sector.

The mining sector, though remaining the least contributor, has shown an annual increase of more than 50 percent in the stock of FDI. This improvement was accounted for by increases in FDI in the form of long term loans and reinvested earnings in this sector. The industry players have increased since 2011, resulting to the share of the sector increasing from 1.5 percent in 2012 to 2.3 percent in 2013 equivalent to E183.1 million in stock.

## Prospects for FDI in Swaziland

The current global environment is characterised by a general slowdown in FDI inflows to developing economies and the existence of a large number of investment alternatives. Specifically, there have been growing fears that FDI is being diverted from developing countries to emerging economies especially China. In addition, the increased uncertainty and heightened African political climate may preclude global FDI from growing nearly as rapidly as it did in the 1990s.

Doing business is greatly affected by the economic and financial performance of a country as well as its policies. For some time, Swaziland has been shouldering a heavy burden of economic underperformance (low level of economic growth, shortage of greenfield investments, and fiscal crisis) and the effects are trickling down to business operations. The country needs to create a business-friendly environment and actively undertake investment-promotion policies. There is also a

# BALANCE OF PAYMENTS (Continued)

need to fill in information gaps or correct negative perceptions that may hinder FDI inflows. A commonly used definition of investment promotion is “activities that disseminate information about, or attempt to create an image of the investment site and provide investment services for the prospective investors”. The country’s investment promotion strategy must be geared towards the following:

- Image building activities promoting the country as favourable locations for investment;
- Investment generating activities through direct targeting of firms by promotion of specific sectors and industries, and personal selling and establishing direct contacts with prospective investors;
- Investment-service activities tailored to prospective and current investors’ needs;
- Raising the realisation ratio (percentage of the FDI approvals translated into actual flows); and
- Creating an investor friendly environment through policies which enhance transparency and accountability.

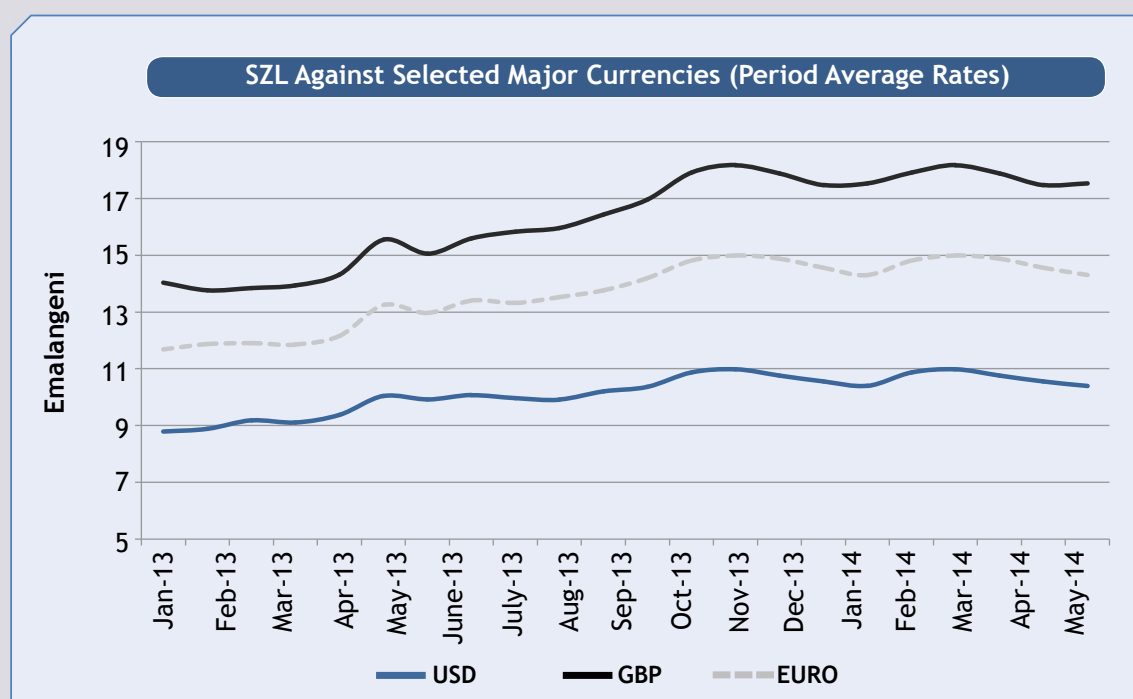
Though Swaziland has made considerable strides in retaining already available foreign investors, challenges of competition for FDI in the region are still impeding the country’s inability in attracting fresh FDI. However, there is room for expansion especially in the mining sector. It is therefore imperative that Swaziland expedites the issuance of mining licenses in order to attract FDI in this sector

as the country is well endowed with vast deposits of minerals that are under exploited.

## 4.3 EXCHANGE RATE DEVELOPMENTS

The exchange rate of the Lilangeni/Rand began the financial year 2013 on a weaker note against all major currencies after closing the year 2012 at E8.49 to the US dollar, E13.69 to the Pound Sterling and E11.25 to the Euro. The local unit continued to fall throughout the year, mainly driven by the winding up of the quantitative easing programme in the United States and generally subdued business confidence in South Africa. The local unit depreciated from an average of E8.24 against the US dollar in 2012 to an average of E9.65 in 2013, denoting a depreciation of 17.19 percent. The unit ended the review period at E10.46 against the US dollar, E17.25 against the Pound Sterling and E14.43 against the Euro.

The local unit fell in the first quarter of 2013 amidst news from the South African Revenue Services (SARS) that South Africa recorded a high trade deficit as exports struggled, pointing to a widening current account. The trade deficit widened to R24.53 billion in January 2013 from R2.7 billion in December 2013. This was followed by Minister Pravin Gordhan’s upwards revision of South Africa’s budget deficit forecasts for the next three years, which also worked against the strength of the local unit. The domestic unit averaged E8.95 against the US dollar in the first quarter of 2013, falling from an average of E8.69 recorded in the previous quarter.



# **MBABANE OFFICE PARK (PSPF BUILDING)**

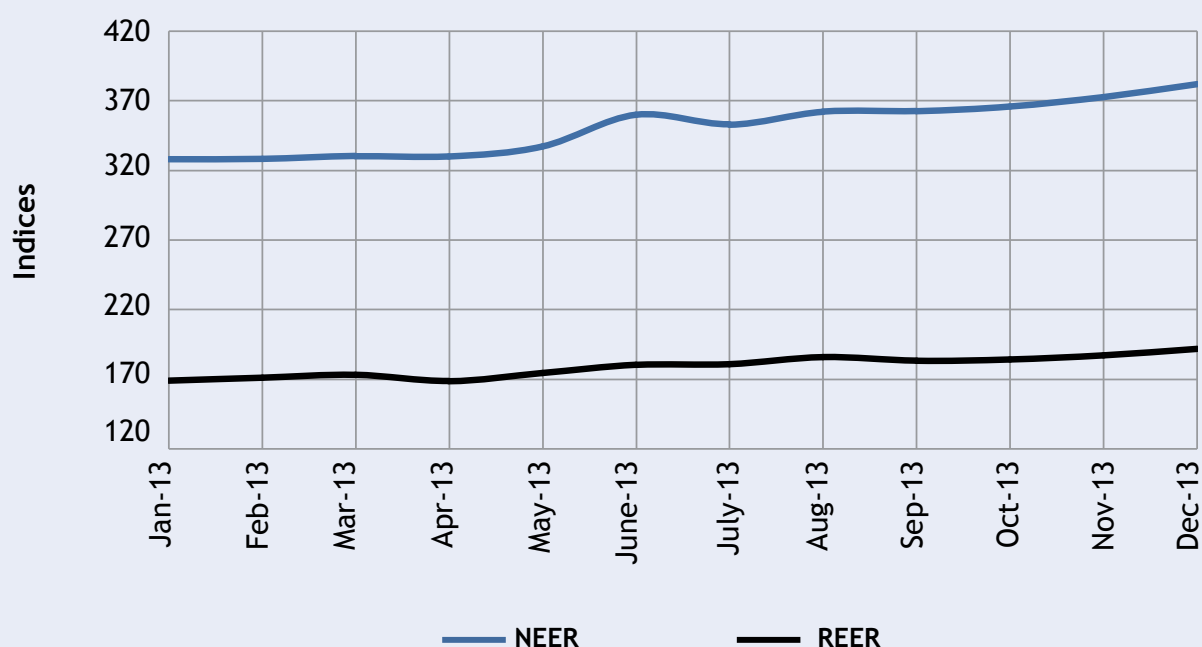


# BALANCE OF PAYMENTS

In the second quarter of 2013, the local unit continued weakening on renewed industrial tension in the mining industry in South Africa. Investors reacted by selling off the currency - seen as a gauge of international appetite for South African assets - on concerns that labour unrest in the mining industry will stifle growth. The domestic unit averaged E9.51 against the US dollar in the second quarter of 2013 falling from an average of E8.95 recorded the previous quarter.

Demand for credit slowed more than predicted pointing to weakening growth and a fall in metal prices on concern that tight monetary policy in China the biggest buyer of South African raw material will curb demand further pushing the local unit towards breaching the E10 mark. The domestic unit averaged E9.99 against the US dollar in the third quarter of 2013 falling from an average of E9.51 recorded the previous quarter.

Monthly Lilangeni's NEER/REER Indices 1995=100



The announcement of winding up of the quantitative easing programme by the US monetary authorities, waning off risk appetite for emerging market assets, resulted in a notable fall in the last quarter of 2013. The domestic unit averaged E10.16 against the US dollar in the fourth quarter falling from an average of E9.99 recorded the previous quarter. The local unit ended the year at E10.46 to the US dollar, E16.96 to the Pound Sterling and E14.20 to the Euro.

Expressed against a basket of trading partners' currencies, the value of the domestic currency, as measured by the NEER, depreciated by an average of 8.46 percent in 2013 compared to an average depreciation of 1.34 percent in 2012. This depicts an improvement in the competitiveness of the local currency compared to its trading partners, albeit

in nominal terms. The inflation adjusted effective exchange rate value of the currency as measured by the REER also sustained its depreciation in the period under review, depreciating by an average of 14.70 percent in 2013, from an average of 1.06 percent in 2012. The real effective exchange rate expressed as the combination of changes in the exchange rates and price ratios with trading partners depreciated as domestic inflation trend above those of trading partners was outweighed by the fall in the nominal exchange rates. Domestic inflation though trending generally higher than those of trading partners was not enough to strengthen the real effective exchange rate as predominately the winding up of quantitative easing seriously weakened the domestic unit against Swaziland's trading partners. Swaziland's inflation rates generally trends higher

than those of trading partners owing to monetary policy prudence by trading partners which are mostly inflation targeting.

On the other hand, the depreciation of the currency in REER terms indicates an improvement in the competitiveness of the country's exports outside the CMA. However, these developments do not auger well for importers and worse if the imports

are used as in-puts for exports. These developments auger well for long term economic integration in the region as they encourage sourcing of inputs from within the CMA region where possible. The depreciation further underscores a strengthening international competitiveness of the local currency and could potentially be a contributory factor to a growth of exports, hence the economy.

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## 5. MONETARY DEVELOPMENTS

### 5.1 OVERVIEW

During the year ended March 2014, the Central Bank's monetary policy stance remained stable allowing interest rates particularly the cost of borrowing to be at historically low levels in an effort to spur economic growth. Also underpinning the stance were subdued inflationary pressures resulting in lower inflation outcomes compared to the previous year. Consequently, interest rates were unchanged as the discount rate stood at 5 percent and the bank's prime lending rate at 8.5 percent throughout the year under review.

Year-on-year growth in credit extended to the private sector turned around from negative to double digit growth rates particularly in the last quarter of 2013 and the first quarter of 2014 reaching 20 percent at the end of March 2014. This was a reflection of recovering demand for credit largely underpinned by improving economic activity and renewed confidence in the economy after the fiscal crisis. Credit to the industry sector, which is the main driver of the country's economic growth accelerated by 22.6 percent while credit to the household sector increased by 17.1 percent.

In line with the growth in credit, broad money supply (M2) recorded 6.7 percent growth over the year under review. The highest growth of 7.9 percent was reflected in narrow money supply while quasi money supply grew by 6 percent. This represented depositors' preference to hoard more deposits for transaction purposes than for investment purposes, largely in line with the lower returns on deposits.

The country's net foreign assets continued on an upward trend even though at a slower pace than the previous year. This was mainly a result of the

persistent increase in SACU receipts coupled with a depreciation of the external value of the local currency over the year. Consequently, the country's foreign exchange reserves maintained levels well above internationally recommended thresholds. Notably, the import cover of the reserves remained above three months throughout the year under review, reaching a high of 4.8 months in January 2014 but levelling off to 4.2 months at the end of March 2014.

### 5.2 INTEREST RATES

In line with the stable monetary policy pursued by the Bank, the discount rate remained at 5 percent throughout the year under review. Similarly, the prime lending rate was unchanged at 8.5 percent over the year. Other interest rates were also more or less unchanged from their previous year levels.

Longer term deposit rates represented by the average 12 months deposit rate remained at 2.97 percent in March 2014. However, the spread between the domestic rate and RSA rate widened from 2.45 percentage points in March 2013 to 3.93 percentage points in March 2014. Short-term deposit rates represented by the average 31-days deposit rates were at 1.81 percent. Within this category, the spread between the domestic rate and the RSA rate also widened from 3.16 percentage points the previous year to 3.73 percentage points.

The 91-day treasury-bill rates declined from 6.80 percent in March 2013 to 6.41 percent in March 2014 and remained higher than the RSA treasury-bill rates. The spread between the local and RSA treasury-bill rates narrowed from 1.72 percentage points to 0.72 percentage points.

# MONETARY DEVELOPMENTS (Continued)

Average savings deposit rates also remained at 2.25 percent throughout the year under review.

## 5.3 STATUTORY RESERVE AND LIQUIDITY REQUIREMENTS

The Bank's reserve and liquidity requirements remained unchanged during the year under review.

Accordingly, the reserve requirement remained at 6 percent and the liquidity requirement at 20 percent of domestic liabilities. The liquidity requirement for the Swazi Bank was also unchanged at 17 percent.

Bank Liquidity					
Item	Amount at 3/31/2014 (E'000)	Annual Changes (%)			
		2013/14	2013/12	2012/11	2011/10
Total Liquid Assets	3,201,808	(21.4)	66.9	(32.6)	(13.3)
Domestic Liquidity	2,299,585	(2.8)	29.0	12.8	39.0
Foreign Liquidity (Net)	902,223	(47.2)	180.8	(69.4)	(33.6)
<b>Ratio (%)</b>	<b>3/31/2014</b>	<b>3/31/2013</b>	<b>3/31/2012</b>	<b>3/31/2011</b>	<b>3/31/2010</b>
Liquidity to Domestic Liabilities	24.8	28.0	24.5	21.9	15.4
Foreign Liquidity to Domestic Liabilities	9.7	20.3	8.1	26.9	39.6
Loans to Deposits	93.2	81.3	95.7	76.9	74.5

Source: Central Bank of Swaziland

The banks adequately met both regulatory requirements and further maintained surplus balances. Between March 2013 and March 2014, the reserve ratio ranged between 6.6 percent 8.5 percent. The liquidity ratio, on the other hand, ranged from 24.8 percent to 32.7 percent over the same period.

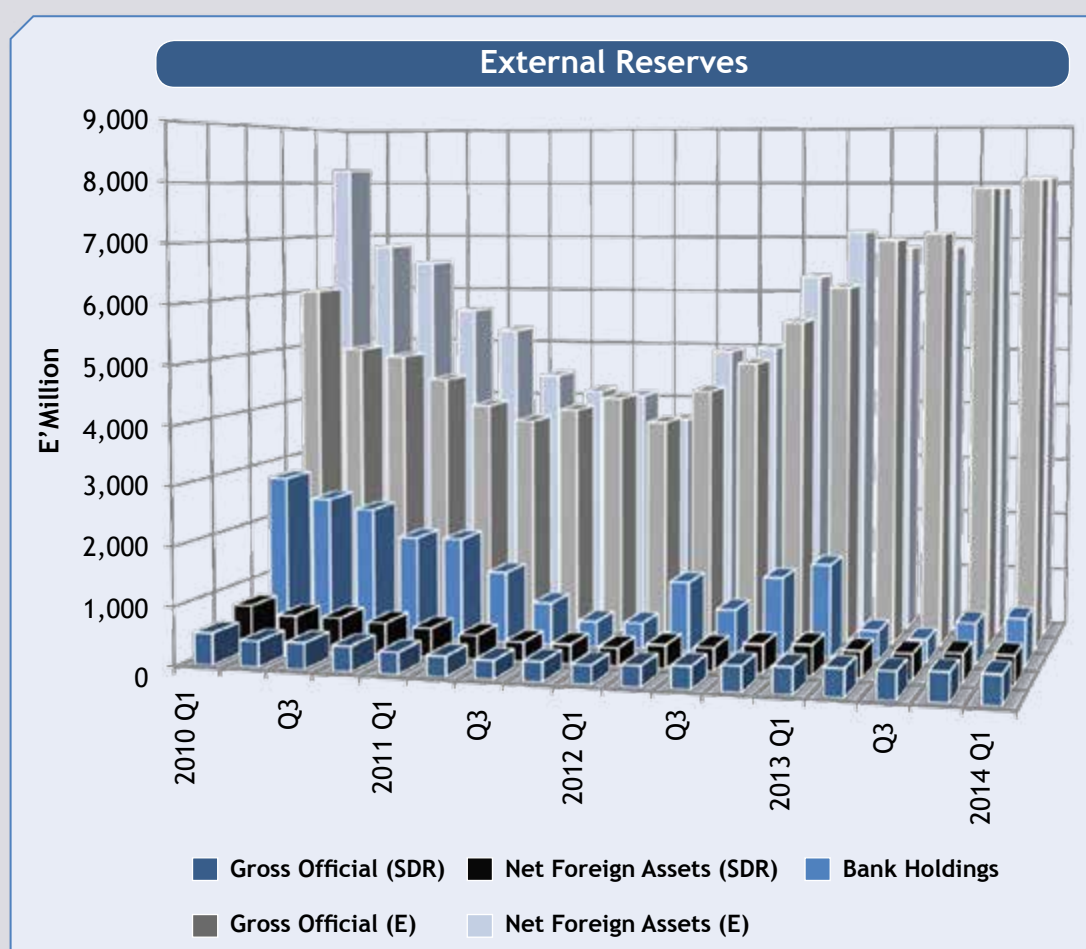
Banks' domestic liquid assets declined by 2.8 percent over the year to E2,299.6 million; largely due to a decrease in banks' investment in government securities. However, banks' balances held with the Central Bank and currency in banks' vaults continued to increase moderately. Consequently, the ratio of liquid assets to domestic liabilities increased slightly from 24.3 percent recorded the previous year to reach 24.8 percent. As at the end of March 2014, domestic excess liquidity amounted to E483 million,

down from E714.2 million recorded the previous year.

## 5.4 DEPOSITORY CORPORATIONS SURVEY

### 5.4.1 Net Foreign Assets

Over the year ended March 2014, the country's net foreign assets increased by 13.6 percent to reach E8,092.7 million. The rise in net foreign assets was to a large extent a result of persistently high SACU revenue during the fiscal year 2013/14 combined with the notable depreciation of the lilangeni/rand exchange rate against major trading currencies over the year under review. The increase in net foreign assets was recorded in the official sector while net foreign assets of other depository corporations decelerated.



Net official assets alone rose by 31.5 percent to reach E7,275.4 million at the end of the review period. Gross official reserves grew by 30.1 percent over the year to E8,062.1 million. At this level, the reserves reflected an estimated import cover of 4.2 months notably higher than the 3.2 months cover recorded in March 2013.

Short-term prospects for the country's official reserves are positive as SACU revenue for the 2014/15 fiscal year is expected to remain high. Medium to longer term prospects for the reserves greatly depend on the government's commitment to programmes aimed at revenue broadening and expenditure restraint. A threat on the reserves may emanate from uncertainty posed by unresolved issues surrounding a proposal of a new revenue sharing formula within SACU member states.

Net foreign assets of other depository corporations reflected a decline of 48.5 percent over the year to reach E817.3 million. This was largely attributed to a reduction in banks' investments abroad.

## 5.4.2 Domestic Claims (Net)

Net domestic claims increased over the review period to close at E6,431.1 million. The increase was a result of a notable recovery in credit extended to the private sector combined with a rise in government net balances with depository corporations. Government net balances with depository corporations grew by 76.2 percent over the year to close at E3,343 million, mainly on account of the sustained high levels of government revenue.

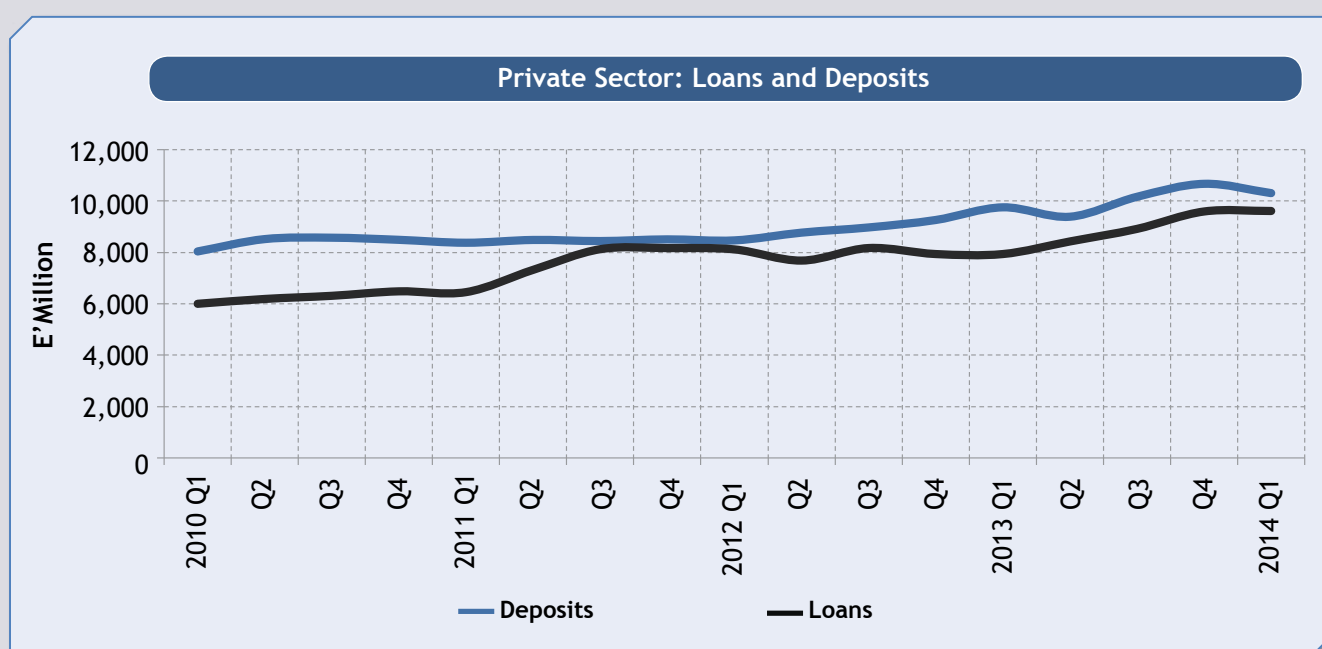
# MONETARY DEVELOPMENTS (Continued)

Total Claims on Other Sectors (Private Sector) by Category of Borrower					
Sector	Outstanding at 3/31/2014 (E'000)	Annual Changes (%)			
		2014/13	2013/12	2012/11	2011/10
Total	9,774,055	20.0	(1.1)	18.9	12.8
Other Non-Financial Corporations (Industry)	5,226,697	22.6	3.8	33.1	10.7
Other Resident Sectors (Households & NPISH)	4,025,374	17.0	(6.1)	20.6	4.4
Public Enterprises	240,845	90.0	(43.3)	0.5	15.3
Other	281,139	-10.8	(21.7)	(57.4)	122.9

Source: Central Bank of Swaziland

Business: Loans and Advances by Type of Industry					
Sector	Outstanding at 3/31/2014 (E'000)	Annual Changes (%)			
		2014/13	2013/12	2012/11	2011/10
Total	5,226,697	22.6	3.8	33.1	10.7
Agriculture & Forestry	670,765	6.8	(6.9)	17.3	16.8
Manufacturing	827,151	58.8	(44.0)	177.2	(5.5)
Construction	465,445	38.7	9.7	(25.2)	128.2
Distribution & Tourism	669,058	15.1	17.4	(0.8)	32.5
Transport & Communication	451,723	4.7	79.5	(18.6)	7.6
Other	2,142,555	17.5	20.7	50.5	(12.5)

Source: Central Bank of Swaziland

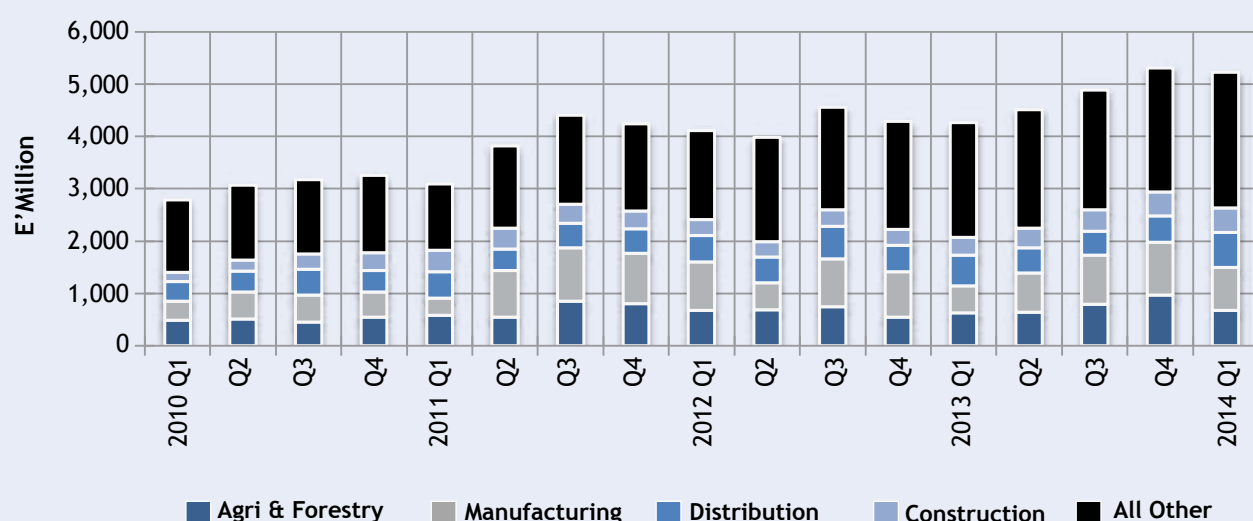


# MONETARY DEVELOPMENTS (Continued)

Over the year under review, credit extended to the private sector increased largely as a result of renewed demand for credit in line with the slight improvement in economic activity. Year-on-year credit to the private sector accelerated by 20 percent in March 2014 compared to a decline of -1.1

percent in March 2013. The increase was discernible in credit to both the industry and household sectors. Credit to the industry sector grew from -3.3 percent to 22.6 percent and that of the household sector went up from 2.3 percent to 17.1 percent over the year.

Loans: By Type of Business



Within the industry sector, the highest increases were recorded in “community social & personal services”, “manufacturing”, “construction”, “mining & quarrying” and “distribution & tourism” sectors. Within the household sector major increases were recorded in motor vehicle finance and other personal loans.

## 5.4.3 Money

Consistent with the recovery in credit to the private sector and the increase in net foreign assets, broad

money supply (M2) grew by 6.7 percent over the year to reach E10,823.1 million. The increase in broad money supply was reflected in both narrow and quasi money supply. Narrow money supply rose by 7.9 percent to E3,839.7 million. Transferable (demand) deposits alone rose by 7.7 percent to close at E3,357.6 million while emalangenis outside depository corporations grew by 9 percent to E482 million.

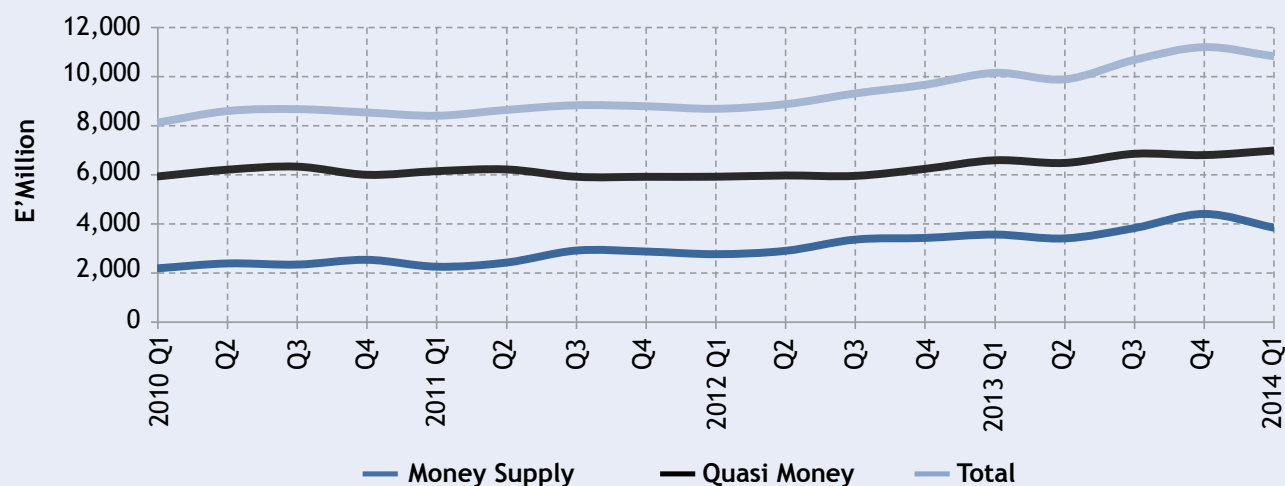
Ownership of Deposits with Other Depository Corporations in Swaziland

Sector	Outstanding at 3/31/2014 (E'000)	% Distribution	Annual Changes (%)			
			2014/13	2013/12	2012/11	2011/10
Central Government	326,731	3.2	-21.1	(23.0)	56.4	15.9
Local Govt, Public Enterprises & Private Financial Corps	2,173,107	21.0	-3.9	65.1	(13.2)	(33.2)
Other Resident Sectors	3,019,527	29.2	26.6	10.4	(2.8)	2.5
Other Non-Financial Corporations	4,809,122	46.6	2.0	6.7	3.9	26.5
Total	10,328,487	100.0	5.7	15.2	1.1	4.2

Source: Central Bank of Swaziland

# MONETARY DEVELOPMENTS

## Broad Money



## Broad Money: Annual Changes



Quasi money supply increased by 6 percent to E6,983.4 million. The rise was a result of an increase of 4.8 percent in time deposits to reach E5,486.9 million. Savings deposits however, went up by 10.6 percent to reach E1,496.6 million.

Total other depository corporations' deposits increased by 5.7 percent over the year to E10,328.5 million. Classified by ownership, other resident

sectors (households and NPISH) recorded the highest increase of 26.6 percent to E3,019.5 million. Corporate sector deposits, which constitute the largest proportion of total deposits increased by a lower rate of 2 percent to close at E4,809.1 million. Deposits by local government, other financial corporations and public enterprises however fell by 3.9 percent to E2,173.1 million.

# 6. PUBLIC FINANCE

## 6.1 2014/2015 GOVERNMENT BUDGET REVIEW AND ANALYSIS

### 6.1.1 Budget Theme and Government Key Interventions

On February 21, 2014 the Minister of Finance presented an expansionary 2014/15 budget to Parliament. The Budget was in line with His Majesty's Speech from the Throne when opening the 1st Session of the 10<sup>th</sup> Parliament, hence the 2014/15 Budget Theme is to: **"Invigorate Economic Growth, Create Employment Opportunities and Accelerate Public Sector Reforms"**.

The Minister emphasised that increasing interventions on the underlisted sectors will stimulate economic growth, maintain macroeconomic stability, and create employment opportunities and thereby improving the welfare of the Swazi citizens.

The key sectors highlighted include;

#### a) Agriculture

Priority interventions include expanding irrigation infrastructure, dipping chemicals and livestock identification, construction of earth dams and implementation of the food security project.

#### b) Infrastructure

Continued development of the road network, aviation and railway infrastructure remain part of Government stated priorities.

#### c) Communications and Information Technology

Government key intervention on ICT is to reduce the cost of communication to improve competitiveness.

#### d) Mining

Implementation of the Mining legislation is being pursued in an effort to encourage mining investors to process minerals within the Kingdom of Swaziland in order to stimulate economic growth.

#### e) Tourism Development

Funds have been allocated to improve existing tourists' circuit and develop new ones as this sector has proven to be key for economic growth.

#### f) Energy

Energy supply is critical to stimulate economic growth hence Government continue to extend

national electricity grid to rural areas, increase hydro power generation capacity and continue exploration of renewable sources of energy such as wind and solar power.

#### g) Trade and Industry

The Swaziland Investment Promotion Authority (SIPA) continues to drive efforts in creating an investment climate that is conducive for doing business in the Kingdom of Swaziland, through implementation of the Investor Road Map. Boarder hours at Ngwenya have been extended to midnight to give traders more flexibility when transporting their goods. SRA has upgraded ASYCUDA to provide an improved custom administration platform including direct refunds of VAT at the border.

Government, through the Small Enterprise Development Company (SEDCO) and SIPA, will also continue to prioritise the SMME linkage programme which is a vertical linkage programme between large and small companies for the purpose of outsourcing, transferring skills, technology as well as developing business partnerships. Through the Competition Commission, Government is also committed to promote an effective competition process which will result in good services and products, reasonable prices and a robust economy.

#### h) Financial Sector

Limited access to finance is one of the constraints to growth in Swaziland. Unlocking this constraint is therefore high on Government's economic growth agenda in the medium to long term. Key efforts will focus on mobilising both short and long term finance. The Bank will also continue its efforts to supervise and regulate micro finance institutions engaged in deposit mobilisation, with a view to supporting Government's efforts aimed at savings mobilisation and credit to small households.

The Bank has also embarked on the preparation of the Financial Sector Strategy, with technical assistances from the IMF and the World Bank. The Strategy is expected to facilitate financial intermediation and promote private sector development and inclusive growth. To effectively implement the Strategy, a comprehensive Financial Sector Development Implementation Plan, with a prioritized time-bound sequence of actions and roadmaps, will be prepared.

## 6.1.2 Summary of Budget Estimates

Budget Summary (E'Million)					
Item	2010/11	2011/12	2012/13	2013/14*	2014/15**
Total Revenue & Grants	6,830.6	7,184.2	12,035.6	12,850.2	14,258.1
Total Expenditure	10,338.3	9,132.3	10,423.0	12,909.2	15,306.8
o/w Current Expenditure	8,465.1	8,113.7	9,075.6	10,300.3	11,550.8
o/w Capital Expenditure	1,873.2	1,018.6	1,347.4	2,608.9	3,756.0
Overall Fiscal Balance	-3,507.7	-1,948.2	1,612.6	-58.9	-1,048.7
Overall Balance (% of GDP)	-9.5	-5.4	4.3	-0.2	-3.0

Source: Ministry of Finance

\*Preliminary Outturn

\*\* Budget

The actual outturn for 2012/13 shows a budget surplus of E1,612.6 million, an equivalent of 4.3 percent of GDP. The surplus realised was mainly used to repay domestic arrears accumulated in previous fiscal years.

Estimated outturn for 2013/14 indicates a budget deficit of E58.9 million, approximately 0.2 percent of GDP. Even though a supplementary budget of E318 million for 2013/14 was passed by the legislature after the budget speech had been delivered, preliminary estimates indicate that the actual outturn for 2013/14 will be a marginal surplus following higher revenue collection than originally anticipated.

