Central Bank of Lesotho
Financial statements
for the year ended December 31, 2010

General Information

Nature of business and principal activities	Statutory body duly continuing in existence in terms of the Central Bank of Lesotho Act No. 2 of 2000
Directors	Dr.M.P.Senaoana Dr R. Matlanyane Mrs. M.G. Tau-Thabane (Adv.) Mr. J.Q. Lesitha Dr. P. Mangoaela Mr M. Posholi Mr M. Fako
Registered office	Cnr Airport & Moshoeshoe Roads Maseru 100 Lesotho
Postal address	P.O. Box 1184 Maseru 100 Lesotho
Auditors	Deloitte & Touche
Secretary	Mr M.G. Malope (Adv.)
Lawyers:	Webber & Newdigate Knowles Husain Lindsay Inc

Contents

The reports and statements set out below comprise the financial statements presented to the shareholder:

Corporate Governance Statement

The Central Bank of Lesotho (the Bank) is committed to the principles of transparency, integrity, accountability and openness in its dealings with all its stakeholders. The Governor and Board of Directors are committed to ascertaining that compliance with corporate governance principles remains an integral part of the manner in which the Bank conducts its business.

The Bank has a unitary Board of Directors which comprises five non-executive directors and three executive directors, however, the office of Deputy-Governor 2, one of the three executive directors, is currently vacant. The office of the Governor also became vacant in March 2011 due to the passing of Dr M.P. Senaoana. One position of non-executive director also became vacant during 2010. The five current directors represent a wide range of skills and have financial, economic, commercial, accounting, governance and legal experience. All the directors are fully aware of their duties to ensure that the Bank maintains a high standard of corporate governance.

The Board of Directors exercises responsibility for the performance of the affairs of the Bank, and retains full and effective control over the Bank. It determines strategic direction of the Bank and monitors executive management in the implementation and execution of its strategies. The Bank continues to publish Annual Reports, Monthly Economic Review, and Quarterly Economic Review and Monetary Policy Statements for the benefit of stakeholders and the general public. During the year 2010, the Board met seven times to review strategy, operational performance, capital expenditure, internal controls and other material aspects pertaining to the Bank's business. The Board's committees, namely the Audit Committee and the Remuneration Committee also convened to deliberate upon matters requiring specialised attention.

All directors of the Bank have had access to the advice and services of the Head of Corporate Affairs Department as Secretary of the Board. The Secretary is responsible for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

Mr M.G. Malope (Adv.)

Secretary of the Board

Directors' Responsibilities and Approval

The Directors are responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The Auditors are responsible for reporting on the fair presentation of the financial statements. The financial statements presented on pages 6 to 55 have been prepared in accordance with International Financial Reporting Standards (IFRS) in all material respects, and in the manner required by the Central Bank of Lesotho Act, No. 2 of 2000.

The Directors are also responsible for the Bank's systems 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 financial statements have been prepared on the going concern basis, since the Directors have every reason to believe that the Bank has adequate resources in place to continue in operation for the foreseeable future.

The financial statements were approved by the Board of Directors on 31 March 2011 and are signed on its behalf by:

Dr R. Matlanyane **Acting Governor**	**Mr. J.Q. Lesitha** **Director**

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBER OF CENTRAL BANK OF LESOTHO

We have audited the annual financial statements of Central Bank of Lesotho, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 6 to 55.

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 of Lesotho Act No 2. of 2000, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 judgment, 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Central Bank of Lesotho as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Central Bank of Lesotho Act No 2. of 2000.

Deloitte & Touche

Deloitte & Touche
Registered Auditor

Per: Stephen Munro
Partner
31 March 2011

Directors' Report

The Directors present their annual report, which forms part of the audited financial statements of the Central Bank of Lesotho, for the year ended 31 December 2010. The financial statements are expressed in Maloti, the national currency of Lesotho and the functional currency of the Bank.

1. Review of activities

Nature of business

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

Financial results

The financial results of the Bank are set out in the statement of comprehensive income on page 9. The residual profits after a transfer of the foreign exchange currency translation to designated foreign currency translation reserves, and after appropriations have been allocated to the general and other reserves, are paid over to the Government of Lesotho Consolidated Fund as dividends in accordance with Section 21 of the Act. These appropriations have been fully disclosed in the statement of changes in equity on page 10. Amounts paid and due in terms of the Act were as follows:

	M '000
31 December 2010	60,910
31 December 2009	568,538

2. Subsequent events

The directors are not aware of any material event or circumstance, which could cause changes in the financial statements, which may have occurred between the end of the year and the date of this report.

3. Authorised and issued share capital

There were no changes in the authorised share capital of the Bank. The issued share capital was however increased from M25,000,000 to the full M100,000,000 during the year under review. The entire share capital is held by the Government of Lesotho.

4. Final dividend payable

Dividends payable to the Government of Lesotho Consolidated Fund in terms of Section 21 (5) of the Act are set out in the statement of changes in equity on page 11.

5. Directors

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

Name	Date of appointment	Position held
Dr.M.P.Senaoana	April, 2007	Governor and Chairman (deceased - March, 2011)
Dr R. Matlanyane	April, 2007	Deputy Governor
Mrs. M.G. Tau-Thabane (Adv.)	July, 2005	Non-Executive Director
Mr. J.Q. Lesitha	December, 2005	Non-Executive Director
Dr. P. Mangoaela	December, 2008	Non-Executive Director
Mr M. Posholi	December, 2008	Non-Executive Director
Mr M. Fako	December 2008	Non-Executive Director (resigned - June 2010)

Directors' Report

6. Secretary

Name	Date of appointment	Position held
Mr M.G. Malope (Adv.)	April, 2007	Head of Department of Corporate Affairs

7. Auditors

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

Dr R. Matlanyane
Acting Governor

Mr. J.Q. Lesitha
Director

31 March 2011

Statement of Financial Position

	Note(s)	2010 M '000	2009 M '000
Assets			
Cash and balances with Banks	2	3,010,138	4,501,267
Accrued interest due from Banks	3	10,248	57,596
Treasury bills	4	137,527	606,989
Treasury notes and bonds	5	3,244,581	2,760,439
IMF Subcription Account	6	386,190	443,836
IMF Holding of Special Drawing Rights (SDR)	7	378,032	397,525
IMF Funded PRGF Advances	8	202,501	195,847
Lesotho Government Securities	9	1	23
Deferred currency expenditure	10	29,143	10,868
Loans to staff	11	27,760	26,938
Other assets	12	6,557	4,630
Property, plant and equipment	13	181,125	164,356
Intangible assets	14	7,413	714
Taxation receivable	20	46,351	-
Total Assets		**7,667,567**	**9,171,028**
Equity and Liabilities			
Liabilities			
Notes and coins issued	15	638,158	584,987
Deposits	16	539,977	483,433
Lesotho Government Deposits		3,782,458	4,609,823
IMF Maloti Currency Holding	17	346,586	398,320
IMF Special Drawing Rights Allocation	18	363,817	418,123
IMF-PRGF Facility	19	202,501	195,847
Taxation payable	20	-	5,663
Due to Government of Lesotho Consolidated Fund	21	60,910	568,538
Other liabilities	22	85,806	53,071
Long-term employee benefit obligation	23	58,863	48,892
Deferred taxation	24	22,154	300,171
Total Liabilities		**6,101,230**	**7,666,868**
Equity			
Share capital	25	100,000	25,000
General reserve		149,554	137,372
Rand compensatory reserve		313,474	281,557
SDR revaluation reserve		50,313	53,174
Foreign exchange revaluation reserve		826,913	921,149
Property revaluation reserve		63,717	58,267
Bond revaluation reserve		62,366	27,641
		1,566,337	**1,504,160**
Total Equity and Liabilities		**7,667,567**	**9,171,028**

Statement of Comprehensive Income

	Note(s)	2010 M '000	2009 M '000
Interest income	26	283,337	509,452
Interest expense	27	(20,779)	(36,755)
Net interest income		**262,558**	**472,697**
Other income	28	37,584	44,383
Operating profit		**300,142**	**517,080**
Operating expenses	29	(589,055)	(794,351)
Loss before taxation		**(288,913)**	**(277,271)**
Taxation	30	(35,376)	(122,943)
Loss for the year		**(324,289)**	**(400,214)**
Other comprehensive income:			
Bond revaluation reserve			
Increase/(decrease) in bond fair values		46,300	(96,809)
Tax effect		(11,575)	24,202
Net movement		34,725	(72,607)
Property revaluation reserve			
Increase/(decrease) in property valuations		7,267	(42)
Tax effect		(1,817)	10
Net movement		5,450	(32)
Rand compensatory reserve			
Increase in reserve		31,917	28,472
Tax effect		-	-
Net movement		31,917	28,472
		-	-
Other comprehensive income/(loss) for the year net of taxation		**72,092**	**(44,167)**
Total comprehensive loss for the year		**(252,197)**	**(444,381)**

