

Central Bank of Lesotho
Financial statements
for the year ended 31 December 2011

Central Bank of Lesotho

Financial Statements

for the year ended 31 December 2011

General Information

Nature of business and principal activities	Statutory body duly continuing in existence in terms of the Central Bank of Lesotho Act No. 2 of 2000
Registered office	Cnr Airport & Moshoeshoe Roads Maseru 100 Lesotho
Postal address	P.O. Box 1184 Maseru 100 Lesotho
Auditors	Deloitte & Touche and LETACC
Secretary	Mr M.G. Malope (Adv.)
Lawyers:	Webber & Newdigate Knowles Husain Lindsay Inc

Central Bank of Lesotho
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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 56 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.

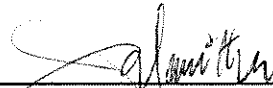
The Directors are also responsible for the Bank's systems of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent 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 21 March 2012 and are signed on its behalf by:



Dr. R.A. Matlanyane
Governor



Mr J.Q. Lesitha
Director

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF CENTRAL BANK OF LESOTHO

Report on the Financial Statements

We have audited the annual financial statements of the Central Bank of Lesotho, which comprise the statement of financial position as at 31 December 2011, 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 56.

Management Responsibility for the Financial Statements

Management is 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 management 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.

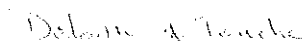
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Central Bank of Lesotho as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

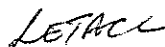
Report on Other Legal and Regulatory Requirements

The financial statements have been prepared in accordance with the requirements of the Central Bank of Lesotho Act No. 2 of 2000 and in compliance with the Income Tax Order of 1993, in all material respects.



Deloitte & Touche
Registered Auditors
Per Stephen Munro
Partner

28 March 2012



LETACC
Firm of Chartered Accountants and Auditors
Per Letuka Sephelane
Partner

28 March 2012

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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 2011. 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 the designated foreign currency translation reserves, and after appropriations have been allocated to the general and other reserves, are paid over to the Government of Lesotho Consolidated Fund as dividends in accordance with Section 21 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:

31 December 2011	M '000
31 December 2010	44,047
	60,910

2. Dividends

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 financial position on page 8.

3. Share capital

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

4. 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 R.A. Matlanyane	April, 2007	Deputy Governor I (Acting Governor) - Appointed Governor in January 2012
Dr. M.P. Makhetha	January, 2012	Deputy Governor I
Ms. M.G. Makenete	January, 2012	Deputy Governor II
Mrs. M.G. Tau-Thabane (Adv.)	July, 2005 - July, 2011	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
Dr.M.P.Senaoana	April, 2007 - March, 2011	Governor and Chairman (deceased - March, 2011)

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Directors' Report

5. Secretary

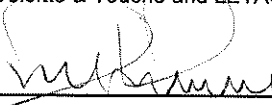
Name	Date of appointment	Position held
Mr M.G. Malope (Adv.)	October, 2007	Head of Department of Corporate Affairs

6. Events subsequent to balance sheet date

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

7. Auditors

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



Dr. R.A. Matlanyane
Governor



Mr J.Q. Lesitha
Director

21 March 2012

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Statement of Financial Position

	Notes	2011 M '000	2010 M '000
Assets			
Cash and balances with Banks	2	3,292,691	3,010,138
Accrued interest due from Banks	3	14,038	10,248
Treasury bills	4	-	137,527
Treasury notes and bonds	5	3,553,807	3,244,581
IMF Subscription Account	6	372,444	386,190
IMF Holding of Special Drawing Rights (SDR)	7	376,875	378,032
IMF Funded PRGF Advances	8	207,352	202,501
Lesotho Government Securities	9	19	1
Deferred currency expenditure	10	13,796	29,143
Loans to staff	11	32,549	27,760
Other assets	12	5,526	6,557
Property, plant and equipment	13	215,500	181,125
Intangible assets	14	6,673	7,413
Taxation receivable	20	25,699	46,351
Total Assets		8,116,969	7,667,567
Equity and Liabilities			
Liabilities			
Notes and coins issued	15	844,626	638,158
Deposits	16	940,559	539,977
Lesotho Government Deposits		2,869,107	3,782,458
IMF Maloti Currency Holding	17	334,250	346,586
IMF Special Drawing Rights Allocation	18	350,868	363,817
IMF-PRGF Facility	19	207,352	202,501
Due to Government of Lesotho Consolidated Fund	21	44,047	60,910
Other Liabilities	22	62,643	85,806
Long-term employee benefit obligation	23	68,190	58,863
Deferred taxation	24	16,789	22,154
Total Liabilities		5,738,431	6,101,230
Equity			
Share capital	25	100,000	100,000
General reserve		158,363	149,554
Rand compensatory reserve		344,510	313,474
SDR revaluation reserve		43,560	50,313
Foreign exchange revaluation reserve		1,599,780	826,913
Property revaluation reserve		85,843	63,717
Bond revaluation reserve		46,482	62,366
		2,378,538	1,566,337
Total Equity and Liabilities		8,116,969	7,667,567