Estimates for 2014/15 indicate that Government will run a deficit of E1,048.7 million, corresponding to 3 percent of GDP.

### 6.1.3 Revenue

Revenue to be collected in 2014/15 will increase by nearly 11 percent from the previous fiscal year to reach E14,258.1 million. This represents about 35 percent of GDP; SACU revenue, which is estimated at E7,491.4 million will account for about 18.4 percent of GDP.

There has been an improvement in domestic revenue collection especially in Value Added Tax, Corporate Tax and Personal Income Tax (PAYE); courtesy of the Swaziland Revenue Authority's efficiency in tax collection and administration.

There were no tax reforms mentioned in the 2014/15 budget as Government was still assessing if the reforms implemented in 2013/14 were yielding the desired results. Government should continue to explore means of enhancing revenue collection in a bid to mitigate overreliance on SACU revenue. Efforts made by the Swaziland Revenue Authority to intensify domestic revenue collections are commendable.

In the 2014/15 budget, indications are that Swaziland is relatively not reliant on grants, as they account for about 5 percent of total revenue. SACU receipts continue to hold a dominant share as they will finance about 53 percent of the budget. However, the trend observed over the last 10 years where SACU receipts financed on average around 56 percent of the budget has been reversed in the 2014/15 budget in line with Government efforts to reduce dependency on SACU revenue.

Central Government Revenue (E'Million)						
Item	2010/11	2011/12	2012/13	2013/14*	2014/15**	% Share
<b>Taxes on Net Income and Profit</b>	<b>2,577.2</b>	<b>2,713.5</b>	<b>2,363.3</b>	<b>2,930.3</b>	<b>3,195.6</b>	<b>22.4</b>
Corporate Tax	779.4	834.5	743.1	1,009.2	1,086.9	7.6
Pay As You Earn	1,455.3	1,511.8	1,349.0	1,633.6	1,800.3	12.6
Other	342.5	367.2	271.2	287.5	308.5	2.2
<b>Taxes on Property</b>	<b>28.4</b>	<b>22.5</b>	<b>27.4</b>	<b>28.6</b>	<b>30.8</b>	<b>0.2</b>
<b>Consumption, Excise and Tax</b>	<b>3,979.1</b>	<b>4,309.5</b>	<b>9,324.1</b>	<b>9,441.1</b>	<b>9,978.0</b>	<b>70.0</b>
Customs Union Receipts	2,630.8	2,883.6	7,065.8	7,156.6	7,491.4	52.5
VAT	-	-	1,623.3	1,612.1	1,782.9	12.5
Sales Tax	1,187.7	1,103.8	162.4	-	-	-
Other	160.7	322.1	472.6	672.3	703.7	4.9
<b>Total Taxes</b>	<b>6,584.7</b>	<b>7,045.4</b>	<b>11,714.9</b>	<b>12,400.0</b>	<b>13,204.4</b>	<b>92.6</b>
<b>Non-Tax Revenue</b>	<b>186.5</b>	<b>104.2</b>	<b>278.0</b>	<b>261.7</b>	<b>275.5</b>	<b>1.9</b>
Fees, Services and Fines	68.8	61.5	104.4	110.8	117.1	0.8
Property Income	117.7	42.8	173.6	150.9	158.5	1.1
<b>Total Revenue</b>	<b>6,771.2</b>	<b>7,149.7</b>	<b>11,992.8</b>	<b>12,661.7</b>	<b>13,479.9</b>	<b>94.5</b>
Grants	59.4	34.5	42.7	188.6	778.2	5.5
<b>Grand Total</b>	<b>6,830.6</b>	<b>7,184.2</b>	<b>12,035.6</b>	<b>12,850.2</b>	<b>14,258.1</b>	<b>100</b>

Source: Ministry of Finance

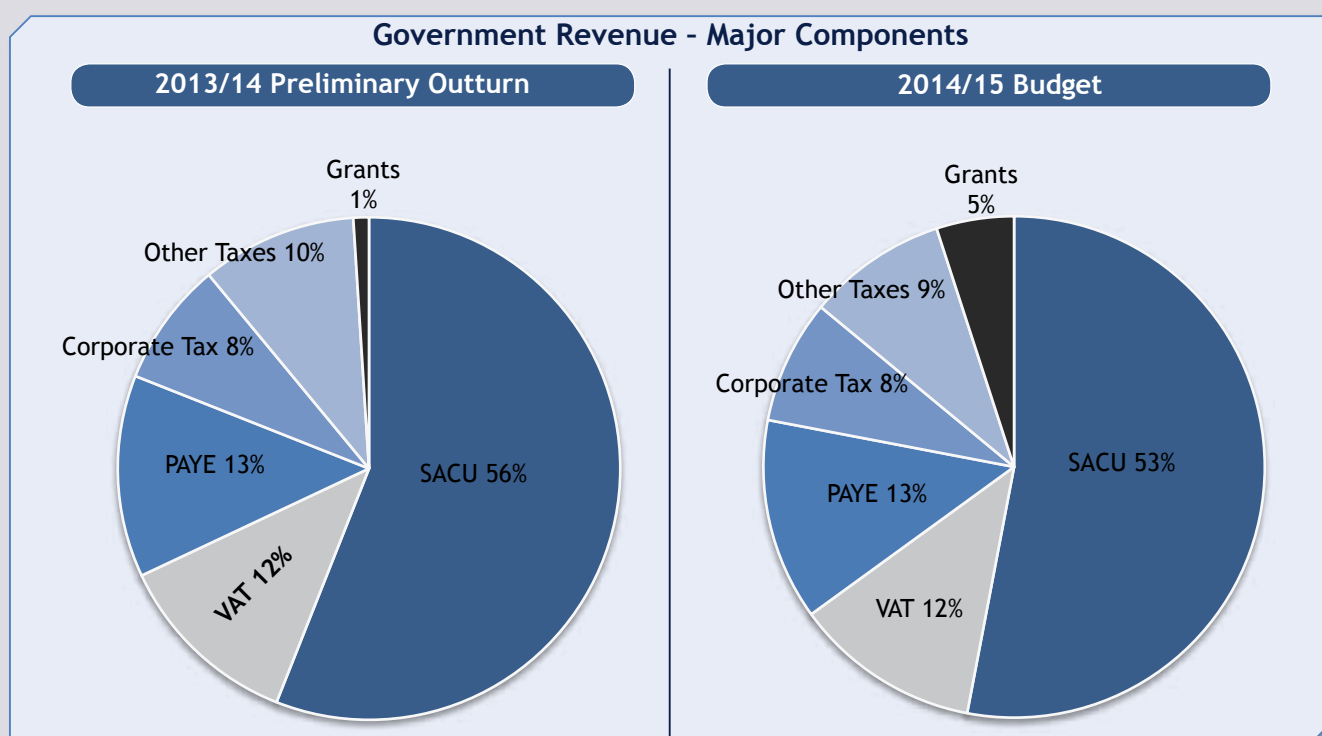
\*Preliminary Outturn

\*\* Budget

In 2014/15 PAYE and Corporate Tax are expected to account for 13 percent and 8 percent of the total revenue, respectively. Despite the decrease in corporate tax rate effected in July 2013, the 2014/15 budget projects that corporate tax will increase by 7.7 percent from E1,009.2 million in 2013/14 to E1,086.9 million in 2014/15. The anticipated increase is mainly due to higher economic activity and the overall improvement in domestic revenue collection as SRA intensifies compliance.

The introduction of VAT on April 1, 2012 to replace the general sales tax system has generated more revenue for the Government as it is expected to be equivalent to 12 percent of total revenue or 4.9 percent of GDP in the 2014/15 budget. The last sales tax collected in 2011/12 recorded E1,103.8 million. The budget indicates that VAT collection is expected to reach E1,782.9 million in 2014/15, an increase of 10.6 percent from E1,612.1 million collected in 2013/14.

# PUBLIC FINANCE (Continued)



## 6.1.4 Recurrent Expenditure

Total expenditure is estimated to increase to E15,306.8 million in 2014/15 from E12,909.2 million the previous fiscal year. Recurrent expenditure will account for E11,550.8 million (including statutory expenditure). This accounts for 75 percent of total spending, leaving little fiscal space for capital

spending. The Government wage bill is estimated to account for about 41 percent or E4,739 million of recurrent expenditure. The wage bill accounts for 63 percent of non-SACU revenue. By any standard, and particularly given the volatility of SACU as well as the on-going review of the revenue sharing formula, this level is too high.

Central Government Recurrent Expenditure (E'Million)						
Item	2010/11	2011/12	2012/13	2013/14 Preliminary Outturn	2014/15 Budget	Avg. % Share over the past 5 years
<b>General Public Service</b>	<b>3,606.8</b>	<b>3,230.9</b>	<b>4,198.1</b>	<b>5,441.4</b>	<b>5,618.8</b>	<b>46.5</b>
General Administration	2,126.2	1,750.8	2,590.4	3,607.2	3,617.6	28.8
Public Order, Safety & Defence	1,480.6	1,480.1	1,607.7	1,834.2	2,001.2	17.7
<b>Social Services</b>	<b>3,418.0</b>	<b>3,342.6</b>	<b>3,547.4</b>	<b>3,516.6</b>	<b>4,418.0</b>	<b>38.4</b>
Education	1,867.8	1,907.6	2,014.5	2,170.9	2,830.5	22.7
Health	1,030.9	1,014.0	1,106.0	1,240.2	1,408.0	12.2
Other Community Services	519.3	421.0	426.9	105.5	179.5	3.5
<b>Economics Services</b>	<b>1,197.0</b>	<b>1,222.0</b>	<b>1,080.1</b>	<b>993.9</b>	<b>1,046.9</b>	<b>11.7</b>
Agriculture	263.4	233.8	234.2	231.6	273.3	2.6
Industry & Mining	171.6	143.2	135.6	85.0	114.5	1.4
Transport & Communications	465.2	432.5	452.4	412.7	436.5	4.6
Other	296.8	412.5	258.0	264.6	222.6	3.1
<b>Public Debt Interest</b>	<b>243.4</b>	<b>318.3</b>	<b>250.0</b>	<b>348.4</b>	<b>467.1</b>	<b>3.4</b>
<b>Total</b>	<b>8,465.1</b>	<b>8,113.8</b>	<b>9,075.6</b>	<b>10,300.3</b>	<b>11,550.8</b>	<b>100</b>

Source: Ministry of Finance

# PROPOSED INTERNATIONAL CONFERENCE CENTRE AND FIVE STAR HOTEL

To be situated at Ezulwini



## 6.1.5 Capital Expenditure

Capital expenditure is expected to reach E3,756 million, an increase of 44 percent from the E2,608.9 million recorded in 2013/14. The capital expenditure is intended to support economic growth, of which 81 percent of the budget for capital expenditure will be directed to completion of existing projects whilst 19 percent will be absorbed by new projects.

Existing key projects include; Sicunusa-Nhlangano Road, Sikhuphe-Mbadlane Road and King Mswati III International Airport.

New projects include the construction of a Hotel & International Convention Centre, Manzana-Dvokolwako Road, Mananga-Sihhoye Road and the Tinkhundla Infrastructure and Micro projects.

Central Government Capital Expenditure (E'Million)						
Item	2010/11	2011/12	2012/13	2013/14 Preliminary Outturn	2014/15 Budget	Avg. % Share over the past 5 years
<b>General Public Service</b>	<b>606.6</b>	<b>488.3</b>	<b>541.4</b>	<b>914.3</b>	<b>1,593.2</b>	<b>39.1</b>
General Administration	421.4	308.0	407.7	739.7	1,399.3	30.9
Public Order & Safety	185.2	180.3	133.7	174.6	193.9	8.2
<b>Social Services</b>	<b>461.6</b>	<b>196.4</b>	<b>306.6</b>	<b>666.3</b>	<b>710.8</b>	<b>22.1</b>
Education	182.3	76.2	107.4	130.1	191.7	6.5
Health	151.8	92.4	170.7	241.1	210.1	8.2
Other Community Services	127.5	27.8	28.5	295.1	309.0	7.4
<b>Economics Services</b>	<b>805.0</b>	<b>333.9</b>	<b>499.4</b>	<b>1,028.2</b>	<b>1,452.1</b>	<b>38.8</b>
Agriculture	272.6	69.8	121.2	283.3	270.2	9.6
Industry & Mining	151.4	112.9	100.4	103.5	287.0	7.1
Transport & Communications	345.9	116.0	229.7	508.4	830.1	19.1
Other	35.1	35.2	48.1	133.0	64.8	3.0
<b>Total</b>	<b>1,873.2</b>	<b>1,018.6</b>	<b>1,347.4</b>	<b>2,608.9</b>	<b>3,756.0</b>	<b>100</b>

Source: Ministry of Finance

## 6.2 BUDGET DEFICIT FINANCING

Budget estimates for 2014/15 indicate that Government will run a budget deficit of E1,048.7 million, approximately 3 percent to GDP. To finance the deficit, the Minister of Finance indicated that about E800 million will be sourced from the domestic debt market. To support that, the Ministry

of Finance in consultation with the Bank has worked out an auction calendar for Government securities' issuance that can best support Government financing needs and at the same time address investors' diverse needs. The calendar has been published to enable investors plan for their investments and thereby invest more efficiently.



The Central Bank of Swaziland



## PUBLIC NOTICE ON SWAZILAND GOVERNMENT DOMESTIC DEBT ISSUANCE

Over the remainder of the current financial year (2014/15), the Swaziland Government bond issuance program is planned in line with issuance calendar below. The details of each bond will be advised as and when the bonds are issued in their respective pricing supplements.

**Swaziland Government Bond Issuance Calendar 2014/15**

Quarter	Month	Tenure	Amount	Status	Coupon Payment	Maturity Date
1	Apr - 14					
	May - 14					
	25 Jun - 14	3 Years	200,000,000	New Issuance (SG019)	7.75	30 -Jun - 17
Total			200,000,000			
2	Jul - 14					
	Aug - 14	5 Years	300,000,000	New Issuance	To be announced	30 - Aug - 19
	Sep - 14					
Total			300,000,000			
3	Oct - 14					
	Nov - 14	7 Years	200,000,000	Re-opening (SG017)	8.50	31 - Oct - 20
	Dec - 14					
Total			200,000,000			
4	Jan - 15	10 - Years	100,000,000	Re-opening (SG018)	9.25	31 - Jan - 24
	Feb - 15					
	Mar - 15					
Total			100,000,000			
Grant Total			800,000,000			

The calendar is indicative and the Swaziland Government reserves the right to amend any details for any reason

**For more information, contact:**

Central Bank of Swaziland  
 Postal Address: P.O. Box 546, Mbabane, Swaziland  
 Physical Address: Umntsholi Building, Mahlokohla Street

Tel: +268 2408 2243 Fax: +268 2404 0038

Email: [info@centralbank.org.sz](mailto:info@centralbank.org.sz)

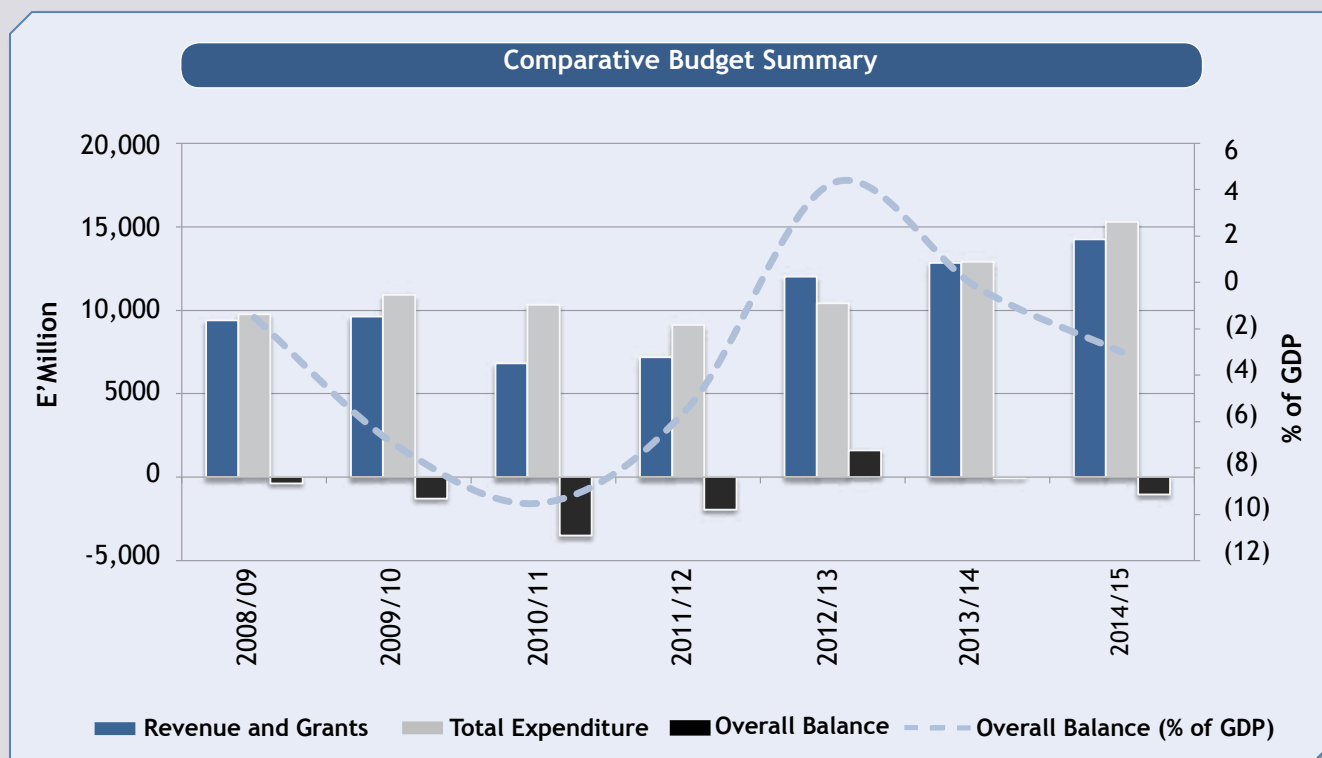
Website: [www.centralbank.org.sz](http://www.centralbank.org.sz)



# PUBLIC FINANCE (Continued)

The full E800 million will be raised through domestic, fixed-interest rate bonds. Reasons for raising the funds through bonds issuances are mainly to lengthen the yield curve and reduce roll-over

risk considering that as at end of March 2014, 63 percent of the outstanding government securities were held in T-bills with the remaining 37 percent held in Bonds.



The Bank also supports expansion of the domestic debt market which will not only help raise funding for Government but would also assist the country in:

- Bridging the demand for monetary instruments;
- Development and growth of the domestic money and capital markets;
- Providing instruments for the banking system to manage liquidity in an effective manner;
- Providing a liquid investment alternative with no risk of default for individuals and institutional investors;
- Providing funding without a foreign exchange rate risk; and

- Providing investment avenues for the Insurance and Pension Funds in meeting their statutory obligations to invest at least 30 percent of their total assets in the domestic economy.

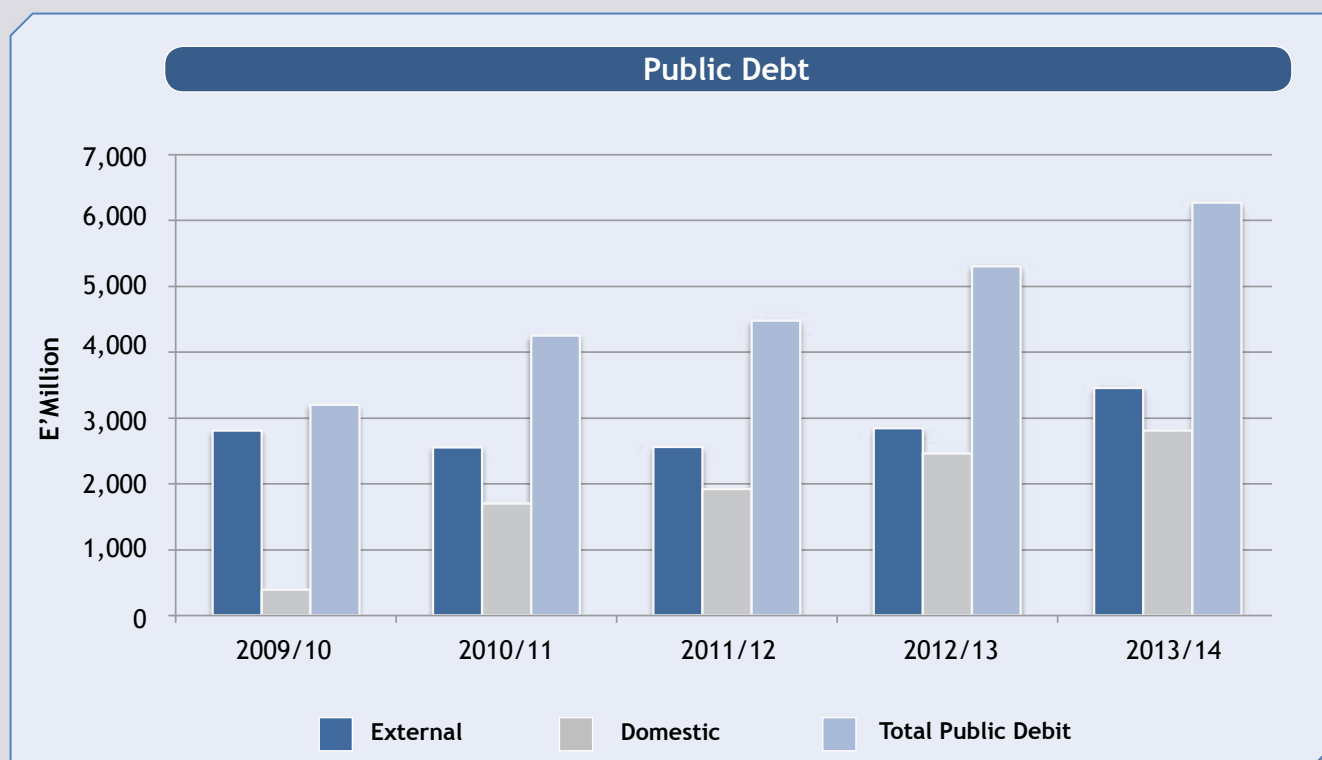
To ensure that public debt remains sustainable in the medium to long-term, the Minister of Finance, in his budget speech, reaffirmed previous policy stance articulated in previous years that Government will ensure that total public debt remains below the 35 percent to GDP threshold.

## 7. PUBLIC DEBT

### 7.1 OVERVIEW

Total public debt stock increased to E6,271 million or 17.1 percent of GDP at the end of March 2014. This reflects a growth of 18.2 percent compared to E5,303.5 million or 16 percent of GDP recorded in March 2013. The increase was mainly attributed to continued drawdowns of foreign loans by government

coupled with the depreciation of the local currency against the US Dollar and other major currencies in which the country's liabilities are denominated. Further contributing to the rise in total public debt was the resuscitation of the Government Bond Issuance Programme during the year under review.



At the end of March 2014, domestic debt accounted for 44.6 percent of the total public debt portfolio with external debt accounting for 55.4 percent.

Public Debt Indicators - E'Million and Percentages					
Item	2009/10	2010/11	2011/12	2012/13	2013/14
Total Debt (E'Million)	3,203.5	4,250.7	4,480.2	5,303.5	6,271.0
Total Debt as % of GDP	12.1	14.8	14.9	16.0	17.1
Domestic Debt (E'Million)	391.0	1,697.8	1,921.3	2,460.8	2,810.9
Domestic Debt as % of GDP	1.5	5.9	6.4	7.4	7.7
External Debt (E'Million)	2,812.5	2,552.9	2,558.9	2,842.7	3,460.1
External Debt as % of GDP	10.6	8.9	8.5	8.6	9.4
Domestic Debt as % of Total Debt	12.2	39.9	42.9	46.4	44.6
External Debt as % of Total Debt	87.8	60.1	57.1	53.6	55.4

Source: Ministry of Finance and Central Bank of Swaziland

## 7.2 PUBLIC DOMESTIC DEBT

At the end of March 2014, total public domestic debt stood at E2,810.9 million from E2,460.8 million recorded in the previous year. The increase was a result of increased allotments on treasury bills (T-bills) as well as full allotments of the bonds issued during the year due to improved market confidence by the investors. Of the E2,810.9 million outstanding domestic debt; E1,766.3 million accounted for T-bills while E1,044.6 million accounted for government bonds.

Government continued to maintain the weekly issuance of T-bills as a way of financing its cash flow

requirements during the 2013/2014 financial year. The 91-days paper was offered weekly. Alongside the 91-days paper, the 182 and 273-days papers were offered every second week whilst the 364-days paper was offered once a month.

The 91-days maintained popularity with it being almost oversubscribed and fully allotted at every auction. In the year under review, investors showed improved participation in the other longer term T-bills.

Public Domestic Debt Holdings - E'Million						
Holder	2009/10	2010/11	2011/12	2012/13	2013/14	Avg. % share for the past 5 years
CBS	1.0	0.6	58.1	58.5	1.0	1.3
Banks	335.0	1,100.8	1,298.9	1,754.6	1,524.9	64.8
NBFIs	18.2	446.5	496.5	462.9	953.1	25.6
Other	36.8	149.8	67.8	184.8	331.9	8.3
<b>Total</b>	<b>391.0</b>	<b>1,697.7</b>	<b>1,921.3</b>	<b>2,460.8</b>	<b>2,810.9</b>	<b>100</b>

Source: Central Bank of Swaziland

Commercial banks have shown more interest in shorter term papers while NBFIs demonstrate an appetite for longer term papers due to their needs to match their assets to liabilities which are usually long-term in nature.

In line with the increased appetite for longer term papers, government resuscitated the bond issuance programme in August 2013 after it had been abandoned in June 2011 due to poor market performance. Government successfully issued three (3) bonds in 2013/14 financial year. The bonds were issued as follows:

- 5-year bond amounting to E150 million attracting a 8.25 percent coupon was issued in August 2013;

- 7-year bond with total series amounting to E200 million was originally issued in October 2013 and re-opened in November 2013. The bond is paying a coupon of 8.50 percent; and
- A 10-year bond originally issued in January 2014, re-opened in March 2014 with total series amounting to E200 million and paying a coupon of 9.25 percent. It was the first time ever Swaziland had issued a 10-year bond which was well received by the market as it was oversubscribed by almost 3 times of the amount offered.

All the bonds were issued at a premium following oversubscriptions and competitive prices hence the full amount of E550 million offered was successfully raised.

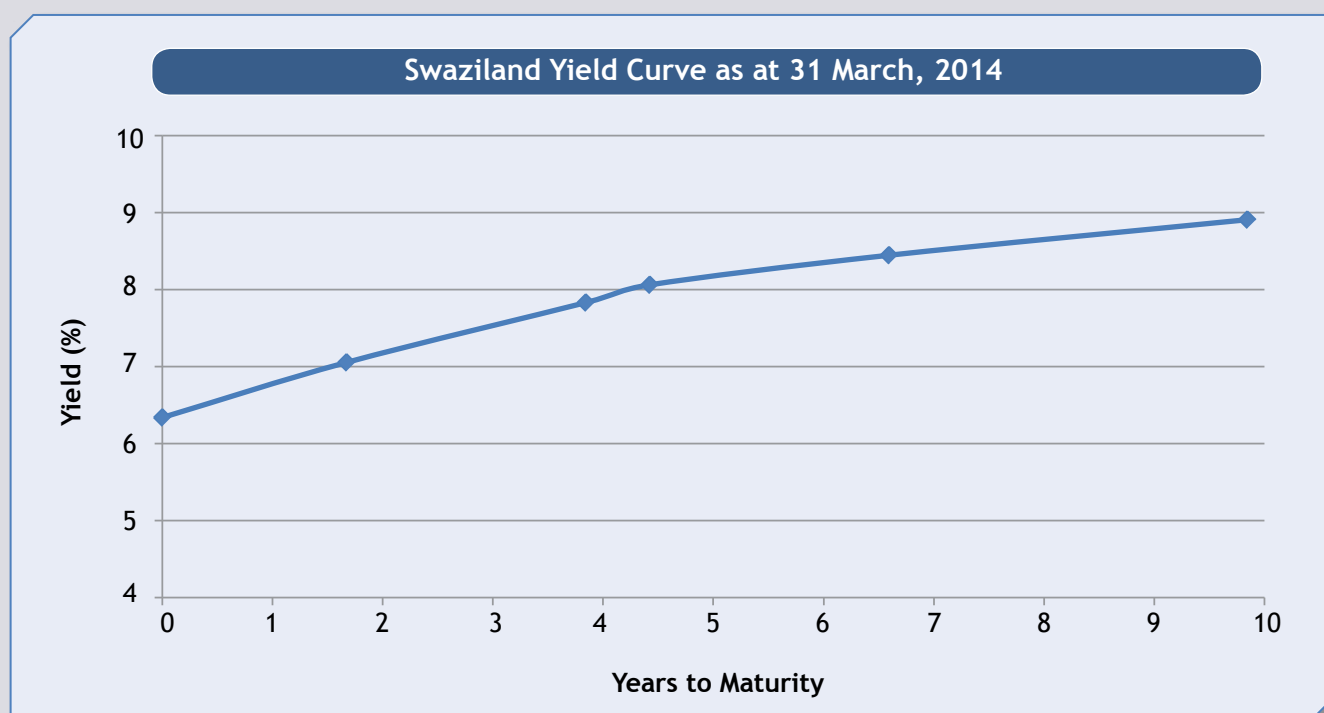
# PUBLIC DEBT (Continued)

Summary of Issued and Outstanding Government Bonds						
Description	Original Tenor	Issue Date	Maturity Date	Prevailing Coupon (%)	Initial Public Offering Prices	Nominal Amount E'000
<b>Fixed Coupon Bonds</b>						
SG009	5-Years	30-11-2010	30-11-2015	7.00	97.86	219,384
SG011	7-Years	31-01-2011	31-01-2018	8.25	97.97	146,330
SG014	3-Years	25-11-2011	25-11-2014	8.50	100.00	50,000
SG016	5-Years	30-08-2013	31-08-2018	8.25	101.27	150,000
SG017	7-Years	31-10-2013	31-10-2020	8.50	101.51	100,000
SG017 (Re-opening)	7-Years	29-11-2013	31-10-2020	8.50	102.13	100,000
SG018	10-Years	31-01-2014	31-01-2024	9.25	102.87	100,001
SG018 (Re-opening)	10-Years	26-03-2014	31-01-2024	9.25	103.94	100,000
<b>Sub-total</b>						<b>965,715</b>
<b>Floating Rate Coupon Bond</b>						
SG013	5-Years	20-06-2011	20-06-2011	8.00	99.32	78,855
<b>Total Government Bonds Issued &amp; Outstanding</b>						<b>1,044,570</b>

Source: Central Bank of Swaziland

Given the limited availability of local instruments, government bonds are an attractive investment for local fund managers. The Government Bond Issuance Programme is aimed at building the domestic debt market and assisting the country to establish a yield curve by issuing benchmark bonds. The benchmark bonds have been set at 3, 5 and 10 year tenures.

These objectives are in line with the regional objectives of SADC, which would aid in establishing a regional benchmark index for Southern Africa. The establishment of the yield curve will also provide a benchmark for the private sector to price its securities.



# PUBLIC DEBT (Continued)

Public domestic debt is expected to increase in 2014/15 following government's decision to issue a loan guarantee to the Swaziland National Housing Board (SNHB) for an amount not exceeding E1 billion. The guarantee is in respect of the financing of the Institutional Housing Project to be undertaken by SNHB on behalf of government.

## 7.3 PUBLIC EXTERNAL DEBT

Public external debt stock grew in the period ending March 2014. The increase was primarily due to a depreciation of the local currency against the US Dollar and other major currencies in which most of

the external liabilities are denominated as well as continued drawdowns on external loans.

Total public external debt stock including publicly guaranteed debt stood at E3,460.1 million at the end of March 2014. This reflects an increase of 21.7 percent from E2,842.7 million recorded in the previous year. The external debt for central government which constitutes the largest share of external debt stood at E3,297.2 million in March 2014 compared to E2,707.4 million recorded in the previous financial year.

Public External Debt - E'Million						
Item	2009/10	2010/11	2011/12	2012/13	2013/14	Avg. % share for the past 5 years
International Organisations	1,663.0	1,461.9	1,419.3	1,639.1	1,996.8	57.5
Foreign Governments	811.9	806.8	875.2	949.2	1,129.4	32.1
Private Lenders	337.6	284.2	264.4	254.3	334.0	10.4
<b>Total</b>	<b>2,812.5</b>	<b>2,552.9</b>	<b>2,558.9</b>	<b>2,842.6</b>	<b>3,460.2</b>	<b>100</b>
o/w Central Government	2,693.7	2,440.2	2,458.2	2,707.4	3,297.2	95.6
Statutory Bodies	118.8	112.7	100.7	135.2	163.0	4.4
<b>Debt Service:</b>						
As % of GDP	2.3	2.0	1.4	1.2	1.1	1.6
As % of Exports of & Goods & Services	3.5	3.0	3.0	2.1	1.9	2.7
<b>SZL/USD</b>	<b>7.3500</b>	<b>6.7838</b>	<b>7.6925</b>	<b>9.2493</b>	<b>10.7640</b>	

Source: Ministry of Finance & Central Bank of Swaziland

### 7.3.1 Debt Service

Total public external debt service amounted to E370.7 million at the end of March 2014, reflecting an increase of 3.9 percent compared to E356.9 million recorded at the end of the previous financial year. The increase was mainly attributed to the depreciation of the local currency against the major currencies in which the liabilities are denominated as well as the coming in of new payments which were not part of the previous year's debt service. Of the total debt service E204.9 million went towards principal payments while E165.8 million was directed to interest payments.

With regards to the prevailing debt ratios at the end of March 2014, total public external debt to GDP stood at 9.5 percent compared to 8.4 percent recorded in the last financial year. Public external debt stock to exports of goods and services decreased to 17.5 percent from 17.7 percent and; public external debt service to exports of goods and services also decreased slightly to 1.9 percent from 1.8 percent recorded in the previous financial year. These ratios all reflect that Swaziland is still within acceptable levels of indebtedness although close monitoring and management of public debt remain of paramount importance to ensure that the country remains within sustainable levels given the many economic challenges still facing the country.

## 7.3.2 Disbursements

Total public external debt disbursements for the 2013/14 financial year increased to E230.2 million from E55.8 million recorded in 2012/13. The increase was a result of improved efficiency in implementation of government projects. The drawdowns were made from the following institutions:

- Arab Bank for Economic Development in Africa for Nhlangano - Sicunusa and Mbadlane-Sikhuphe Roads;
- Export-Import Bank of India for IT Park and Mechanization of Agriculture Projects;
- Government of KUWAIT for the Mbadlane - Sikhuphe Road;

- International Bank for Reconstruction & Development for the Local Government Project and HIV/AIDS, TB & Health Project
- International Cooperation & Development Fund for Swaziland Development Finance Corporation credit line to small and medium enterprises; and
- Organisation for Petroleum & Exporting Countries' Fund for International Development for Lower Usuthu Smallholder Irrigation Project.

## 7.3.3 New Loans

There were no new loans contracted in the 2013/14 financial year and there were also no loan maturities in the same period

# **PART B**



**CENTRAL BANK OF SWAZILAND**

**REPORT ON OPERATIONS**

## 8. OPERATIONS AND GENERAL ADMINISTRATION

### 8.1 BOARD OF DIRECTORS

During the year under review, the Bank has continued to be governed on the basis of a unitary Board structure, through a one tier Board of Directors as the apex governing organ of the Bank. In-keeping with relevant international corporate governance standards and trends, the three Board sub-committees, the Board Audit; Risk; and Remunerations, are all chaired by independent non-executive members. The year under review was characterized by a substitution of the former Board Chairman and Governor, Senator Martin G. Dlamini, by the former Minister for Finance, Governor Majozi V. Sithole. The year under review also saw the departure of the former Deputy Governor, Mrs. Sibongile G. Mdluli on account of the lapsing of her extended contract period.