Statement of Changes in Equity

	Share capital	General reserve	Rand compensatory reserve	SDR revaluation reserve	Foreign exchange revaluation reserve	Property revaluation reserve	Bond revaluation reserve	Accumulated profit/(loss)	Total equity
	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000	M '000
Balance at January 01, 2009	**25,000**	**137,372**	**253,085**	**53,522**	**1,406,661**	**58,299**	**100,248**	**-**	**2,034,187**
Loss for the year	-	-	-	-	-	-	-	(400,214)	(400,214)
Asset revaluation realised in profit and loss	-	-	-	-	-	(32)	-	-	(32)
Rand compensatory receipts	-	-	28,472	-	-	-	-	-	28,472
(Decrease)/increase in bond fair values	-	-	-	-	-	-	(72,607)	-	(72,607)
Transfer of foreign exchange translation to designated reserves	-	-	-	(348)	(655,560)	-	-	655,908	-
Deferred tax arising on reserves	-	-	-	-	170,048	-	-	-	170,048
Final dividend payable	-	-	-	-	-	-	-	(255,694)	(255,694)
Total changes	-	-	28,472	(348)	(485,512)	(32)	(72,607)	-	(530,027)
Balance at January 01, 2010	**25,000**	**137,372**	**281,557**	**53,174**	**921,149**	**58,267**	**27,641**	**-**	**1,504,160**
Loss for the year	-	-	-	-	-	-	-	(324,289)	(324,289)
Issue of shares	75,000	-	-	-	-	-	-	-	75,000
Transfer of foreign exchange translation to designated reserve	-	-	-	(2,861)	(394,520)	-	-	397,381	-
Increase in bond fair values	-	-	-	-	-	-	34,725	-	34,725
Reversal of previously raised deferred taxation	-	-	-	-	300,284	-	-	-	300,284
Asset revaluations for the year	-	-	-	-	-	5,450	-	-	5,450
Rand compensatory receipts	-	-	31,917	-	-	-	-	-	31,917
Transfer to general reserve	-	12,182	-	-	-	-	-	(12,182)	-
Final dividend payable	-	-	-	-	-	-	-	(60,910)	(60,910)
Total changes	75,000	12,182	31,917	(2,861)	(94,236)	5,450	34,725	-	62,177
Balance at December 31, 2010	**100,000**	**149,554**	**313,474**	**50,313**	**826,913**	**63,717**	**62,366**	**-**	**1,566,337**

Statement of Cash Flows

	Note(s)	2010 M '000	2009 M '000
Cash flows from operating activities			
Cash used in operations	31	(1,177,055)	(352,690)
Interest income		283,337	289,524
Interest expense		(20,779)	-
Tax paid		(82,439)	(136,923)
Rand compensatory receipts		31,917	28,472
Payment to Government of Lesotho Consolidated Fund	21	(568,538)	(192,625)
Net cash from operating activities		**(1,533,557)**	**(364,242)**
Cash flows from investing activities			
Deferred currency expenditure	10	(33,394)	(14,531)
Increase in loans to staff	11	(822)	(3,272)
(Increase)/decrease in other assets	12	(1,927)	5,094
Net increase in Lesotho Government Securities	9	22	160
Net decrease/(increase) in treasury bills	4	469,462	112,953
Net increase in treasury notes and bonds	5	(484,142)	679,670
Purchase and disposal of deposit held by foreign banks	2	(199,794)	1,543,227
Purchase of property, plant and equipment	13	(24,698)	(10,734)
Sale of property, plant and equipment	13	162	49
Purchase of other intangible assets	14	(10,406)	(771)
Net cash from investing activities		**(285,537)**	**2,311,844**
Cash flows from financing activities			
Proceeds on share issue	25	75,000	-
Movement in notes and coins issued		53,171	120,957
Net cash from financing activities		**128,171**	**120,957**
Total cash movement for the year		**(1,690,923)**	**2,068,559**
Cash and cash equivalents at the beginning of the year		4,155,761	2,087,202
Total cash and cash equivalents at end of the year	2	**2,464,838**	**4,155,761**

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.

1. Presentation of Financial Statements

These financial statements are prepared in accordance with, and comply with International Financial Reporting Standards (IFRS) and the Central Bank of Lesotho Act, No. 2 of 2000. The financial statements are prepared in accordance with the going concern principle under the historical cost basis as modified by the revaluation of land and buildings, financial instruments classified as available-for-sale, financial assets and liabilities held at fair value through profit and loss and derivative instruments. All monetary figures appearing in the financial statements, unless otherwise indicated, are stated in Maloti.

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

1.1 Property, plant and equipment

Owner-occupied properties

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

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

Subsequent to initial recognition, property, plant and equipment are reflected at a valuation based on open-market fair value as determined every year end by independent professional valuers, less accumulated depreciation.

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

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

The most recent independent valuation was performed at 31 December 2010.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

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

Buildings in progress are not depreciated until they are put into use.

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised

1.1 Property, plant and equipment (continued)

within 'Other income/expenses' in the profit and loss.

When revalued assets are sold, the amounts included in other reserves are transferred to accumulated profit.

1.2 Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

1.3 Financial instruments

Classification

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

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

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

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

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

(d) Held-to-maturity investments

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

Initial recognition and measurement

Regular purchases and sales of financial assets are recognised on the settlement-date. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through 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 rate method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'other income/expenses' in the period in which they arise.

1.3 Financial instruments (continued)
Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of other income when the Bank's right to receive payments is established.

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

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the 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 statement of comprehensive income 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.

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

Offsetting financial instruments

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

Impairment of financial assets

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

Available-for-sale financial assets

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

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

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

Financial assets carried at amortised cost

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

Accounting Policies

1.3 Financial instruments (continued)

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

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

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

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

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

Financial liabilities measured at amortised cost

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

Cash and cash equivalents

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

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

1.4 Current and deferred income tax

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

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

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

1.4 Current and deferred income tax (continued)

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

Indirect tax

Indirect taxes, including non-recoverable value added tax (VAT) are separately disclosed in the statement of comprehensive income.

1.5 Leases

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

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

1.6 Non-current assets held for sale

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

1.7 Share capital

Ordinary shares are classified as equity.

a) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

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

1.8 Employee benefits

(a) Post employment benefits

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

(b) Other long-term employee benefits

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

Long-term employee benefits include:

Accounting Policies

1.8 Employee benefits (continued)

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

(c) Actuarial gains/losses

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

(d) Accrual for leave pay

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

1.9 Provisions

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

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

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

1.10 Revenue

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

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

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

Non-interest revenue

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

1.11 Borrowings

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

Accounting Policies

1.12 Translation of foreign currencies

(a) Functional and presentation

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised first in the statement of comprehensive income and then transferred to the statement of changes in equity under foreign currency reserves as required by the Central Bank Act, No. 2 of 2000.

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

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

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

1.13 Impairment of non-financial assets

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

1.14 Claims on staff

Claims on staff represent financial assets (receivables) and are initially recongised at fair value, using a market discount rate. Any difference between the fair value and the face value on initial recognition is treated as part of employee costs.

1.15 Deferred currency expenditure

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

1.16 Dividend distribution

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

1.17 Notes and coins

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

Accounting Policies

1.18 IMF Holding of Special Drawing Rights and IMF subscription account

Upon joining the International Monetary Fund (IMF), Lesotho was allocated a special drawing right, currently amounting to 34 900 000 units and an IMF subscription account, the 34 900 000 is the subscription itself. The The Central Bank of Lesotho administers the Special Drawing Rights(SDR) on behalf of the Government of Lesotho for the allocation in the financial records of the Bank.

The units are translated daily using a basket of 4 major currencies. The IMF holding and subscription accounts are stated at amortised cost by using the effective interest rate method. The Special Drawing Rights were initially recorded by accounting for the Allocation of the Special Drawing Rights as a liability and 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 2.02% and the Holdings of Special Drawing Rights an income of 2.02%. The interest rate is determined every Friday by the IMF and adjusted by the Bank accordingly. Annually, the rights are translated at the ruling SDR rate and the difference on revaluation is taken to the SDR Revaluation Reserve.

1.19 IMF Funded PRGF Advances

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

1.20 Comparative figures

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

1.21 General Reserve

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

1.22 Rand Compensatory Reserve

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

1.23 Foreign Exchange Revaluation Reserve Account

In terms of Section 54 of the Central Bank of Lesotho Act No. 2 of 2000, the gains and losses arising from any changes in the valuation of the Bank's assets or liabilities in, or denominated in, gold or foreign currencies, or Special Drawing Rights as a result of changes in the exchange rate for the Maloti or of any change in the values, parities or exchange rates of such assets with respect to the Maloti shall be carried to a special account called the Revaluation Reserve Account. The profits or losses arising from such change are included in the statement of comprehensive income and are then transferred from distributable reserves to a non-distributable Foreign Currency Revaluation Reserve in terms of Section 54 of the Central Bank of Lesotho Act No.2 of 2000.

1.24 SDR Revaluation Reserve

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

1.25 Property Revaluation Reserve

The Property Revaluation Reserve represents unrealised gains and losses on the revaluation of Property, plant and equipment.

1.26 Bond Revaluation Reserve

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

Accounting Policies

1.27 Financial Risk Management

Financial risk factors

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

(a) Market Risk

(i) Foreign Exchange Risk

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

In order to manage the foreign exchange risk exposure, the Bank holds functional currencies in which its obligations are denominated in the ratio of their historic cash flows. As of 31st December 2010, if the currency had weakened/strengthened by 5% against the functional currencies, the bank's foreign assets would have been 2% higher/lower as a result of foreign exchange losses/gains on valuation of foreign currency denominated assets.