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Statement of Comprehensive Income

	Notes	2011 M '000	2010 M '000
Interest income	26	239,543	283,337
Interest expense	27	(28,610)	(20,779)
Net interest income		210,933	262,558
Revaluation gain/(loss) on foreign exchange activities		766,114	(397,381)
Other income	28	33,481	37,584
Operating profit/(Loss)		1,010,528	(97,239)
Operating expenses	29	(178,352)	(191,674)
Profit (loss) before taxation		832,176	(288,913)
Taxation	30	(13,206)	(35,376)
Profit (loss) for the year		818,970	(324,289)
Other comprehensive income:			
Bond revaluation reserve			
(Decrease)/increase in bond fair values		(21,179)	46,300
Tax effect		5,295	(11,575)
Net movement		(15,884)	34,725
Property revaluation reserve			
Increase in property revaluations		29,502	7,267
Tax effect		(7,376)	(1,817)
Net movement		22,126	5,450
Rand compensatory reserve			
Increase in reserve		31,036	31,917
Tax effect		-	-
Net movement		31,036	31,917
Other comprehensive income for the year net of taxation		37,278	72,092
Total comprehensive income (loss)		856,248	(252,197)

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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 01 January 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	-	-	-	(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	-	12,182	31,917	-	-	-	-	-	31,917
Transfer to general reserve	-	-	-	-	-	-	-	(12,182)	-
Dividends	-	12,182	31,917	(2,861)	(94,236)	5,450	34,725	(60,910)	(60,910)
Total changes	75,000	149,554	313,474	50,313	826,913	63,717	62,366	818,970	1,566,337
Balance at 01 January 2011	100,000	149,554	313,474	50,313	826,913	63,717	62,366	818,970	1,566,337
Profit for the year	-	-	-	(6,753)	772,867	-	-	(766,114)	818,970
Transfer of foreign exchange translation to designated reserve	-	-	-	-	-	-	-	-	-
Decrease in bond fair values	-	-	-	-	-	22,126	(15,884)	-	(15,884)
Asset revaluations for the year	-	-	-	-	-	-	-	-	22,126
Rand compensatory receipts	-	8,809	31,036	-	-	-	-	-	31,036
Transfer to general reserve	-	-	-	-	-	-	-	(8,809)	-
Dividends	-	-	-	-	-	-	-	(44,047)	(44,047)
Total changes	-	8,809	31,036	(6,753)	772,867	22,126	(15,884)	-	812,201
Balance at 31 December 2011	100,000	158,363	344,510	43,560	1,599,780	85,843	46,482	-	2,378,538

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Statement of Cash Flows

	Notes	2011 M '000	2010 M '000
Cash flows from operating activities			
Cash generated from operations	31	81,245	(1,177,055)
Interest income		239,543	283,337
Interest expense		(28,610)	(20,779)
Tax paid		-	(82,439)
Rand compensatory receipts		31,036	31,917
Payment to Government of Lesotho Consolidated Fund		(60,910)	(568,538)
Net cash from operating activities		262,304	(1,533,557)
Cash flows from investing activities			
Deferred currency expenditure	10	(846)	(33,394)
Increase/(decrease) in loans to staff	11	4,789	(822)
Decrease/(increase) in other assets		1,031	(1,927)
Net increase in Lesotho Government Securities		(18)	22
Net decrease/(increase) in treasury bills	4	137,527	469,462
Net increase in treasury notes and bonds	5	(309,226)	(484,142)
Purchase and disposal of deposit held by foreign banks	2	(1,267,172)	(199,794)
Purchase of property, plant and equipment		(18,325)	(24,698)
Sale of property, plant and equipment		2,656	162
Purchase of other intangible assets		(3,806)	(10,406)
Net cash from investing activities		(1,453,390)	(285,537)
Cash flows from financing activities			
Proceeds on share issue	25	-	75,000
Movement in notes and coins		206,468	53,171
Net cash from financing activities		206,468	128,171
Total cash movement for the year		(984,618)	(1,690,923)
Cash and cash equivalents at the beginning of the year		2,464,838	4,155,761
Total cash and cash equivalents at end of the year	2	1,480,220	2,464,838