Over the period under review, the Board has had and met the minimum and statutory six (6) Main Board meetings.

### 8.2 CORPORATE GOVERNANCE AND ETHICS

As part of the Banks corporate culture and standards and in-keeping with international corporate standards and trends, the Bank has continued to maintain a professionally certified Ethics Code and

continues to progress with concluding as part of its strategic initiatives, a combined code for both ethics and governance along international trends, with a view to embedding the desired working culture and values espoused at the Bank.

### 8.3 THE GOVERNING LEGAL ENVIRONMENT

During the year under review there has not been any material change in the law governing the establishment of the Bank, consequently, The Central Bank of Swaziland Order 6/1974, (as amended) has remained un-amended but will be amended in line with meeting harmonization and convergence initiatives at the regional level of both the Common Monetary Area (CMA) and Southern African Development Community (SADC).

### 8.4 BANKING OMBUDSMAN

The swift and non-litigious resolution of disputes within the banking sector has continued to be facilitated through the Banking System Ombudsman, through the Office of the Ombudsman, an office at the Deputy Governor's level and is located at the Governor's Office. The function of the Ombudsman's Office is invoked as an Alternative Dispute Resolution mechanism creating balance or equity among the participants of and within the banking industry regulated by the Bank.

## 9. CORPORATE COMMUNICATION

### 9.1 OVERVIEW

The Corporate Communications Division under the Office of the Governor is responsible for the Bank's internal and external communications. As part of its continued effort of strengthening confidence in the corporate image of the Bank in relation to its stakeholders, the Division manages the Bank's media relations, public relations, publications, branding, events and other activities.

### 9.2 EDUCATIONAL RADIO SHOWS

During the year under review, the Division together with various departments in the Bank hosted educational radio talk shows over a four-week period in December, to share information with the public on the Bank's functions and mandate. The talk shows, which were informed by a mini-survey conducted during the Swaziland International Trade Fair in August 2013, also aimed at building healthy stakeholder relations. It had been realized that a large percentage of the public interviewed during the mini-survey did not fully understand the Bank's functions and mandate. The talk shows, hosted through the Swaziland Broadcasting and Information Services (SBIS 1), attracted interest from the public who called in during the shows to gain clarity on current and other issues in terms of Monetary Policy, Management of Reserves, Issuance of Treasury Bills and Swaziland Government Bonds, Pyramid Schemes, Bank Supervision, the Financial Sector and Issuance and Redeeming of Currency.

### 9.3 COMMUNICATION TOOLS

The Intranet was upgraded from Joomla 1.0 version to 2.5 version to improve its functionality. The upgrade also came with new tools to assist in engaging members of staff in forums where they can freely express themselves. The in-house newsletter, published twice a year to capture and share key developments was published and distributed to the Bank's stakeholders in June 2013 and March 2014. Within the Bank, members of staff were updated on a daily basis on news where the Bank was captured in local newspapers and other media to keep them abreast with activities that the Bank is engaged in. The modes used for these updates were a daily notice board publication, intranet and email.

### 9.4 SWAZILAND INTERNATIONAL TRADE FAIR

The Division continues to coordinate the Bank's participation in national publicity events which provide an opportunity to educate the public and consumers on the functions and mandate of the Central Bank. During the year under review, the Central Bank received second prize award in the Swaziland International Trade Fair (SITF) Stand Excellence - Financial Institutions Category. The Bank's stand was indeed attractive, professional in the presentation of products and services, and relevant to the Trade Fair theme.

The Central Bank team engaged members of the public in different activities during the 2013 SITF. Some of the activities focused on consumer education and building public confidence on Government instruments housed by the Central Bank through a mini survey, information sharing and dissemination. The Government instruments housed by the Central Bank of Swaziland that were promoted were; Swaziland Government Bonds, Treasury Bills, the Small Scale Enterprise Loan Guarantee Scheme and the Export Credit Guarantee Scheme.

### 9.5 CORPORATE SOCIAL INVESTMENT

The Division continues to coordinate the Bank's proactive approach to Corporate Social Responsibility which seeks to lay a foundation for a long-term relationship with local non-profit organizations to achieve their objectives of improving community development, health and education. In the year under review, the Bank increased the Corporate Social Investment budget to E250,000 in 2013/14 from E150,000 in 2012/13. Thirteen (13) non-profit organisations benefitted from this allocation compared to ten (10) non-profit organisations last financial year. These organizations are Swaziland Epilepsy Organization, Hope House, Cheshire Homes of Swaziland, St. Vincent de Paul Bursary Fund, Enactus, Fundza, Nazarene HIV/AIDS Task Force, Swaziland Breast Cancer Network, Save the Children, Our Lady of Sorrows, Children's Cup, St. Manettus Primary School and SOS Children's Village.

# 10. FINANCIAL MARKETS DEPARTMENT

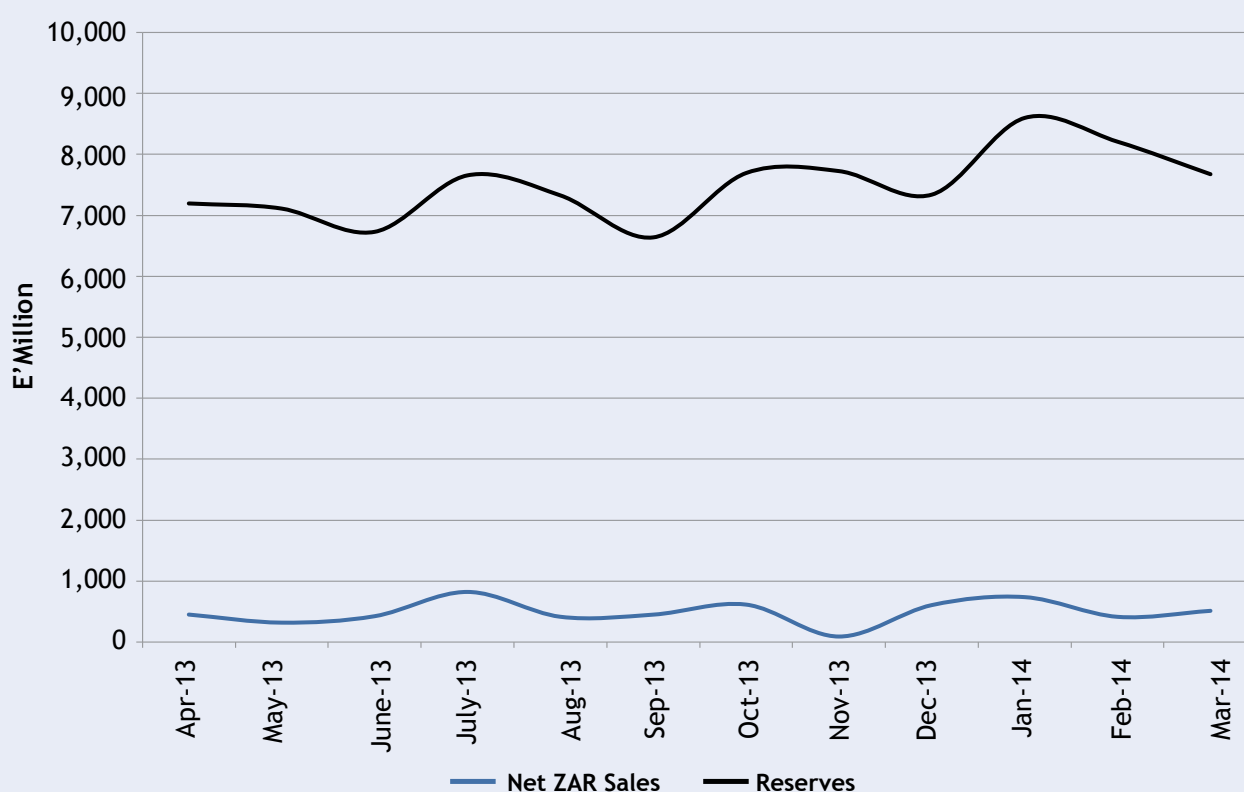
## 10.1 RESERVES MANAGEMENT

Gross official reserves increased during the financial year 2013/14. The reserves increased by E2.4 billion to reach E7.7 billion by 31 March 2014, due to contained outflows. The portion of reserves held by external fund managers decreased to 14 percent

from 14.2 percent the prior year caused by the increase in total reserves.

The Capital Investment Fund, in the books of the Central Bank increased to E951 million from E871 million at the end of March 2013.

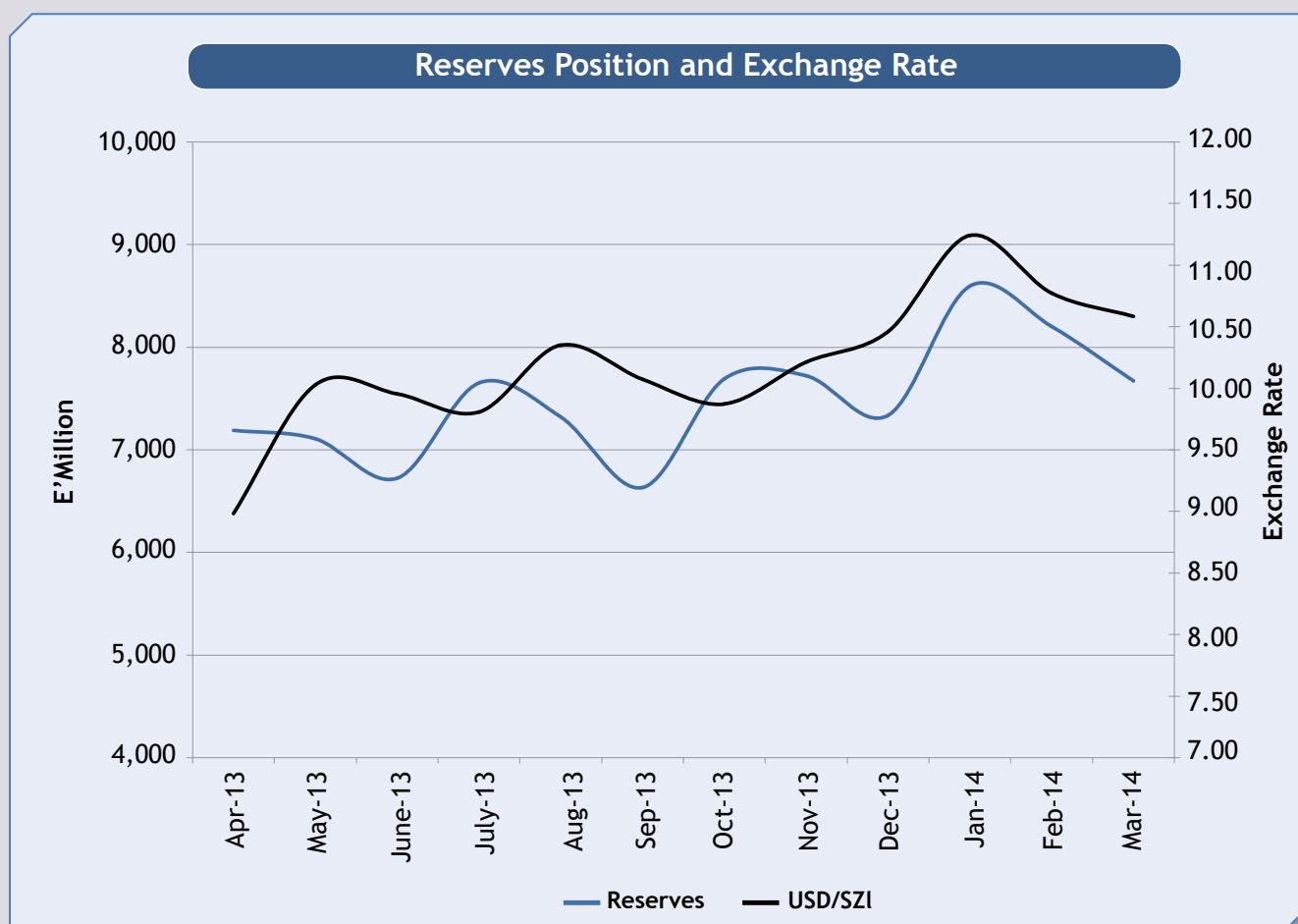
Reserves Position and Net ZAR Sales



The net outflows are relatively flat, while reserves show a rise at the beginning of each quarter and a gradual depletion over the quarter as a result of the cumulative South African Rands (ZAR) outflows

in the three months period. Over the financial year 2013/14 the Lilangeni depreciated against foreign currencies resulting in revaluation gains.

# FINANCIAL MARKETS DEPARTMENT



Reserve Holdings (E' Million)		
	March 2013	Mar 2014
CBS Holdings	5,876	7,672
<b>Total Reserves</b>	<b>5,876</b>	<b>7,672</b>

Source: Central Bank of Swaziland

# 11. OPERATIONS DEPARTMENT

There are five subdivisions under this department namely Banking, Currency, National Payments System, Development Finance and Information and Communications Technology Divisions.

## 11.1 BANKING DIVISION

The provision of banking services to commercial banks and Government was successfully carried out during the period 1st April 2013 to 31st March 2014.

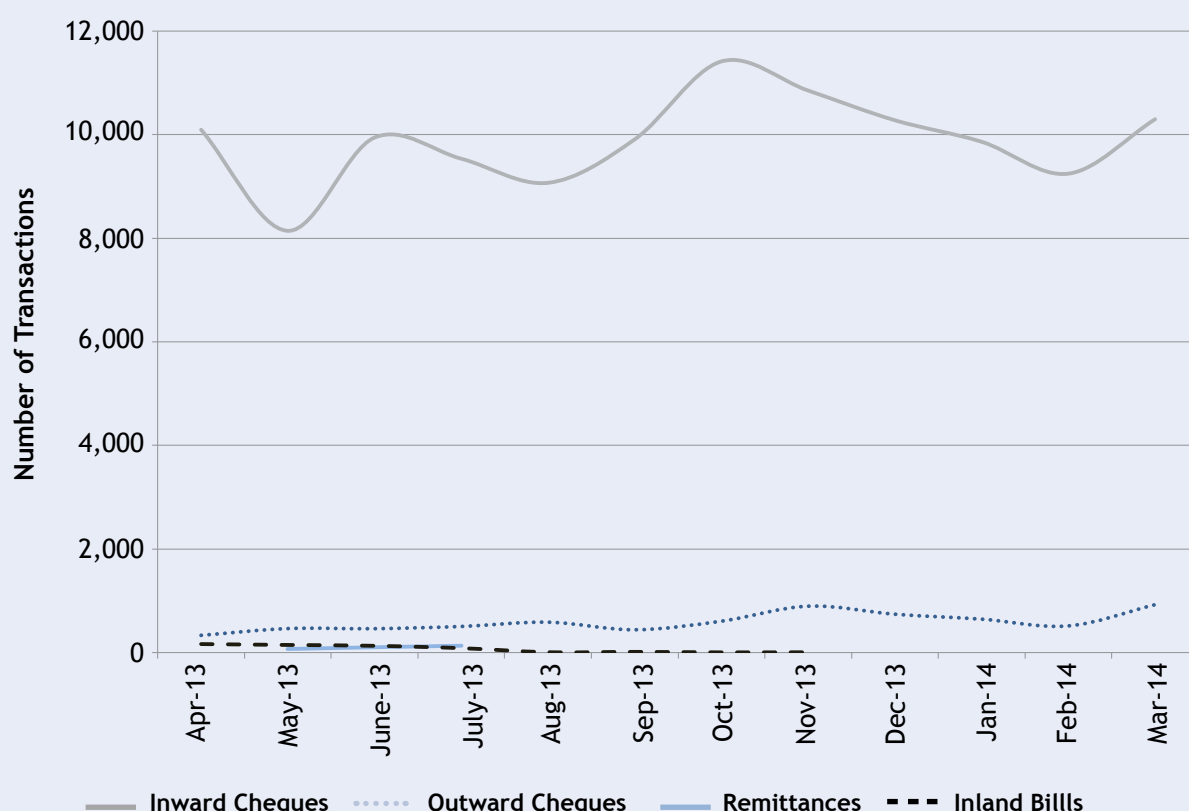
### 11.1.1 Back Office - Clearing Section

The clearing section processed a total of 125,757 local cheques valued at E1,813.4 million during

the period 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014. Inward clearing cheques totalled 118,659 valued at E1,676.1 million whilst outward clearances totalled 7,098 valued at E137.2 million.

Cross border cheque clearing for Swaziland cheques deposited in South African banks processed over the same period were 559, valued at E26.5 million. Foreign bills sent for collection on behalf of the Swaziland Government were 311 valued at E233,125. Cross border cheques in the CMA region have ceased following their formal phasing out in July 2013.

Volume of CBS Inwards, Outwards & Cross-border Cheques



### 11.1.2 Front Office - Cash and Foreign Exchange Section

The Teller Counter section paid out 29,897 cheques valued at E251 million and received 5,022 cash deposits valued at E240 million.

The Foreign Exchange Counter handled deals valued at E23 million for Euro, GBP and USD Bank notes. Foreign currency sales totalled E19 million whilst purchases totalled E4 million.

Foreign bills sent for collection totalled 23 with a total value of E95 million.

## 11.2 CURRENCY DIVISION

### 11.2.1 Notes Issued

A total of E4.1 billion consisting of E338.9 million new notes and E3.8 billion re-issuable notes was issued during the period 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014. The highest consumption was in the month of

# OPERATIONS DEPARTMENT (Continued)

December and it stood at E465.7 million composed of E152.7 million new notes and E313 million re-issuable notes.

The lowest consumption was in the month of June which stood at E210.8 million, where E2.8 million new notes and E208 million re-issuable notes were issued.

## 11.2.2 Coins Issued

A total of E13.7 million coins were issued in the financial year up to 31<sup>st</sup> March 2014. This consumption was made up of E6.8 million new coins and E6.9 million re-issuable coins. The month of October recorded the highest issuance of coins and it stood at E1.9 million composed of E1.7 million new coins and E0.2 million re-issuable coins. February registered the lowest consumption of coins which stood at E0.6 million.

## 11.2.3 Deposited Currency and Notes Processed

A total of E4 billion notes were deposited during the period 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014. The month of January recorded the highest deposits which

stood at E475.5 million. The lowest deposits were recorded in the month of June and stood at E283.2 million. A total of E8.1 million worth of coins were deposited in the period under review. E1.1 million worth of coins were deposited in the month of May, being the highest deposit with December recording the least coin deposit of E58,000.

E3.9 billion worth of notes were processed in the period from 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014. The month of January recorded the highest notes processed of E575.6 million whilst the month of June recorded the least of processed notes which stood at E158.6 million.

## 11.2.4 Shredded and Destroyed Notes

A total of E247.4 million worth of notes were destroyed through on line shredding by the Note Processor and burning in the incinerator in the reporting period from 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014. The highest destruction was recorded in the month of March 2014 which stood at E57.5 million. The least destruction of E18.9 million was in the month of April 2013.

## 11.2.5 Rands Deposited and Repatriated

Rands Deposited and Repatriated (R'000)								
Month	Deposited				Repatriated			
	2012/13	Rate (%)	2013/14	Rate (%)	2012/13	Rate (%)	2013/14	Rate (%)
April	28,770	5.5	40,300	7.6	30,000	6.1	39,950	7.5
May	42,650	8.1	33,800	6.3	40,000	8.2	30,000	5.7
June	37,980	7.2	31,370	5.9	40,000	8.2	39,960	7.5
July	40,200	7.7	39,740	7.5	30,000	6.1	30,000	5.7
August	37,140	7.1	25,910	4.9	20,000	4.1	40,000	7.6
September	39,770	7.6	36,760	6.9	50,000	10.2	30,000	5.7
October	61,310	11.7	39,860	7.5	40,000	8.2	29,970	5.7
November	48,500	9.3	52,140	9.8	50,000	10.2	60,000	11.3
December	40,120	7.7	61,270	11.5	20,000	4.1	20,000	3.8
January	86,260	16.5	72,810	13.7	100,000	20.4	110,000	20.8
February	31,020	5.9	55,670	10.4	40,000	8.2	59,900	11.3
March	30,190	5.8	43,360	8.1	30,000	6.1	40,000	7.6
<b>Total</b>	<b>523,910</b>	<b>100</b>	<b>532,990</b>	<b>100</b>	<b>490,000</b>	<b>100</b>	<b>529,780</b>	<b>100</b>

Rands deposited in the period from 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014 amounted to R533 million. The highest deposit of E72.8 million was in January whilst the least deposit of R25.9 million was made in August.

R529.8 million was repatriated to the South African Reserve Bank in the reporting period. January recorded the highest repatriation which stood at R110 million and the lowest repatriation was in December which was R20 million.

# OPERATIONS DEPARTMENT (Continued)

## 11.2.6 Currency in Circulation

Currency in Circulation (By Denomination)		
Denomination	31/03/2013	31/03/2014
<b>Notes (E'000)</b>		
E200	249,944	398,148
E100	140,712	135,165
E50	51,257	64,965
E20	26,460	32,006
E10	20,762	22,069
E5	1,252	1,250
E2	1,185	1,184
E1	342	342
<b>Total Notes</b>	<b>491,914</b>	<b>655,129</b>
<b>Coins</b>		
E5	13,107	14,719
E2	11,748	13,068
E1	10,799	12,012
50c	3,896	4,116
20c	3,306	3,742
10c	3,216	3,515
5c	4,639	5,144
2c	230	230
1c	685	685
<b>Total Coins</b>	<b>51,626</b>	<b>57,231</b>
<b>Grand Total</b>	<b>543,540</b>	<b>712,360</b>

## 11.3 NATIONAL PAYMENTS AND SETTLEMENTS SYSTEMS DIVISION

### 11.3.1 Introduction

In line with the Central Bank of Swaziland (as amended) Act 1974, the NPSS Division is responsible for the support of financial stability and to facilitate economic activity through safe, efficient and effective payment systems. The role of the NPSS Division is executed through promotion, regulation and supervision of payment systems with the prime

aim of mitigating risks associated with operations of domestic and cross border payment systems.

The main payment systems during the period under review were the Swaziland Interbank Payment & Settlement System operated by the Central Bank of Swaziland, internationally referred to as the "Real Time Gross Settlement System" (RTGS), the cheque and electronic funds transfer clearing system operated by the Swaziland Automated Electronic Clearing House, Mobile Money Transfer System operated by Swazi MTN Limited and the SADC Integrated Regional Electronic Settlement System (SIRESS).

### 11.3.2 Central Bank Oversight of Payment Systems

The NPSS Division continued to monitor and conduct inspections on designated payment systems during the period under review. The inspections are conducted to satisfy public policy objectives of ensuring safety and efficiency not only in the payment systems but also in the financial system as a whole. As disruptions in payment systems have a potential to permeate through to other areas of the national economy including the financial system, it would be important to safeguard both payment and financial systems from systemic disturbances and risk.

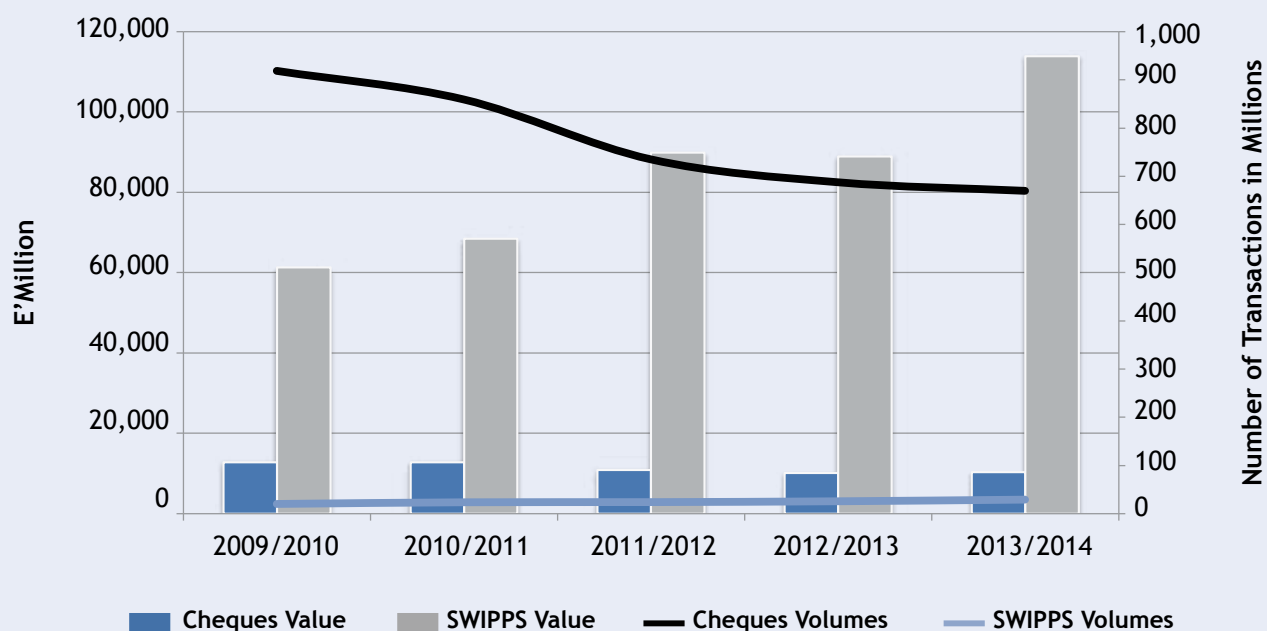
The Bank also conducted inspection of the Mobile Money Transfer (MMT) system during the period under review. Operations of the MMT System were found compliant to the terms and conditions issued by the Central Bank of Swaziland. Risk mitigation measures and operational rules and procedures were found satisfactory during the inspection period.

### 11.3.3 Operational Activities

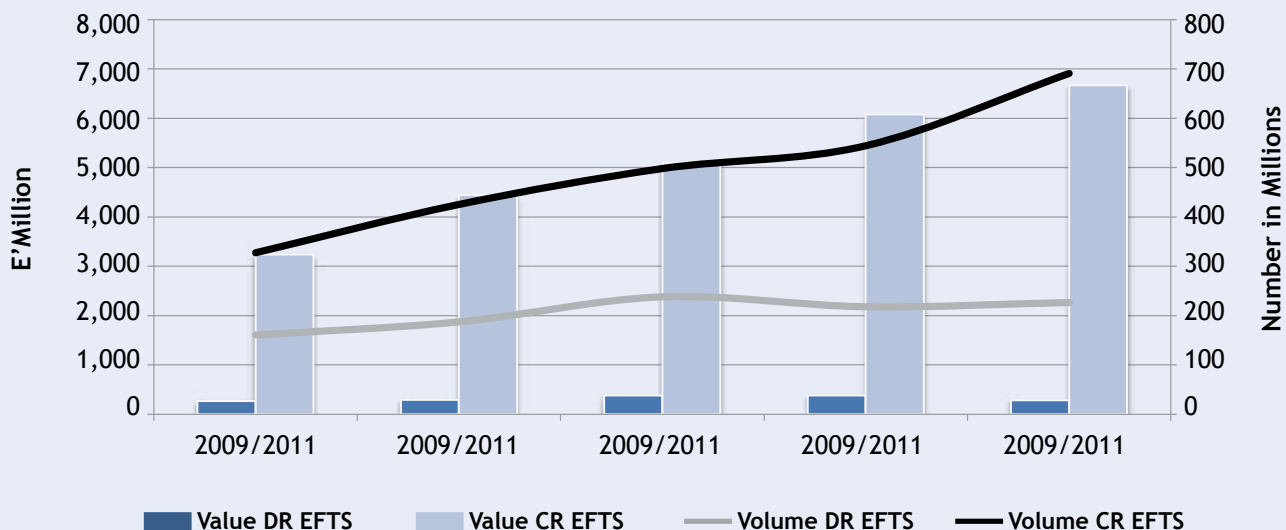
The Automated Clearing House (ACH) and Swaziland Interbank Payment and Settlement System (SWIPSS) continued to operate smoothly during the period under review. In line with international best practice, large value items continued to be characterized by low volumes in SWIPSS while activities at the ACH continued to record high volumes of low value items.

# OPERATIONS DEPARTMENT (Continued)

## Cheques and SWIPPS Transactions Processed



## EFTs Transactions Processed



# OPERATIONS DEPARTMENT (Continued)

## 11.3.4 Cross-border Payments

During the period under review, the SADC Integrated Regional Electronic Settlement System commenced live operations in July 2013. To complement this development, cross-border cheques were phased out. This marked implementation of the pilot system as a "Proof of Concept" in the Common Monetary Area. Phase II of the system will feature participation of Non-CMA countries.

Implementation of the Regional Payment and Settlement System (REPSS) under the auspices of COMESA was scheduled to mid-2014 where most of the member central banks would have joined. The COMESA REPSS is aimed at supporting payments for cross-border trade between the member countries. According to the REPSS model, central banks would be direct participants and commercial banks would be indirect participants.

## 11.3.5 Future Developments

The Central Bank of Swaziland in conjunction with commercial banks are exploring cheque imaging and truncation to cut costs associated with clearing of paper-based instruments. Truncation is the process of stopping the flow of physical cheques and replacing this flow with processing of electronic images and messages to achieve efficiencies and cost effectiveness. Prospects for this development will be given priority in the next reporting period.

## 11.4 DEVELOPMENT FINANCE DIVISION

### 11.4.1 Overview

During the year, participation of individual commercial banks under the Small Scale Enterprise

Loan Guarantee Scheme (SSELGS) continued to show an upward trend from the previous years; as all the banks submitted guarantee applications. This in turn increased the commitment of the scheme to the financial institutions. The Export Credit Guarantee Scheme (ECGS) however has remained stagnant during the year.

The Development Finance Division participated in various promotional campaigns like the Swaziland International Trade Fair, workshops and like forums to disseminate information on how to access finance under the guarantee schemes.

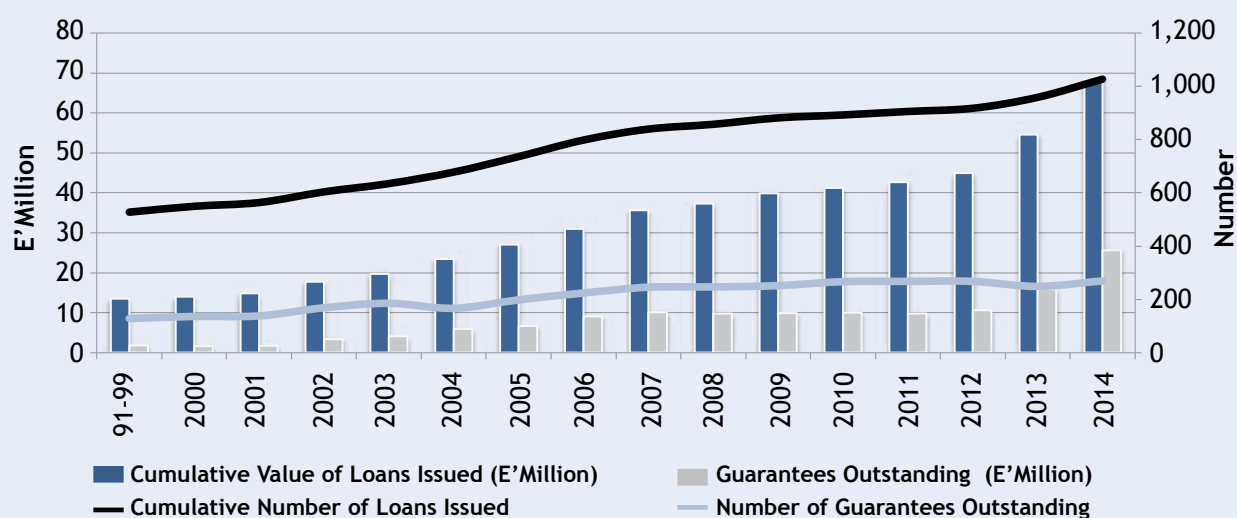
As at 31<sup>st</sup> March 2014 the proposed process of handing over the schemes to Government by the Central Bank had not commenced. Meanwhile, the performance of the SSELGS in particular continues to be closely monitored.

### 11.4.2 Small Scale Enterprise Loan Guarantee Scheme

The performance of the SSELGS has shown an upward trend over the year; since inception to 31<sup>st</sup> March 2014 it facilitated the approval and disbursement of 1,026 loans amounting to E68.3 million.

The total value of loans disbursed increased from E54.6 million as at 31<sup>st</sup> March, 2013 to E68.3 million as at 31<sup>st</sup> March 2014, which represents 68 new loans valued at E13.7 million. Out of the total issued, 756 loans amounting to E37.9 million have either been fully repaid or cancelled. Loans outstanding increased from E19.7 million as at 31<sup>st</sup> March 2013 to E30.4 million as at 31<sup>st</sup> March 2014 showing a significant growth of E10.7 million over the year.

Loans Disbursed and Guarantees Outstanding



# OPERATIONS DEPARTMENT

As at 31<sup>st</sup> March 2014, the SSELGS commitment to financial institutions increased from E15.9 million as at 31<sup>st</sup> March 2013 to E25.6 million as at 31<sup>st</sup> March, 2014. In order to cater for this, the Fund also increased from E7.5 million as at 31<sup>st</sup> March 2013 to E12.8 million as at 31<sup>st</sup> March 2014. The increase is attributed to the recapitalization of the SSELGS through a transfer of E5 million from the ECGS to cater for the former's increased utilization.

Due to the increased utilisation of the Scheme, the obligation of SSELGS to participating financial institutions also grew from 249 guarantees amounting to E15.9 million as at 31<sup>st</sup> March 2013 to 270 guarantees valued at E25.6 million as at 31<sup>st</sup> March 2014, indicating a net growth of 21 guarantees totalling E9.7 million during the year.

As at 31<sup>st</sup> March 2014 a total of E3.2 million due to defaults has been written off as a loss by the Scheme. The claims paid increased from E2.9 million as at 31<sup>st</sup> March 2013 to E3.2 million as at 31<sup>st</sup> March 2014; meanwhile the default rate decreased from 7.1 percent to 6.2 percent respectively due to the enormous increase in guarantees issued during the year. The 0.9 percent net decline was mainly attributed to the significant growth totalling 68 guarantees amounting to E9.7 million issued when compared to the 3 default claims valued at E243,801

settled during the year. The recoveries made from claims settled stood at a meagre E0.07 million as at 31<sup>st</sup> March 2014 with no changes during the year.

In terms of industry performance, the Small-scale businesses continued to be dominated by the retail and services sector whilst transportation, manufacturing and other industries still lagged behind.

## 11.4.3 Export Credit Guarantee Scheme

The ECGS continued to be stagnant during the year and this is evidenced by the continued decline in the Fund balance. This is because the scheme's sustainability depends on income generated from premium on issued guarantees since the interest rate on the fund balance is low and thus a meagre interest income. The scheme's funds are mainly utilized for the administrative expenditure of the Development Finance Division. In this regard, the fund decreased from E11.6 million as at 31<sup>st</sup> March, 2013 to E5.8 million as at 31<sup>st</sup> March 2014 with net change of E5.8 million during the year. The total decline of E5.8 million is attributed to E5 million transferred to recapitalize the SSELGS whilst the E0.8 million catered for operational expenditure. The current fund balance of E5.8 million could be utilized to guarantee loans under this facility.

# 12. BANK SUPERVISION

## 12.1 OVERVIEW

The Central Bank through the Bank Supervision Division (BSD) continues with its oversight role over the banking industry, to protect the depositor's funds and monitor the stability of the financial sector in the country. The banks remained profitable during the year 2013 and were compliant to statutory prudential requirements in terms of capital adequacy and liquidity. There is a need for banks to review, strengthen and have in place effective risk mitigate measures in their operation particularly those relating to lending activities in order to maintain a safe and sound financial environment.