(ii) Interest Rate Risk

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

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

As at 31st December, if interest rates had fallen by 1%, the Bank's revenue would decline by 15%, based on the simulation performed. However, if rates had increased by 1%, revenue would increase by 20%.

(b) Credit risk

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

(c) Liquidity risk

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

Refer to the Risk Management Statements on pages 39-54.

In terms of the Central Bank of Lesotho Act No.2 of 2000, in the case of any year at the end of which the general reserve of the Bank does not exceed the minimum paid-up capital of the Bank, one third of the net profits will be allocated to general reserve and in case where general reserve exceeds paid up capital but not less than four times, one sixth of the net profits will be allocated to general reserve. However, where the general reserve of the Bank exceeds four times the paid-up capital, with the approval of the Minister, further allocations may be made from time to time to the general reserve to increase it beyond four times the minimum paid-up capital. At the end of 2008 and 2009 the general reserve had reached more than four times the paid-up capital of the Bank and further allocations were not made to the general reserve. However, in 2010, there was an increase in the issued share capital and further allocations were made.

Accounting Policies

1.28 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the Non-Interest Bearing Note of SDR22 181 095 (2009: SDR19 300 206) issued by the Government of Lesotho in favour of the IMF. GOL chose to substitute non-interest bearing notes for a portion of the balance held in its Fund's No. 1 account and the securites substituted for currency are recorded in the Securities Account. GOL's holding in IMF SDR Department is posted in the No.1 account and is used for the Fund's operational transactions e.g. purchases and repurchases, whereas the No. 2 account is used for the payment of operational expenses incurred by the Fund in Maloti. Both accounts are translated at the prevailing SDR rate.

1.29 Critical accounting estimates and judgements

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

Critical accounting estimates and assumptions

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

(a) Income taxes

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

(b) Employee benefits

The present value of the severance pay and gratuity obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions.

The assumptions used in determining the net cost include future salary increases, future inflation rate, staff remaining in service up to date of retirement and the discount rate. Any changes in these assumptions will impact the carrying amount of the severance pay and gratuity obligations. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the employment benefit obligations. In determining the appropriate discount rate, the Bank considers the interest rates of Government of Lesotho Treasury Bills that are denominated in the currency in which the benefits will be paid.

The assets and liabilities relating to the employees of the company cannot be seperately determined and is therefore treated as defined contribution plan. Refer to further disclosure in note 33.

(c) Fair values

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

i) Balances due to and from banks

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

ii) Loans and advances

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

iii) Investment securities

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

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

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

Notes to the Financial Statements

	2010 M '000	2009 M '000
2. Cash and balances with Banks		
Cash and cash equivalents		
Foreign cash	**1,522**	**495**
Rand Currency Holding	39,756	51,235
ZAR Notes Holding	**39,756**	**51,235**
Balances with banks (with a maturity shorter than 3 months)	**2,423,560**	**4,104,031**
Current and Call Accounts:		
Foreign Banks	450,607	117,667
South African Banks	561,779	596,940
Total Current and Call Accounts	**1,012,386**	**714,607**
Fixed deposits (with maturity shorter than 3 months):		
Foreign Banks	1,031,174	2,558,205
South African Banks	380,000	831,219
Total Fixed deposits (with maturity shorter than 3 months)	**1,411,174**	**3,389,424**
Sub-total (Cash and Cash Equivalents)	**2,464,838**	**4,155,761**
Fixed deposits (with maturity longer than 3 months):		
Foreign banks	436,109	73,719
South African Banks	109,191	271,787
Total Fixed deposits (with maturity longer than 3 months)	**545,300**	**345,506**
Total Cash and Balances with banks	**3,010,138**	**4,501,267**
3. Accrued interest due from Banks		
Accrued interest receivable:		
ZAR call accounts	143	173
ZAR current accounts	-	3
ZAR fixed deposit accounts	4,272	38,268
Foreign call and fixed deposit accounts	398	793
	4,813	39,237
Currency in transit	5,435	18,359
	10,248	**57,596**

Notes to the Financial Statements

	2010 M '000	2009 M '000

4. Treasury bills

2010

	At fair value through profit and loss	Held to maturity	Total
US Treasury bills at fair value:			
Maturing within 1 to 3 months	-	119,914	119,914
Maturing within 3 to 6 months	13,761	-	13,761
Maturing within 6 to 12 months	3,852	-	3,852
	17,613	**119,914**	**137,527**

2009

	Held to maturity	Total
US Treasury bills at fair value:		
Maturing within 3 to 6 months	110,512	110,512
ZAR Treasury bills at fair value:		
Maturing within 1 month	298,416	298,416
Maturing within 1 to 3 months	198,061	198,061
	606,989	**606,989**

Treasury bills are debt securities issued by the US and SA treasury departments for a term of three months, six months or a year and are treated as securirties held-to-maturity. All bills are subject to fixed interest rate risk (2009: fixed). In addition, treasury bills managed by the World Bank, starting in 2008, through Reserves Advisory Management Program (RAMP) are treated as securities held-for -trading and are stated at fair value through profit and loss.

5. Treasury notes and bonds

2010

	At fair value through profit and loss	Available-for-sale	Total
US Bonds at fair value	333,855	1,110,546	1,444,401
ZAR Bonds at fair value	-	1,741,642	1,741,642
US Bonds accrued interest	1,295	6,660	7,955
ZAR Bonds accrued interest	-	50,583	50,583
	335,150	**2,909,431**	**3,244,581**

2009

	At fair value through profit and loss	Available-for-sale	Total
US Bonds at fair value	385,023	631,148	1,016,171
ZAR Bonds at fair value	-	1,682,928	1,682,928
US Bonds accrued interest	1,684	7,000	8,684
ZAR Bonds accrued interest	-	52,656	52,656
	386,707	**2,373,732**	**2,760,439**

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

Notes to the Financial Statements

	2010 M '000	2009 M '000

6. IMF Subcription Account

Balance at beginning of year	443,836	429,309
Exchange (devaluation)/revaluation	(57,646)	14,527
Balance at end of year	**386,190**	**443,836**

The Lesotho Government Quota in the International Monetary Fund (IMF) is SDR 34,900,000. The local currency equivalent of the subscription account at statement of financial position date is converted at the rate of 0.090370100 (2009: 0.078632800).

7. IMF Holding of Special Drawing Rights (SDR)

Balance at beginning of year	397,525	44,201
Net transactions - increase in rights	34,368	345,976
Exchange (devaluation)/revaluation	(53,861)	7,348
Balance at end of year	**378,032**	**397,525**

The value of SDR34,162,749 allocated by the International Monetary Fund less utilisation is converted at 0.090370100 (2009: SDR31,258,572 at 0.078632800).

8. IMF Funded PRGF Advances

Balance at beginning of year	195,847	236,796
Paid during the year	(57,987)	(48,147)
Received during the year	92,306	-
Exchange (devaluation)/revaluation	(27,665)	7,198
Balance at end of year	**202,501**	**195,847**

These are funds secured under the IMF Poverty Reduction and Growth Facility (PRGF) and on-lent through the Government of Lesotho. The SDR equivalents and translation thereof are shown in note 19.

9. Lesotho Government Securities

Maturing within 1 month	1	23

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

10. Deferred currency expenditure

Balance at beginning of year	10,868	4,275
Expenditure during the year	33,394	14,531
Amortised during the year	(15,119)	(7,938)
Balance at end of year	**29,143**	**10,868**

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

11. Loans to staff

Housing loans	11,245	11,243
Car loans	10,676	10,883
Furniture loans	1,017	931
Other loans and advances	4,822	3,881
	27,760	**26,938**

Notes to the Financial Statements

	2010 M '000	2009 M '000
12. Other assets		
Cheques for collection and uncleared items	797	1,320
Other prepayments	2,122	1,125
Other receivables	3,638	2,185
	6,557	**4,630**

M '000

13. Property, plant and equipment

	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
CBL land and buildings	61,988	(8,193)	53,795	61,787	(7,202)	54,585
Lehakoe land and buildings	81,091	(8,028)	73,063	80,777	(6,845)	73,932
Residential land and buildings	8,328	(598)	7,730	4,454	(524)	3,930
Housing furniture	528	(420)	108	516	(379)	137
Office furniture	7,363	(4,812)	2,551	6,075	(4,204)	1,871
LRCC furniture	3,971	(2,534)	1,437	3,953	(2,126)	1,827
Motor vehicles	10,331	(5,360)	4,971	5,730	(4,465)	1,265
Office equipment	22,773	(19,293)	3,480	22,842	(14,242)	8,600
IT equipment	10,352	(7,161)	3,191	9,741	(6,696)	3,045
Sports and music	8,331	(7,339)	992	8,193	(6,205)	1,988
Housing equipment	190	(173)	17	190	(153)	37
Security equipment	7,435	(6,072)	1,363	7,381	(4,758)	2,623
Work in progress	28,427	-	28,427	10,513	-	10,513
Total	**251,108**	**(69,983)**	**181,125**	**222,152**	**(57,799)**	**164,356**