Central Bank of Lesotho

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

1.1 Property, plant and equipment

Owner-occupied properties

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

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

Subsequent to initial recognition, 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 for Land and Buildings was performed at 31 December 2011. All other items of property, plant and equipment were last valued 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 ready for use for intended purpose.

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

Central Bank of Lesotho

Financial Statements

for the year ended 31 December 2011

Accounting Policies

1.1 Property, plant and equipment (continued)

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

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

When revalued assets are sold, the amounts included in 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 the Bank has the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after the financial year end date. These are classified as non-current assets.

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Accounting Policies

1.3 Financial instruments (continued)

Initial recognition and measurement

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

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Accounting Policies

1.3 Financial instruments (continued)

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.

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.

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Financial Statements

for the year ended 31 December 2011

Accounting Policies

1.3 Financial instruments (continued)

Cash and cash equivalents

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

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

1.4 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of 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.

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.

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

(a) Share capital is classified as equity. The entire issued share capital is held by the Government of Lesotho.

(b) *Dividends on ordinary shares*

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1.7 Share capital (continued)

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 statement of financial position date are discounted to their present value.

Long-term employee benefits include:

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

(c) Actuarial gains/losses

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

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.

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Accounting Policies

1.10 Revenue (continued)

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 useful 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.

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.

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1.13 Impairment of non-financial assets

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

1.14 Claims on staff

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

1.15 Deferred currency expenditure

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

1.16 Dividend distribution

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

1.17 Notes and coins

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

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 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%. 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.

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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.

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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 2011, if the currency had weakened/strengthened by 5% against the functional currencies, the bank's foreign assets would have been 2.76% 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 21%, based on the simulation performed. However, if rates had increased by 1%, revenue would increase by 31%.

(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 40-56.

In terms of the Central Bank of Lesotho Act No.2 of 2000, in the case of any year at the end of which the general reserve of the Bank does not exceed the minimum paid-up capital of the Bank, one third of the net profits will be allocated to general reserve and in case where general reserve exceeds paid up capital but not less than four times, one sixth of the net profits will be allocated to general reserve. However, where the general reserve of the Bank exceeds four times the paid-up capital, with the approval of the Minister, further allocations may be made from time to time to the general reserve to increase it beyond four times the minimum paid-up capital. At the end of 2008 and 2009 the general reserve had reached more than four times the paid-up capital of the Bank and further allocations were not made to the general reserve. However, in 2010 and 2011, there was an increase in the issued share capital and further allocations were made.

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1.28 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the Non-Interest Bearing Note of SDR22 999 735 (2010: SDR22 181 095) 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 securities substituted for currency are recorded in the Securities Account. GOL's holding in IMF SDR Department is posted in the No.1 account and is used for the Fund's operational transactions e.g. purchases and repurchases, whereas the No. 2 account is used for the payment of operational expenses incurred by the Fund in Maloti. The Bank revalues the IMF accounts in its Statement of Financial Position in accordance with the practices of the IMF Treasury Department. The revaluation of the SDR rates by the IMF is effected annually on 30 April, and whenever there are IMF transactions using the Maloti. The IMF accounts have been revalued using the latest prevailing SDR rates as revalued by the IMF.

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 separately 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.

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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.