## 12.2 OVERVIEW OF THE BANKING SECTOR

As at the end of 2013 the banking sector of the country remained with the four commercial banks three of which are subsidiaries of South African holding companies, one building society, and three credit institutions. The commercial banks; are Standard Bank Swaziland Limited, Nedbank

(Swaziland) Limited, First National Bank of Swaziland and Swaziland Development and Savings Bank. There is one building society, the Swaziland Building Society and three licensed credit financial institutions, namely; Letshego Financial Services, First Finance (Pty) Ltd and Blue Financial Services. Relief Financial Service's license was revoked during the year as they could not start operations within the stipulated time after being granted the conditional license.

The Swaziland Development and Savings Bank is still 100 percent owned by the Swaziland Government. There has been an intention to dilute the bank's shareholding structure in an attempt to improve governance and operation of the bank which is originally focused on development and agricultural lending and lately incorporating a significant commercial lending activity.

**Financial Institutions Shareholding Structure - 2013**

	Percentage Share of Holdings		
	Swaziland Government	Foreign	Public
First National Bank Swaziland Limited	-	100	-
Nedbank (Swaziland) Limited	23	67	10
Standard Bank Swaziland Limited	25	65	10
Swaziland Development and Savings Bank	100	-	-
Swaziland Building Society	-	-	100
Blue Financial Services	-	100	-
First Finance Financial Services	70	-	30

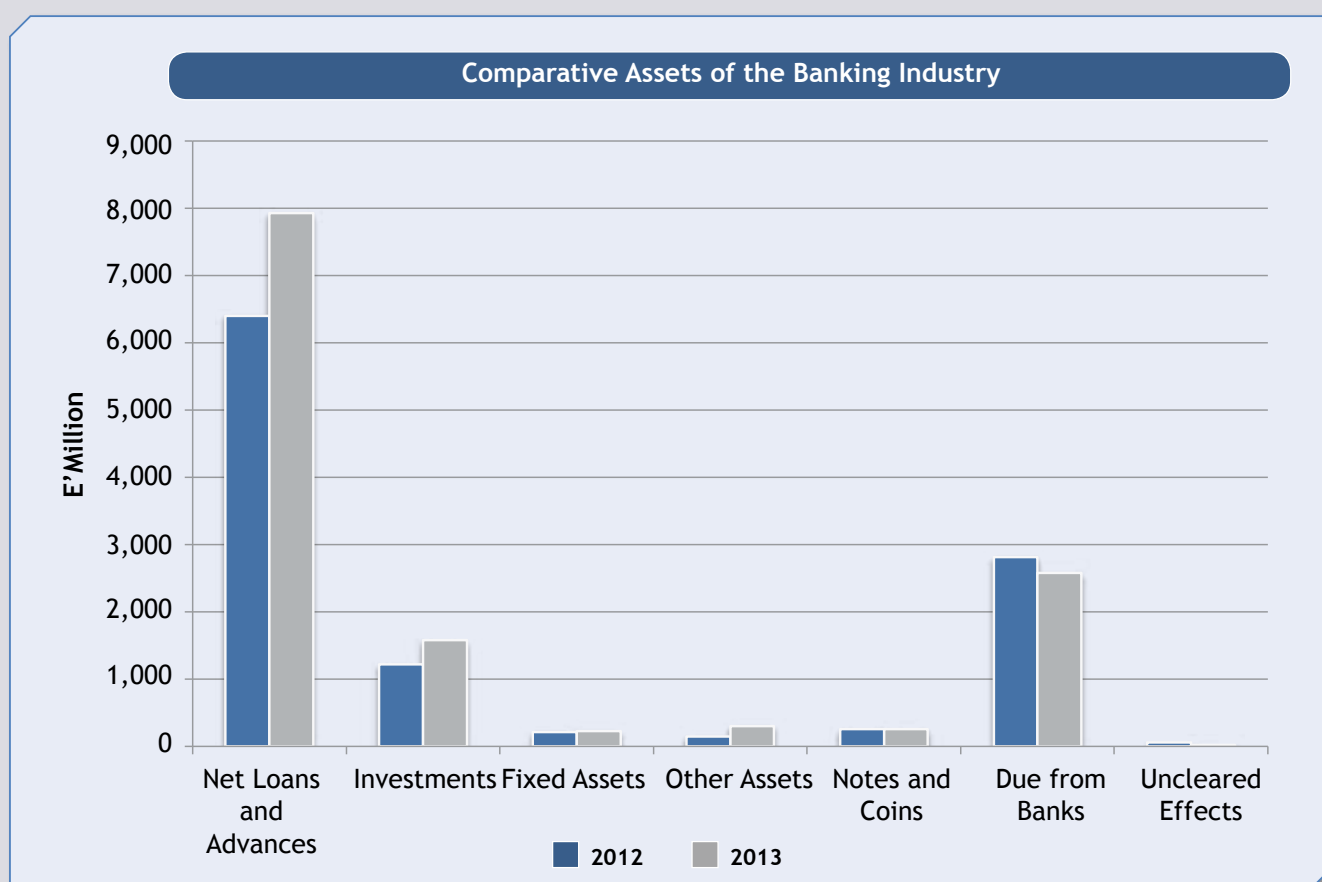
## 12.3 PERFORMANCE OF THE BANKING SECTOR

### 12.3.1 Balance Sheet Structure

This section analyses the performance of the balance sheet structure and the major components of the aggregate balance sheet of the industry during the year 2013. The total assets of the banking sector grew by 16.1 percent to E12.9 billion during the year ended December 2013 from E11.1 billion as at December 2012. The banking sector continued to be dominated by the South African subsidiaries as they hold about 85.5 percent of assets in the banking industry.

Investments in the banking industry stood at E1.6 billion in December 2013 from E1.2 billion in December 2012 showing an increase of 29.9 percent. Net loans and advances consisted of 61.5 percent of the industry assets. The loans and advances represented an improvement of 23.9 percent to E7.9 billion in December 2013 from E6.4 billion as at December 2012. Fixed assets of the banking industry increased marginally by 7.3 percent to E223.7 million in December 2013 from E208.5 million in December 2012. As at December 2013 other assets stood at E300.6 million from E148.7 million in December 2012 indicating a marginal increase of 102.2 percent.

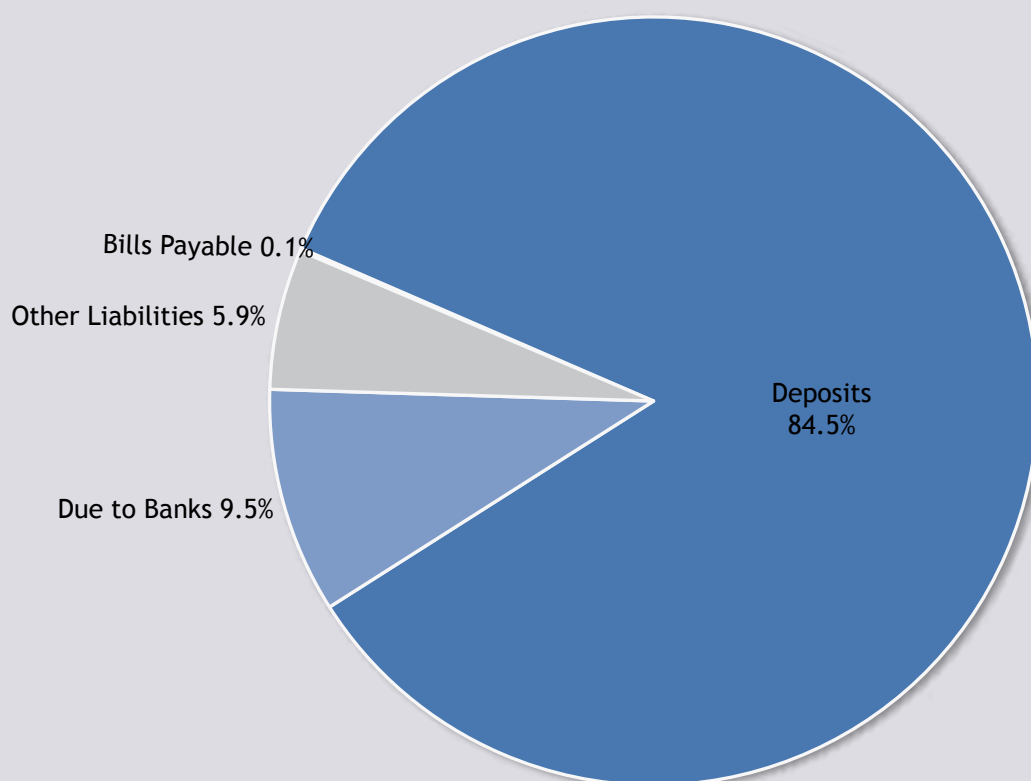
# BANK SUPERVISION (Continued)



The source of funding for the banking industry are the deposits which constituted 84.5 percent of total liabilities which stood at E11.2 billion in December 2013 from E9.5 billion in December 2012 showing an increase of 17.1 percent. The total deposits improved by 16.4 percent when compared with the previous year of 2012. The demand, savings and time deposits increased by 29.4 percent, 21 percent, and

6.5 percent respectively for the year ended 2013. The Time deposits constituted a larger portion of the total deposits at 48.8 percent followed by the demand deposits with 41.3 percent. Other liabilities declined by 11.5 percent to E663.8 million during the year under review from E750.4 million in December 2012.

## Liabilities of the Banking Industry



Retained earnings constituted a large portion at 56.9 percent of the capital and reserves followed by statutory reserves with 13.8 percent. The retained earnings and statutory reserves stood at E920 million and E222.9 million respectively, showing an increase of 9.2 percent and 18.7 percent in December 2013 when compared with the figures of December 2012. The loans to deposits ratio recorded 91.5 percent as at December 2013 from 85.6 percent recorded in December 2012 indicating an increase of 5.9 percent.

The banking industry of the country continued to be profitable and well capitalized. Performance and condition of the industry is based on the level and trends in capital, assets quality, earnings and liquidity management. The industry appears to be well capitalized, supported by the sufficient earnings and strong environment.

### 12.3.2 Capital Adequacy

Capital requirements foster the safety and soundness of banks by limiting leverage and by providing a buffer against unexpected losses. Strong capital adequacy therefore provides a safety net for depositors and

promotes public confidence in the banking industry. The banks in the country continued to make sure that their Tie 1 capital ratio and total capital was always above the minimum statutory requirement of 4 percent and 8 percent respectively.

As at December 2013 capital and reserves held by the banking sector amounted to E1.6 billion from E1.5 billion as at December 2012 showing an increase of 9.9 percent. The total capital ratio of the industry stood at 24.4 percent in December 2013 from 73.7 percent in December 2012 indicating a decline of 49.3 percent. The tie 1 capital of the Swaziland banking sector was recorded at 21.5 percent in December 2013 from 77.5 percent in December 2012 showing a decline of 56 percent.

### 12.3.3 Earnings

The continued viability of a financial institution depends on its ability to generate appropriate returns on its assets and capital. Good earnings performance enables a financial institution to fund its expansion, remain competitive and replenish and or increase its capital base. Earnings are therefore the primary source of any increases in capital.

Net income after tax decreased by 39.6 percent during the year under review to E161 million from E266.7 million as at December 2012. This is because of the severe economic growth, and the macroeconomic factors and the weakening of the Lilangeni to the dollar currency. On the other hand, income before tax stood at E221.6 million as at December 2013 from E374.9 million in December 2012 indicating a decrease of 40.9 percent. The contributing factor to the decrease in profit before tax was the decrease in net interest from core banking functions.

The return on average assets which reflects the banks overall ability to generate earnings from their existing assets was at 2 percent in the year under review showing a decrease from the 2.4 percent recorded in December 2013. Total cost to income ratio slightly increased from the 64.2 percent in December 2012 to 66.1 percent in December 2013. Net interest income to total assets ratio slightly deteriorated from the 4.6 percent recorded in December 2012 to 4.1 percent recorded in December 2013.

#### **12.3.4 Asset Quality**

Deterioration of asset quality may result in an upsurge in the volume of non-performing loans and advances which could result in a decline in interest income. A review of asset quality dwells much on the assessment of loans and advances as they form a major portion of the asset structure. Also loans and advances present the greatest credit risk and potential loss to banks. The quality of banks assets is also assessed by tracking the levels, trends and compositions of accounts in arrears, provisions and credit concentrations.

Total gross loans in the banking industry amounted to E8.4 billion in the year under review from E6.8 billion recorded in December 2012 representing a growth rate of 24.3 percent. General provisions and specific provisions stood at 1 percent and 2.8 percent during the year under review. Non-performing loans and advances expressed as a percentage of gross loans was recorded at 7.6 percent in December 2013 representing a slight improvement from the 10.6 percent recorded in December 2012. The capital to deposits ratio was recorded at 22.1 percent in December 2013 from 22.7 percent in December 2012.

#### **12.3.5 Liquidity Management**

Liquidity is one of the fundamental aspects used to determine the soundness of the banks. Several indicators show that the Swaziland banking sector had sufficient liquid assets and that these are

continuously maintained at a healthy position with liquid assets to deposits higher than the minimum statutory requirement of 20 percent for commercial banks and 17 percent for the Swaziland Development and Savings Bank.

In December 2013 the liquidity ratio was recorded at 28.1 percent from 26.9 percent in December 2012. The industry liquidity amounted to E2.5 billion recorded in December 2013 from E2.2 billion recorded in December 2012.

## **12.4 OFF-SITE SURVEILLANCE**

An off-site supervisory activity monitors the financial condition of individual institutions and determines compliance of licensed financial institutions with statutory and regulatory requirements. The primary objective of off-site monitoring is to monitor the financial health of banks and identifying banks which show financial deterioration and would require supervisory intervention. This acts as a trigger for timely remedial action.

Banks submit their statutory returns weekly, monthly and quarterly through the Bank Supervision Application (BSA) where the data is analyzed using prudential ratios or Financial Soundness Indicators. The analysis include an off-site report, liquidity ratios, capital adequacy ratios, earnings and asset quality are used to determine the banks financial conditions and their compliance with statutory and regulatory requirements.

## **12.5 ON-SITE SUPERVISION**

The Bank Supervision Division conducts routine examination pursuant to Section 39 (1) of the Financial Institutions Act, 2005. The objectives of an on - site examinations are to assess and evaluate overall condition and financial soundness of the banks, its compliance with applicable laws and regulations and to check the accuracy of the statutory returns submitted to the Bank. The Division was able to conduct an onsite inspection at the Swaziland Development and Savings Bank from the 8th July to 8th August 2013. The inspection was conducted using the Risk Based Supervision approach and the report was delivered to the Senior Management and the Board of Directors of the Bank.

## **12.6 REGULATORY DEVELOPMENTS**

There was a significant progress in 2013 as the Division was able to formulate the stress testing guideline with technical assistance from the Macroeconomic and Financial Management Institute of Eastern and

Southern Africa (MEFMI). Stress testing is used as a tool for assessing the resilience of the financial system to a variety of strains. Stress testing yields quantitative results that relate to specific aspects of financial sector exposures, such as exposure to various forms of market, credit and liquidity risks. It is also more forward looking and more adaptable than an analysis of financial soundness indicators. The Division conducts stress testing on a quarterly basis for each of the different banks.

The Division was also able to host the IMF for the introduction of Basel II and Core Principles of Bank Supervision to be in line with international standards of best practices in Bank Supervision. The report included improvements that had to be introduced by the Division before the introduction of Basel II.

## 12.7 FINANCIAL STABILITY UNIT

In line with the Central Bank of Swaziland's mission statement which is "To foster financial sector stability conducive to economic development in Swaziland," the Bank operationalized the Financial Stability Unit (FSU) in April 2014, as a unit within the Financial Regulation Department. The unit is mandated to conduct macro-prudential surveillance of the financial system in Swaziland. Among its objectives, the unit will assess the robustness and efficiency of the financial system and engage the relevant stakeholders to strengthen the regulatory environment. This collaboration is envisaged to inform policy makers on appropriate intervention and sanctions with respect to financial stability.

To adequately address the execution of financial stability responsibilities, a three-tier committee structure was endorsed, being the Financial Stability Committee (FSC), Financial Stability Panel and the Financial Stability Forum. The FSC has been established and the terms of reference approved by the CBS Board of Directors. It is envisaged to complement the price stability objective of the Bank through formulation and implementation of appropriate macro-prudential policy measures to limit the cost of system wide distress in the financial system.

The Financial Stability Panel will co-ordinate at national level the work of financial supervisory authorities and government. It will also be mandated to work with standard setting ministries in order to develop and promote the implementation of effective regulatory, supervisory policies whilst assessing the vulnerabilities affecting the financial system, identify and oversee action to address them.

Furthermore, the Bank is to initiate the process of establishing a Financial Regulators Forum which will bring together the regulators of financial sub-sectors under the Chairmanship of the Central Bank of Swaziland. The main objective of the Forum is to coordinate actions needed to promote and sustain financial sector stability, and financial crisis preparedness.

In recognition of the importance of communicating financial stability issues, the Central Bank will be publishing Financial Stability Reports to inform stakeholders about the status of the financial sector and its ability to mitigate risks and absorb shocks, thereby building public confidence on the Swaziland financial system. Data availability is of paramount importance for the Unit to achieve its objectives. The Financial Services Regulatory Authority (FSRA) continues to carry out its mandate of regulating the Non-bank financial institutions (NBFIs) in Swaziland. To give a structured framework and to guide the process of information sharing, analysis and monitoring, the Central Bank of Swaziland signed a Memorandum of Understanding with FSRA and the Commissioner of Co-operative Development in February 2013.

The Unit received technical assistance from the IMF and MEFMI. Training on Financial Soundness Indicators was conducted on 25-28 May 2014 by experts from the IMF. It is envisaged that Swaziland will now publish FSI indicators on the IMF Website from the second quarter of 2014.

The Unit intends to adopt the COMESA framework, in order to be in line with best practice in the region. A team from MEFMI conducted training on the COMESA framework on 7-11 April 2014. A training session was also conducted by MEFMI in collaboration with the FSU for relevant departments within the Bank that will give input to the Financial Stability report as well as FSRA on 10 April 2014.

To increase capacity and learn from other institutions within the region, the FSU undertook study visits to 3 countries namely Uganda, Kenya and Namibia between March and May 2014. These countries already publish the Financial Stability Reports, and it was beneficial for the unit to have these contact sessions in order to ensure that the unit meets its target of publishing the first bulletin of the Financial Stability Report by April 2015.

## 13. EXCHANGE CONTROL DIVISION

### 13.1 APPLICATIONS APPROVED

During the period from 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2014, the Exchange Control Division approved a total of 89 applications for foreign exchange transactions with countries outside the Common Monetary Area. The number of applications approved decreased by 9.2 percent from a total of 98 approved in 2012/2013. The amount of foreign exchange involved was E13,097.8 million reflecting a decrease of 4.5 percent when compared with E13,721.8 million approved in 2012/2013. The monthly average for the period was E1,091.5 million compared with E1,143.5 million in 2012/2013.

Dividend plus profit transactions accounted for E5,897.7 million or 45 percent of the total amount of E13,097.8 million approved by Central Bank for remittance outside the CMA.

### 13.2 OUT PAYMENTS

Out payments totalling E9,575.8 million were made through the banking system and include remittances for transactions approved by the Central Bank. This figure shows an increase of 72.8 percent when compared with E5,541.6 million transferred in 2012/2013 period. The monthly average for the period under review was E798 million compared with E461.8 million the previous year.

Invisible out payments accounted for E6,186.8 million or 64.6 percent of total out payments, an increase of 45.3 percent when compared with E4,258.3 million remitted during the 2012/2013 period.

Payments for imports amounted to E3,389 million, denoting an increase of 164.1 percent when compared with E1,283.3 million recorded during the 2012/2013 financial period.

### 13.3 IMPORT PERMITS GRANTED AND OUT PAYMENTS

A total limit of E366.6 million was granted by the Ministry of Finance for imports of goods covered in the country's negative list during the year under view. This figure denotes an increase of 213.8 percent when compared with E116.8 million recorded during the 2012/2013 financial period.

Out payments for imports totalled E3,388 million. The variance between import permit granted and actual payments was caused by imports, which do not require an import permit for importation into the country.

### 13.4 ANALYSIS OF IMPORT PERMIT GRANTED

This section covers a breakdown of import permits granted by the Ministry of Finance for the period under review. The highest allocation was for miscellaneous manufactures at E267.1 million, followed by machinery and transport equipment at E100 million and clothing at E400,000.

### 13.5 TOTAL IN-PAYMENT

Total receipts of foreign exchange from outside the CMA were E12,383.6 million during the year under review, reflecting an increase of 38.6 percent when compared with E8,936.4 million received in 2012/2013. The monthly average for the period under review was E1,032 million.

Income from exports totalled E9,773.2 million reflecting an increase 39.1 percent when compared with E7,028.3 million received from the 2012/2013 period.

The monthly average of export receipts for the period under review was E814.4 million compared with E585.7 million in 2012/2013

# 14. INTERNAL AUDIT

## 14.1 OVERVIEW

The Internal Audit Activity (IAA) at the Central Bank of Swaziland provides independent, objective assurance services designed to add value and improve the Bank's operations. It assists the Bank accomplish its objectives by bringing in a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control and governance processes.

## 14.2 AUDIT COVERAGE

During the period under review the Internal Audit Activity covered 21 audits out of the planned 30 audits using the Risk-Based Internal Audit (RBIA) methodology. In addition continuous audits that involved management of cash were performed. This is an equivalent of 70 percent of the annual audit plan for the year 2013/2014. Amongst other tasks carried out by the IAA were Special audits/ Investigations as requested by management.

## 14.3 ACHIEVEMENTS

The Internal Audit Activity achieved the following:

### (i) Implementation of the RBIA methodology

The Bank commissioned a follow-up Quality Assurance Review (QAR) during the financial year 2013/14. It was conducted in October 2013 by EXP Consulting Network. This was a follow up on the main QAR conducted in 2010.

### (ii) TeamMate upgrade

The IAA upgraded its working paper solution from TeamMate R8.2.2SP to R10.3 version. The R10.3 version is a web based and has improved functionalities in planning, execution and reporting internal auditing activities.

### (iii) Training

The IAA continued to train its staff so as to ensure that the personnel is equipped with up-to-date skills

and expertise. An in-house course on risk based internal audit methodology was conducted for all auditors and was facilitated by EXP Consulting Network. Two auditors have attended short courses of Corporate Fraud and Advance Certificate Course in Audit Techniques.

Further, two delegates attended the National Conference hosted by the Institute of Internal Auditors (South Africa). The theme of the conference was ushering in the Age of Accountability.

### (iv) TeamMate Users Forum

The Bank also sent one delegate to attend a TeamMate Users Forum which was hosted by Walter Kluwer Financial Services in Phoenix, USA. This was a great opportunity to learn about new releases of the software, network with other TeamMate users and solve problems which might arise in the process of using the system.

### (v) References

Mananga Training Institute continued to visit the Bank to learn about our success in the Risk Based Audit methodology. This is a great milestone for the Bank. The Activity has become a point of reference thus getting an opportunity to share information with delegates from the SADC region.

## 14.4 FUTURE OUTLOOK

The Bank together with the IAA is working on the following:

- **Computer Aided Audit Techniques (CAATS)**

The IAA is focused on improving its audits by using Computer Aided Audit Techniques. It is expected that the data analysis tool will be acquired in the financial year 2014/15.

# 15. RISK MANAGEMENT FUNCTION

## 15.1 OVERVIEW

The Risk Management Unit continued to work closely with departments through risk owners and risk champions assisting them to effectively manage the inherent risks in their operations in accordance with the Risk Management Framework for the Central Bank of Swaziland. The process involved revolved around risk identification, assessment, evaluation, monitoring and treating risks with a view to ensure that an effective risk management process exists at CBS, and applied consistently to mitigate risk exposures.

During the period under review the focus by the two sections was to conduct risks assessments that are directed towards ensuring that all operational departments worked towards achieving their strategic and operational deliverables in terms of the Bank's strategic mandate, and in line with the applicable risk frameworks. The operational activities of the department were regularly reported to the Operational and Financial Risk Committees, and to the Board Risk Committee for oversight purposes.

## 15.2 OPERATIONAL RISK SECTION

Paramount to the responsibilities attached to the operational risk section was the synchronization of risk management processes by conducting risks assessments on both strategic and operational risks for all departments. Strategic risks, which emanate from departmental objectives, were assessed using the Risk Control Self-Assessment Tool, whilst operational risks were assessed using the Key Risk Indicator tool, with incident reports as a means to records operational challenges.

## 15.3 STRATEGIC RISKS

The assessments focused mainly on those risks and missed opportunities that could cause the Bank not to achieve its key strategic deliverables based on the Bank's four perspectives, which are financial, operational, stakeholder and people, and risk exposure from the environment.

There has been noticeable improvement in risk mitigation strategies as reflected in the action points taken by risk owners during the period under review, which is an indication of an increased risk awareness level. The evidence on the ground however reflect that there is a need for the Risk Department to continue engaging risk management stakeholders during the coming year with a view to further improve the risk culture.

## 15.4 OPERATIONAL RISKS

Operational risks, which consider failed processed, systems and people, were assessed using the Key Risk Indicator Tool.

The assessment of operational risks takes into account the financial and reputational impact of possible risks events occurring in each business unit. During the period under review, the assessment covered 60 percent of the Bank's departments, which on average reflected a tolerable level of exposure to operational inefficiencies, an indication that the controls put in place to ensure efficient use of the Bank's resources are effective. This is supported by the Key Risk Indicator tool, which is monitored by each business units for operational risks, which reflected that unfavourable risk indicators were not on the rise and where they were noted, mitigation actions were put in place and implemented.

## 15.5 INCIDENT REPORTS AND ENVIRONMENTAL ANALYSIS

A few exceptions resulting from systems downtimes due to various reasons, especially SWIFT exposed a number of departments to operational inefficiencies, thus attracting financial and reputational impacts. Most importantly is to put in place adequate control measures in terms of systems and processes regarding the processing of payment instructions through SWIFT, particularly government cross border payments in light of the SADC Integration of Payment Systems, which supports real time electronic transfer of funds using a common electronic payment platform as opposed to cheque processing.

The lack of adequate controls in processing client's payment instructions in the Financial Markets Department resulted in unauthorized payments during the period under review, which is an indication that stringent mitigation measures must be put in place to avoid recurrence of fraud incidents in this regard.

Another observed threat from the internal environment is with regards to policies and procedures, which are either inadequate, outdated or not in place at all; thus exposing the affected departments to a multiplicity of governance risks and others including fraud risk. There is therefore a need to "take stock" and fill the gap where appropriate in as far as policies and operational procedures are concerned.

# RISK MANAGEMENT FUNCTION

## 15.6 DEVELOPMENT AND IMPLEMENTATION OF RISK FRAMEWORKS FOR THE VARIOUS RISK CLASSES

In terms of the revised ERM framework, all risk classes must have their own risk frameworks outlining a structured approach on how they are to be managed, including risk appetite statements for all the risks. During the reporting period, the Risk Office was able to develop the Fraud risk and the Risk Appetite Frameworks, which were both approved by the Board. The development and approval of other frameworks including that of Project Risk, People Risks, and Regulatory Compliance Frameworks is work-in-progress with possible implementation anticipated to be done during the second quarter of the coming year.

Currently in use are the Operational and IT Risks Frameworks. Outstanding frameworks include Legal Risk, Reputational Risk, Regulatory Enforcement Risk, Financial Stability Risk, and Strategic Risk Frameworks. The process of developing and approving these frameworks would be on-going during the tenure of the 2014/15 financial year. Suffice to say that all CBS related risks are currently being assessed using the Risk Control Self-Assessment and Key Risks Indicator methodologies whose outcome is a Bank-wide Risk Dashboard that is reported periodically to the Operational, Financial Risk Committees, and the Board through the Board Risk Committee.

## 15.7 BUSINESS CONTINUITY MANAGEMENT PROGRAM

Activities in support of a functional BCM program were on course during the review period including, the establishment of a CBS BCM structure, building institutional capacity by training all BCM stakeholders and instituting a review of the existing BCM strategy document. Going forward, the recorded work in progress on the Matsapha Warehouse Project is a reflection in support of the Bank's effort to provide appropriate BCM infrastructure to ensure that the Bank is able to with-stand unforeseen pressures whose effects and impacts could disrupt its daily operations such as man-made disasters or natural catastrophes. On-course during the coming period is for departments to review their departmental BCM strategies and structures with a view to do simulation drills in readiness for a disaster happening.

## 15.8 RISK FINANCING

During this financial year the bank reviewed its insurance policy to consider the self- funding option

for specific types of risks, an exercise scheduled to be implemented in the 2014/15 financial year and on-going. This is an option to relieve the bank of the high insurance premiums. It is envisaged that with the maturity of the risk management process, particularly the application of the self-funding option, the Bank would be in a better position to significantly reduce associated insurance costs.

## 15.9 INSTILLING A RISK AWARENESS CULTURE

A risk awareness culture had continuously been inculcated through training sessions during risk assessment workshops, and other risk awareness activities, including regular publications of risk articles in the CBS Newsletter. Indications are that the perception and appreciation of risk have improved from no response in the beginning of the year to a 60 percent response rate towards the end of the last quarter with equally improved quality of submitted risk reports.

## 15.10 FINANCIAL RISK SECTION

During the period under review, the Financial Risk Section was engaged with the implementation of a Financial Risk Management Framework, which is a product of technical assistance from MEFMI. The deliverables from the technical assistance was the development of a financial risk dashboard customize for the management of financial risks at CBS.

Notwithstanding the challenges attached to doing something anew, through the use of the dash board, the Financial Risk Section in collaboration with the Risk and Compliance Section of the Financial Markets was able to do the following:

- Strengthened the identification, monitoring, measurement of financial risks;
- Provided combined assurance in monitoring compliance to investment policy and guidelines; and
- Prepared management reports.

Moving forward, the data created through the dash board will form part of a data base for future use in the automation of the financial risk management methodology. Furthermore, the objective moving forward is that the management of financial risks should go beyond an analysis of financial risks that emanate from the Financial Markets Department to an enterprise-wide financial risks management.

# 16. ECONOMIC POLICY RESEARCH AND STATISTICS DEPARTMENT

During 2013/14, the Economic Policy Research and Statistics Department continued its usual coverage of all major developments in the financial and economic aspects of the country. This was carried out through the publication of periodic and special reports that were circulated widely internally and externally to various local and international organisations and government ministries. These reports include amongst others: the Monthly Statistical Release, Quarterly Reviews and the Annual Report. The improvement of the quality of the Bank's reports and timeliness of publications remained the prime objective of the Department.

There are three subdivisions under the EPRS Department namely; Statistics and Publications, Balance of Payments and International Economics and Policy Research and Macroeconomics.

## 16.1 STATISTICS AND PUBLICATIONS DIVISION

The Statistics and Publications Division is divided into three units.

### 16.1.1 Monetary and Financial Statistics Unit

The Monetary and Financial Statistics Unit continued to produce statistics and analysis covering depository corporations namely the Central Bank, Banks and the Building Society. The analysis was included in many of the department's reports that inform internal and external statistical analysis and policy making at organizational, national, regional and international forums.

Over the year, the Unit collaborated with the Bank Supervision Department to revise the Central Banks' Report Forms to enable collection of more detailed data from the Banks and the Building Society. The data will further improve the coverage and quality of the country's monetary and financial statistics and analysis.

Progress towards the collection of data on non-bank financial institutions remained quite slow. However, an improvement is envisaged following the Financial Services Regulatory Authority's hosting of an IMF Technical Assistance Mission over the year. Among the areas covered was the collection of data from non-bank financial institutions which when finalized will be shared with the Unit in order to facilitate compilation of the financial corporations survey.

### 16.1.2 Public Finance Unit

During the financial year under review, the unit continued to compile and analyse public sector

operations; both revenue and expenditure including the compilation of statistics for both external and domestic debt. Occasionally, the Unit produced board papers and presentations on request by senior management to inform policymakers. The unit also continued to provide secretariat duties in the weekly auctions for the Government Treasury Bills conducted by the Financial Markets Department with representatives from the Ministry of Finance.

The unit continued to record proceedings of the Cash Flow Management Committee that monitors government cash flow needs in an effort to match expenditure to the available resources.

During the year, the Unit also continued to participate in training on public finance and debt issues organised by MEPMI and other international institutions.

### 16.1.3 Domestic Economy Unit

During the year, the Real Sector Unit continued to collect and improve coverage of Real Sector indicators, which were published in the department's publications. The indicators covered include price developments, agriculture statistics, mining and quarrying, construction, electricity and water consumption, telecommunications sector, and fuel consumption. Analysis on such indicators has been incorporated in real sector developments reported in the routine publications and presentations of the Bank policy statements. The Unit continues to validate information from the sources for consistency; a process necessary to quality assure the data so that inferences and policy recommendations are not misleading.

The Unit continues to participate in the development of policies and strategies (at domestic economy level) geared towards improving the Swaziland economy. Members of the Unit attend meetings/workshops and forums where they sit in as task team advisors on topical economic development issues. The Unit was part of the steering committee that facilitated a study initiated by Swaziland Sugar association on "An Economic Impact Analysis of the Sugar Industry and its linkage Effect on the Other Economic sectors of the Swaziland Economy - A Social Accounting Matrix" which was conducted by Conningarth Economists from South Africa. The Unit remains a member of the Tourism Satellite Account (together with CSO, STA and the Ministry of Tourism) which seeks to improve the capturing and analysis of the contribution of the tourism sector to the overall economy. The Unit maintained its commitment to collaborate with other institutions (especially CSO)

# ECONOMIC POLICY RESEARCH AND STATISTICS DEPARTMENT

on improving economic statistics in Swaziland mainly in relation to national accounts and employment data. In addition to routine work, the unit wrote research technical working papers mainly on Price Developments.

With respect to training the office continues to focus on trainings relating to Macroeconomic analysis and management. During 2013 there were two major courses attended by the unit. These were: “Advanced Macroeconomic Analysis Management” hosted by MEFMI and “Macroeconomic Diagnostics” hosted by the IMF Institute of Capacity Development.

## 16.2 BALANCE OF PAYMENTS AND INTERNATIONAL ECONOMICS DIVISION

The Division is divided into two units.

### 16.2.1 Balance of Payments Unit

During the review period the balance of payments unit continued to consolidate its quarterly Balance of Payments compilation. The efforts to educate data suppliers to respond timely to quarterly surveys proved successful with a large proportion of the respondents submitting on time. There is still need to vigorously follow-up with some major data sources who continue to sight other pressing challenges as reasons for not responding to surveys timely. To persuade data suppliers on the importance of high frequency data, the unit made it a point that the quarterly Balance of Payments statistics published in the department’s monthly Recent Economic Developments snap short report is supplied to the data suppliers. The unit continued to strengthen its networks with the trade statistics section of the Swaziland Revenue Authority section which compiles data on the country’s merchandise imports and exports. Worth noting is the improvement in the country’s trade data produced by this section during the review period. Trade data is released by the trade section on a monthly basis with a lag of less than 3 months, making the quarterly Balance of Payments compilation less strenuous.

The Balance of Payments unit remains with the challenge of migrating from the 5<sup>th</sup> edition of the Balance of Payments Manual to the 6<sup>th</sup> edition, which is targeted to be done by end of the calendar year 2014. The challenge of slow internet remains a major constraint to this important strategic objective and negotiations are on-going with the ICT department. The unit continued to be part of the Swaziland’s delegation to the various SACU regional meetings, representing the Bank.