Reconciliation of property, plant and equipment - 2010

	Opening cost	**Additions**	**Disposals**	**Transfers**	**Revaluations**	**Other**	**Accumulated depreciation**	**Carrying value**
CBL land and buildings	61,787	202	-	-	-	-	(8,193)	53,796
Lehakoe land and buildings	80,777	313	-	-	-	-	(8,028)	73,062
Residential land and buildings	4,454	-	-	-	3,874	-	(598)	7,730
Housing furniture	516	12	-	-	-	-	(420)	108
Office furniture	6,075	1,288	-	-	-	-	(4,812)	2,551
LRCC furniture	3,953	18	-	-	-	-	(2,534)	1,437
Motor vehicles	5,730	1,763	(418)	-	3,256	-	(5,360)	4,971
Office equipment	22,842	68	(137)	-	-	-	(19,293)	3,480
IT equipment	9,741	1,181	(700)	-	130	-	(7,161)	3,191

M '000

13. Property, plant and equipment (continued)

Sports & music equipment	8,193	138	-	-	-	-	(7,339)	992
Housing equipment	190	-	-	-	-	-	(173)	17
Security equipment	7,381	54	-	-	-	-	(6,072)	1,363
Work in progress	10,513	19,661	-	(1,084)	-	(663)	-	28,427
	222,152	**24,698**	**(1,255)**	**(1,084)**	**7,260**	**(663)**	**(69,983)**	**181,125**

The Bank has not revalued the Central Bank and Lehakoe land and buildings during 2010. They will be revalued during 2011.

Reconciliation of property, plant and equipment - 2009

	Opening cost	Additions	Disposals	Transfers	Accumulated depreciation	Carrying value
CBL land and buildings	61,793	-	-	(6)	(7,202)	54,585
Lehakoe land and buildings	80,777	-	-	-	(6,845)	73,932
Residential land and buildings	4,346	108	-	-	(524)	3,930
Housing furniture	675	-	(159)	-	(379)	137
Office furniture	6,140	4	(69)	-	(4,204)	1,871
LRCC furniture	3,927	26	-	-	(2,126)	1,827
Motor vehicles	5,730	-	-	-	(4,465)	1,265
Office equipment	22,411	435	(4)	-	(14,242)	8,600
IT equipment	8,709	1,194	(162)	-	(6,696)	3,045
Sports & music equipment	8,027	166	-	-	(6,205)	1,988
Housing equipment	190	-	-	-	(153)	37
Security equipment	7,381	-	-	-	(4,758)	2,623
Work in progress	1,761	8,802	-	(50)	-	10,513
	211,867	**10,735**	**(394)**	**(56)**	**(57,799)**	**164,356**

Notes to the Financial Statements

M '000

14. Intangible assets

	2010			2009		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Computer software	12,612	(5,199)	7,413	2,206	(1,492)	714

Reconciliation of intangible assets - 2010

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	714	10,406	(3,707)	7,413

Reconciliation of intangible assets - 2009

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	1,435	771	(1,492)	714

Notes to the Financial Statements

	2010 M '000	2009 M '000
15. Notes and coins issued		
Notes	621,078	570,229
Coins	17,080	14,758
	638,158	**584,987**

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

16. Deposits

	2010 M '000	2009 M '000
Deposits from Banks - Non-interest bearing		
Bankers	345,124	294,685
Other Deposits - Non-interest bearing		
International Institutions	2,705	2,178
Parastatals and others	192,148	186,570
	539,977	**483,433**

17. IMF Maloti Currency Holding

	2010 M '000	2009 M '000
Securities account	245,447	245,447
General resources accounts	101,139	152,873
	346,586	**398,320**

18. IMF Special Drawing Rights Allocation

	2010 M '000	2009 M '000
Balance at beginning of year	418,123	45,994
Net Transactions - increase in rights	-	364,408
Exchange (revaluation)/devaluation	(54,306)	7,721
Balance at end of year	**363,817**	**418,123**

Lesotho's allocation by IMF of SDR32,878,186 converted at 0.090370100 (2009:SDR 32,878, 186 @ 0.078632800).

19. IMF-PRGF Facility

	2010 M '000	2009 M '000
Balance at beginning of year	195,847	236,796
Paid during the year	(57,987)	(48,147)
Received during the year	92,306	-
Exchange (revaluation)/devaluation	(27,665)	7,198
Balance at end of year	**202,501**	**195,847**

This IMF loan was secured under the Poverty Reduction and Growth Facility. The Ministry of Finance tranche is now accounted for through the Bank's records to present the amount due to the IMF. The balance due to the IMF amounted to SDR18,300,000 converted at 0.090370100 as at 31 December 2010 (2009: SDR15,400,000 at 0.078632800). The loan has been on-lent as per note 8. Interest expense and exchange rate differences are borne by the Government of Lesotho.

20. Taxation (receivable)/payable

	2010 M '000	2009 M '000
Balance at beginning of year	5,663	57,279
Paid during the year	(5,663)	(57,279)
Current year charge	30,425	85,307
Provisional payments made	(76,776)	(79,644)
Balance at end of year	**(46,351)**	**5,663**

Notes to the Financial Statements

	2010 M '000	2009 M '000
21. Due to Government of Lesotho Consolidated Fund		
Balance at beginning of year	568,538	505,469
Paid during the year	(568,538)	(192,625)
Profit appropriations for the current year	60,910	255,694
Balance at end of year	**60,910**	**568,538**

The Foreign exchange differences are eliminated from the Profit after tax, before a portion is transferred to the Government of Lesotho Consolidated Fund and the General Reserve account in terms of Section 21 of the Central Bank of Lesotho Act No.2 of 2000.

	2010 M '000	2009 M '000
Profit/(loss) after tax appropriates as follows:		
Loss after tax	(324,289)	(400,214)
Loss on foreign exchange activities	397,381	655,908
Transfer to General Reserve	(12,182)	-
	60,910	**255,694**

22. Other liabilities

	2010 M '000	2009 M '000
Donations - Referral Hospital	40,090	37,840
Divisional cheques accounts	1,298	1,381
Other	18,815	6,902
Various Accruals	25,603	6,948
	85,806	**53,071**

The donations account relates to the construction expenses that will be reimbursed for a hospital that is being built. The project started over 10 years ago. The money received was invested in a bank account to earn interest.

23. Long-term employee benefit

	2010 M '000	2009 M '000
Provision for severance pay		
Opening obligation	11,300	15,659
Interest cost	1,166	1,865
Current service cost	1,171	1,863
Actuarial loss/(gain)	420	(7,869)
Benefits paid	(878)	(218)
Closing obligation	13,179	11,300
Provision for gratuity		
Opening obligation	37,592	63,163
Interest cost	3,793	7,030
Current service cost	2,622	4,777
Unrecognised past service cost	1,648	-
Actuarial loss/(gain)	8,036	(32,761)
Benefits paid	(8,007)	(4,617)
Closing obligation	45,684	37,592
Total	**58,863**	**48,892**

Notes to the Financial Statements

23. Long-term employee benefit (continued)

Net expense/(income) recognised in profit and loss

	2010 M '000	2009 M '000
Current service cost	3,793	6,640
Interest cost	4,959	8,895
Actuarial losses/(gains)	8,456	(40,630)
Past service cost	1,648	-
	18,856	**(25,095)**

Key assumptions used

Assumptions used on last valuation on Friday, December 31, 2010.

Mortality and pre-retirement is determined based on the SA 85-90 Ultimate table

Chance of withdrawal:

Age	Rate	Rate
20-24	15.0 %	15.0 %
25-29	10.0 %	10.0 %
30-34	7.0 %	7.0 %
35-39	4.0 %	4.0 %
40-44	2.0 %	2.0 %

Discount rate	8.50 %	9.50 %
Inflation rate	5.25 %	5.75 %
Salary increase rate	6.50 %	7.00 %

Notes to the Financial Statements

	2010 M '000	2009 M '000

24. Deferred taxation

Reconciliation of deferred taxation

	2010 M '000	2009 M '000
Balance at beginning of year	300,171	433,022
Reversal of foreign exchange (gains)/losses	(296,317)	-
	3,854	433,022
Movements in profits and loss	4,951	(5,613)
Movements in equity	13,349	(127,238)
Balance at end of year	**22,154**	**300,171**

Deferred taxation comprises

	2010 M '000	2009 M '000
Capital allowances	2,569	522
Provisions	(14,716)	(12,223)
Deferred expenses	9,139	2,373
Foreign exchange revaluation	-	300,284
Bond revaluation reserve	20,789	9,214
Property revaluation reserve	4,373	-
	22,154	**300,171**

During 2009, there was an uncertain tax position regarding the tax treatment of foreign currency translation differences. The Bank's view was that realised and unrealised foreign exchange differences should not attract any tax because the Central Bank of Lesotho Act No.2 of 2000 excludes these from net profit. A formal ruling to confirm this view was requested from the Lesotho Revenue Authority (LRA).

Subsequent to year end, the LRA issued a ruling confirming that foreign exchange gains and losses were not taxable. Therefore, the M296 million liability raised at the end of 2009 has been reversed during 2010 to the foreign exchange revaluation reserve.

25. Share capital

	2010 M '000	2009 M '000
Authorised		
Authorised capital	100,000	100,000
Issued		
Issued and fully paid	100,000	25,000

Share capital of M75 million was issued during the current year. The entire issued share capital is held by the Government of Lesotho.