### 16.2.2 International Economics Unit

During the review period, the unit continued with its function of monitoring national, regional and international economic developments and compiling timely reports on these developments to provide valuable input to policy making organs of the Bank. Developments on relevant commodity and financial markets were also monitored with reports compiled for input in decision making in the Bank with the appropriate frequency. The unit made efforts to use a variety of data sources to cross check the accuracy of information supplied to various policy making bodies of the bank. Information sources included various websites, publications from various organisations, newspapers and relevant magazines.

The unit continued to represent the Bank in key international and regional meetings, mainly the Committee of Central Bank Governors (CCBG) and its sub-committee meetings.

## 16.3 POLICY RESEARCH AND MACROECONOMICS DIVISION (PRAMA)

### 16.3.1 POLICY RESEARCH AND MACROECONOMICS DIVISION (PRAMA)

The PRAMA Division is also divided into two units.

#### 16.3.1.1 Policy Research Unit

The Policy Research Unit continued with its responsibility of carrying out policy oriented research papers on macroeconomic issues with emphases on monetary, international, financial, real, and public sector economics. This included long-term research papers requiring econometric analysis and the regular production of the Bank’s occasional, special and working papers as and when they are needed by the management for policy-making decisions. It also participates in the Monetary Policy Consultative Committee meetings, a committee responsible for advising on monetary policy decisions, as a secretariat. The Unit is also putting together and analysing a wide range of statistics produced by other sections in the department for the purposes of contributing towards the compilation of a number of reports. The compiling and analysing of the country’s REER, a measure of the country’s export competitiveness in the international markets has been the responsibility of the Policy research Unit.

On training, the section continued to attend activities organized by international organizations like MEFMI, SADC and IMF/World Bank, among others. The unit

also attended the workshops or courses organized by the Bank.

#### **16.3.1.2 Modelling and Forecasting Unit**

The Modelling and Forecasting Unit maintained its focus of ensuring full implementation of a macroeconomic model for Swaziland. The Unit has successfully transferred the model from a more complex software to a user-friendly software (E-views). The Unit continued to produce short-term forecasts on selected financial indicators forecasts on yearly basis such as inflation, interest and exchange rates. Following the increasing demand for high frequency forecasts on financial indicators, the unit developed a monthly financial indicator model from which monthly forecasts will be produced. The Unit also strengthened its involvement in special projects and departmental papers where econometric analysis was required. The Unit has also been responsible for putting together and analysing a wide range of statistics produced by other sections in the department for the purposes of contributing towards the compilation of a number reports. The Modelling and Forecasting Unit continued to compile the 'Rand Compensation' payments accruing to the

country for the rand circulating in Swaziland and provide some forecasts going forward by liaising with the South African Reserve Bank.

On training, the Unit continued to attend activities organized by international organizations like MEFMI, SADC and IMF/World Bank, among others. The unit also attended the workshops or courses organized by the Bank.

#### **16.4 LIBRARY**

The Library remained a valuable source and store of important economic information and data readily available for use by the bank staff and non-bank staff carrying out their research work.

During the year, the EPRS Department hosted various visitors to the Bank from academic institutions like schools, colleges, research institutions and external consultants on missions to the country and from within the country. The Department's reports and other information were widely circulated to the business community and the mass media houses through the Library.

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## **17. INSTITUTION DEVELOPMENT UNIT**

### **17.1 STRATEGY**

#### **17.1.1 Strategic Plan**

The 2012 to 2015 Central Bank Strategy document has continued to serve as a roadmap in the implementation of Bank's mandate, vision and mission. The Bank held its annual Strategic Planning Retreat at Piggs Peak from 23-25 March 2014 and the theme was "Values - the underlying transformational factor in the CBS agenda"

### **17.2 PERFORMANCE MANAGEMENT**

The Bank continues to use the balanced scorecard (BSC) as its strategy management and performance measurement instrument. The tool is able to link individual objectives to the corporate strategy. Rewards are effected in line with the Performance Management Reward Policy and payments are made every year in June.

The Bank further undertook a quality assurance audit where all individual balanced scorecards

measures and targets were reviewed. The quality assurance approach involved the tightening of some targets which had since become soft and also the locking of the BSC structure to avoid practices of manipulation.

### **17.3 REMUNERATION AND BENEFITS REVIEW EXERCISE - 2012/13**

The remuneration and benefit exercise was commissioned in 2013 and the report from 360 People Human architects consultant has been endorsed and approved by the Board for implementation.

### **17.4 TRAINING**

During the reporting period the following academic activities took place:

#### **17.4.1 Management Development Programme**

A total of 24 employees at Managerial level graduated under the programme which was facilitated by the University of Stellenbosch.

#### 17.4.2 Executive Development Programme

Three (3) Senior Executive employees were enrolled and graduated under the programme.

#### 17.5 INTERNSHIP

As part of the Bank's Social Investment into the county's education and socio-economic development, the Bank engaged a total of 7 interns from the University of Swaziland.

#### 17.6 PART-TIME TRAINING

The Bank also recognised a total of eighteen staff members who completed their part-time academic qualifications in the various programmes as follows:

- Six (6) - Masters Degrees
- Three (3) - Honours
- Three (3) - Diplomas
- Four (4) - Professional Certificates.

#### 17.7 LONG-TERM / FULL TIME STUDY

Mr. Walter Dlamini and Ms. Linda Khumalo from Bank Supervision and National Payments departments, respectively, returned to the Bank after successfully completing a one-year Masters Degree in Banking and Finance at the Kenya School of Monetary Studies.

Ms. Ntombifuthi Ceb'sile Mamba, a Senior Dealer, from the Financial Markets department also returned to the Bank after successfully completing a one-year Masters in Finance at the National University of Australia.

#### 17.8 SECONDMENT

Mr. Armstrong Dlamini, a Senior Economist, from the EPRS Department has been seconded to the World Bank in the USA for a period of 6 months. He is expected to return to the Bank in July 2014.

## 18. HUMAN RESOURCES MANAGEMENT

#### 18.1 STAFFING

As at the end of the year under review, the Bank's staff compliment stood at 244.

#### 18.2 RECRUITMENTS

Recruitments		
Department/ Division	No. of Staff	Position
Operations	2	1 - GM Operations 1 - Porter/Messenger
Financial Regulation	4	4 - Examination Officers
Board Secretary	1	1 - Ethics Officer
Economic Policy Research & Statistics	3	1 - Research Assistant - BOP 1 - Research Assistant - Real Sector 1 - Assistant Economist - Public Finance
Financial Markets	1	1 - Settlements Officer

Source: Central Bank of Swaziland

#### 18.3 PROMOTIONS

There were seventeen staff members who were promoted during the period under review.

#### 18.4 RESIGNATION

One person left the employ of the Bank from Capital Markets Division.

#### 18.5 RETIREMENTS

There were fifteen retirements during the period under review.

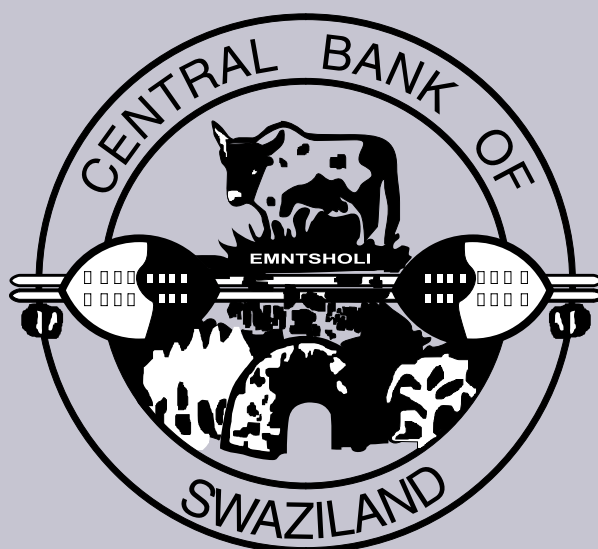
#### 18.6 DEATHS

There were two deaths during the period under review.

#### 18.7 INDUSTRIAL RELATIONS

The Bank and the formations: SUFIAW and SSAFI settled at 5.6 percent across the board on the cost of living adjustment.

# PART C



**CENTRAL BANK OF SWAZILAND**

**FINANCIAL STATEMENTS**  
for the year ended 31 March 2014

## STATEMENT OF DIRECTORS' RESPONSIBILITY

for the year ended 31 March 2014

The directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and the related information. The auditors are responsible for reporting on the fair presentation of the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Central Bank Order of 1974, as amended.

The directors are also responsible for the Bank's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The going concern basis has been adopted in preparing the financial statements. The directors have no reason to believe that the Bank will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the Bank.

The financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers, which was given unrestricted access to all financial records and related data, including minutes of the board of directors and committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate. PricewaterhouseCoopers' audit report is presented on page 91.

The annual financial statements which appear on pages 92 to 160 have been approved by the board of directors on 5<sup>th</sup> June 2014 and are signed on its behalf by:



GOVERNOR



DIRECTOR

# REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE CENTRAL BANK OF SWAZILAND

for the financial year ended 31 March 2014

We have audited the annual financial statements of the Central Bank of Swaziland which comprise the directors' report, the statement of financial position as at 31 March 2014, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 92 to 160.

## ***Directors' Responsibility for the Financial Statements***

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Central Bank Order of 1974, as amended. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

## ***Opinion***

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank as of 31 March 2014 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Central Bank Order of 1974, as amended.

*PricewaterhouseCoopers*

Partner: *Theo Mason*

Chartered Accountant (Swaziland)

Mbabane

Date: *18 July 2014*



# DIRECTORS' REPORT

for the year ended 31 March 2014

## Introduction

The Board of Directors ("Directors") present their report of the Central Bank of Swaziland ("the Bank") for the year ended 31 March 2014. This report in terms of Section 52 (1) of the Central Bank of Swaziland Order, 1974 covers the financial performance of the Bank in terms of the relevant statutory requirements.

## Nature of business and operations

The Bank is the Central Bank of the Kingdom of Swaziland and is regulated in terms of an Act of Parliament. The primary objective of the Bank is the achievement and maintenance of financial and monetary stability.

## Financial results

The results of the Bank and the state of its affairs at 31 March 2014 are set out in the attached financial statements.

## Directors

The Directors are appointed by the Minister for Finance. The following Directors served on the Board during the year:

M. Sithole	Governor, Chairman
B.M. Vilakati	Acting Deputy Governor
D. Masilela	Member
T. Vilakati-Jele	Member
P. N. Joubert	Member
HRH. Prince David Dlamini	Member
C. Muir	Member
K. Dlamini	Member
T. Vilakazi	Member

## Secretary

M Dlamini

## Business address

Mahlukohla Street  
Mbabane

## Postal address

P O Box 546  
Mbabane

## Auditors

PricewaterhouseCoopers  
Rhus Office Park, Kal Grant Street, Mbabane

## DIRECTORS' REPORT (continued)

for the year ended 31 March 2014

### Contracts

There were no contracts entered into during the year in which directors or officers of the Bank had interests and that significantly affected the affairs or business of the Bank.

### Post balance sheet events

There are no events which have occurred between the balance sheet date and the date of this report which have a material impact on these financial statements.

### Expenditure on capital projects

As part of the Bank's major capital projects, the Bank is currently constructing a cash centre in Matsapha which is funded using internal resources. As at 31 March 2014 the total cost incurred towards the capital project amounts to E135 Million (2013: E81 Million). Refer to Note 38 and 9 in the financial statements.

### Director's approval of the annual financial statements

The Directors are responsible for maintaining adequate accounting records and preparing annual financial statements which fairly presents the state of affairs of the Bank at the end of the financial year, and the results of operations, cash flows and changes in equity for the year, in conformity with International Financial Reporting Standards. The Board is also responsible for the total risk management process within the Bank. Management is accountable to the Board and has established a system of internal control to manage significant risks faced by the Bank. This system supports the Board in discharging its responsibility for ensuring that the wide range of risks associated with the Bank's operations are effectively managed. The system of internal control, which is embedded in all key operations, provides reasonable assurance, rather than absolute assurance, that the Bank's business objectives will be achieved within the risk tolerance levels defined by the Board.

The Board also subscribes to the principles of corporate governance and has maintained and operated an audit committee, executive committee, budget committee and remuneration committee throughout the year.

In preparing the financial statements reflected on pages 94 to 160, the Bank has complied with International Financial Reporting Standards and has used appropriate accounting policies supported by reasonable and prudent judgements and estimates. The Directors are of the opinion that these financial statements fairly present the financial position of the Bank at 31 March 2014, and the results of operations, cash flow information and changes in equity for the year then ended.

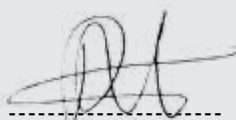
The Directors have reviewed the Bank's corporate strategy and budget for the year to 31 March 2014. On the basis of this review, and in light of the current financial position and existing borrowing facilities, the Directors are satisfied that the Central Bank of Swaziland is a going concern and have continued to adopt the going concern basis in preparing these financial statements.

The external auditors, PricewaterhouseCoopers, are responsible for independently auditing and reporting on the financial statements in conformity with International Auditing Standards. Their unqualified report on these financial statements appears on page 91.


The annual financial statements for the year ended 31 March 2014, as set out in pages 94 to 160, were approved by the Board of Directors on *5<sup>th</sup> June 2014* and are signed on its behalf by:



Governor



Director



Deputy Governor

## INCOME STATEMENT

for the year ended 31 March 2014

	Notes	2014 E'000	2013 E'000
<b>Interest income</b>			
Interest and discount earned	4	322 992	250 002
Interest expense	5	(110 741)	(85 228)
Net interest income		<u>212 251</u>	<u>164 774</u>
<b>Non-interest income</b>			
Other income	6	<u>187 170</u>	<u>169 696</u>
<b>Operating expenses</b>			
Property occupation expenses		7 009	6 517
Salaries and employee benefits	7	116 843	107 540
Depreciation of property, plant and equipment		14 739	11 634
Currency expenses	3	12 122	9 974
Other expenses	2	<u>57 677</u>	<u>51 985</u>
Total operating expenses		<u>208 390</u>	<u>187 650</u>
<b>Profit for the year</b>	2	<u>191 031</u>	<u>146 820</u>
Profit attributable to:		<u>191 031</u>	<u>146 820</u>
Equity holders of the entity			

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2014

	Notes	2014 E'000	2013 E'000
Profit for the year	2	191 031	146 820
Revaluation gains on foreign exchange activities	8	146 502	167 869
<b>Total comprehensive income for the year</b>		<b>337 533</b>	<b>314 689</b>
Total comprehensive income attributable to: Equity holders of the entity		<b>337 533</b>	<b>314 689</b>

# STATEMENT OF FINANCIAL POSITION

as at 31 March 2014

	Notes	2014 E'000	2013 E'000
<b>Assets</b>			
Property, plant and equipment	9	336 796	246 261
Intangible assets	10	11 830	10 664
External investments	11	5 946 291	3 990 452
Claims on private sector	12	6 912	7 530
IMF Quota subscription account	13	827 454	701 992
Holdings of Special Drawing Rights	14	795 279	616 854
Loans and advances	15	13 739	15 094
Amounts due from Government of Swaziland	16	1 265	58 157
Other assets	17	81 422	102 006
Currency inventory - notes and coins	18	32 307	39 473
Cash and cash equivalents	19	1 170 183	1 457 478
<b>Total assets</b>		<b>9 223 478</b>	<b>7 245 961</b>
<b>Equity</b>			
<b>Capital and reserves</b>			
Capital contribution	20	185 768	185 768
Revaluation reserve	21	276 077	198 594
Buildings revaluation reserve	9	141 399	112 711
Building fund reserve	22	50 000	50 000
Contingency reserve	23	73 817	73 817
General reserve	24	336 749	288 553
SDR/IMF underwriting reserve	25	51 795	51 795
<b>Total equity</b>		<b>1 115 605</b>	<b>961 238</b>
<b>Liabilities</b>			
Currency in circulation	26	712 361	609 104
Allocation of Special Drawing Rights	27	788 191	668 649
Domestic deposits	28	5 226 507	3 853 098
Foreign deposits and liabilities	29	68 624	53 136
Other liabilities	30	359 772	358 326
Provisions	31	18 309	21 033
Amounts payable to the Consolidated Fund	32	213 607	110 122
IMF Securities Account	33	720 502	611 255
<b>Total liabilities</b>		<b>8 107 873</b>	<b>6 284 723</b>
<b>Total equity and liabilities</b>		<b>9 223 478</b>	<b>7 245 961</b>

# STATEMENT OF CASH FLOWS

for the year ended 31 March 2014

	Notes	2014 E'000	2013 E'000
<b>Cash flows from operating activities</b>			
Operating profit		337 533	314 689
Adjusted for:			
Depreciation and amortization	9,10	14 738	9 666
Profit on disposal of property plant and equipment		(115)	(2 591)
Adjusted for unrealised gains on IMF Accounts:		(75 100)	(7 339)
IMF Quota subscription account		(125 462)	(100 224)
Holdings of Special Drawing Rights		(178 425)	(89 792)
IMF securities account		109 245	87 269
Allocation of Special Drawing Rights		119 542	95 408
Net cash inflow from operating activities		277 056	314 425
Increase in external liabilities		15 488	22 706
(Inrease)/decrease in other liabilities and provisions		(1 276)	6 164
Increase/(decrease) in claims on private sector and loans and advances		1 972	(596)
Increase/(decrease) in other assets		20 583	(29 987)
Increase in notes and coins		7 166	7 425
Net increase in operating assets and liabilities		43 933	5 712
Net cash inflows from operating activities		320 989	320 137
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment and software equipment	9,10	(76 575)	(43 524)
Proceeds from disposal of property, plant and equipment		692	2 732
Increase in external investments		(1 955 839)	(1 585 904)
Decrease in amounts due from Government		56 893	697 589
Amounts paid to the Government through the consolidated fund	32	(110 122)	(119 910)
Net cash outflows from investing activities		(2 084 951)	(1 049 017)
<b>Cash flows from financing activities</b>			
Increase in currency in circulation		103 260	89 675
Increase in domestic deposits		1 373 407	1 387 253
Net cash inflows from financing activities		1 476 667	1 476 928
Net movement in cash and cash equivalents		(287 295)	748 048
Cash and cash equivalent at the beginning of the year		1 457 478	709 430
Cash and cash equivalent at the end of the year		1 170 183	1 457 478

# STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2014

	Capital E'000	General reserve E'000	Building Fund reserve E'000	SDR/IMF under writing reserve E'000	Contingency reserve E'000	Buildings Revaluation reserve E'000	Revaluation Reserve E'000	Appro- priation account E'000	Total E'000
Balance at 31 March 2013	185 768	288 553	50 000	51 795	73 817	112 711	198 594	-	961 238
Net profit for the year including revaluation of foreign currency activities	-	-	-	-	-	-	-	337 533	337 533
Revaluation of foreign currency activities transferred to Revaluation Reserve in terms of Section 35(1) of the Order (refer note 21)	-	-	-	-	-	-	146 502	(146 502)	-
Revaluation surplus for the year	-	-	-	-	-	30 441	-	-	30 441
Transfer of depreciation on revaluation surplus to appropriation account	-	-	-	-	-	(1 753)	-	1 753	-
Transfer to general reserve as provided under section 8 (1) of the order	-	48 196	-	-	-	-	-	(48 196)	-
Increase in contingency reserve in terms of section 41(bis)	-	-	-	-	-	-	-	-	-
Transfer to the Consolidated Fund as provided under Section 8(3) of the Order	-	-	-	-	-	-	-	(144 588)	(144 588)
Transfer to the Consolidated Fund in terms of Section 35 (4) of the Order	-	-	-	-	-	-	(69 019)	-	(69 019)
Transfer to the SDR/IMF underwriting reserve to fund the shortfall in Holdings in Special Drawing Rights	-	-	-	-	-	-	-	-	-
Balance at 31 March 2014	185 768	336 749	50 000	51 795	73 817	141 399	276 077	-	1 115 605

## STATEMENT OF CHANGES IN EQUITY for the year ended 31 March 2013

	Capital E'000	General reserve E'000	Building Fund reserve E'000	SDR/IMF under writing reserve E'000	Contingency reserve E'000	Buildings Revaluation reserve E'000	Revaluation Reserve E'000	Appro- priation account E'000	Total E'000
Balance at 31 March 2012	185 768	251 130	50 000	-	73 817	74 916	80 373	-	716 004
Net profit for the year including revaluation of foreign currency activities	-	-	-	-	-	-	-	314 689	314 689
Revaluation of foreign currency activities transferred to Revaluation Reserve in terms of Section 35(1) of the Order (refer note 21)	-	-	-	-	-	-	167 869	(167 869)	-
Revaluation surplus for the year	-	-	-	-	-	40 667	-	-	40 667
Transfer of depreciation on revaluation surplus to appropriation account	-	-	-	-	-	(2 872)	-	2 872	-
Transfer to general reserve as provided under section 8 (1) of the order	-	37 423	-	-	-	-	-	(37 423)	-
Increase in contingency reserve in terms of section 41(bis)	-	-	-	-	-	-	-	-	-
Transfer to the Consolidated Fund as provided under Section 8(3) of the Order	-	-	-	-	-	-	-	(60 474)	(60 474)
Transfer to the Consolidated Fund in terms of Section 35 (4) of the Order	-	-	-	-	-	-	(49 648)	-	(49 648)
Transfer to the SDR/IMF underwriting reserve to fund the shortfall in Holdings in Special Drawing Rights	-	-	-	51 795	-	-	-	(51 795)	-
Balance at 31 March 2013	185 768	288 553	50 000	51 795	73 817	112 711	198 594	-	961 238

# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

## 1. General Information

The Bank is the Central Bank of the Kingdom of Swaziland and is regulated in terms of an Act of Parliament. The primary objective of the Bank is the achievement and maintenance of financial and monetary stability.

The Board of Directors ("Directors") present their report of the Central Bank of Swaziland ("the Bank") for the year ended 31 March 2014. This report in terms of Section 52 (1) of the Central Bank of Swaziland Order, 1974 covers the financial performance of the Bank in terms of the relevant statutory requirements.

### 1.1 Summary of significant accounting policies

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

#### 1.1.0 Statement of compliance and basis of preparation

The financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held-for-trading at fair value through the profit or loss.

The financial statements comprise the income statement and statement of comprehensive income showing as two statements, the statement of financial positions, the statement of changes in equity, the cash flow statement and the notes.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed in note 1.13 of these accounting policies.

#### 1.1.1 Going-concern basis

The bank meets its day-to-day working capital requirements through its investments. The bank's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the bank should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the bank has adequate resources to continue in operational existence for the foreseeable future. The bank therefore continues to adopt the going concern basis in preparing its financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 1.1.2 Changes in accounting policy and disclosures

A number of new standards and amendments to standards and interpretations are effective for the Bank financial year beginning 1 April 2013 (and beyond. None of these are expected to have a significant effect on the financial statements of the Bank;

International Financial Reporting Standards and amendments issued and effective for 31 March 2014 year-end		
Number	Effective date	Executive summary
Amendment to IFRS 1, 'First time adoption' on government loans	1 January 2013	This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008. The IFRS has no impact on the bank.
Amendment to IFRS 7 Financial Instruments: Disclosures - Asset and Liability offsetting	1 January 2013	The IASB has published an amendment to IFRS 7, 'Financial instruments: Disclosures', reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.
Amendments to IAS 1, 'Presentation of Financial Statements', on presentation of items of OCI	1 July 2012	The IASB has issued an amendment to IAS 1, 'Presentation of financial statements'. The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
IAS 19, "Employee benefits"	1 January 2013	The IASB has issued an amendment to IAS 19, 'Employee benefits', which makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The IAS has no impact on the bank.
IFRS 9 - Financial Instruments (2009)	1 January 2013	This IFRS is part of the IASB's project to replace IAS 39. IFRS 9 addresses classification and measurement of financial assets and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories: amortised cost and fair value.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 2.1.2 Changes in accounting policy and disclosures (continued)

International Financial Reporting Standards and amendments issued and effective for 31 March 2014 year-end		
IFRS 9 - Financial Instruments (2010)	1 January 2013	The IASB has updated IFRS 9, 'Financial instruments' to include guidance on financial liabilities and derecognition of financial instruments. The accounting and presentation for financial liabilities and for derecognising financial instruments has been relocated from IAS 39, 'Financial instruments: Recognition and measurement', without change, except for financial liabilities that are designated at fair value through profit or loss.
Amendments to IFRS 9 - Financial Instruments (2011)	1 January 2015	The IASB has published an amendment to IFRS 9, 'Financial instruments', that delays the effective date to annual periods beginning on or after 1 January 2015. The original effective date was for annual periods beginning on or after from 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified. The bank has not early adopted this international financial reporting standard.
IFRS 10 - Consolidated financial statements	1 January 2013	This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. The IFRS has no impact on the bank.
IFRS 11 - Joint arrangements	1 January 2013	This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The IFRS has no impact on the bank.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 2.1.2 Changes in accounting policy and disclosures (continued)

International Financial Reporting Standards and amendments issued and effective for 31 March 2014 year-end		
IFRS 12 - Disclosures of interests in other entities	1 January 2013	This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The IFRS has no impact on the bank.
IFRS 13 - Fair value measurement	1 January 2013	This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The IFRS has no impact on the bank.
IAS 27 (revised 2011) - Separate financial statements	1 January 2013	This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The IFRS has no impact on the bank.
IAS 28 (revised 2011) - Associates and joint ventures	1 January 2013	This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The IFRS has no impact on the bank.
Amendments to IAS 32 - Financial Instruments: Presentation	1 January 2014	The IASB has issued amendments to the application guidance in IAS 32, 'Financial instruments: Presentation', that clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP. The bank has not early adopted the IAS 32
Amendment to the transition requirements in IFRS 10, 'Consolidated financial statements', IFRS 11, 'Joint Arrangements', and IFRS 12, 'Disclosure of interests in other entities'	1 January 2013	<p>The amendment clarifies that the date of initial application is the first day of the annual period in which IFRS 10 is adopted – for example, 1 January 2013 for a calendar-year entity that adopts IFRS 10 in 2013. Entities adopting IFRS 10 should assess control at the date of initial application; the treatment of comparative figures depends on this assessment.</p> <p>The amendment also requires certain comparative disclosures under IFRS 12 upon transition.</p> <p>The IFRS has no impact on the bank.</p>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### Annual Improvements issued May 2012

Improvements to IFRSs (Issued May 2012) was issued by the IASB as part the 'annual improvements process' resulting in the following amendments to standards issued and effective for 31 March 2014 year-ends:

IFRS	Effective Date	Subject of amendment
Amendments to IFRS 1, 'First time adoption of IFRS'	1 January 2013	The amendment clarifies that an entity may apply IFRS 1 more than once under certain circumstances.
		The amendment clarifies that an entity can choose to adopt IAS 23, 'Borrowing costs', either from its date of transition or from an earlier date.
		The consequential amendment (as a result of the amendment to IAS 1 discussed below) clarifies that a first-time adopter should provide the supporting notes for all statements presented.
Amendment to IAS 1, 'Presentation of financial statements'	1 January 2013	The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet either: as required by IAS 8, 'Accounting policies, changes in accounting estimates and errors'; or voluntarily.
Amendment to IAS 16, 'Property, plant and equipment'	1 January 2013	The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.
Amendment to IAS 32, 'Financial instruments: Presentation'	1 January 2013	The amendment clarifies the treatment of income tax relating to distributions and transaction costs. The amendment clarifies that the treatment is in accordance with IAS 12. So, income tax related to distributions is recognised in the income statement, and income tax related to the costs of equity transactions is recognised in equity.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### Basis of preparation (continued)

#### 1.1.2 Changes in accounting policy and disclosures (continued)

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

#### 1.2 Foreign currency activities and Revaluation Reserve

The Revaluation reserve has been created in accordance with Section 35 of the Central Bank Order, 1974, as amended, and is used to accommodate any net gain or losses in any financial year of the Bank arising from any change in the book value or realized value of the Bank's assets or liabilities denominated in currencies or units other than the domestic currency, such as special drawing rights and foreign currencies. Any change in the value of such currencies or units of account in terms of the currency on Swaziland, shall be credited to the Revaluation Reserve account before any appropriation to any other reserve.

Assets and liabilities in foreign currencies are translated to Emalangeni at year end exchange rates. In terms of section 35 of the Central Bank of Swaziland order, 1974, as amended, the exchange gains and losses of the Bank are for the account of the Government and are consequently transferred to the Revaluation Reserve Account before appropriation of profits.

#### 1.3 Financial instruments

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

##### (a) *Financial assets at fair value through profit and loss*

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. The Bank currently does not have assets in this category.

##### (b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 1.3 Financial instruments (continued)

#### (b) *Loans and receivables (continued)*

These are classified as non-current assets. The Bank's loans and receivables comprise amounts due from the Government of Swaziland, claims on private sector, external investments, and 'cash and cash equivalents' in the statement of financial position (accounting policies 16, 11, 12 and 19).

#### (c) *Available for sale financial assets*

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. The Bank's available for sale financial assets comprises of securities.

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

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

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

Changes in the fair value of monetary and nonmonetary securities classified as available-for-sale are recognised in equity.

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

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 1.3 Financial instruments (continued)

#### (c) *Available for sale financial assets (continued)*

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a bank of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

### 1.4 Impairment and non-collectability of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or bank of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount as follows:

- For financial assets at amortised cost - the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period; and
- For financial assets at fair value - the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance accounts and the amount of the loss is included in the net profit and loss for the period.

### 1.5 Property, plant and equipment

All property, plant and equipment other than land and buildings are stated at cost less accumulated depreciation and amortisation.

Land and buildings are stated at market value based on valuations performed by an external independent valuer. Increases in the carrying value of land and buildings arising from the revaluation are credited directly to a non-distributable revaluation surplus reserve.

Each year the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is transferred from the non-distributable revaluation surplus reserve to retained earnings.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

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

On disposal of the previously revalued property, any amount relating to that asset remaining in the non-distributable revaluation surplus reserve is transferred to retained earnings.

Depreciation is computed on a straight-line basis over the estimated useful life of the asset, after taking into consideration the estimated residual value of the asset, as follows:

Buildings	30 years (remaining useful life)
Motor vehicles	3 years
Office equipment	5 years
Furniture and fittings	5 years
Household furniture	5 years

The remaining useful lives of assets are reassessed annually.

Land is not depreciated.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Bank. Major renovations are depreciated over the remaining useful life of the related asset.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in the income statement on disposal.

### 1.6 Intangible assets

#### *Computer software*

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 1.6 Intangible assets (continued)

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years

### 1.7 Stock of new notes and coins

The cost of new notes and coins purchased in bulk are treated as stock and expensed to the income statement as they are issued to the commercial banks. Cost comprises of printing and minting costs, carriage insurance and freight landed at the Bank's premises. The carrying value of the new notes and coins is the cost of notes determined on the first-in first-out basis.

### 1.8 Currency in circulation

Currency in circulation represents Swaziland currency that has been issued into the Swaziland economy by the Bank since inception. Currency in circulation is measured at the face value of notes and coins issued. Issued notes and coins held by the Bank are netted off against currency in circulation.

### 1.9 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. 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 one item included in the class 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 the passage of time is recognised as an interest expense.

### 1.10 Revenues recognition

Interest income is recognized on a time proportioned basis, taking account of the principal outstanding and the effective interest rate over the period to maturity. The effective interest rate takes into account all directly attributable external costs, discounts or premiums on the financial assets.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 1.10 Revenues recognition (continued)

The Bank accounts for rental income on a straight line basis under the term of the lease. Fees, commission and other income is recognized on an accrual basis. Rand compensation income is received from the South African Government as compensation for Rand circulation in Swaziland. The Bank accounts for this income on an accrual basis.

Interest income is recognized on a time proportioned basis, taking account of the principal outstanding and the effective interest rate over the period to maturity. The effective interest rate takes into account all directly attributable external costs, discounts or premiums on the financial assets.

The bank accounts for rental income on a straight line basis under the term of the lease. Fees, commission and other income is recognized on an accrual basis. Rand compensation income is received from the South African Government as compensation for Rand circulation in Swaziland. The Bank accounts for this income on an accrual basis.

### 1.11 Employee Benefits

#### *a) Pension and retirement funds*

The expected costs of post-retirement benefits under the defined benefit and defined contribution scheme are charged to income over the expected service lives of the employees entitled to these benefits according to the projected unit benefit method. Costs are actuarially assessed and expense adjustments and past-service costs resulting from plan amendments are amortised over the expected average remaining service lives of the employees participating in the plans.

The Bank operates a defined contribution plan. The pension plan is generally funded by payments from employees and the Bank taking into account the recommendations of independent qualified actuaries. For the defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method the cost of providing pensions is charged to the income statement to spread regular cost over the service lives of employees. Actuarial gains and losses are recognised as they arise.

#### *b) Short term benefits*

Short term benefits consist of salaries, accumulated leave payments, bonuses and any non-monetary benefits such as medical and contribution and free services. It excludes termination benefits. Short term benefits are fully payable in 12 months after the end of a period in which the employee rendered his or her services.

### 1.12 Fair value estimation

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Bank for similar financial instruments.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 1.13 Critical accounting estimates and assumptions

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgments 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. Estimates have been made primarily in property plant and equipment, intangible assets and provisions and are disclosed in notes 9, 10 and 30 respectively.

### 1.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### 1.15 Comparatives

Where necessary comparatives have been adjusted to conform with changes in presentation in the current year.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	2014 E'000	2013 E'000
<b>2. PROFIT FOR THE YEAR</b>		
Profit for the year has been arrived at after charging the following items:		
Auditors' remuneration		
Current year fees	333	105
Prior year fees	608	644
	<u>941</u>	<u>749</u>
Directors' remuneration		
For services as directors	582	675
Depreciation:		
Buildings	4 073	3 207
Furniture and fittings	1 220	799
Office equipment	2 595	1 863
Motor vehicles	1 711	1 903
Household furniture	102	71
	<u>9 701</u>	<u>7 843</u>
Amortization:		
Computer software	5 038	1 823
Profit on sale of assets	116	2 591
Staff costs (note 7)	116 843	107 540
Repairs and maintenance on property, plant and equipment	3 575	3 157
Other expenses		
Advertising	1 053	982
General telephone	3 184	3 211
Contribution to International Organisation	649	2 697
Maintenance of machinery and computers	3 774	3 020
Other professional fees	2 192	1 827
Computer software license	4 267	4 114
Travelling Expenses	3 907	4 445
Fund Managers Fees	3 181	3 033
Insurance	3 447	4 055
Interest subsidy on staff loans	1 655	2 175
Staff welfare expenses	1 078	1 181
Security Service Contracts	1 620	1 763
Staff training Expenses	3 782	2 617
Other admin costs	23 888	16 865
	<u>57 677</u>	<u>51 985</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	2014 E'000	2013 E'000
<b>3. CURRENCY EXPENSES</b>		
Notes and coins issuing expenses (Refer to Note 18)	10 223	8 206
Rand repatriation expenses	1 328	1 380
Nhlangano sub-chest rental expenses	571	388
	<b>12 122</b>	<b>9 974</b>
The currency expenses above include the costs to issue notes and coins into circulation, rand repatriation expenses and the rental expenses to Standard Bank of Swaziland for the Nhlangano sub-chest.		
<b>4. INTEREST INCOME</b>		
Banks in South Africa	299 850	203 252
Income from Swaziland Government	5 011	21 471
Fund Managers	4 554	10 931
Overseas Investments	11 756	12 816
Local Investments	612	426
Local Advances and Staff Loans	566	570
SDR Holdings	643	536
	<b>322 992</b>	<b>250 002</b>
<b>5. INTEREST EXPENSE</b>		
Interest expense comprises of the following:		
Interest paid to the Government of Swaziland	61 606	34 822
Discount on CBS bills	-	-
Interest paid to banks	4 124	5 123
Interest paid to Capital Investment Fund	18 579	18 910
Interest on private placements	24 937	25 020
Other	1 495	1 353
	<b>110 741</b>	<b>85 228</b>
<b>6. NON INTEREST INCOME</b>		
Compensation for Rands in circulation	169 190	142 745
Rental income	4 223	3 664
Recoveries	7 728	11 610
Contribution by Special Funds	4 043	4 270
Commission earned	1 073	2 792
Other income	913	4 615
	<b>187 170</b>	<b>169 696</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 6. NON INTEREST INCOME (continued)

On 4 March 2004, the Declaration of Legal Tender Notice, 2004 was legislated and deemed to have come into force on 19 September 2003. Under this declaration, South African Rand notes were declared legal tender in Swaziland. In terms of the Bilateral Monetary Agreement between the Government of Swaziland and the Government of Republic of South Africa, the Central Bank of Swaziland is compensated by the Government of Republic of South African for Rands in circulation in Swaziland on a calendar year basis with effect from 19 September 2003. Compensation of E169 189 954 (2013: E142 745 234) due for the period from 1 April 2012 to 31 March 2013 has been included in Other Income in the Income Statement.