26. Interest income

	2010 M '000	2009 M '000
Foreign currency deposits	90,196	234,299
Other institutions	13	-
Interest on treasury bills	13,951	50,549
Interest on bonds	179,177	224,604
	283,337	**509,452**

Notes to the Financial Statements

	2010 M '000	2009 M '000
27. Interest expense		
Parastatal and Government deposits	22	-
Local bank deposits	6	1
IMF SDR allocation account	998	442
Interest on bonds	19,753	36,312
	20,779	**36,755**
28. Other income		
Rental income	310	350
Profit on sale of treasury bills	83	212
Profit on sale of bonds	12,687	3,830
Interest on staff loans	536	521
Lehakoe proceeds	10,071	9,000
Other income	817	4,433
Gain on instruments designated as fair value through profit and loss	12,930	942
Profit on sale of fixed assets	150	-
Actuarial gains - gratuity	-	25,095
	37,584	**44,383**
29. Operating costs and expense per nature		
Administration and other expenses	43,082	32,601
Auditor's remuneration	1,085	784
Deferred currency expenses amortised	15,119	7,938
Intangible assets amortised	3,707	1,492
Depreciation and impairments	13,429	10,876
Property, plant and equipment maintenance expenses	10,476	10,848
Loss on foreign exchange activities	397,381	655,908
Loss on revaluation of treasury bills and bonds	11,224	7,438
Personnel costs:		
Staff welfare expenses	7,795	3,865
Non-executive directors' fees	308	377
Executive directors' salaries	2,482	2,618
Key management (heads of departments)	3,335	3,602
Staff salaries and expenses	57,322	50,236
Pension fund contributions	3,454	2,965
Gratuity and severence expenses	18,856	2,803
	589,055	**794,351**

Notes to the Financial Statements

	2010 M '000	2009 M '000
30. Taxation		
Major components of the tax expense		
Current		
Normal taxation for the year	30,425	85,307
Deferred		
Deferred taxation arising on foreign currency translation	-	43,249
Deferred taxation arising on other profit and loss items	4,951	(5,613)
	4,951	**37,636**
	35,376	**122,943**
Reconciliation of the tax expense		
Chargeable profit	108,468	378,637
Statutory tax rate	25 %	25 %
Permanent differences:		
Donations	0.08 %	0.01 %
50 % Entertainment	0.02 %	- %
Training expenses additional 25%	(1.17)%	(0.02)%
Cumulative differences on foreign exchange movements	8.68 %	7.48 %
Effective tax rate	**32.61 %**	**32.47 %**

31. Cash used in operations

	2010 M '000	2009 M '000
Loss before taxation	(288,913)	(277,271)
Adjustments for:		
Depreciation	13,429	10,876
Deferred computer software expenses amortised	3,707	1,492
Profit/loss on disposal of fixed assets	150	13
Interest income	(283,337)	-
Interest expense	20,779	-
Actuarial losses	8,456	40,630
Deferred currency expenses amortised	15,119	7,938
Loss on revaluation of treasury bills and bonds	11,224	7,438
Unrealised exchange rate fluctuations	(28,911)	(376,689)
Changes in working capital:		
Balances due from other banks and other debtors	47,348	6,225
Deposit accounts	(770,821)	41,380
Creditors and other liability accounts	103,616	167,962
Changes in IMF Maloti currency holding	(51,734)	13,037
Changes in IMF subscription account	57,646	(14,527)
Changes in IMF Special Drawing Rights Allocation	(54,306)	372,129
Changes in IMF Special Drawing Rights Holding	19,493	(353,324)
	(1,177,055)	**(352,690)**

Notes to the Financial Statements

	2010 M '000	2009 M '000

32. Capital commitments

Contracted	12,426	5,525

These capital commitments are in respect of the Boardroom extension, MIDAS Banking System upgrade and Human Resources Management System which will be funded from internal resources. The 2009 capital commitments related to the purchase of a petrol bowser, budget solution and central depository system.

Uncontracted	97,579	136,790

These capital commitments are in respect of the purchase of various capital assets as per approved capital budget which will be funded from internal resources.

33. Post retirement obligations

Total employer contributions	3,454	2,965

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

34. Contingent Liability

On 15th August 2005 Facility Management Company (Pty) Ltd demanded payment of an amount of M4 047 000 from the Bank arising from the termination of a Management contract between the Bank and the Company. The Bank has denied liability. The parties have agreed to refer the dispute to arbitration. The arbitration proceedings have not commenced. The Bank has good prospects of success according to the lawyers involved.

		2010 M '000	2009 M '000

35. Related parties

The Bank is owned by the Government of Lesotho.

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

The deposits with the Bank held by the Government is disclosed separately in the statement of financial position.

All payments relating to taxes, property rates and service utilisation are made to Government.

Loans to staff are disclosed in note 11.

		2010 M '000	2009 M '000
Gross advances made to:			
Heads of Departments	Car	-	-
	Furniture	38	65
Heads of Divisions:	Car	828	-
	Furniture	70	107
Balances due at year end:			
Heads of Departments	Car	205	337
	Furniture	4	42
Heads of Divisions:	House	513	834
	Car	1,472	1,105
	Furniture	121	136
Interest charged for the year:			
Heads of Departments	Car	10	10
	Furniture	1	1
Heads of Divisions:	House	19	14
	Car	44	34
	Furniture	4	2

No advances were made to the Governors and accordingly no balance is outstanding.

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

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

	2010 M '000	2009 M '000
Annual remuneration to key management which includes car allowances and housing allowances:		
Executive Directors' salaries	2,482	2,618
Key management salaries	3,335	3,602

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

- termination benefits
- title deeds
- registered mortgages

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

Notes to the Financial Statements

36. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2010

Financial assets	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Held to maturity	Total
Cash and balances with Banks	3,010,138	-	-	-	3,010,138
Accrued interest due from Banks	10,248	-	-	-	10,248
Treasury bills	-	-	17,613	119,914	137,527
Treasury notes and bonds	-	2,909,431	335,150	-	3,244,581
IMF Subscription Account	386,190	-	-	-	386,190
IMF Holding of Special Drawing Rights	378,032	-	-	-	378,032
IMF Funded PRGF Advances	202,501	-	-	-	202,501
Lesotho Government Securities	1	-	-	-	1
Loans to staff	27,760	-	-	-	27,760
	4,014,870	**2,909,431**	**352,763**	**119,914**	**7,396,978**

2009

Financial assets	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Held to maturity	Total
Cash and balances with Banks	4,501,267	-	-	-	4,501,267
Accrued interest due from Banks	57,596	-	-	-	57,596
Treasury bills	-	-	-	606,989	606,989
Treasury notes and bonds	-	2,373,732	386,707	-	2,760,439
IMF Subscription Account	443,836	-	-	-	443,836
IMF Holding of Special Drawing Rights	397,525	-	-	-	397,525
IMF Funded PRGF Advances	195,847	-	-	-	195,847
Lesotho Government Securities	23	-	-	-	23
Loans to staff	26,938	-	-	-	26,938
	5,623,032	**2,373,732**	**386,707**	**606,989**	**8,990,460**

37. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2010

Financial liabilities	Other financial liabilities at amortised cost	Total
Notes and coins issued	638,158	638,158
Deposits	539,977	539,977
Lesotho Government Deposits	3,782,458	3,782,458
IMF Maloti Currency Holding	346,586	346,586
IMF Special Drawing Rights Allocation	363,817	363,817
IMF PRGF Facility	202,501	202,501
	5,873,497	**5,873,497**

Notes to the Financial Statements

37. Financial liabilities by category (continued)

2009

Financial liabilities	**Other financial liabilities at amortised cost**	**Total**
Notes and coins issued	584,987	584,987
Deposits	483,433	483,433
Lesotho Government Deposits	4,609,822	4,609,822
IMF Maloti Currency Holding	398,320	398,320
IMF Special Drawing Rights Allocation	418,123	418,123
IMF PRGF Facility	195,847	195,847
	6,690,532	**6,690,532**

38. Operating lease

Amount receivable within 12 months	5	147
Amount receivable within 13 to 24 months	601	-
	606	**147**

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

39. Risk management

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

Management structures

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

Risk elements

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

Market price risk

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

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

The following table summarises the Bank's exposure to Foreign currency exchange rate fluctuations as at 31 December 2010:

Notes to the Financial Statements

39. Risk management (continued)

Currency	Value of Currency	Exchange Rate	Maloti Equivalent M'000
Cash and balances with Banks			
South Africa	1,090,726	1.0000	1,090,726
United States	165,231	6.6278	1,095,118
Botswana	324	1.0253	332
England	545	10.2836	5,606
European Union	92,334	8.8623	818,292
Switzerland	9	7.0782	64
Treasury bills			
United States	20,750	6.6278	137,527
Treasury notes and bonds			
South Africa	1,792,225	1.0000	1,792,225
United States	219,131	6.6278	1,452,356

Market liquidity risk

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

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

Credit risk

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

Credit risk policies are formulated by a committee, which sets counterparty limits and security.