	2014 E'000	2013 E'000
<b>7. STAFF COSTS</b>		
Wages and salaries	92 414	83 488
Termination benefits	10 338	10 669
Defined contribution plan contributions	8 739	8 098
Leave pay provision	5 328	5 132
Staff uniform expenses	24	153
	<u>116 843</u>	<u>107 540</u>

### 8. REVALUATION LOSSES ON FOREIGN EXCHANGE ACTIVITIES

Foreign exchange gains on translation of foreign currency balances	<u>146 502</u>	<u>167 869</u>
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In terms of Section 35(1) of the Central Bank of Swaziland Order 1974, revaluation of foreign exchange transactions are to be transferred to the Revaluation Reserve. Total gains and losses for the year have been disclosed on the Statement of Comprehensive Income to reflect the financial performance of the Bank.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 9. PROPERTY, PLANT AND EQUIPMENT

	2014 E'000			2013 E'000		
	Cost/ revalued cost	Accumulated depreciation	Carrying value	Cost/ revalued cost	Accumulated depreciation	Carrying value
Buildings	167 580	(15 682)	151 898	144 852	(11 608)	133 244
Land	40 502	-	40 502	32 789	-	32 789
Furniture and fittings	10 909	(8 528)	2 381	10 453	(7 309)	3 144
Office equipment	45 290	(39 184)	6 106	42 780	(36 588)	6 192
Motor vehicles	9 058	(8 034)	1 024	8 692	(6 322)	2 370
Household furniture	763	(530)	233	691	(429)	262
Work in progress	134 652	-	134 652	68 260	-	68 260
<b>Total</b>	<b>408 754</b>	<b>(71 958)</b>	<b>336 796</b>	<b>308 517</b>	<b>(62 256)</b>	<b>246 261</b>

The carrying amounts of property, plant and equipment can be reconciled as follows:  
31 March 2014

	Carrying value at beginning of year	Revaluation surplus	Additions	Transfers	Disposals	Depreciation	Carrying value at end of year
Buildings	133 244	22 728	-	-	-	(4 074)	151 898
Land	32 789	7 713	-	-	-	-	40 502
Furniture and fittings	3 144	-	546	-	(89)	(1 220)	2 381
Office equipment	6 192	-	2 689	-	(180)	(2 595)	6 106
Motor vehicles	2 370	-	388	-	(23)	(1 711)	1 024
Household furniture	262	-	72	-	-	(101)	233
Work in progress*	68 260	-	66 392	-	-	-	134 652
<b>Total</b>	<b>246 261</b>	<b>30 441</b>	<b>70 087</b>	<b>-</b>	<b>(292)</b>	<b>(9 701)</b>	<b>336 796</b>

31 March 2013

	Carrying value at beginning of year	Revaluation surplus	Additions	Transfers	Disposals	Depreciation	Carrying value at end of year
Buildings	100 904	35 584	13	-	(50)	(3 207)	133 244
Land	27 757	5 083	-	-	(51)	-	32 789
Furniture and fittings	3 079	-	865	-	(1)	(799)	3 144
Office equipment	5 687	-	2 409	-	(41)	(1 863)	6 192
Motor vehicles	4 273	-	-	-	-	(1 903)	2 370
Household furniture	190	-	143	-	-	(71)	262
Work in progress*	39 006	-	29 254	-	-	-	68 260
<b>Total</b>	<b>180 896</b>	<b>40 667</b>	<b>32 684</b>	<b>-</b>	<b>(143)</b>	<b>(7 843)</b>	<b>246 261</b>

\*As at 31 March 2014 the Bank had work in progress of E134 651 938 (2013:E68 620 325) relating to the construction of a cash Centre building in Matsapha.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 9. PROPERTY, PLANT AND EQUIPMENT (continued)

A Reconciliation of the Capital work in progress costs as at 31 March 2014 are summarised as follows::

	2014 E'000	2013 E'000
Opening balance	81 126	54 640
Additional costs of actual work done	66 391	29 254
Prepayment towards the capital project costs	-	-
Prepayment utilised towards project costs-(Claw back)	(12 865)	(2 768)
Net carrying amount	134 652	81 126

The bank made a prepayment towards the construction of the Matsapha cash Centre building amount to E15.6 million to the contractor. The prepayment will be utilised against future capital project costs to be incurred in the future and as at 31 March 2014: 15.6 Million (2013: E2.7 Million) has been clawed back from the prepayment.

Included in the entity's property, plant and equipment are assets with zero net book values which are still being used by the bank. Summarised details of these assets are as follows:

	2014 E'000	2013 E'000
Cost	40 251	36 423
Accumulated depreciation	(40 251)	(36 423)
Net carrying amount	-	-

Registers containing details of land and buildings are available for inspection by members at the registered offices of the Bank. The Bank's land and buildings were revalued during the 2012/2013 financial year by Jeff Lowe Consultants. Valuations were made on the basis of open market value. The surplus on the revaluation was credited to a buildings revaluation reserve. If the land and buildings were stated at cost the amount would be E19, 683,455. The movement in the buildings revaluation surplus is as follows:

	2014 E'000	2013 E'000
Revaluation surplus on land and buildings		
Opening balance	112 711	74 916
Current year revaluation gains	30 441	40 667
Transfer of depreciation on revaluation surplus to appropriation account	(1 753)	(2 872)
	141 399	112 711

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 10. INTANGIBLE ASSETS

	2014 E'000			2013 E'000		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Computer software	49 806	(37 976)	11 830	43 638	(32 974)	10 664
<b>Total</b>	<b>49 806</b>	<b>(37 976)</b>	<b>11 830</b>	<b>43 638</b>	<b>(32 974)</b>	<b>10 664</b>

The carrying amounts of intangible assets can be reconciled as follows:

31 March 2014

	Carrying value at beginning of year	Additions	Disposal	Depreciation	Carrying value at end of year
Computer software	10 664	6 488	(284)	(5 038)	11 830
<b>Total</b>	<b>10 664</b>	<b>6 488</b>	<b>(284)</b>	<b>(5 038)</b>	<b>11 830</b>

31 March 2013

	Carrying value at beginning of year	Additions	Disposal	Depreciation	Carrying value at end of year
Computer software	1 647	10 840		(1 823)	10 664
<b>Total</b>	<b>1 647</b>	<b>10 840</b>		<b>(1 823)</b>	<b>10 664</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	2014 E'000	2013 E'000
<b>11. EXTERNAL INVESTMENTS</b>		
<b>Assets held at fair value through profit and loss</b>		
Investments in term deposits	4 769 950	2 947 178
Investment with external fund managers	1 069 977	932 543
	<hr/>	<hr/>
Total held at fair value investments	5 839 927	3 879 721
	<hr/>	<hr/>
<b>Assets held to maturity</b>		
Investment in securities	106 364	110 731
	<hr/>	<hr/>
Total held to maturity investment	106 364	110 731
	<hr/>	<hr/>
The held to maturity investment is a South African Reserve bond issued at a discount rate of 13.5% with a maturity date of 15 September 2015		
	<hr/>	<hr/>
Total external assets	5 946 291	3 990 452
	<hr/>	<hr/>
Maturity analysis:		
Within 1 month	1 516 337	450 466
From 2 months to 1 year	4 329 954	3 439 986
Over 1 year	100 000	100 000
	<hr/>	<hr/>
	5 946 291	3 990 452
	<hr/>	<hr/>
The maturity analysis is based on the remaining period from year-end to contractual maturity. The amounts disclosed in the analysis above are the contractual undiscounted cash flows.		
Currency analysis:		
ZAR	4 354 038	2 606 746
USD	1 453 443	1 265 111
Euro	138 810	118 595
	<hr/>	<hr/>
	5 946 291	3 990 452
	<hr/>	<hr/>

Credit risk management is based on the policies by the bank's investment committee, in terms of which counterparty limits and security arrangements are set. According to the policies investment funds may only be placed with institutions accredited with ratings of a least B by the Moody, Fitch, and Standard and Poors ratings. The change in fair value due to changes in credit quality or spreads is not material and therefore has not been disclosed separately.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	2014 E'000	2013 E'000
<b>12. CLAIMS ON PRIVATE SECTOR</b>		
Swaziland Building Society	1 830	1 830
AON Swaziland	5 082	5 700
Total claims on private sector	<u>6 912</u>	<u>7 530</u>

The Swaziland Building Society fixed deposits and permanent shares have a maturity of 6 months and interest is charged at fixed rates. The funds are reinvested on maturity.

The Aon Swaziland are gratuity funds for executive management. The investments earn interest at variable rates.

### 13. IMF QUOTA SUBSCRIPTION ACCOUNT

IMF Quota subscription held on behalf of Swaziland Government	<u>827 454</u>	<u>701 992</u>
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The subscription account reflects the initial and subscription quota payment made by Swaziland Government as a member in the International Monetary Fund. The quota is allocated based on the country's relative economic size and determines the member's relative voting power, access to financing and share in SDR allocations. It is initially recorded at the local currency rate based on historical cost. Whenever the Fund revalues its holdings of the member's currency to reflect the current exchange rate, the member's subscription in the IMF is also revalued at the same exchange rate. The Swaziland Government quota is SDR 50 700 000 (2011:50 700 000) converted at the SDR rate of 16.32060 (2013: 13.8460) at year end.

### 14. HOLDINGS OF SPECIAL DRAWING RIGHTS

Allocation of special drawing rights by the IMF	<u>795 279</u>	<u>616 854</u>
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The holdings of special drawing rights (SDR's) are an interest bearing international asset created by the IMF to supplement existing reserve assets. Allocations of SDRs were initially made to all members of the IMF who are participants of the SDR department. Holders of SDR's are allowed to use SDR's with other participants, prescribed holders and the IMF. SDR allocations are subject to charges while SDR holdings earn interest.

### 15. LOANS AND ADVANCES

Staff personal loans	10 630	11 466
Staff study loans	2 671	2 571
Staff housing loans	182	200
Staff car loans	-	11
Ex staff loans	255	662
Other staff loans	1	184
	<u>13 739</u>	<u>15 094</u>

The repayment for staff loans are between 1 years and 25 years. The amounts disclosed above are the contractual undiscounted cash flows as the impact of discounting is insignificant.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	2014 E'000	2013 E'000
<b>16. AMOUNTS DUE FROM GOVERNMENT OF SWAZILAND</b>		
Treasury Bills	1 265	634
Government bonds ( <i>refer to 16.1</i> )	-	57 523
182 CBS bills	-	-
Advances to the Swaziland Government ( <i>refer to 16.2</i> )	-	-
Opening balance	-	697 546
Advance	-	-
Repayments	-	(717 346)
Interest accrued	-	19 800
	<b>1 265</b>	<b>58 157</b>

16.1 The Bank purchased the Swaziland Government, bonds with an interest rate of 8.25% per annum payable semi-annually, and maturing on 31 March 2014.

16.2 In accordance with section 46 and 47 of the Central Bank order of 1974, as amended the bank advanced E660 million to the Swaziland Government. The amount was payable within 6 months after year end at an interest rate of 6% per annum. As at 31 March 2014 the advance had been fully settled by the Government.

Maturity analysis:

From 1 month to 6 months	1 265	8 157
Over 12 months	-	50 000
	<b>1 265</b>	<b>58 157</b>

The maturity analysis is based on the remaining period from year-end to contractual maturity. The amounts disclosed in the analysis above are the contractual undiscounted cash flows.

## 17. OTHER ASSETS

Compensation for Rands in circulation	42 297	35 686
Uncleared effects	925	5 014
Advance to Standard bank of Swaziland-Uncleared effects	30 000	45 000
Sundry debtors	8 200	3 440
Prepayments towards capital project costs-Matsapha Cash Centre	-	12 866
	<b>81 422</b>	<b>102 006</b>

Compensation for Rands circulating in Swaziland is due from the Government of Republic of South Africa (refer note 5). This amount represents an accrual for the period from January to March 2014 and will be settled within one year. Uncleared effects relate to items in course of collection between local and foreign banks and to the expatriation of notes and coins with South Africa. Sundry debtors consist of prepayments and miscellaneous debtors. The advance to standard bank was an overnight loan made to the commercial bank to comply with the regulatory requirements by the central bank of Swaziland. The overnight advance was settled by standard bank on the next working day.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

2014  
E'000

2013  
E'000

### 18. CURRENCY INVENTORY - NOTES AND COINS

Opening stock	39 473	46 898
Purchases - current year	3 057	781
Currency issues during the year	(10 223)	(8 206)
	<u>32 307</u>	<u>39 473</u>

The currency inventory is issued into circulation using the FIFO method.

### 19. CASH AND CASH EQUIVALENTS

Notes and coins	28 935	39 885
Balances with banks	1 141 248	1 417 593
Total cash and cash equivalents	<u>1 170 183</u>	<u>1 457 478</u>

Balances with banks consist of the following currencies:

	2014 E'000	Spot Rate @ 31 March 2014	2013 E'000	Spot Rate @ 31 March 2013
Euro	88 024	14.57	62 775	11.82
US Dollar	106 504	10.57	128 250	9.24
Rand / Emalangen	933 991	1.00	1 213 079	1.00
Japanese Yen	11 212	9.79	10 156	10.2
British Pound	606	17.66	1 278	14.00
Swiss Franc	210	0.08	884	0.10
Botswana Pula	74	1.20	185	1.12
Canadian Dollar	627	0.10	986	0.12
	<u>1 141 248</u>		<u>1 417 593</u>	

2014  
E'000

2013  
E'000

### 20. CAPITAL CONTRIBUTION

Capital Contribution	<u>185 768</u>	<u>185 768</u>
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## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	2014 E'000	2013 E'000
<b>21. REVALUATION RESERVE</b>		
Opening Balance	198 594	80 373
Revaluation of foreign currency activities in terms of section 35 (1) of the order	146 502	167 869
Transfer to Government of Swaziland consolidation account in terms of section 35 (4) of the order	(69 019)	(49 648)
	<u>276 077</u>	<u>198 594</u>
<p>As per the Central Bank of Swaziland Order Section 35 (1) gains arising from any exchange in the valuation of the Bank's assets or liabilities in or denominated in, gold, special drawing rights of foreign currencies as a result of any change in the values, parities or exchange rates of gold, special drawing rights or foreign currencies in terms of Emalangeni shall be credited to a revaluation reserve account. The revaluation gains for the year amounted to E267.8 million (2013: (E167.9 million).</p>		
<b>22. BUILDING FUND RESERVE</b>		
Opening balance	<u>50 000</u>	<u>50 000</u>
Closing balance	<u>50 000</u>	<u>50 000</u>
<p>This reserve was created in the financial year 2008/2009 to provide for the construction of the Bank's Disaster Recovery Building and a centralized cash center in Matsapha. The Disaster Recovery Building is expected to host the Bank's disaster recovery equipment as well as have adequate space to accommodate the bank's employees in the event of a disaster situation.</p>		
<b>23. CONTINGENCY RESERVE FUND</b>		
Opening balance	<u>73 817</u>	<u>73 817</u>
Closing balance	<u>73 817</u>	<u>73 817</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 23. CONTINGENCY RESERVE FUND (continued)

This reserve was created in the financial year 2008/2009 to strengthen the capital base of the Bank and to provide for future unbudgeted costs. In accordance with sec 41 (bis) the Bank transferred E5.751 million which was the shortfall in the SDR/IMF underwriting reserve account set aside to finance the negative position in the Special Drawing Rights as at 31 March 2013.

2014 E'000	2013 E'000
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### 24. GENERAL RESERVE

Opening balance	288 553	251 130
Transfer to general reserve (section 8 (1))	48 196	37 423
	<u>336 749</u>	<u>288 553</u>

As per section 8 (1) of the Central Bank Order, 1974, as amended, up to 25% of net profit of the Bank shall be transferred to the general reserve at the end of each financial year.

### 25. SDR/IMF UNDERWRITING RESERVE

Opening balance	51 795	-
Transfer to SDR/IMF underwriting reserve	-	51 795
Closing balance	<u>51 795</u>	<u>51 795</u>

As at 31 March 2013 the Bank held a negative position in Special Drawing Rights Holdings amounting to E51.795 Million. In accordance with the guidance from IMF the Bank is a fiscal agent and responsible for carrying out all operations and transactions with the Fund on behalf of the member, that is the Government. The Government through the Bank is ultimately responsible for the Holdings in Special Rights as the member of IMF. As a result the Government has approved the appropriation of E51.795 million to the SDR/IMF underwriting reserve to fund the deficit. During the year ended 31 March 2014 the Bank purchased the SDR's to correct the negative position in Special Drawing Rights.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

2014  
E'000

2013  
E'000

### 26. CURRENCY IN CIRCULATION

Notes	657 267	559 461
Coins	55 094	49 643
Total currency in circulation	712 361	609 104

The liability for notes and coins issued is the net liability after offsetting notes and coins held by the bank as cash on hand as this does not represent currency in circulation.

### 27. ALLOCATION OF SPECIAL DRAWING RIGHTS

48 284 670 Special Drawing Rights translated at E16.3206

(2013: E13.8460)

Interest accrued

788 035

668 549

156

100

788 191

668 649

Upon joining the International Monetary Fund (IMF), Swaziland was allocated a special drawing right of 6,432,000 units. The Central Bank of Swaziland administers the Special Drawing Rights on behalf of Government and accounts for the allocation in the financial records of the Bank. The units are translated daily using a basket of 4 major currencies. In April 2009 the Central Bank received an additional allocation of 41,852,670 units from the International Monetary Fund (IMF).

The Special Drawing Rights were initially recorded by accounting for the Allocation of the Special Drawing Rights as a liability and a corresponding entry as the Holdings of Special Drawing Rights under external assets. As the Special Drawing Rights are utilised by the Government, the Holdings of the Special Drawing rights are decreased.

The Allocation of Special Drawing Rights accrues interest expense at an average rate of 0.33% and the Holdings of Special Drawing Rights an income of 0.33%. The interest rate is determined every Friday by the IMF and adjusted by the Bank accordingly.

### 28. DOMESTIC DEPOSITS

#### Interest bearing deposits

Government of Swaziland	3 476 150	2 320 250
Capital Investment Fund	956 358	870 574
Banks in Swaziland	753 923	617 697
Funds administered by the Bank (28.1)	18 562	19 032
Financial Intelligence Unit	2 796	4 170
Other	18 718	21 375
Total domestic deposits	5 226 507	3 853 098

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 28. DOMESTIC DEPOSITS (continued)

28.1 Funds administered by the Bank are deposits made by the Small Scale Enterprise Loan Guarantee Scheme and Export Credit Guarantee Scheme (refer note 32). Other domestic deposits consist of deposits by Swaziland Building Society and other miscellaneous deposits.

	E'000 2014	E'000 2013
<b>Maturity analysis:</b>		
On demand	4 656 990	617 696
From 1 month to 6 months	569 517	3 235 402
	<u>5 226 507</u>	<u>3 853 098</u>

The maturity analysis is based on the remaining period from year-end to contractual maturity.

Domestic deposits balances include the following balances in foreign currencies;

	E'000 2014	Spot Rate @ 31 March 2014	E'000 2013	Spot Rate @ 31 March 2013
Euro	250 291	14.57	205 100	11.82
US Dollar	434 807	10.57	360 502	9.24
	<u>685 098</u>		<u>565 602</u>	
			E'000 2014	E'000 2013

### 29. FOREIGN DEPOSITS AND LIABILITIES

Swaziland Government Debt service	37 162	21 450
Swaziland Government IFAD account	64	2 893
Public Finance Management	1 962	-
Swaziland Government ADB Grant account-Nercha and HIV and TB projects		
International Bank of Reconstruction and Development	10 529	10 529
ABSA	5 767	1 742
Other	1 650	502
	<u>68 624</u>	<u>53 136</u>

Analyses of currency composition and maturity structure is set out in note 38.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	2014 E'000	2013 E'000
<b>30. OTHER LIABILITIES</b>		
<b>Financial liabilities</b>		
Disbursements	5 920	4 746
Public Service Pension Fund (30.1)	202 812	202 285
African Alliance (30.2)	151 040	151 295
	<b>359 772</b>	<b>358 326</b>
<b>Maturity analysis:</b>		
On demand	-	-
From 1 month to 6 months	359 772	3 580
From 7 months to 12 months	-	4 746
Over 12 months	-	350 000
	<b>359 772</b>	<b>358 326</b>

The maturity analysis is based on the remaining period from year end to contractual maturity. The amounts disclosed in the analysis above are the contractual undiscounted cash flows.

**30.1** To protect the country's reserves the Central Bank entered into an agreement with the Public Service Pension Fund (PSPF) to issue a private placement of E200 million. The amount earns an interest of 3 Months Jibar plus 1.5%. Interest is payable semi-annually in arrears on 19 January and 19 July commencing January 2012. The principal amount is re-payable on 19 July 2014.

**30.2** To protect the country's reserves the Central Bank entered into an agreement with African Alliance to issue a private placement of E150 million. The amount earns an interest of 3 Months Jibar plus 2%. Interest is payable semi-annually in arrears on 27 November and 27 May commencing November 2011. The principal amount is re-payable on 27 May 2014.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 31. PROVISIONS

	Provision for Gratuity E'000	Provision for Leave Pay E'000	Provision Other E'000	Provision for staff terminal benefits E'000	Total E'000
As at 31 March 2013	5 700	5 466	2 006	7 861	21 033
Additional provision for the year.	1 847	5 328	4 079	804	12 058
Used during the year	(2 465)	(4 822)	(2 006)	(5 489)	(14 782)
As at 31 March 2014	5 082	5 972	4 079	3 176	18 309
As at 31 March 2012	5 225	4 630	2 414	-	12 269
Additional provision for the year.	1 823	5 132	2 006	7 861	16 822
Used during the year	(1 348)	(4 296)	(2 414)	-	(8 058)
As at 31 March 2013	5 700	5 466	2 006	7 861	21 033

	E'000 2014	E'000 2013
Analysis of total provisions:		
Non current	5 082	5 700
Current	12 957	15 333
	18 039	21 033

#### Leave pay provision

This provision is for employees' entitlements to annual leave recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. The provision is calculated on the number of days that the employees have not taken in respect of their leave entitlement. The anticipated utilisation of the amount is in the near future.

#### Gratuity provision

This provision is made for payments in accordance with the contract basis renewable every three years. The provision is calculated at the rate of 25% of the value of total annual remuneration package of the contractor as at terminal date multiplied by the number of completed year of service. The cash flow is expected to occur in the financial year when the contract term is not renewed on expiry.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 31. PROVISIONS (continued)

#### Provision other

This provision is for committed expenses on which good/services has already been rendered but not paid for.

2014 E'000	2013 E'000
---------------	---------------

### 32. AMOUNTS PAYABLE TO THE CONSOLIDATED FUND

Opening balance	110 122	119 911
Transfer to the Government of Swaziland current account	(110 122)	(119 911)
Transfer to the Consolidated Fund in terms of Section 35 ( 4) of the Order	69 019	49 648
Transfer to the Consolidated Fund as provided under Section 8(3) of the Order	144 588	60 474
	<u>213 607</u>	<u>110 122</u>

Amounts relate to transfers made in terms of Section 8(3) and Section 35(4) of the Order which require that the balance remaining in the Appropriation account and 20% of the amount remaining in the Revaluation reserve shall be paid to the Consolidated Fund respectively.

### 33. IMF SECURITIES ACCOUNT

#### IMF Securities Account

Opening balance	611 255	523 986
Revaluation losses	109 247	87 269
	<u>720 502</u>	<u>611 255</u>

The IMF securities account represents accumulated revaluation gains on the IMF quota subscription account on the initial and quota payments made by the Swaziland Government. Settlement of the currency valuation payable to the Fund must be affected promptly after each April 30 or at the initiative of the IMF. Included in this balance is the reserve tranche position which is the difference between the IMF quota and the Fund's holdings of a member's currency. The IMF securities account was converted at the SDR rate of 13.85 at year end (2012:11.87).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

2014 E'000	2013 E'000
---------------	---------------

### 34. CONTINGENT LIABILITIES

#### 34.1 SMALL SCALE ENTERPRISE LOAN GUARANTEE SCHEME

There is a contingent liability under this scheme in respect of guarantees, limited to four times the balance of the Special Fund maintained under Section 41 (bis) of the Act, as amended.

Guarantees outstanding

24 855	15 183
--------	--------

The contingent liability is dependent on the event the enterprise whose liability is covered under the scheme defaults to the lenders, that is, the local commercial banks. The uncertainty of the event is due to that the Bank cannot reliably determine when the enterprise will default on their financial liabilities with the commercial banks.

#### Balance of funds:

Capital

17 400	12 400
--------	--------

Deficit

(5 563)	(5 610)
---------	---------

11 837	6 790
--------	-------

The Bank has also disclosed above the net asset position of the scheme. The capital contribution was made by the ministry of the finance at the inception of the scheme and the loss has been incurred in the normal operations of the fund as dictated by the Order.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

2014 E'000	2013 E'000
---------------	---------------

### 34.2 EXPORT CREDIT GUARANTEE SCHEME

There is a contingent liability under this scheme in respect of guarantees, limited to three times the cash balance available to the Fund in the books of the Bank and that no single exporter may be guaranteed for an amount in excess of one-third of the available limit.

Guarantees outstanding

The contingent liability is dependent on the event the enterprise whose liability is covered under the scheme defaults to the lenders, that is, the local commercial banks. The uncertainty of the event is due to that the bank cannot reliably determine when the enterprise will default on their financial liabilities with the commercial banks. There were no guarantees outstanding as at 31 March 2013.

-	-
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#### Balance of funds:

Capital

6 483	12 103
-------	--------

Loss

(683)	(620)
-------	-------

5 800	11 483
-------	--------

The Bank has also disclosed above the net asset position of the scheme. The capital contribution was made by the ministry of the finance at the inception of the scheme and the loss has been incurred in the normal operations of the fund as dictated by the Order.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 35. RELATED PARTY DISCLOSURES

The related party disclosure is required in terms of IAS 24, Related Parties Disclosures. The following transactions were carried out with related parties;

#### 35.1 Transactions with the Swaziland Government

The Bank is wholly owned and controlled by the Swaziland Government, which own 100% of its capital contribution.

##### 35.1.1 Swaziland Government Schemes

	Interest Paid	Deposit balance	Interest Paid	Deposit balance
Small Scale Enterprise Loan Guarantee Scheme	97	12 763	78	7 549
Export Credit Guarantee Scheme	92	5 799	118	11 483
Government of Swaziland deposits	61 606	3 476 150	34 822	2 320 250
Capital Investment Fund	18 579	956 358	18 910	870 574
	<b>80 374</b>	<b>4 451 070</b>	<b>53 928</b>	<b>3 209 856</b>

The above Schemes are administered by the Bank on behalf of the Government of Swaziland. Funds are deposited with the Bank and interest is paid on these balances. The Government of Swaziland deposits are government funds held by the Central Bank as a Government Bank.

##### 35.1.2 Expenses recovered by the Bank from the special funds

	2014 E'000	2013 E'000
Payroll Expenses	2 433	2 241
Utilities and other expenses	1 610	185
	<b>4 043</b>	<b>2 426</b>

The Bank has an agreement with the Government Schemes whereby the Bank charges the schemes payroll expenses for the bank's staff members who are responsible for the operations of the funds and also charges the funds rent space for the occupying the Bank offices and other utilities including printing and telephone expenses amongst other operational costs.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 35. RELATED PARTY DISCLOSURES (continued)

2014  
E'000

2013  
E'000

#### 35.1 Transactions with the Swaziland Government (continued)

- (i) Amounts payable to the consolidated fund (refer to note 32)  
The amount is payable to the government's current account in accordance with section 35 (4) and section 8 (3) of the Order

213 607 110 122

- (ii) Amounts due from the Swaziland Government (refer to note 16)
- Advances to the Government in accordance with section 46 and 47 of the order
  - Treasury bills purchased by the Bank from the Swaziland Government
  - Government bonds purchased by the Bank from the Swaziland Government

1 265 58 157

-	-
1 265	634
-	57 523

- (iii) Swaziland Government Deposits held with the bank (refer to note 28)

3 476 150 2 320 250

This balance comprises of Government bank accounts held with the bank earning interest and variable rates.

#### 35.2 Key Management compensation

Key management are those charged with planning, directing and controlling the activities of the bank, directly or indirectly. Transactions with key management personnel include salaries, gratuities and director's fees. Compensation paid to key management is shown below:

Board and related fees

582 675

Remuneration - total cost to the Bank

5 727 5 627

The remuneration to management is in accordance with the employer contracts with the management.

Loans and advances

1 096 1 126

The loans and advances are made to key management in accordance with the bank's human resource policy. The loans are charged an interest rate averaging 5% per annum and are repayable in 2-25 years.

Gratuity provision (refer to note 31)

5 082 5 700

This provision is made for payments in accordance with the contract basis renewable every three years. The provision is calculated at the rate of 25% of the value of total annual remuneration package

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 36. EMPLOYEE RETIREMENT BENEFITS OBLIGATION

	2014 E'000	2013 E'000
Employee contributions to defined contribution plan	8 739	8 098

The Bank makes contributions to a defined contribution plan that provides pension benefits for permanent employees upon retirement.

### 37. TAXATION

In terms of Section 56 of the Order, the Bank is exempt from taxation in respect of its profits and operations.

### 38. CAPITAL COMMITMENTS

	2014 E'000	2013 E'000
Contracted	-	13 842
Not contracted	-	-
	-	13 842

These capital commitments are in respect of property, plant and equipment, that is, the ongoing construction of Matsapha cash center and will be funded from internal resources. The total project costs incurred as at 31 March 2014 amount to E135 million (2013:68 million).

### 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk, credit risk and liquidity risk.

The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Bank.

Risk Management at the Central Bank of Swaziland, forms an integral part of reserves management within the governance structures of the Bank starting from the level of the Board. Risk management is carried out under policies approved by the Board of Directors of the Bank the Board defines the investment guidelines and the Bank's strategic asset allocation. The Investment committee formulates the investment mandate and monitors compliance with the Investment guidelines. The Board provides written principles for overall risk management, as well as for specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments, and investing excess liquidity. The types of risk that the foreign currency reserves are exposed to and the Bank's risk management approaches are stated below.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 39. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

#### 39.1 Market risk

Market price risk is the risk of loss resulting from changes in market conditions and prices. The Bank follows a passive investment strategy, whereby the Bank tracks a customised benchmark. The Bank's instruments are mark to market and thus the portfolio reflects market value at time of reporting.

##### 39.1.1 Interest rate risks

Since foreign currency reserves are invested in fixed income instruments, The Bank is exposed to interest rate risk, which is the risk that the market value of securities will decline due to changes in market interest rate. The Bank uses the investment benchmark's target duration as means of managing interest rate risk. As at 31 March 2013 the weighted duration of EUR and USD portfolios were 0.38 and 0.31 respectively.

The sensitivity analysis tables below measure the impact of a 25 basis points increase in interest rates on both USD and EUR portfolios as compares with portfolio holdings in 2013.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### for the year ended 31 March 2014

#### 39.1.1 Interest rate risks (continued)

The sensitivity analysis tables below measure the impact of an increase in interest rates by 0.25% (25bp) on the bank's USD and EURO and an increase in interest rates by 0.5% (50bp) on the bank's ZAR portfolios, comparing the years ended 31 March 2013 and 31 March 2014:

IMPACT OF 25 BASIS POINTS SHOCK ON USD PORTFOLIO - 2014								
Instrument	Amount invested (USD)	Actual Portfolio Weights	Interest Rate	Yield after 0.25% Shock	Yield After 0.25% Shock	Exchange Rate	SZL equivalent	Basis points Increase SZL equivalent
Overnight	-	-	-	-	-	10.5660	-	-
1m deposit	22 578 575	0.62	2.3	2.55	2.05	10.5660	238 564 090	49 701
3m deposit	-	-	-	-	-	10.5660	-	-
3m to 6m deposit	4 004 089	0.11	1.05	0.80	0.80	10.5660	42 307 003	26 442
6m to 12m deposit	9 820 483	0.27	1.12	0.87	0.87	10.5660	103 762 729	64 852
	36 403 147	1.00					384 633 822	140 995

IMPACT OF 25 BASIS POINTS SHOCK ON USD PORTFOLIO - 2013								
Instrument	Amount invested (USD)	Actual Portfolio Weights	Interest Rate	Yield after 0.25% Shock	Yield After 0.25% Shock	Exchange Rate	SZL equivalent	Basis points Increase SZL equivalent
Overnight	-	-	-	-	-	9.2438	-	-
1m deposit	-	-	-	-	-	9.2438	-	-
3m deposit	15 011 901	0.42	2.38	2.63	2.13	9.2438	138 766 255	86 729
3m to 6m deposit	11 569 959	0.32	1.05	1.30	0.80	9.2438	106 949 804	66 844
6m to 12m deposit	9 370 000	0.26	1.12	1.37	0.87	9.2438	86 613 938	54 134
	35 951 860	1.00					332 329 997	207 707

The durations of the USD portfolio for 2012/2013 and the 2013/2014 were 1.01 and 0.31 years. Longer term Credit Linked Notes contributed to the duration extension when compared to 2012/13. The portfolio as at 31 March 2013 had one government bond in ZAR maturing 2015.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## for the year ended 31 March 2014

### 39.1.1 Interest rate risks (continued)

IMPACT OF 25 BASIS POINTS SHOCK ON EUR PORTFOLIO - 2014									
Instrument	Amount invested (USD)	Actual Portfolio Weights	Interest Rate	Yield after 0.25% Shock	Exchange Rate	SZL equivalent	Basis points Increase SZL equivalent	Basis points Decrease SZL equivalent	
Overnight	-	-	-	-	-	-	-	-	
1m deposit	-	-	-	-	-	-	-	-	
2m deposit	-	-	-	-	-	-	-	-	
3m to 6m deposit	9 570 411	1.00	0.83	1.08	14.5652	139 394 948	58 081	(58 081)	
	9 570 411	1.00				139 394 948	58 081	(58 081)	

IMPACT OF 25 BASIS POINTS SHOCK ON EUR PORTFOLIO - 2013									
Instrument	Amount invested (USD)	Actual Portfolio Weights	Interest Rate	Yield after 0.25% Shock	Exchange Rate	SZL equivalent	Basis points Increase SZL equivalent	Basis points Decrease SZL equivalent	
Overnight	-	-	-	-	11.8237	-	-	-	
1m deposit	-	-	-	-	11.8237	-	-	-	
2m deposit	-	-	-	-	11.8237	-	-	-	
6m to 12m deposit	10 030 294	1.00	0.83	1.08	11.8237	118 594 684	74 122	(74 122)	
	10 030 294	1.00				118 594 684	74 122	(74 122)	

The duration of the EUR portfolios for 2012/2013 and 2013/2014 were 0.44 and 0.38 months respectively. The assets were fully invested in the money market instruments not exceeding 6 months implying that the risk that was inherent should rates be shocked up by 25 basis points was very minimal.