Operational risk

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

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

Human resource risk

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

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

Legal risk

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

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

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

Notes to the Financial Statements

39. Risk management (continued)

Reputational risk

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

Credit risk analysis

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

2010

Cash	M'000 Carrying amount	M'000 Maximum exposure	Held in Deno-mination	Type of collateral held	Credit rating
ZAR	39,756	-	ZAR	none	n/a
USD	1,512	-	USD	none	n/a
GBP	1	-	GBP	none	n/a
EUR	9	-	EUR	none	n/a
	41,278	**-**			

Current and call accounts	M'000 Carrying amount	M'000 Maximum exposure	Held in Deno-mination	Type of collateral held	Credit rating
ABSA Bank	30,828	30,828	ZAR	none	P-2/A3
ACT.ABSA	3,210	3,210	ZAR	none	P-2/A3
B.I.S	426,638	426,638	EUR	none	n/a
B.I.S	525	525	GBP	none	n/a
B.I.S. Basle	535	535	USD	none	n/a
Bank of England	2,672	2,672	GBP	none	n/a
Bank of N.Y	944	944	USD	none	P-1/Aaa
Bank of N.Y	44	44	ZAR	none	P-1/Aaa
BankTrust.N.Y	231	231	USD	none	P-1/Aa3
Citi Bank	3,654	3,654	ZAR	none	P-1/A2
CITI N.Y	8,091	8,091	USD	none	P-1/A1
Commerz	5,265	5,265	EUR	none	P-1/Aa3
Crown Agents	79	79	GBP	none	n/a
Crown Agents	346	346	USD	none	n/a
Deutsche Bundesbank	404	404	EUR	none	n/a
Federal Reserve Bank of N.Y	977	977	USD	none	n/a
First Rand	10,685	10,685	ZAR	none	P-1/A3
Investec Bank	50,053	50,053	ZAR	none	P-2/A3
NedBank	3,966	3,966	ZAR	none	P-2/A3
South African Reserve Bank	456,146	456,146	ZAR	none	n/a
Standard Bank	3,143	3,143	ZAR	none	P-2/A3
Standard Chartered Botswana	332	332	BWP	none	n/a
Standard Chartered London	2,328	2,328	GBP	none	P-1/A1
Standard Merchant	51	51	ZAR	none	P-2/A3
Swiss Bank	65	65	CHF	none	n/a
World Bank (IBRD)	1,174	1,174	USD	none	n/a
	1,012,386	**1,012,386**			

Notes to the Financial Statements

39. Risk management (continued)

Fixed deposits	**M'000 Carrying amount**	**M'000 Maximum exposure**	**Held in Deno-mination**	**Type of collateral held**	**Credit rating**
ABSA Bank	80,000	80,000	ZAR	none	P-2/A3
Crown Agents	48,964	48,964	EUR	none	n/a
Crown Agents	167,995	167,995	USD	none	n/a
FedralReseve N.Y	436,109	436,109	USD	none	n/a
Firstrand	-	-	EUR	none	P-1/A3
Firstrand	100,000	100,000	ZAR	none	P-1/A3
Investec	169,191	169,191	ZAR	none	P-2/A3
NedBank	120,000	120,000	ZAR	none	P-2/A3
Standard Bank	20,000	20,000	ZAR	none	P-2/A3
Standard Chartered London	113,860	113,860	EUR	none	P-1/Aaa
Commerzbank	223,153	223,153	EUR	none	P-1/Aa3
Standard Chartered London	132,556	132,556	USD	none	P-1/Aaa
Standard Bank plc	132,556	132,556	USD	none	P-2/Baa2
Standard Lesotho Bank	212,090	212,090	USD	none	n/a
	1,956,474	**1,956,474**			

Accrued interest due from Banks	**M'000 Carrying amount**	**M'000 Maximum exposure**	**Held in Deno-mination**	**Type of collateral held**	**Credit rating**
ABSA	1	1	ZAR	none	P-2/A3
BIS	3	3	EUR	none	n/a
BIS	-	-	USD	none	n/a
Citibank	1	1	ZAR	none	P-1/A2
Citibank	-	-	ZAR	none	P-1/A2
Crown Agents	24	24	EUR	none	n/a
Crown Agents	19	19	USD	none	n/a
Federal Reserve	-	-	USD	none	n/a
Firstrand	-	-	EUR	none	P-1/A3
Firstrand	1	1	ZAR	none	P-1/A3
Investec	1	1	ZAR	none	P-2/A3
Nedbank	1,174	1,174	ZAR	none	P-2/A3
South African Reserve Bank	58	58	ZAR	none	n/a
Standard Bank	56	56	ZAR	none	P-2/A3
Standard Bank	-	-	ZAR	none	P-2/A3
Standard Chartered	-	-	GBP	none	P-2/A3
Nedbank	2	2	ZAR	none	n/a
Commerzbank	266	266	EUR	none	n/a
South African Reserve Bank Special Rand	78	78	ZAR	none	n/a
Firstrand	826	826	ZAR	none	P-1/A3
ABSA	652	652	ZAR	none	P-2/A3
Investec	683	683	ZAR	none	P-2/A3
Investec	400	400	ZAR	none	P-2/A3
Investec	417	417	ZAR	none	P-2/A3
Standard Bank	65	65	USD	none	P-2/A3
Standard Lesotho	31	31	USD	none	n/a
Standard Chartered	28	28	EUR	none	P-1/A3
Standard Chartered	27	27	USD	none	P-1/Aaa
	4,813	**4,813**			

Notes to the Financial Statements

39. Risk management (continued)

Treasury bills	M'000 Carrying amount	M'000 Maximum exposure	Held in Deno-mination	Type of collateral held	Credit rating
United States	137,527	137,527	USD	none	n/a

Treasury notes & bonds	M'000 Carrying amount	M'000 Maximum exposure	Held in Deno-mination	Type of collateral held	Credit rating
South Africa	1,792,225	1,792,225	ZAR	none	n/a
Unites States	1,452,356	1,452,356	USD	none	n/a
	3,244,581	**3,244,581**			

Loans to staff	M'000 Carrying amount	M'000 Maximum exposure	Held in Deno-mination	Type of collateral held	Credit rating
Housing Loans	11,245	11,245	LSL	Title Deeds	n/a
Car Loans	10,676	10,676	LSL	Terminal Benefits	n/a
Furniture Loans	1,017	1,017	LSL	Terminal Benefits	n/a
Other Loans and Advances	4,822	4,822	LSL	Terminal Benefits	n/a
	27,760	**27,760**			

2009

Cash	M'000 Carrying amount	M'000 Maximum exposure	Held in Deno-mination	Type of collateral held	Credit rating
ZAR	51,235	-	ZAR	none	n/a
USD	450	-	USD	none	n/a
GBP	36	-	GBP	none	n/a
EUR	8	-	EUR	none	n/a
	51,729	**-**			

Current and call accounts	M'000 Carrying amount	M'000 Maximum exposure	Held in Deno-mination	Type of collateral held	Credit rating
ABSA Bank	14,167	14,167	ZAR	none	P-2/A3
ACT.ABSA	25,543	25,543	ZAR	none	P-2/A3
B.I.S	1,861	1,861	CHF	none	n/a
B.I.S	51,640	51,640	EUR	none	n/a
B.I.S	35,080	35,080	GBP	none	n/a
B.I.S. Basle	1	1	USD	none	n/a
Bank de Belgique	11	11	EUR	none	n/a
Bank of England	333	333	GBP	none	n/a
Bank of N.Y	125	125	USD	none	P-1/Aaa
Bank of N.Y	51	51	ZAR	none	P-1/Aaa
BankTrust.N.Y	345	345	USD	none	n/a
Citi Bank	29,198	29,198	ZAR	none	P-1/A2
CITI N.Y	7,574	7,574	USD	none	P-1/A2
Commerz	12,410	12,410	EUR	none	P-1/Aa3
Crown Agents	92	92	GBP	none	n/a
Crown Agents	70	70	USD	none	n/a
Deutsche Bundesbank	347	347	EUR	none	n/a

Notes to the Financial Statements

39. Risk management (continued)

Federal Reserve Bank of N.Y	1,089	1,089	USD	none	n/a
First Rand	3,632	3,632	ZAR	none	P-1/A3
Investec Bank	55,610	55,610	ZAR	none	P-2/A3
NedBank	11,046	11,046	ZAR	none	P-2/A3
South African Reserve Bank	440,653	440,653	ZAR	none	n/a
Standard Bank	15,722	15,722	ZAR	none	P-2/A3
Standard Chartered Botswana	251	251	BWP	none	n/a
Standard Chartered London	5,613	5,613	GBP	none	P-2/Baa2
Standard Merchant	1,320	1,320	ZAR	none	P-2/A3
Swiss Bank	396	396	CHF	none	n/a
World Bank (IBRD)	429	429	USD	none	n/a
	714,609	**714,609**			

Fixed deposits	**M'000 Carrying amount**	**M'000 Maximum exposure**	**Held in Deno-mination**	**Type of collateral held**	**Credit rating**
ABSA Bank	180,000	180,000	ZAR	none	P-2/A3
B.I.S	472,541	472,541	EUR	none	n/a
Bank of N.Y	4,289	4,289	ZAR	none	P-1/Aaa
BIS	221,157	221,157	USD	none	n/a
CitiBank	120,000	120,000	ZAR	none	P-1/A2
Crown Agents	79,636	79,636	EUR	none	n/a
Crown Agents	64,941	64,941	GBP	none	n/a
Crown Agents	163,723	163,723	USD	none	n/a
FedralReseve N.Y	1,629,927	1,629,927	USD	none	n/a
Firstrand	-	-	EUR	none	P-1/A3
Firstrand	180,000	180,000	ZAR	none	P-1/A3
Investec	218,602	218,602	ZAR	none	P-2/A3
NedBank	208,327	208,327	ZAR	none	P-2/A3
Standard Bank	191,787	191,787	ZAR	none	P-2/A3
	3,734,930	**3,734,930**			

Accrued interest due from Banks	**M'000 Carrying amount**	**M'000 Maximum exposure**	**Held in Deno-mination**	**Type of collateral held**	**Credit rating**
ABSA	6,669	6,669	ZAR	none	P-2/A3
Bank of N.Y	6	6	ZAR	none	P-1/Aaa
BIS	383	383	EUR	none	n/a
BIS	-	-	USD	none	n/a
BIS	28	28	GBP	none	n/a
Citibank	4,172	4,172	ZAR	none	P-1/A2
Crown Agents	31	31	EUR	none	n/a
Crown Agents	39	39	USD	none	n/a
Crown Agents	310	310	GBP	none	n/a
Firstrand	5,786	5,786	ZAR	none	P-1/A3
Investec	6,525	6,525	ZAR	none	P-2/A3
Nedbank	7,379	7,379	ZAR	none	P-2/A3
South African Reserve Bank	155	155	ZAR	none	n/a
Standard Bank	7,753	7,753	ZAR	none	P-2/A3
	39,236	**39,236**			

Notes to the Financial Statements

39. Risk management (continued)

Treasury bills	**M'000 Carrying amount**	**M'000 Maximum exposure**	**Held in Deno-mination**	**Type of collateral held**	**Credit rating**
South Africa	496,477	496,477	ZAR	none	n/a
United States	110,512	110,512	USD	none	n/a
	606,989	**606,989**			

Treasury notes & bonds	**M'000 Carrying amount**	**M'000 Maximum exposure**	**Held in Deno-mination**	**Type of collateral held**	**Credit rating**
South Africa	1,735,584	1,735,584	ZAR	none	n/a
Unites States	1,024,855	1,024,855	USD	none	n/a
	2,760,439	**2,760,439**			

Loans to staff	**M'000 Carrying amount**	**M'000 Maximum exposure**	**Held in Deno-mination**	**Type of collateral held**	**Credit rating**
Housing Loans	11,243	11,243	LSL	Title Deeds	n/a
Car Loans	10,883	10,883	LSL	Terminal Benefits	n/a
Furniture Loans	931	931	LSL	Terminal Benefits	n/a
Other Loans and Advances	3,881	3,881	LSL	Terminal Benefits	n/a
	26,938	**26,938**			

All financial assets were fully performing at year end.

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

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

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

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

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

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

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

Notes to the Financial Statements

39. Risk management (continued)

Sensitivity Analysis for the year ended 31 December 2010

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

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

	Dec - 10		Dec - 09	
Currency	**Portfolio level**	**Exchange rate**	**Portfolio level**	**Exchange rate**
ZAR	2,882,951	1.00	3,983,242	1.00
USD	405,112	6.63	428,690	7.37
EUR	92,334	8.86	58,073	10.62
GBP	545	10.28	8,924	11.89
BWP	324	1.03	227	1.11
CHF	9	7.08	315	7.16
SDR	34,153	10.21	-	11.52

Base case
Data for currency and foreign investment risk (figures in LSL)

		Dec - 10	
Currency	**Portfolio level**	**Portfolio Level in %**	**Exchange rate**
ZAR	2,882,951	42.77 %	1.00
USD	2,685,001	39.83 %	6.63
EUR	818,292	12.14 %	8.86
GBP	5,606	0.08 %	10.28
BWP	332	0.01 %	1.03
CHF	64	- %	7.08
SDR	348,699	5.17 %	10.21
	6,740,945	**100 %**	

Base case
Data for currency and foreign investment risk (figures in LSL)

		Dec - 09	
Currency	**Portfolio level**	**Portfolio Level in %**	**Exchange rate**
ZAR	3,983,242	50.62 %	1.00
USD	3,160,257	40.16 %	7.37
EUR	616,594	7.84 %	10.62
GBP	106,095	1.35 %	11.89
BWP	251	- %	1.11
CHF	2,257	0.03 %	7.16
	7,868,696	**100 %**	

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

		Dec - 10		
Currency	**Portfolio level**	**Portfolio Level in %**	**Level Change**	**Exchange rate**
ZAR	2,882,951	28.09 %	-	1.00
USD	2,819,252	27.47 %	(134,250)	6.96

39. Risk management (continued)

EUR	859,208	8.37 %	(40,915)	9.31
GBP	5,885	0.06 %	(280)	10.80
BWP	349	- %	(17)	1.08
CHF	68	- %	(3)	7.43
SDR	3,694,278	36.01 %	(17,328)	10.72
	10,261,991	**100 %**		

% Change 41.81%

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

	Dec - 09			
Currency	**Portfolio level**	**Portfolio Level in %**	**Level Change**	**Exchange rate**
ZAR	3,983,242	49.40 %	-	1.00
USD	3,318,270	41.15 %	(158,013)	7.74
EUR	647,424	8.03 %	(30,830)	11.15
GBP	111,400	1.38 %	(5,305)	12.48
BWP	264	- %	(13)	1.16
CHF	2,370	0.03 %	(113)	7.52
	8,062,970	**100 %**		

% Change 2.47%

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

	Dec - 10			
Currency	**Portfolio level**	**Portfolio Level in %**	**Level Change**	**Exchange rate**
ZAR	2,882,951	30.16 %	-	1.00
USD	2,550,752	26.68 %	134,250	6.30
EUR	777,379	8.13 %	40,915	8.42
GBP	5,325	0.06 %	281	9.77
BWP	316	- %	17	0.97
CHF	61	- %	3	6.72
SDR	3,342,442	34.97 %	17,532	9.70
	9,559,226	**100 %**		

% Change -41.81%

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

	Dec - 09			
Currency	**Portfolio level**	**Portfolio Level in %**	**Level Change**	**Exchange rate**
ZAR	3,983,243	51.90 %	-	1.00
USD	3,002,244	39.12 %	158,013	7.00
EUR	585,764	7.63 %	30,830	10.09
GBP	100,790	1.31 %	5,305	11.29
BWP	238	- %	13	1.05
CHF	2,144	0.03 %	113	6.80
	7,674,423	**100 %**		

% Change 2.47%

Notes to the Financial Statements

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39. Risk management (continued)

Interest rate risk

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

2010

Sensitivity of equity

	-	-	-	-	-	-
Currency	**Cash**	**0 to 6 Months**	**6 months to 1 year**	**1 year to 5 years**	**More than 5 years**	**Total**
	2010	**2010**	**2010**	**2010**	**2010**	**2010**
	M'000	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**
ZAR	-	1,050,970	272,167	1,435,609	84,449	2,843,195
USD	1,512	1,451,334	180,029	1,052,126	-	2,685,001
GBP	1	5,630	-	-	-	5,631
EUR	9	825,836	-	-	-	825,845
Other	349,096	-	-	-	-	349,096

Increase in yields 1.00%

Decrease in yields -1.00%

Base case yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	5.79 %	13.00 %	7.81 %	6.71 %
USD	0.25 %	0.31 %	1.67 %	- %
GBP	0.44 %	- %	- %	- %
EUR	0.49 %	- %	- %	- %

100 Basis points increase in yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**
ZAR	6.79 %	14.00 %	8.81 %	7.71 %
USD	1.25 %	1.31 %	2.67 %	1.00 %
GBP	1.49 %	- %	- %	- %
EUR	1.44 %	- %	- %	- %

Notes to the Financial Statements

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39. Risk management (continued)

100 Basis points decrease in yields	**0-6 mnth**	**6 mnth - 1yr**	**1-5 yr**	**5yr+**		
ZAR	4.79 %	12.00 %	6.81 %	5.71 %		
USD	- %	- %	0.67 %	- %		

Nominal return in base case yields	**0-6 mnth**	**6mnth-1yr**	**1-5yr**	**5yr+**		
ZAR	60,851	35,382	112,121	5,667		
USD	3,628	558	17,571	-		
GBP	4,010	-	-	-		
EUR	25	-	-	-		
	-	-	-	-	**Nominal Income**	**% Change**
	-	-	-	-	239,812	-

Nominal return in increasing yields	**0-6 mnth**	**6mnth-1yr**	**1-5yr**	**5yr+**		
ZAR	71,361	38,103	126,477	6,511		
USD	18,142	2,358	28,092	-		
GBP	12,192	-	-	-		
EUR	81	-	-	-		
Other	3,491	-	-	-	**Nominal Income**	**% Change**
	-	-	-	-	306,808	28

Nominal return in decreasing yields	**0-6 mnth**	**6mnth-1yr**	**1-5yr**	**5yr+**		
ZAR	50,341	32,660	97,765	4,822		
USD	-	-	7,049	-		
	-	-	-	-	**Nominal Income**	**% Change**
	-	-	-	-	192,638	(20)