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
for the year ended 31 March 2014

IMPACT OF 50 BASIS POINTS SHOCK ON ZAR PORTFOLIO - 2014									
Instrument	Amount invested	Actual Portfolio Weights	Interest Rate	Yield after 0.50% Shock	Yield After 0.50% Shock	Exchange Rate	SZL equivalent	50 basis Points Increase SZL equivalent	50 basis Points Decrease SZL Equivalent
1m deposit	1 301 804 585	0.30	6.30	6.80	5.80	1.00	1 301 804 585	534 988	(534 988)
2m deposit	1 094 528 307	0.25	6.47	6.97	5.97	1.00	1 094 528 307	883 174	(883 174)
3m deposit	707 584 638	0.16	7.39	7.89	6.89	1.00	707 584 638	872 365	(872 365)
3m to 6 m deposit	916 240 862	0.21	6.47	6.97	5.97	1.00	916 240 862	753 075	(753 075)
6m to 12 m deposit	254 692 979	0.06	7.39	7.89	6.89	1.00	254 692 979	314 005	(314 005)
ZAR 157	100 628 767	0.02	13.5	14.00	13.00	1.00	100 628 767	503 144	(503 144)
	4 355 480 138	1.00					4 355 480 138	3 860 751	(3 860 751)

IMPACT OF 50 BASIS POINTS SHOCK ON ZAR PORTFOLIO - 2013									
Instrument	Amount invested	Actual Portfolio Weights	Interest Rate	Yield after 0.50% Shock	Yield After 0.50% Shock	Exchange Rate	SZL equivalent	50 basis Points Increase SZL equivalent	50 basis Points Decrease SZL Equivalent
1m deposit	1 053 706 715	0.55	6.3	6.80	5.80	1.00	1 053 706 715	433 030	(433 030)
2m deposit	19 885 882	0.01	6.47	6.97	5.97	1.00	19 885 882	16 345	(16 345)
3m deposit	301 345 489	0.16	7.39	7.89	6.89	1.00	301 345 489	382 618	(382 618)
3m to 6 m deposit	152 855 226	0.08	6.47	6.97	5.97	1.00	152 855 226	125 634	(125 634)
6m to 12 m deposit	282 884 767	0.15	7.39	7.89	6.89	1.00	282 884 767	348 762	(348 762)
ZAR 157	100 000 000	0.05	13.5	14.00	13.00	1.00	100 000 000	500 000	(500 000)
	1 910 678 078	1.00					1 910 678 078	1 806 389	(1 806 389)

The duration of the ZAR portfolio for 2012/13 and 2013/14 was 0.77 years and 0.15 years, respectively. The proportion of fixed income assets at 31 March 2014 declined from 3% to 2.3%.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 39.1.2 Currency Risk

#### *Currency Risk*

The country's FX reserves are held in three major currencies: being the South African Rand, Euro and US dollar. This by implication means that there is an exposure to currency risk arising from adverse movements in foreign exchange rates. By assessing the pattern of Government short and long-term debt as well as general expenditure a currency composition was formulated to act as a natural hedge against currency risk as it matches the liabilities against the assets. The bank usually holds ZAR 1 billion in its liquidity tranche at the beginning of each quarter for liquidity and working capital purposes with the remainder of the reserves (core portfolio) split according to the currency composition. The currency composition is as follows: 60% in ZAR, 30% in USD and 10% in EUR; this is done with a permissible deviation of 5% to the downside and topside.

As of 31<sup>st</sup> March 2014 the strategic currency composition stood as follows: 34.1% in USD, 5.5% in EUR, 59.9% in ZAR and 0.5% in other currencies.

Our ZAR portfolio is treasured into three; the working capital, liquidity and core portfolio and the working capital and the liquidity portfolios are fully invested in the money market, while the core portfolio also consist of bonds. The working capital portfolio has a time horizon of zero to three months in accordance with our projected cash outflow as demanded by the local banks as well as Government for her general spending. This is done to match short-term liabilities versus short-term assets and eliminate in the process any currency risk that may arise from mismatched positions, forcing us to buy or sell hard currencies (EUR, GBP and USD) in order to meet short term obligations. The liquidity portfolio has a time horizon of three to twelve months, and is used to replenish any shortages or shortfalls in the working capital portfolio. The core portfolio's sole mandate on the other hand is to grow reserves through enhanced return; following that, the core portfolio has a longer investment time horizon of three months to three years.

Depending on developments in the markets these investment time horizons are adhered to, but at the moment the market is undergoing a period of decreasing interest rates in South Africa, and hence, going forward into the new financial year 2014/2015, the portfolio, especially the core portfolio, will be re-priced and the duration will be kept medium term to twelve months and invested in the money market and overweight SA government bonds. Short term will be done away with so as to avoid reinvestment risk. Because the South African rand is at par with the local Lilangeni no currency risk arises from these portfolios.

#### *Cash Balances*

The Bank has about seven major Nostro accounts used for making government payments as well as CBS payments. These accounts are purely operational and hence balances are always kept at the most minimal levels possibly achievable. These accounts also form a negligible percentage of the whole portfolio and hence they are not taken as part of the investment portfolio. The stipulated balances to be held in these accounts are contained in the investment policy guidelines. The risk that arises on these accounts are related to foreign exchange movements leading to either revaluation loss or profit, which is also minimal considering the weight of these accounts on total assets.

As at 31 March 2014 the Bank had the following foreign currency position exposures:

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### for the year ended 31 March 2014

#### 39.1.2 Currency Risk (continued)

As at 31 March 2014 the Bank had the following currency position exposure:

	ZAR/E E'000	PULA E'000	CAD E'000	CHF E'000	EURO E'000	GBP E'000	JPY E'000	USD E'000	SDR E'000	Total E'000
<b>ASSETS</b>										
Property, plant and equipment	336 796	-	-	-	-	-	-	-	-	336 796
Intangible assets	11 830	-	-	-	-	-	-	-	-	11 830
External Investments	4 354 038	-	-	-	138 810	-	-	1 453 443	-	5 946 291
IMF Quota Subscription	-	-	-	-	-	-	-	-	827 454	827 454
Holdings of Special Drawing Rights	-	-	-	-	-	-	-	-	795 279	795 279
Loans and Advances	13 739	-	-	-	-	-	-	-	-	13 739
Notes and coins	32 307	-	-	-	-	-	-	-	-	32 307
Claims on private sector	6 912	-	-	-	-	-	-	-	-	6 912
Other assets	81 422	-	-	-	-	-	-	-	-	81 422
Amounts due from the Government of Swaziland	1 265	-	-	-	-	-	-	-	-	1 265
Cash and cash equivalents	962 926	74	627	210	88 024	606	11 212	106 504	-	1 170 183
	5 801 235	74	627	210	226 834	606	11 212	1 559 947	1 622 733	9 223 478

<b>LIABILITIES</b>										
Currency in circulation	712 361	-	-	-	-	-	-	-	-	712 361
Allocation of special drawing rights	-	-	-	-	-	-	-	-	788 191	788 191
Domestic deposits	4 541 409	-	-	-	250 291	-	-	434 807	-	5 226 507
Foreign deposits and Liabilities	16 714	-	-	2	2 697	-	10 257	38 954	-	68 624
IMF Securities Account	720 502	-	-	-	-	-	-	-	-	720 502
Provisions	18 309	-	-	-	-	-	-	-	-	18 309
Other Liabilities	359 772	-	-	-	-	-	-	-	-	359 772
Amount payable to the Consolidated Fund	213 607	-	-	-	-	-	-	-	-	213 607
	6 582 674	-	-	-	252 988	-	10 257	473 761	788 191	8 107 871

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## for the year ended 31 March 2014

### 39.1.2 Currency Risk (continued)

As at 31 March 2013 the Bank had the following currency position exposure:

	ZAR/ E E'000	PULA E'000	CAD E'000	CHF E'000	EURO E'000	GBP E'000	JPY E'000	USD E'000	SDR E'000	Total E'000
<b>ASSETS</b>										
Property, plant and equipment	246 261	-	-	-	-	-	-	-	-	246 261
Intangible assets	10 664	-	-	-	-	-	-	-	-	10 664
External Investments	2 606 746	-	-	-	118 595	-	-	1 265 111	-	3 990 452
IMF Quota Subscription	-	-	-	-	-	-	-	-	701 992	701 992
Holdings of Special Drawing Rights	-	-	-	-	-	-	-	-	616 854	616 854
Loans and Advances	15 094	-	-	-	-	-	-	-	-	15 094
Notes and coins	39 473	-	-	-	-	-	-	-	-	39 473
Claims on private sector	7 530	-	-	-	-	-	-	-	-	7 530
Other assets	102 006	-	-	-	-	-	-	-	-	102 006
Amounts due from the Government of Swaziland	58 157	-	-	-	-	-	-	-	-	58 157
Cash and cash equivalents	1 123 179	185	986	884	63 325	1 882	10 156	166 881	-	1 457 478
	4 209 110	185	986	884	181 920	1 882	10 156	1 431 992	1 318 846	7 245 961
<b>LIABILITIES</b>										
Currency in circulation	609 104	-	-	-	-	-	-	-	-	609 104
Allocation of special drawing rights	-	-	-	-	-	-	-	-	668 649	668 649
Domestic deposits	3 287 496	-	-	-	205 100	-	-	360 502	-	3 853 098
Foreign deposits and Liabilities	11 967	-	-	-	587	-	9 439	31 143	-	53 136
IMF Securities Account	-	-	-	-	-	-	-	-	611 255	611 255
Provisions	21 033	-	-	-	-	-	-	-	-	21 033
Other Liabilities	358 326	-	-	-	-	-	-	-	-	358 326
Amount payable to the Consolidated Fund	110 122	-	-	-	-	-	-	-	-	110 122
	4 398 048	-	-	-	205 687	-	9 439	391 645	1 279 904	6 284 723

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### for the year ended 31 March 2014

The effect of exchange rate fluctuations on the Bank's income statement is analysed as follows:

#### EXTERNAL INVESTMENTS 2014

	Balance in foreign currency	Rate at year end	+ 16%	-5%	SZL equivalent	Effect of 16% increase on the income statement	Effect of 5% decrease on the income statement
<b>USD</b>							
USD-Nostro	10 080 830	10.5660	12.3081	10.0179	106 513 546	17 562 300	(5 524 951)
USD-Cash/Travellers Cheques	513 001	10.5660	12.3081	10.0179	5 420 343	893 724	(281 158)
USD-Term Deposits	36 292 602	10.5660	12.3081	10.0179	383 465 824	63 227 093	(19 890 707)
USD-Fund Managers	101 265 599	10.5660	12.3081	10.0179	1 069 967 256	176 419 684	(55 500 136)
	148 152 033				1 565 366 969	258 102 801	(81 196 952)

	Balance in foreign currency	Rate at year end	+ 9%	-7%	SZL equivalent	Effect of 9% increase on the income statement	Effect of 7% decrease on the income statement
<b>EUR</b>							
EUR-Nostro	6 043 457	14.5652	15.8892	13.4810	88 024 162	8 001 377	(6 552 336)
Cash/Travellers Cheques	38 800	14.5652	15.8892	13.4810	565 130	51 370	(42 067)
EUR-Term Deposits	9 530 333	14.5652	15.8892	13.4810	138 811 211	12 617 909	(10 332 819)
EUR-BIS MTI's	-	14.5652	15.8892	13.4810	-	-	-
	15 612 590				227 400 503	20 670 656	(16 927 222)

**NOTES TO THE FINANCIAL STATEMENTS** (continued)  
for the year ended 31 March 2014

**EXTERNAL INVESTMENTS 2014**

	Balance in foreign Currency	Rate at year end	12%	-6%	SZL equivalent	Effect of 12% increase on the income statement	Effect of 6% decrease on the income statement
<b>GBP</b>							
Cash/ travellers cheques	72 098	17.5654	19.7401	16.5082	1 266 427	156 792	(76 219)
	72 098				1 266 427	156 792	(76 219)

**DEPOSITS AND EXTERNAL LIABILITIES 2013**

	Balance in foreign Currency	Rate at year end	+9%	-7%	SZL equivalent	Effect of 9% increase on the income statement	Effect of 7% decrease on the income statement
<b>Euro</b>							
Capital investment fund	12 480 309	14.5652	15.8892	13.4810	181 778 196	16 523 598	(13 531 192)
Replenishment on government reserves	4 706 171	14.5652	15.8892	13.4810	68 546 329	6 230 845	(5 102 446)
Swd Govt Debt Service	183 313	14.5652	15.8892	13.4810	2 669 984	242 701	(198 748)
SIDC	1 827	14.5652	15.8892	13.4810	26 616	2 419	(1 981)
	17 371 620				253 021 115	22 999 563	(18 834 367)

**NOTES TO THE FINANCIAL STATEMENTS (continued)**  
for the year ended 31 March 2014

**DEPOSITS AND EXTERNAL LIABILITIES 2014 (continued)**

	Balance in foreign Currency	Rate at year end	+ 16%	-5%	SZL equivalent	Effect of 16% increase on the income statement	Effect of 8% decrease on the income statement
<b>US Dollar</b>							
Capital investment fund	25 241 206	10.5660	12.3081	10.0179	266 697 817	43 973 922	(13 833 823)
Replenishment of government reserves	12 835 863	10.5660	12.3081	10.0179	135 623 088	22 361 976	(7 034 888)
Fund managers fees	76 000	10.5660	12.3081	10.0179	803 012	132 403	(41 653)
Swaziland Govt Debt Service	2 293 536	10.5660	12.3081	10.0179	24 233 391	3 995 680	(1 257 007)
Swd Govt IFAD Loan no.5	1 511	10.5660	12.3081	10.0179	15 965	2 632	(828)
Swd Govt IFAD Grant	644	10.5660	12.3081	10.0179	6 804	1 122	(353)
IFAD Rural Finance and Enterprise	426	10.5660	12.3081	10.0179	4 500	742	(233)
Swd ADB Grant-Nercha/HIV	4 382 309	10.5660	12.3081	10.0179	46 303 262	7 634 633	(2 401 791)
	<b>44 831 495</b>				<b>473 687 339</b>	<b>78 103 110</b>	<b>(24 570 576)</b>

The net effect of the movements on the revaluation gains in the income statement would be as follows:

	Net increase on the income statement	Net decrease on the income statement	Total effect
<b>US dollar</b>	<b>336 205 912</b>	<b>(105 767 528)</b>	<b>230 438 386</b>
Euro	43 670 219	(35 761 589)	7 908 630
British Pound	156 792	(76 219)	80 573
	<b>380 032 923</b>	<b>(141 605 336)</b>	<b>238 427 587</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### for the year ended 31 March 2014

The effect of exchange rate fluctuations on the Bank's income statement is analysed as follows:

#### EXTERNAL INVESTMENTS 2013

	Balance in foreign Currency	Rate at year end	+ 14%	-8%	SZL equivalent	Effect of 14% increase on the income statement	Effect of 8% decrease on the income statement
USD							
USD-Nostro	13 874 408	9.2438	10.5594	8.5104	128 251 561	18 253 909	(10 175 124)
USD-Cash/travellers cheques	2 114 483	9.2438	10.5594	8.5104	19 545 752	2 781 926	(1 550 706)
USD-Term deposits	35 920 000	9.2438	10.5594	8.5104	332 035 500	47 258 263	(26 342 777)
USD-Fund managers	100 883 612	9.2438	10.5594	8.5104	932 542 888	132 727 846	(73 985 371)
	152 792 503				1 412 375 701	201 021 944	(112 053 978)

	Balance in foreign Currency	Rate at year end	-12%	-7%	SZL equivalent	Effect of 12% increase on the income statement	Effect of 7% decrease on the income statement
EUR							
EUR- Nostro	5 309 318	11.8237	13.2285	10.9861	62 775 515	7 458 762	(4 446 743)
Cash/travellers cheques	46 490	11.8237	13.2285	10.9861	549 681	65 311	(38 937)
EUR-term deposits	10 016 431	11.8237	13.2285	10.9861	118 430 769	14 071 520	(8 389 117)
EUR-BIS MTI's	-	11.8237	13.2285	10.9861	-	-	-
	15 372 239				181 755 965	21 595 593	(12 874 797)

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## for the year ended 31 March 2014

### EXTERNAL INVESTMENTS 2013

	Balance in foreign Currency	Rate at year end	7%	-6%	SZL equivalent	Effect of 7% increase on the income statement	Effect of 6% decrease on the income statement
GBP							
Cash/travellers cheques	134 346	14.0071	15.0048	13.2008	1 881 789	134 041	(108 310)
	134 346				1 881 789	134 041	(108 310)

### DEPOSITS AND EXTERNAL LIABILITIES 2013

	Balance in foreign Currency	Rate at year end	+ 12%	-7%	SZL equivalent	Effect of 12% increase on the income statement	Effect of 7% decrease on the income statement
Euro							
Capital investment fund	17 346 622	11.8237	13.2285	10 9861	205 100 392	24 369 294	(14 528 414)
Replenishment on government reserves	4 703 905	11.8237	13.2285	10 9861	55 617 324	6 608 251	(3 939 688)
Swd Govt Debt Service	47 844	11.8237	13.2285	10 9861	565 692	67 214	(40 071)
SIDC	1 809	11.8237	13.2285	10 9861	21 391	2 542	(1 515)
	22 100 180				261 304 799	31 047 301	(18 509 688)

# NOTES TO THE FINANCIAL STATEMENTS (continued)

## for the year ended 31 March 2014

### DEPOSITS AND EXTERNAL LIABILITIES 2013 (continued)

	Balance in foreign Currency	Rate at year end	+ 14%	-8%	SZL equivalent	Effect of 14% increase on the income statement	Effect of 8% decrease on the income statement
US Dollar							
Capital investment fund	25 221 259	9.2438	10.5594	8.5104	223 139 016	33 182 430	(18 496 604)
Replenishment of government reserves	12 825 720	9.2438	10.5594	8.5104	118 557 748	16 874 199	(9 406 044)
Fund managers fees	78 256	9.2438	10.5594	8.5104	723 379	102 958	(57 391)
Swaziland Govt Debt Service	1 237 824	9.2438	10.5594	8.5104	11 442 136	1 628 547	(907 787)
Swd Govt IFAD Loan no.5	298 784	9.2438	10.5594	8.5104	2 761 886	393 096	(219 120)
Swd Govt IFAD Grant	312 172	9.2438	10.5594	8.5104	2 885 636	410 710	(228 938)
IFAD Rural Finance and Enterprise	399 955	9.2438	10.5594	8.5104	3 697 084	526 202	(293 316)
Swd ADB Grant-Nercha/HIV	1 987 685	9.2438	10.5594	8.5104	18 373 662	2 615 104	(1 457 716)
	42 361 655				381 580 547	55 733 246	(31 066 916)

The net effect of the movements on the revaluation gains in the income statement would be as follows:

	Net increase on the income statement	Net decrease on the income statement	Total effect
US dollar	256 755 191	(143 120 895)	113 634 297
Euro	52 642 893	(31 384 485)	21 258 408
British Pound	134 041	(108 310)	25 731
	309 532 125	(174 613 690)	134 918 436

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### for the year ended 31 March 2014

#### 39.2 Liquidity Risk

##### Liquidity Analysis

Liquidity Risk involves or includes the inability to manage unplanned changes in funding resources. In the case of the Central Bank of Swaziland, it would be inability to meet or honour foreign exchange obligations as they fall due. Another dimension would be the probability that the Bank incur capital losses when it disposes off its securities in the secondary market. The amounts included in the table are the contractual discounted cash flows. As a result, these amounts will not reconcile to the amounts disclosed on the statement of financial position except for short-term payables and receivables to be settled within 12 months where discounting is not applied. The Liquidity Risk Analysis statement as at 31 March 2014 is as follows:

	On demand E'000	1 month E'000	2-6 months E'000	7- 12 months E'000	Over 12 months E'000	Total E'000
<b>ASSETS</b>						
External Investments	6 364	1 509 973	2 906 283	353 694	1 169 977	5 946 291
Claims on private sector	-	-	6 912	-	-	6 912
Loans and advances	-	-	-	-	13 739	13 739
Amounts due from the Government of Swaziland	-	-	1 265	-	-	1 265
Other assets	81 422	-	-	-	-	81 422
Cash and cash equivalents	1 170 183	-	-	-	-	1 170 183
	1 257 969	1 509 973	2 914 460	353 694	1 183 716	7 219 812

<b>LIABILITIES</b>						
Currency in circulation	712 361	-	-	-	-	712 361
Domestic deposits	4 656 990	-	35 917	-	533 600	5 226 507
Foreign deposits and liabilities	68 624	-	-	-	-	68 624
Other Liabilities	-	-	359 772	-	-	359 772
Provisions	-	-	-	13 227	5 082	18 309
Amount payable to the Consolidated Fund	213 607	-	-	-	-	207 856
	5 651 532	-	395 689	13 227	538 682	6 593 429
Liquidity sensitivity gap	(4 373 813)	1 509 973	2 518 771	340 467	645 034	626 183
Cumulative liquidity sensitivity gap	(4 373 813)	(2 833 840)	(365 069)	(24 602)	620 432	1 240 864

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### for the year ended 31 March 2014

#### 39.2 Liquidity Risk (continued)

##### Liquidity Analysis

Liquidity Risk involves or includes the inability to manage unplanned changes in funding resources. In the case of the Central Bank of Swaziland, it would be inability to meet or honour foreign exchange obligations as they fall due. Another dimension would be the probability that the Bank incur capital losses when it disposes off its securities in the secondary market. The amounts included in the table are the contractual discounted cash flows. As a result, these amounts will not reconcile to the amounts disclosed on the statement of financial position except for short-term payables and receivables to be settled within 12 months where discounting is not applied. The Liquidity Risk Analysis statement as at 31 March 2013 is as follows:

	On demand E'000	1 month E'000	2-6 months E'000	7-12 months E'000	Over 12 months E'000	Total E'000
<b>ASSETS</b>						
External Investments	10 731	1 184 611	1 277 321	485 045	997 047	3 954 755
Claims on private sector	-	-	-	7 530	-	7 530
Loans and advances	-	-	-	-	15 094	15 094
Amounts due from the Government of Swaziland	58 157	-	-	-	-	58 157
Other assets	102 006	-	-	-	-	102 006
Cash and cash equivalents	1 457 478	-	-	-	-	1 457 478
	1 628 372	1 184 611	1 277 321	492 575	1 012 141	5 595 020
<b>LIABILITIES</b>						
Currency in circulation	609 104	-	-	-	-	609 104
Domestic deposits	617 696	3 235 402	-	-	-	3 853 098
Foreign deposits and liabilities	-	-	21 450	31 686	-	53 136
Other Liabilities	-	-	3 580	4 746	350 000	358 326
Provisions	21 033	-	-	-	-	21 033
Amount payable to the Consolidated Fund	110 122	-	-	-	-	110 122
	1 357 955	3 235 402	25 030	36 432	350 000	5 004 819
Liquidity sensitivity gap	270 417	(2 050 791)	1 252 291	456 143	662 141	590 201
Cumulative liquidity sensitivity gap	270 417	(1 780 374)	(528 083)	(71 940)	590 201	1 180 402

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### for the year ended 31 March 2014

#### 39.3 Credit Risk

This is the risk that the Bank's counterparties will default on their obligations as they fall due. The Bank mitigates this risk by investing with reputable institutions which are rated by Fitch, Moody's and Standard & Poors rating agencies. The Bank also minimizes this risk by investing in money market instruments issued by counterparties with short-term minimum rating of F1+ and long term rating of A, with the exception of the major South African banks. The counterparties for debt issuers must have a short-term rating of F1+ and a long term rating of AA, with the exception of the Republic of South Africa.

Counterparties are group into three categories to determine limits in respect of investments, and are set at an equivalence of E750, E550 and E350 million for Category 1, 2 and 3, respectively

Detailed below is a table which provides rating information on institutions where the Bank invests its funds:

Counterparty	Correspondence Bank	Short Term Rating	Long Term Rating
<b>Botswana</b>	Bank of Botswana	Not rated	Not rated
<b>Canada</b>	Bank of Canada	Not rated	Not rated
	Royal Bank of Canada	F1+	AA
	Bank of Montreal	F1+	AA-
<b>France</b>	<b>Banque de France</b>	Not rated	Not rated
	Banque National de Paris	F1+	AA+
	Credit Agricole	F1	A
	Societe Generale	F1	A
<b>German</b>	<b>Deutsche Bundesbank</b>	Not rated	Not rated
	Deutsche Bank - Frankfurt	F1+	A+
	Commerzbank	F1+	A+
	West LB	F1	A+
	Dresdner Bank	F2	A+

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 39.3 Credit Risk (continued)

Counterparty	Correspondence Bank	Short Term Rating	Long Term Rating
Japan	Bank of Japan	Not rated	Not rated
	The Bank of Tokyo - Mitsubishi	F1	AA-
Netherlands	Denetherlands Bank	Not rated	Not rated
	ABN AMRO	F1+	A+
	Rabobank	F1+	AA-
Republic of South Africa	SARB	Not rated	Not rated
	ABSA	F2	A-
	First Rand Bank	F2	BBB
	Standard Bank of SA	F2	BBB
	Nedbank	F2	BBB
	Investec Bank	F3	BBB-
Switzerland	Swiss National Bank	Not rated	Not rated
	BIS	Not rated	Not rated
	UBS AG	F1	A
	Credit Sausse	F1	A
United Kingdom	Bank of England	Not rated	Not rated
	Barclays Bank	F1	A
	Lloyds Bank	F1	A
	National Westminster bank	F1+	A
	HSBC Bank/Midland	F1+	AA-
	Crown Agents Fin Services	F2	BBB+

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 39.3 Credit Risk (continued)

Counterparty	Correspondence Bank	Short Term Rating	Long Term Rating
United States of America	Federal Reserve Bank	Not rated	Not rated
	JP Morgan chase	F1+	A+
	Citibank NY	F1	A
	Chase Manhattan Bank	F1+	A+
<b>Debt Issuers</b>			
<b>Sovereign and Sovereign Guaranteed</b>			
Australia	Australia	F1+	AAA
Austria	Republic of Austria	F1+	AAA
Belgium	Kingdom of Belgium	F1+	AA
Canada	Government of Canada	F1+	AAA
Denmark	Kingdom of Denmark	F1+	AAA
France	Republic of France	F1+	AA+
	Govt Guaranteed Agencies	Not rated	Not rated
Germany	Republic of German	F1+	AAA
	Govt Guaranteed Agencies	Not rated	Not rated
Italy	Republic of Italy	F2	BBB+
Japan	Government of Japan	F1+	A+
	Govt Guaranteed Agencies	Not rated	Not rated
Netherlands	Kingdom of Netherlands	F1+	AAA
Switzerland	Government of Switzerland	F1+	AAA
UK	UK Government	F1+	AAA
	Govt Guaranteed Agencies	Not rated	Not rated
USA	USA Government	F1+	AA+
	Govt Guaranteed Agencies	Not rated	Not rated
South Africa	Republic of South Africa	F2	BBB
	Govt Guaranteed Agencies	Not rated	Not rated

# **NOTES TO THE FINANCIAL STATEMENTS (continued)** for the year ended 31 March 2014

## **39.3 Credit Risk (continued)**

Counterparty	Correspondence Bank	Short Term Rating	Long Term Rating
<b>Supranational</b>			
African Development Bank (ADB)		F+	AAA
Inter-American Development		F+	AAA
IBRD		F+	AAA
Council of Europe Development Bank		F+	AA
European Community		F+	AA
European Bank for Reconstruction & Development		F+	AAA
<b>Counterparties &amp; RSA Asset Managers</b>			
ABSA Money Asset Managers		Not rated	Not rated
Rand Merchant Bank Asset Managers		Not rated	Not rated
Investec Asset Managers		Not rated	Not rated
Standard Bank Asset Managers		Not rated	Not rated
Nedbank Asset Managers		Not rated	Not rated
Allan Gray Asset Managers		Not rated	Not rated
Prudential Asset Managers		Not rated	Not rated
Coronation Asset Managers		Not rated	Not rated
World Bank Ramp Asset Managers		Not rated	Not rated

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 39.3 Credit Risk (continued)

The table below shows the maximum exposures to credit risk for the financial instruments held the maximum exposure is shown gross, before the effect of mitigating factors:

Counterparty	Correspondence Bank	Currency	Short Term Rating	Long Term Rating	Balances Held 2014 E'000	2013 E'000
<b>Cash and Cash Equivalents</b>						
Botswana	Bank of Botswana	Pula	Not rated	Not rated	73	185
Canada	Bank of Canada	Canadian dollar	F1+	AA	627	986
	Commerzbank	Euro	F1+	A+	6 170	61 540
Mauritius	Bank of Mauritius	Euro	Not rated	Not rated	1 457	1 182
Republic of South Africa	SARB	Rands	Not rated	Not rated	917 929	1 209 412
	ABSA	Rands	F2	A-	9 368	3 667
Switzerland	BIS	Swiss Francs	Not rated	Not rated	80 399	53
France	Banque National Suisse	Francs	F1+	AA	210	885
Japan	Bank of Tokyo	Japanese Yen	F1	A-	11 21	10 156
United Kingdom	Bank of England	Pounds	Not rated	Not rated	528	365
	National Westminster bank	Pounds	F1+	A	75	912
	HSBC Bank /Midland	Pounds	F1+	AA	2	2
United States of America	Federal Reserve Bank	Dollars	Not rated	Not rated	89 467	117 085
	Citibank NY	Dollars	F1+	A+	23 731	11 163
					1 141 248	1 417 593

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### for the year ended 31 March 2014

#### 39.3 Credit Risk (continued)

The table below shows the maximum exposures to credit risk for the financial instruments held the maximum exposure is shown gross, before the effect of mitigating factors:

Counterparty	Correspondence Bank	Short Term Rating	Long Term Rating	Balances Held 2014 E'000	2013 E'000
<b>External Investments</b>					
	Commerzbank	F1+	A+	179	-
	Natixis CE and BP	F1	A+	389 480	614 044
	Calyon	F1+	A+	100 542	-
	West LB	F1	AAA	-	-
Netherlands	Rabobank	F1+	AA	763 006	-
Republic of South Africa	ABSA	F1+	AAA	-	151 270
	Standard Bank of South Africa	F3	BBB	552 753	578 555
	South African Reserve Bank	Not rated	Not rated	106 993	100 628
	Standard Corporate and Merchant	F1+	AA	103 762	-
	Nedbank	F3	BBB	-	252 584
	Rand Merchant Bank	F3	BBB	335 662	194 167
	ABN AMBRO JHB	F1+	A+	-	-
	Investec	F3	BBB	353 884	353 647
Switzerland	BIS	Not rated	Not rated	-	-
	Union Bank of Switzerland	F1+	A	396 079	100 142
United Kingdom	Bank of England	Not rated	Not rated	407 714	-
	Barclays Bank	F1+	A	150 420	389 390
	HSBC Bank/Midland	F1+	AA-	-	-
	Crown Agents Fin Services	F2	BBB	560 595	253 428
United States of America	Morgan Keegan and Company Inc.	F1	A	-	-
	Citibank of London	F1+	A	453 255	70 055

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### for the year ended 31 March 2014

#### 39.3 Credit Risk

The table below shows the maximum exposures to credit risk for the financial instruments held the maximum exposure is shown gross, before the effect of mitigating factors:

Counterparty	Correspondence Bank	Short Term Rating	Long Term Rating	Balances Held 2014 E'000	2013 E'000
Rand Merchant Bank Asset Managers		Not rated	Not rated	-	-
World Bank Ramp Asset Managers		Not rated	Not rated	1 069 967	932 534
OZ overseas		Not rated	Not rated	-	8
				5 946 291	3 990 452

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 39.4 Settlement Risk

This is the risk that the Bank is exposed to when settling or clearing transactions. In its day to day operations in financial markets, the Bank is exposed to the risk that one of the parties to a deal may fail to honor its part in the contract. Settlement risk is present in the case of all trades where the exchange of cash or securities is not immediate. This risk is of particular of significance as foreign exchange transactions are settled only two days after the deal date, and uncertain events within these two days could have a negative impact on the Bank

To mitigate settlement risk, the Bank implemented a policy of dealing only with reputable counterparties that are highly rated by professional rating agencies, currently Fitch Rating. The ratings are monitored by the Bank very closely and total trades with each counterparty are within set limits. To diminish the risk of failure to deliver on the Bank's part, all effort is made to comply with international practice and internal procedures.

### 39.5 Operational Risk

This is a risk of financial losses or a damage to the Bank's reputation as a result of non-financial factors relating to its business. The non-financial or operational risk factors include systems breakdowns, human factors, fraud, and natural disasters.

As part of the Bank's overall risk management program to minimize the occurrence and effect of unpleasant factors associated with operational risk, there are internal controls, policies and procedures in place. Current measures to mitigate the risk factors are as follows:

- Systems breakdown: daily backup of all systems and data, as a part of a bank-wide Business Continuity Plan (BCP)
- Human factors: insufficient personnel, lack of knowledge, skills and experiences, inadequate training and development, inadequate supervision, loss of key personnel, inadequate succession planning or lack of integrity or ethical standards.
- Fraud: segregation of duties in all operations, coupled with controlled access to all sensitive areas and systems
- Natural disasters: Disaster Recovery Plan (DRP)/BCP and insurance policies covering lives and property
- External events: the occurrence of an event having an adverse impact on the Bank outside its control.

The operational risk at the Bank is managed by having a suitable operational organizational structure with clear segregation of duties as well as defined built - in systematic controls. Bank wide operation manuals are in place to be followed by staff.

In as far the treasury operations are concerned the Bank ensures that the dealers are well trained in instruments in which they are trading and that the systems they need to operate on is in place. The bank also makes sure that all investment officers are aware of procedures in place and have access to relevant documents.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 39.6 Financial instruments by category

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or amortised cost. The summary of accounting policies in Note 4 describes how the classes of financial instruments are measured and how income and expenses, including fair value gains are recognised. The following table analyses the carrying amounts of the financial assets and liabilities by category:

	Loans and receivables E'000	At fair value through profit and loss E'000	Available for sale E'000	Financial Liabilities at Amortised cost E'000	Total E'000
<b>2014</b>					
<b>Financial Assets</b>					
External Investments		5 946 291	-	-	5 946 291
Claims on Private Sector	6 912	-	-	-	6 912
Loans and advances	13 739	-	-	-	13 739
Claims due from the Government of Swaziland	1 265	-	-	-	1 265
Cash and Cash Equivalents	1 170 183	-	-	-	1 170 183
	<b>1 192 099</b>	<b>5 946 291</b>	<b>-</b>	<b>-</b>	<b>7 138 390</b>
<b>Financial Liabilities</b>					
Domestic Deposits	-	-	-	5 226 507	5 226 507
Foreign Deposits and Liabilities	-	-	-	68 624	68 624
Other Liabilities	-	-	-	354 698	354 698
Amounts payable to the consolidated fund	-	-	-	213 607	213 607
	<b>-</b>	<b>-</b>	<b>-</b>	<b>5 863 436</b>	<b>5 863 436</b>
<b>2013</b>					
<b>Financial Assets</b>					
External Investments	-	3 990 452	-	-	3 990 452
Claims on Private Sector	7 530	-	-	-	7 530
Loans and advances	15 094	-	-	-	15 094
Claims due from the Government of Swaziland	58 157	-	-	-	58 157
Cash and Cash Equivalents	1 457 478	-	-	-	1 457 478
	<b>1 538 259</b>	<b>3 990 452</b>	<b>-</b>	<b>-</b>	<b>5 528 711</b>
<b>Financial Liabilities</b>					
Domestic Deposits	-	-	-	3 853 098	3 853 098
Foreign Deposits and Liabilities	-	-	-	53 136	53 136
Other Liabilities	-	-	-	358 326	358 326
Amounts payable to the consolidated fund	-	-	-	110 122	110 122
	<b>-</b>	<b>-</b>	<b>-</b>	<b>4 374 682</b>	<b>4 374 682</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 39.7 Fair value hierarchy disclosures

The table below analyses financial instruments carried at fair value by the level of fair value hierarchy. The fair value hierarchy depends on the extent to which quoted prices are used in determining the fair value of the specific instruments. The different levels are defined as follows:

Level 1: Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.

Level 2: Fair value is based on input other than quoted prices included in Level 1 that is observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Fair value is based on input for the asset or liability that is not based on observable market data (i.e., unobservable inputs).

	Level 1 E'000	Level 2 E'000	Level 3 E'000	Total E'000
<b>2014</b>				
<b>Financial Instruments</b>				
Investments in term deposits	4 769 950	-	-	4 769 950
Investments with external fund managers	1 069 977	-	-	1 069 977
Investments in Securities	106 364	-	-	106 364
	<u>5 946 291</u>	<u>-</u>	<u>-</u>	<u>5 946 291</u>

<b>2013</b>				
<b>Financial Instruments</b>				
Investments in term deposits	2 946 977	-	-	2 946 977
Investments with external fund managers	932 543	-	-	932 543
Investments in Securities	110 932	-	-	110 932
	<u>3 990 452</u>	<u>-</u>	<u>-</u>	<u>3 990 452</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 40. REPAYMENT TERMS AND INTEREST RATES APPLICABLE TO FINANCIAL ASSETS AND LIABILITIES

The repayment terms and the applicable interest rates of the financial assets and liabilities are as follows:

	Fixed or Floating Interest rates	Average Interest rates (%)	Terms of Repayment
2014			
<b>ASSETS</b>			
External investments:			
Investments in term deposits - ZAR	Fixed	6.97%	< 1 Year
Investments in term deposits - Non ZAR	Fixed	6.30%	< 1 Year
Investments in securities - ZAR	Fixed	13.50%	> 1 Year
Investments in securities - Non ZAR	Fixed	2.89%	> 1 Year
Holding of Special Drawing Rights	Floating	0.33%	No Fixed terms
Claims on private sector			
Advances to staff	Fixed	5.00%	2 to 25 years
Advances to Swd Government	Fixed	6.00%	> 1 Year
Swaziland Building Society Deposits	Fixed	2.75%	< 1 Year
Swaziland Government bonds	Fixed	8.25%	> 1 Year
Cash and cash equivalents			
Balances with banks	Floating	6.03%	< 1 Year
<b>LIABILITIES</b>			
Allocation of Special Drawing Rights	Floating	0.33%	No Fixed terms
Domestic deposits			
Government of Swaziland - replacement reserve	Fixed	4.24%	< 1 Year
Government of Swaziland - current account	Floating	3.81%	< 1 Year
Banks in Swaziland	Floating	3.91%	< 1 Year
Public Service Pension Fund Placement	Floating	JIBAR +2.00%	< 1 Year
African Alliance Placement	Floating	JIBAR +1.5%	< 1 Year
Other domestic deposits	Floating	0.50%	< 1 Year

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 40. REPAYMENT TERMS AND INTEREST RATES APPLICABLE TO FINANCIAL ASSETS AND LIABILITIES (continued)

The repayment terms and the applicable interest rates of the financial assets and liabilities are as follows:

	Fixed or Floating Interest rates	Average Interest rates (%)	Terms of Repayment
<b>2013</b>			
<b>ASSETS</b>			
External investments:			
Investments in term deposits - ZAR	Fixed	6.97%	< 1 Year
Investments in term deposits - Non ZAR	Fixed	6.30%	< 1 Year
Investments in securities - ZAR	Fixed	13.50%	> 1 Year
Investments in securities - Non ZAR	Fixed	2.89%	> 1 Year
Holding of Special Drawing Rights	Floating	0.33%	No Fixed terms
Claims on private sector			
Advances to staff	Fixed	5.00%	2 to 25 years
Advances to Swd Government	Fixed	6.00%	> 1 Year
Swaziland Building Society Deposits	Fixed	2.75%	< 1 Year
Swaziland Government bonds	Fixed	8.25%	> 1 Year
Cash and cash equivalents			
Balances with banks	Floating	6.03%	< 1 Year
<b>LIABILITIES</b>			
Allocation of Special Drawing Rights	Floating	0.33%	No Fixed terms
Domestic deposits			
Government of Swaziland - replacement reserve	Fixed	4.24%	< 1 Year
Government of Swaziland - current account	Floating	3.81%	< 1 Year
Government of Swaziland - fixed deposit	Fixed	5.38%	< 1 Year
Banks in Swaziland	Floating	3.91%	< 1 Year
Public Service Pension Fund Placement	Floating	JIBAR +2.00%	< 1 Year
African Alliance Placement	Floating	JIBAR +1.5%	< 1 Year
Other domestic deposits	Floating	0.50%	< 1 Year



**CENTRAL BANK OF SWAZILAND  
UMNTSHOLI WEMASWATI**

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Telex: 2029 WD: MONAS  
Fax: (+268) 2404-0013

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**16<sup>th</sup> July, 2014**

Senator Martin G. Dlamini  
Honourable Minister  
Ministry of Finance  
P.O. Box 443  
**MBABANE**  
**H100**

Dear Minister

**RE: CAPITAL INVESTMENT FUND IN ACCORDANCE WITH LEGAL NOTICE NO. 54 OF 1991:  
THE ADMINISTRATION OF THE CAPITAL INVESTMENT SPECIAL FUND REGULATION 1991**

I am sending you audited financial statements of the Capital Investment Special Fund for the year ended 31<sup>st</sup> March 2014. The performance of the Fund increased by E8 million to record a profit of E85 million.

Yours faithfully

.....  
**MAJOZI V. SITHOLE**  
**GOVERNOR**



# **CAPITAL INVESTMENT SPECIAL FUND**

**FINANCIAL STATEMENTS**  
for the year ended 31 March 2014

## STATEMENT OF FUND ADMINISTRATORS' RESPONSIBILITY

for the year ended 31 March 2014


The Fund Administrators are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and the related information. The auditors are responsible for reporting on the fair presentation of the financial statements. The financial statements have been prepared in accordance with International Financial Reporting Standards.

The Fund Administrators are also responsible for the fund's system of internal financial control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Fund's Administrators to indicate that any material breakdown in the functioning of these controls, procedures and system has occurred during the year under review.

The going concern basis has been adopted in preparing the financial statements. The Fund's Administrators have no reason to believe that the fund will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the fund.

The financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers, which was given unrestricted access to all financial records and related data. The Fund Administrators believe that all representations made to the independent auditors during their audit are valid and appropriate. PricewaterhouseCoopers' audit report is presented on page 164.


The Fund Administrators confirm that the annual financial statements set out on pages 165 to 174 were approved by the Fund Administrators and are signed on its behalf by:

  
 \_\_\_\_\_  
 GOVERNOR

7/7/14  
 \_\_\_\_\_  
 DATE

1/7/2014  
 \_\_\_\_\_  
 ACTING ASSISTANT GOVERNOR

1/7/2014  
 \_\_\_\_\_  
 DATE

  
 \_\_\_\_\_  
 GENERAL MANAGER FINANCE

1/7/2014  
 \_\_\_\_\_  
 DATE

## REPORT OF THE INDEPENDENT AUDITORS TO THE MINISTER OF FINANCE

We have audited the annual financial statements of Capital Investment Special Fund, which comprise, the statement of financial position as at 31 March 2014, the income statement, the statement of changes in equity, the statement cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 165 to 174.

### *Fund Administrators' Responsibility for the Financial Statements*

The Fund Administrators are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as of 31 March 2014 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.



PricewaterhouseCoopers  
Partner: *Theo Mason*  
Chartered Accountant (Swaziland)  
Mbabane  
Date: *15 July 2014*



**STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 March 2014

	Note	2014 E'000	2013 E'000
Income from Central Bank	11	<u>18 579</u>	18 910
Revaluation gains on foreign currency holdings	11	<u>67 207</u>	58 705
Net profit for the year		<u><u>85 786</u></u>	<u><u>77 615</u></u>

## STATEMENT OF FINANCIAL POSITION

for the year ended 31 March 2014

	Notes	2014 E'000	2013 E'000
<b>ASSETS</b>			
Current assets			
Call deposit	12	<u>956 360</u>	<u>870 574</u>
<b>EQUITY AND LIABILITIES</b>			
Capital Account		<u>956 360</u>	<u>870 574</u>

## STATEMENT OF CHANGES EQUITY

for the year ended 31 March 2014

	Capital account E'000	Retained earnings E'000	Total E'000
Balance at 31 March 2013	870 574	-	870 574
Net profit for the year	-	85 786	85 786
Transfer to capital account	85 786	(85 786)	-
Balance at 31 March 2014	956 360	-	956 360
Balance at 31 March 2012	792 959	-	792 959
Net profit for the year	-	77 615	77 615
Transfer to capital account	77 615	(77 615)	-
Balance at 31 March 2013	870 574	-	870 574

## STATEMENT OF CASHFLOWS

for the year ended 31 March 2014

	Note	2014 E'000	2013 E'000
<b>Cash flows from operating activities</b>			
Income from Central Bank of Swaziland accounts		<u>85 786</u>	<u>77 615</u>
Net cash generated from operating activities	14	<u>85 786</u>	<u>77 615</u>
<b>Movement in cash and cash equivalents</b>		<u>85 786</u>	<u>77 615</u>
Net increase in cash and cash equivalents		85 786	77 615
Cash and cash equivalents at the beginning of the year		<u>870 574</u>	<u>792 959</u>
Cash and cash equivalent at the end of the year	12	<u>956 360</u>	<u>870 574</u>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

### 1. General Information

The Fund is regulated in terms of the Central Bank of Swaziland Order, 1974. The primary objective of the fund is to generate interest income.

### 2. Basis of preparation

The financial statements of the Capital Investment Special Fund have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held-for-trading at fair value through the profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies.

#### 2.1.1 Going-concern basis

The investment will still earn interest, as the investments will still yield the benefits expected by the Fund.. After making enquiries, the fund administrator has a reasonable expectation that the fund has adequate resources to continue in operational existence for the foreseeable future. The fund therefore continues to adopt the going concern basis in preparing its financial statements.

#### 2.1.2 Changes in accounting policy and disclosures

##### (a) *New and amended standards adopted by the scheme*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 April 2013 that would be expected to have a material impact on the scheme.

### 3. Foreign Currency Activities

Foreign currency transactions are recorded at the exchange rate ruling on the transaction date. Monetary assets and liabilities designated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Any gain or loss on revaluation is transferred to the Income Statement.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

### 4. Financial instruments

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

#### (a) *Financial assets at fair value through profit and loss*

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets. The Fund currently does not have assets in this category.

#### (b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

#### (c) *Available for sale financial assets*

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. The Fund's available for sale financial assets comprises of securities.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

for the year ended 31 March 2014

**4. Financial instruments (continued)***(c) Available for sale financial assets (continued)*

Changes in the fair value of monetary and nonmonetary securities classified as available-for-sale are recognised in equity.

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

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

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

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or a Fund of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

**5. Impairment and non-collectability of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or Fund of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount as follows:

- For financial assets at amortised cost - the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period; and
- For financial assets at fair value - the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance accounts and the amount of the loss is included in the net profit and loss for the period.

## **NOTES TO THE FINANCIAL STATEMENTS** (continued)

**for the year ended 31 March 2014**

### **6. Revenues recognition**

Interest income is recognized on a time proportioned basis, taking account of the principal outstanding and the effective interest rate over the period to maturity. The effective interest rate takes into account all directly attributable external costs, discounts or premiums on the financial assets.

### **7. Fair value estimation**

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Fund for similar financial instruments.

### **8. Critical accounting estimates and assumptions**

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgments 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.

### **9. Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with Funds, other short-term highly liquid investments with original maturities of three months or less, and Fund overdrafts. Fund overdrafts are shown within borrowings in current liabilities on the balance sheet

### **10. Comparatives**

Where necessary comparatives have been adjusted to conform with changes in presentation in the current year.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	2014 E'000	2013 E'000
--	---------------	---------------

## 11. Operating profit

Operating profit is arrived at after taking into account the following

Interest income	18 579	18 910
Revaluation losses on foreign currency holdings	67 207	58 705

## 12. Call deposits

Call deposits	956 360	870 574
---------------	---------	---------

On 9 December 2005, on instruction by the Ministry of Finance Principal Secretary all balances of the fund were transferred to the books of the Central Fund of Swaziland wherein they are held as call deposits.

## 12.1 Maturity and Interest Rates

The repayments terms and applicable interest rates are as follows:

	Fixed or Floating	Terms of Repayment
Call deposits	Floating	On demand

## 12.2 Call deposits consist of the following currencies:

	Spot rate @ 31 March 2014	2014 E'000	Spot rate @ 31 March 2013	2013 E'000
Euro	14.57	181 778	11.82	147 492
US Dollar	10.57	266 699	9.24	233 139
Rand/Emalangen	1	507 883	1	489 943
		956 360		870 574

	2014 E'000	2013 E'000
--	---------------	---------------

## Maturity analysis:

On demand	956 360	870 574
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## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

## 13. FINANCIAL INSTRUMENTS

## 13.1 Fair Values

The carrying amounts of financial assets approximate their fair value.

## 14. RECONCILIATION OF CASH FLOWS TO CASH GENERATED FROM OPERATIONS

	2014 E'000	2013 E'000
Operating profit	85 786	77 615
Net cash flows from operations	85 786	77 615



**CENTRAL BANK OF SWAZILAND**  
**UMNTSHOLI WEMASWATI**

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Telex: 2029 WD: MONAS  
Fax: (+268) 2404-0013

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**16<sup>th</sup> July, 2014**

Mr. Gideon Dlamini (MP)  
Honorable Minister  
Ministry of Commerce Industry and Trade  
P.O. Box 451  
**MBABANE**  
**H100**

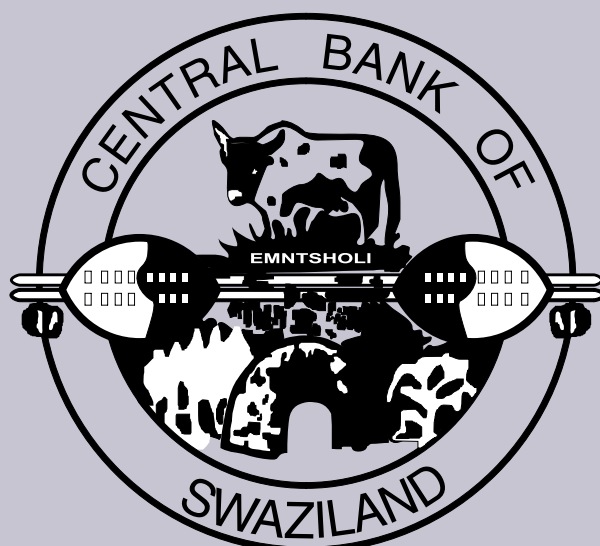
Dear Minister

**RE: EXPORT CREDIT GUARANTEE SCHEME AND SMALL SCALE ENTERPRISE LOAN  
GUARANTEE SCHEME**

In terms of Section 41(bis) of the Central Bank of Swaziland Act, I have the honour to submit audited financial accounts of the operations of the Export Credit Guarantee Scheme and Small Scale Enterprise Loan Guarantee Scheme for the fiscal year ended 31<sup>st</sup> March 2014.

Yours faithfully

.....  
**MAJOZI V. SITHOLE**  
**GOVERNOR**



# **EXPORT CREDIT GUARANTEE SCHEME**

**FINANCIAL STATEMENTS**  
for the year ended 31 March 2014

## STATEMENT OF SCHEME ADMINISTRATORS' RESPONSIBILITY

for the year ended 31 March 2014

The Scheme Administrators are responsible for the preparation, integrity and fair presentation of the financial statements of The Export Credit Guarantee Scheme. The financial statements presented on pages 179 to 186 have been prepared in accordance with International Financial Reporting Standards, and include amounts based on judgment and estimates made by management.

The Scheme Administrators are also responsible for the scheme's system of internal financial control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Scheme's Administrators to indicate that any material breakdown in the functioning of these controls, procedures and system has occurred during the year under review.

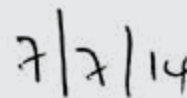
The going concern basis has been adopted in preparing the financial statements. The Scheme Administrators have no reason to believe that the scheme will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the scheme.

The financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Scheme Administrators. The Scheme Administrators believe that all representations made to the independent auditors during their audit are valid and appropriate. PricewaterhouseCoopers' audit report is presented on page 178.

The Scheme Administrators confirm that the annual financial statements set out on pages 179 to 186 were approved by the Scheme Administrators and are signed on its behalf by:



GOVERNOR



DATE



GENERAL MANAGER OPERATIONS



DATE

## INDEPENDENT AUDITOR'S REPORT TO THE MINISTER OF COMMERCE, INDUSTRY AND TRADE

We have audited the annual financial statements of Export Credit Guarantee Scheme, which comprise, the Statement of Financial Position as at 31 March 2014, the income statement, the statement of changes in equity, the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 179 to 186.

### *Scheme Administrators' Responsibility for the Financial Statements*

The Scheme Administrators are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in a manner required by the Central Bank Order of 1974, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Scheme as at 31 March 2014 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in a manner required by the Central Bank Order of 1974, as amended.

### *Supplementary information*

The statement presented on Annexure 1 does not form part of the financial statements and is presented as additional information.



PricewaterhouseCoopers  
Partner: *Theo Mason*  
Chartered Accountant (Swaziland)  
Mbabane  
Date: 15 July 2014



**STATEMENT OF COMPREHENSIVE INCOME**

for the year ended 31 March 2014

	Note	2014 E	2013 E
<b>Revenue</b>			
Interest income	9	93 000	118 764
		<u>93 000</u>	<u>118 764</u>
Administrative expenditure		(598 134)	(553 116)
Other operating expenses		<u>(178 072)</u>	<u>(185 726)</u>
	8	<u>(776 206)</u>	<u>(738 842)</u>
Loss for the year		<u>(683 206)</u>	<u>(620 078)</u>

## STATEMENTS OF FINANCIAL POSITION

at 31 March 2014

	Notes	2014 E	2013 E
<b>Assets</b>			
<b>Current assets</b>			
Cash and Cash equivalents	11	5 799 376	11 482 582
<b>Total assets</b>		<u>5 799 376</u>	<u>11 482 582</u>
<b>Equity</b>			
<b>Capital and reserves</b>			
Capital	12	1 100 000	6 100 000
Retained earnings		4 699 376	5 382 582
<b>Total Equity</b>		<u>5 799 376</u>	<u>11 482 582</u>

**STATEMENT OF CHANGES IN EQUITY**

for the year ended 31 March 2014

	Share Capital E	Retained Earnings E	Total E
Balance at 1 April 2013	6 100 000	5 382 582	11 482 582
Transfer of Capital to Small Scale Enterprise Scheme	(5 000 000)	-	(5 000 000)
Net loss for the year	-	(683 206)	(683 206)
Balance at 31 March 2014	1 100 000	4 699 376	5 799 376
Balance at 1 April 2012	6 100 000	6 002 660	12 102 660
Net loss for the year	-	(620 078)	(620 078)
Balance at 31 March 2013	6 100 000	5 382 582	11 482 582

## STATEMENT OF CASH FLOWS

for the year ended 31 March 2014

	Note	2014 E	2013 E
<b>Operating activities</b>			
Cash utilized in operations	13	(776 206)	(738 842)
Interest received		93 000	118 764
		<u>(683 206)</u>	<u>(620 078)</u>
Cash utilized in operations		(683 206)	(620 078)
Net decrease in cash and cash equivalents		(683 206)	(620 078)
<b>Financing Activities</b>			
Transfer of Capital issued to Small Scale Guarantee Scheme		(5 000 000)	-
Cash outflow from financing activities		<u>(5 100 000)</u>	<u>-</u>
Net decrease in cash and cash equivalents		(5 683 206)	620 078
Cash and cash equivalents at beginning of year		11 482 582	12 102 660
Cash and cash equivalents at end of year	11	<u>5 799 376</u>	<u>11 482 582</u>

## **NOTES TO THE FINANCIAL STATEMENTS**

**for the year ended 31 March 2014**

### **1. General Information**

The Scheme is regulated in terms of the Central Bank of Swaziland Order, 1974. The primary objective of the Scheme is to assist entrepreneurs in Swaziland in getting credit for their export businesses. The fund guarantees the loans taken by the entrepreneurs in the local commercial banks.

### **2. Summary of significant accounting policies**

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

#### **2.1. Basis of preparation**

The financial statements of the Export Credit Guarantee Scheme have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held-for-trading at fair value through the profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Scheme's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed in part 7 of these accounting policies.

##### **2.1.1 Going-concern basis**

The scheme meets its day-to-day working capital requirements through its initial funding from the government. The scheme's prior performance and the large capital still available for use by the fund in future, shows that the scheme should be able to meet its liabilities as they fall due. The Scheme therefore continues to adopt the going concern basis in preparing its financial statements.

### **3. Revenues recognition**

Interest income is recognized on a time proportioned basis, taking account of the principal outstanding and the effective interest rate over the period to maturity. The effective interest rate takes into account all directly attributable external costs, discounts or premiums on the financial assets.

### **4. Fair value estimation**

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Scheme for similar financial instruments.

## **NOTES TO THE FINANCIAL STATEMENTS** (continued)

for the year ended 31 March 2014

### **5. Critical accounting estimates and assumptions**

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the financial year. Estimates and judgments 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.

### **6. Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with the central bank, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Scheme overdrafts are shown within borrowings in current liabilities on the statement of financial position

### **7. Comparatives**

Where necessary comparatives have been adjusted to conform with changes in presentation in the current year.

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

for the year ended 31 March 2014

	2014 E	2013 E
<b>8. Operating loss</b>		
Operating loss is arrived at after taking into account the following		
Entertainment	-	-
Staff costs (note 10)	598 134	553 117
<b>9. Interest Received</b>		
Interest on Central Bank call account	48 232	113 623
Interest on Central Bank current account	44 768	5 141
	93 000	118 764
<b>10. Staff costs</b>		
Salaries	437 602	419 259
Housing allowance	58 842	53 390
Provident Fund	975	915
Medical expenses	27 873	26 163
Pension	58 842	53 390
Training expenses	14 000	-
	598 134	553 117
<b>11. Cash and cash equivalents</b>		
Central Bank Call Account	1 472 214	11 423 981
Central Bank Current Account	4 327 162	58 601
	5 799 376	11 482 582

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

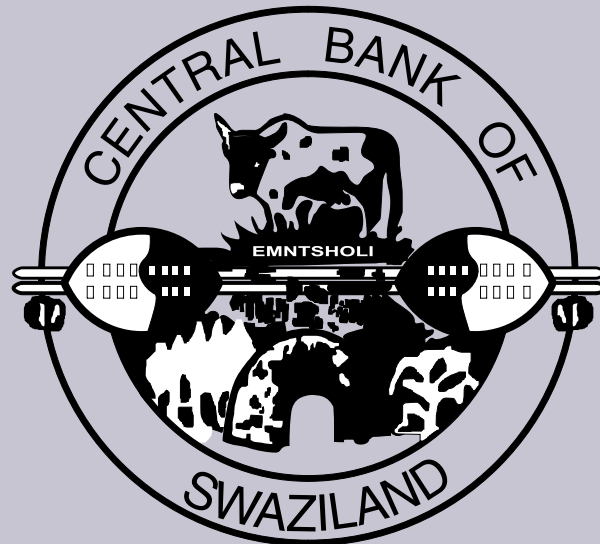
	2014 E	2013 E
<b>12. Share Capital</b>		
Capital - Swaziland Government contribution	<u>1 100 000</u>	<u>6 100 000</u>
<b>13. Cash utilized in operations</b>		
Operating loss	(683 206)	(620 078)
Less Interest received	<u>(93 000)</u>	<u>(118 764)</u>
	<u>(776 206)</u>	<u>(738 842)</u>

**DETAILED INCOME STATEMENT**

for the year ended 31 March 2014

	2014 E	2013 E
<b>Income</b>		
Interest on Bank accounts	44 768	5 141
Interest on call account	48 232	113 623
	<u>93 000</u>	<u>118 764</u>
<b>Expenditure</b>		
Rental expenses	(141 782)	(150 069)
Advertising	(1 368)	-
Other expenses	(25 447)	(27 559)
Staff costs	(598 134)	(553 117)
Telephone	(5 569)	(5 047)
Travelling and entertainment	(3 906)	(3 050)
	<u>(776 206)</u>	<u>(738 842)</u>
<b>Total expenditure</b>	<u>(776 206)</u>	<u>(738 842)</u>
<b>Loss for the year</b>	<u>(683 206)</u>	<u>(620 078)</u>

This statement does not form part of the financial statements and is unaudited.



# **SMALL SCALE ENTERPRISE LOAN GUARANTEE SCHEME**

**FINANCIAL STATEMENTS**  
for the year ended 31 March 2014

## STATEMENT OF SCHEME ADMINISTRATORS'S RESPONSIBILITY

for the year ended 31 March 2014

The Scheme Administrators are responsible for the preparation, integrity and fair presentation of the financial statements of The Small Scale Enterprise Loan Guarantee Scheme. The financial statements presented on pages 192 to 200 have been prepared in accordance with International Financial Reporting Standards, and include amounts based on judgment and estimates made by management.

The Scheme Administrators are also responsible for the scheme's system of internal financial control. These are designed to provide reasonable, but not absolute assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Scheme Administrators to indicate that any material breakdown in the functioning of these controls, procedures and system has occurred during the year under review.

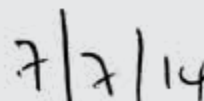
The going concern basis has been adopted in preparing the financial statements. The Scheme Administrators have no reason to believe that the scheme will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the scheme.

The financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers, which was given unrestricted access to all financial records and related data, including minutes of all meetings of the Scheme Administrators. The Scheme Administrators believe that all representations made to the independent auditors during their audit are valid and appropriate. PricewaterhouseCoopers' audit report is presented on page 190.


The Scheme Administrators confirm that the annual financial statements set out on pages 191 to 199 were approved by the Scheme Administrators and are signed on its behalf by:



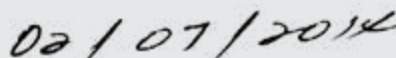
GOVERNOR



DATE



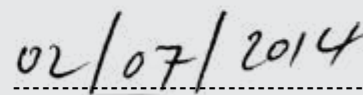
ACTING ASSISTANT GOVERNOR



DATE



GENERAL MANAGER OPERATIONS



DATE

## REPORT OF THE INDEPENDENT AUDITORS TO THE MINISTER OF COMMERCE, INDUSTRY AND TRADE

We have audited the annual financial statements of Small Scale Enterprise Loan Guarantee Scheme, which comprise the Scheme Administrators' report, the statement of financial position as at 31 March 2014, the income statement, the statement of changes in equity, the statement cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 191 to 199.

### *Scheme Administrators' Responsibility for the Financial Statements*

The Scheme Administrators are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Central Bank Order of 1974, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the scheme as at 31 March 2014 and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Supplementary information*

The statement presented on Annexure 1 does not form part of the financial statements and is presented as additional information.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

Partner: *Theo Mason*

Chartered Accountant (Swaziland)

Mbabane

Date: 15 July 2014

**pwc**

## STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2014

	Note	2014 E	2013 E
<b>REVENUE</b>			
Interest income		95 865	78 388
Premium paid by Banks		195 342	86 669
		<hr/>	<hr/>
	10	291 207	165 057
Other income		-	4 500
		<hr/>	<hr/>
		291 207	169 557
Operating expenses		(243 801)	(218 236)
		<hr/>	<hr/>
Total operating expenditure		(243 801)	(218 236)
		<hr/>	<hr/>
Net profit/(loss) for the year		47 406	(48 679)
		<hr/>	<hr/>

## STATEMENT OF FINANCIAL POSITION

for the year ended 31 March 2014

	Notes	2014 E	2013 E
<b>ASSETS</b>			
<b>Current assets</b>			
Accounts receivable		77 476	243 801
Cash and cash equivalents	11	12 762 833	7 549 102
<b>Total assets</b>		<b>12 840 309</b>	<b>7 792 903</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Capital		17 400 000	12 400 000
Accumulated deficit		(5 562 552)	(5 609 958)
		<b>11 837 448</b>	<b>6 790 042</b>
<b>Current liabilities</b>			
Provision for doubtful guarantees	12	1 002 861	1 002 861
<b>Total equity and liabilities</b>		<b>12 840 309</b>	<b>7 792 903</b>
<b>MEMORANDUM ACCOUNT</b>			
<b>Guarantees issued</b>			
Nedbank Swaziland Limited		10 502 827	5 334 415
Swaziland Development and Savings Bank		6 458 180	3 146 598
Standard Bank Swaziland Limited		6 013 668	5 289 905
First National Bank		1 679 342	1 211 339
Swaziland Business Growth Trust - Class B		200 565	200 565
<b>Counterpart of guarantees issued</b>		<b>24 854 582</b>	<b>15 182 822</b>

## STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2014

	Share Capital E	Accumulated Deficit E	Total E
Balance at 1 April 2013	12 400 000	(5 609 958)	6 790 042
Transfer of issued capital from Export Guarantee Scheme	5 000 000	-	5 000 000
Net profit for the year	-	47 406	47 406
Balance at 31 March 2014	17 400 000	(5 562 552)	11 837 448
Balance at 1 April 2012	12 400 000	(5 561 279)	6 838 721
Net loss for the year	-	(48 679)	(48 679)
Balance at 31 March 2013	12 400 000	(5 609 958)	6 790 042

## STATEMENT OF CASH FLOWS

for the year ended 31 March 2014

	Note	2014 E	2013 E
<b>Operating activities</b>			
Cash generated/(utilised) from operating activities	13	115 893	(398 439)
Interest received		97 838	78 388
		<hr/>	<hr/>
Cash generated/(utilised) in operations		213 731	(320 051)
		<hr/>	<hr/>
<b>Financing activities</b>			
Transfer of issued share capital from Export Guarantee Scheme		5 000 000	-
		<hr/>	<hr/>
Net Cash inflow from financing activities		5 000 000	-
Net increase/(decrease) in cash and cash equivalents		5 213 731	(320 051)
Cash and cash equivalents at the beginning of the year		7 549 102	7 869 153
		<hr/>	<hr/>
Cash and cash equivalent at end of year	11	12 762 833	7 549 102
		<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENT

for the year ended 31 March 2014

### 1. General Information

The Scheme is regulated in terms of the Central Bank of Swaziland Order, 1974. The primary objective of the Scheme is to assist small scale entrepreneurs in Swaziland in getting credit for their businesses. The bank guarantees the loans taken by the entrepreneurs from the local commercial banks.

### 2. Summary of significant accounting policies

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

#### 2.1 Basis of preparation

The financial statements of the Small Scale Enterprise Loan Scheme have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities held-for-trading at fair value through the profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Scheme's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are discussed in part 7 of these accounting policies.

##### 2.1.1 Going-concern basis

The Scheme meets its day-to-day working capital requirements through its funding from the government. The Scheme's prior performance and the large capital still available for use by the fund in future, shows that the scheme should be able to operate within the level of its current facilities. After making enquiries, the Scheme administrator has a reasonable expectation that the Scheme has adequate resources to continue in operational existence for the foreseeable future. The Scheme therefore continues to adopt the going concern basis in preparing its financial statements.

##### 2.1.2 Changes in accounting policy and disclosures

###### (a) *New and amended standards adopted by the scheme*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 April 2013 that would be expected to have a material impact on the scheme.

###### (b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2013 and not early adopted*

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments.

**NOTES TO THE FINANCIAL STATEMENTS** (continued)

for the year ended 31 March 2014

**2.1.2 Changes in accounting policy and disclosures (continued)**

- (b) *New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2013 and not early adopted (continued)*

IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition

The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The bank is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 April 2013.

**3. Financial instruments**

The Scheme classifies its financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

- (a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date.

These are classified as non-current assets. The scheme's guarantees and receivables comprise amounts due from other banking institutions and 'cash and cash equivalents' in the statement of financial position (accounting policies 7 ).

**4. Impairment and non-collectability of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or bank of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognised for the difference between the recoverable amount and the carrying amount as follows:

- For financial assets at amortised cost - the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period; and
- For financial assets at fair value - the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance accounts and the amount of the loss is included in the net profit and loss for the period.

## **NOTES TO THE FINANCIAL STATEMENTS** (continued)

**for the year ended 31 March 2014**

### **5. Provisions**

Provisions are recognised when the Scheme has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Restructuring provisions comprise lease termination penalties and employee termination payments. 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 one item included in the class 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 the passage of time is recognised as an interest expense.

### **6. Revenues recognition**

Interest income is recognized on a time proportioned basis, taking account of the principal outstanding and the effective interest rate over the period to maturity. The effective interest rate takes into account all directly attributable external costs, discounts or premiums on the financial assets.

### **7. Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

### **8. Comparatives**

Where necessary comparatives have been adjusted to conform with changes in presentation in the current year.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	2014 E	2013 E
<b>9. Operating loss</b>		
The following items have been taken into account in arriving at the operating loss for the year.		
Loss on guarantee claims	<u>243 801</u>	<u>218 236</u>
<b>10. Revenue</b>		
Interest received	97 838	78 388
Premium paid by Banks	<u>193 369</u>	<u>86 669</u>
	<u>291 207</u>	<u>165 057</u>
<b>11. Cash and cash equivalents</b>		
Central Bank Call Account	1 098 076	1 087 155
Central Bank Current Account	<u>11 664 757</u>	<u>6 461 947</u>
	<u>12 762 833</u>	<u>7 549 102</u>
<b>12. Accounts payable</b>		
<b>Provisions for doubtful guarantees:</b>		
Opening balance	1 002 861	1 095 418
Additional provision for the year	-	-
Utilised	<u>-</u>	<u>(92 557)</u>
Closing balance	<u>1 002 861</u>	<u>1 002 861</u>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2014

	2014 E	2013 E
<b>13. Reconciliation of cashflows generated from operations</b>		
Operating profit/(loss)	47 406	(48 679)
Less interest income	<u>(97 838)</u>	<u>(78 388)</u>
	50 432	(127 067)
<b>Working capital changes</b>		
Increase/(decrease) in accounts payables	166 325	(92 557)
Increase in accounts receivable	<u>-</u>	<u>(178 815)</u>
Cash generated/(utilised) from operations	<u><u>166 325</u></u>	<u><u>(398 439)</u></u>

## DETAILED INCOME STATEMENT

for the year ended 31 March 2014

	2014 E	2013 E
<b>INCOME</b>		
Interest on call accounts	10 922	10 812
Premiums paid by Bank	193 369	86 669
Interest on Bank accounts	86 916	67 576
Sundry income - claims recovered	-	4 500
	<u>291 207</u>	<u>169 557</u>
<b>EXPENDITURE</b>		
Staff costs		
Advertising	-	-
Rental expenses	-	-
Audit fee	-	-
Travelling and entertainment	-	-
Telephone	-	-
Stationery	-	-
Sundry expenses	-	-
Publications	-	-
Provision for doubtful guarantees	-	-
Loss on guarantee claims	(243 801)	(218 236)
	<u>(243 801)</u>	<u>(218 236)</u>
<b>Net profit/(loss) for the year</b>	<u>47 406</u>	<u>(48 679)</u>

This statement does not form part of the financial statements and is unaudited.





*For more information, contact:*

Central Bank of Swaziland  
Postal Address: P.O. Box 546, Mbabane, Swaziland  
Physical Address: Umntsholi Building, Mahlokohla Street

Tel: +268 2408 2243  
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Email: [info@centralbank.org.sz](mailto:info@centralbank.org.sz)  
Website: [www.centralbank.org.sz](http://www.centralbank.org.sz)