Sensitivity: For a 1 percentage increase in yields, Income increase by 28 %

For a 1 percentage decrease in yields, income decreses by -20 %

39. Risk management (continued)

2009

Sensitivity of equity Currency	Cash 2009 M'000	0 to 6 Months 2009 M'000	6 months to 1 year 2009 M'000	1 year to 5 years 2009 M'000	More than 5 years 2009 M'000	Total 2009 M'000
ZAR	51.23477	2,196.00	260.00	1,388.00	87.00	3,982.23
USD	0.45000	2,289.00	102.00	605.00	164.00	3,160.45
GBP	0.03600	106.00	-	-	-	106.04
EUR	0.00800	617.00	-	-	-	617.01
Other	-	2.51	-	-	-	2.51

Increase in yields 1.00%

Decrease in yields -1.00%

Base case yields	0-6 mnth	6 mnth - 1yr	1-5 yr	5yr+
ZAR	7.51 %	8.03 %	10.25 %	8.25 %
USD	0.28 %	0.56 %	3.82 %	4.50 %
GBP	0.34 %	- %	- %	- %
EUR	0.36 %	- %	- %	- %

100 Basis points increase in yields	0-6 mnth	6 mnth - 1yr	1-5 yr	5yr+
ZAR	8.51 %	9.03 %	11.25 %	9.25 %
USD	1.28 %	1.56 %	4.82 %	5.50 %
GBP	1.34 %	- %	- %	- %
EUR	1.36 %	- %	- %	- %

100 Basis points decrease in yields	0-6 mnth	6 mnth - 1yr	1-5 yr	5yr+
ZAR	6.51 %	7.03 %	9.25 %	7.25 %
USD	- %	- %	2.82 %	3.50 %

Notes to the Financial Statements

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39. Risk management (continued)

Nominal return in base case yields	**0-6 mnth**	**6mnth-1yr**	**1-5yr**	**5yr+**		
ZAR	164.93	20.91	142.26	7.16		
USD	6.41	0.57	23.10	7.38		
GBP	0.36	-	-	-		
EUR	2.22	-	-	-		
	-	-	-	-	**Nominal Income**	**% Change**
	-	-	-	-	375.31	-

Nominal return in increasing yields	**0-6 mnth**	**6mnth-1yr**	**1-5yr**	**5yr+**		
ZAR	186.89	23.52	156.15	8.03		
USD	29.30	1.60	29.15	9.02		
GBP	1.42	-	-	-		
EUR	8.90	-	-	-		
Other	0.03	-	-	-	**Nominal Income**	**% Change**
	-	-	-	-	453.48	21.00

Nominal return in decreasing yields	**0-6 mnth**	**6mnth-1yr**	**1-5yr**	**5yr+**		
ZAR	142.97	18.31	128.38	6.29		
USD	-	-	17.06	5.74		
Other	-	-	-	-	**Nominal Income**	**% Change**
	-	-	-	-	318.74	(15.00)

Sensitivity: For a 1 percentage increase in yields, income increase by 21 %

For a 1 percentage decrease in yields, income decreses by -15 %

Notes to the Financial Statements

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39. Risk management (continued)

Liquidity risk

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

2010

	Redeemable on demand	Maturing within 1 month	Maturing after 1 but within 6 months	Maturing after 6 but within 12 months	Maturing after 1 but within 5 years	Maturing after 5 years	Total
Financial assets	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**
Cash and balances with banks	1,053,665	1,730,986	225,487	-	-	-	3,010,138
Accrued interest due from Banks	146	3,425	1,242	-	-	-	4,813
Treasury bills	-	-	133,675	3,852	-	-	137,527
Treasury notes and bonds	-	-	216,735	449,820	2,488,415	89,611	3,244,581
IMF accounts	-	-	-	-	-	966,723	966,723
Lesotho Government Securities	-	1	-	-	-	-	1
Loans to staff	-	-	-	4,822	11,693	11,245	27,760
Total Financial Assets	**1,053,811**	**1,734,412**	**577,139**	**458,494**	**2,500,108**	**1,067,579**	**7,391,543**
Financial liabilities							
Notes & coins issued	638,158	-	-	-	-	-	638,158
Deposits	539,977	-	-	-	-	-	539,977
Lesotho Government Deposits	3,782,877	-	-	-	-	-	3,782,877
IMF Accounts	912,904	-	-	-	-	-	912,904
Total Financial liabilities	**5,873,916**	**-**	**-**	**-**	**-**	**-**	**5,873,916**

Notes to the Financial Statements

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39. Risk management (continued)

Net Total recognised financial instruments	**(4,820,105)**	**1,734,412**	**577,139**	**458,494**	**2,500,108**	**1,067,579**	**1,517,627**
Letters of credit and financial guarantees	-	-	-	-	-	-	-
Irrevocable unutilised facilities	-	-	-	-	-	-	-
Total unrecognised financial intruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net liquidity gap	**(4,820,105)**	**1,734,412**	**577,139**	**458,494**	**2,500,108**	**1,067,579**	**1,517,627**

2009

	Redeemable on demand	**Maturing within 1 month**	**Maturing after 1 but within 6 months**	**Maturing after 6 but within 12 months**	**Maturing after 1 but within 5 years**	**Maturing after 5 years**	**Total**
Financial assets	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**	**M'000**
Cash and balances with banks	766,337	2,548,657	1,186,273	-	-	-	4,501,267
Accrued interest due from Banks	-	26,775	12,462	-	-	-	39,237
Treasury Bills	-	298,416	308,573	-	-	-	606,989
Treasury Notes & Bonds	-	-	153,728	362,823	1,993,131	250,756	2,760,438
IMF accounts	-	-	-	-	-	1,037,208	1,037,208
Lesotho Government Securities	-	23	-	-	-	-	23
Loans to staff	-	-	-	3,881	11,814	11,243	26,938
Total Financial Assets	**766,337**	**2,873,871**	**1,661,036**	**366,704**	**2,004,945**	**1,299,207**	**8,972,100**

Notes to the Financial Statements

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39. Risk management (continued)

Financial liabilities							
Notes & Coins issued	584,987	-	-	-	-	-	584,987
Deposits	483,433	-	-	-	-	-	483,433
Lesotho Government Deposits	4,609,823	-	-	-	-	-	4,609,823
IMF Accounts	-	-	-	-	-	1,012,290	1,012,290
Total Financial liabilities	**5,678,243**	**-**	**-**	**-**	**-**	**1,012,290**	**6,690,533**
Net Total recognised financial instruments	**(4,911,906)**	**2,873,871**	**1,661,036**	**366,704**	**2,004,945**	**286,917**	**2,281,567**
Letters of credit and financial guarantees	-	-	-	-	-	-	-
Irrevocable unutilised facilities	-	-	-	-	-	-	-
Total unrecognised financial intruments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net liquidity gap	**(4,911,906)**	**2,873,871**	**1,661,036**	**366,704**	**2,004,945**	**286,917**	**2,281,567**

Fair value hierarchy

Analysis of fair value determination	**2010 Quoted market price**	**2009 Quoted market price**
Trading financial assets	335,150	386,707
Available-for-sale financial assets	2,909,431	2,373,732
	3,244,581	**2,760,439**

Notes to the Financial Statements

40. New Standards and Interpretations

The following new standards, interpretations, technical corrections and amendments, with effective dates on or after 1 July 2010, have been issued:

IFRS 1 Limited exemption from comparative IFRS 7 disclosures for first-time adopters, effective for annual periods beginning on or after 1 July 2010. Amendments resulting from May 2010 annual improvements to IFRS effective for annual periods beginning on or after 1 January 2011.

IFRS 2 Amendments relating to group cash settled share based payment transactions, effective for annual periods beginning on or after 1 July 2010.

IFRS 3 Amendments resulting from May 2010 annual improvements to IFRS, effective for annual periods beginning on or after 1 July 2010.

IFRS 7 Amendments resulting from May 2010 annual improvements to IFRS, effective for annual periods beginning on or after 1 January 2011.

IFRS 9 Classification and measurement of financial instruments, effective for annual periods beginning on or after 1 January 2013.

IAS 1 Amendments resulting from May 2010 annual improvements to IFRS, effective for annual periods beginning on or after 1 January 2011.

IAS 24 Revised definition of related parties, effective for annual periods beginning on or after 1 January 2011.

IAS 27 Amendments resulting from May 2010 annual improvements to IFRS Annual periods beginning on or after 1 July 2010.

IAS 32 Amendments relating to classification of rights issues, effective for annual periods beginning on or after 1 February 2010.

IAS 34 Amendments resulting from May 2010 annual improvements to IFRS, effective for annual periods beginning on or after 1 January 2011.

IFRIC 13 Amendments resulting from May 2010 annual improvements to IFRS, effective for annual periods beginning on or after 1 January 2011.

IFRIC 14 November 2009 amendments with respect to voluntary prepaid contributions Annual periods beginning on or after 1 January 2011.

IFRIC 19 Extinguishing financial liabilities with equity instruments, effective for annual periods beginning on or after 1 July 2010.

The Bank is in the process of evaluating the effect of these new standards and interpretations but they are not expected to have a significant impact on the results or disclosures.