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Notes to the Financial Statements

	2011 M '000	2010 M '000
2. Cash and balances with Banks		
Cash and cash equivalents		
Foreign cash on hand	521	1,522
Rand Currency Holding	28,194	39,756
Total cash	<u>28,715</u>	<u>41,278</u>
Current and Call Accounts:		
Foreign Banks	20,688	450,607
South African Banks	1,335,123	561,779
Total Current and Call Accounts	<u>1,355,811</u>	<u>1,012,386</u>
Fixed deposits (with maturity shorter than 3 months):		
Foreign Banks	-	1,031,174
South African Banks	95,694	380,000
Total Fixed deposits (with maturity shorter than 3 months)	<u>95,694</u>	<u>1,411,174</u>
Total balances with Banks (with a maturity shorter than 3 months)	<u>1,451,505</u>	<u>2,423,560</u>
Sub-total (Cash and Cash Equivalents)	<u>1,480,220</u>	<u>2,464,838</u>
Fixed deposits (with maturity longer than 3 months):		
Foreign Banks	1,492,472	436,109
South African Banks	320,000	109,191
Sub-total fixed deposits (with maturity longer than 3 months)	<u>1,812,472</u>	<u>545,300</u>
Total cash and balances with Banks	<u>3,292,691</u>	<u>3,010,138</u>
3. Accrued interest due from Banks		
Accrued interest receivable:		
ZAR call accounts	250	143
ZAR fixed deposit accounts	2,441	4,272
Foreign call and fixed deposit accounts	410	398
Currency in transit	3,101	4,813
	<u>10,937</u>	<u>5,435</u>
	<u>14,038</u>	<u>10,248</u>
4. Treasury bills		
2011		
US Treasury bills at fair value:	Total	
Maturing within 1 to 3 months	-	
Maturing within 3 to 6 months	-	
Maturing within 6 to 12 months	-	
	<u>-</u>	

Central Bank of Lesotho

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for the year ended 31 December 2011

Notes to the Financial Statements

	2011 M '000	2010 M '000
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4. Treasury bills (continued)

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

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 securities held-to-maturity. All bills are subject to fixed interest rate risk (2010: 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

2011

	At fair value through profit and loss	Available-for- sale	Total
US Bonds at fair value	738,124	1,311,279	2,049,403
ZAR Bonds at fair value	-	1,461,450	1,461,450
US Bonds accrued interest	2,310	6,721	9,031
ZAR Bonds accrued interest	-	33,923	33,923
	740,434	2,813,373	3,553,807

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

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.

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Notes to the Financial Statements

	2011 M '000	2010 M '000
6. IMF Subscription Account		
Balance at beginning of year	386,190	443,836
Exchange revaluation	(13,746)	(57,646)
Balance at end of year	372,444	386,190

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 0.0937054 (2010: 0.090370100).

7. IMF Holding of Special Drawing Rights (SDR)

Balance at beginning of year	378,032	397,525
Net transactions - increase in rights	12,299	34,368
Exchange revaluation	(13,456)	(53,861)
Balance at end of year	376,875	378,032

The value of SDR35,315,262 allocated by the International Monetary Fund less utilisation is converted at 0.0937054 (2010: SDR34,162,749 at 0.90370100).

8. IMF Funded PRGF Advances

Balance at beginning of year	202,501	195,847
Paid during the year	(49,440)	(57,987)
Received during the year	61,594	92,306
Exchange revaluation	(7,303)	(27,665)
Balance at end of year	207,352	202,501

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	19	1
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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	29,143	10,868
Expenditure during the year	846	33,394
Amortised during the year	(16,193)	(15,119)
Balance at end of year	13,796	29,143

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

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	2011 M '000	2010 M '000
11. Loans to staff		
Housing loans	14,958	11,245
Car loans	11,505	10,676
Furniture loans	1,103	1,017
Other loans and advances	4,983	4,822
	32,549	27,760
12. Other assets		
Cheques for collection and uncleared items	388	797
Other prepayments	1,937	2,122
Other receivables	3,201	3,638
	5,526	6,557

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Notes to the Financial Statements

Figures in Maloti thousands

13. Property, plant and equipment

	2011		2010	
	Cost / Valuation	Accumulated depreciation	Cost / Valuation	Accumulated depreciation
CBL land and buildings	70,185	(9,085)	61,100	(8,193)
Lehakoe land and buildings	98,437	(9,282)	89,155	(8,028)
Residential land and buildings	11,309	(741)	10,568	(598)
Housing furniture	534	(441)	93	(420)
Office furniture	7,570	(5,223)	2,347	(4,812)
LRCC furniture	3,632	(2,672)	960	(2,534)
Motor vehicles	10,564	(6,924)	3,640	(5,360)
Office equipment	23,417	(21,995)	1,422	(19,293)
IT equipment	12,641	(8,313)	4,328	(7,161)
Sports and music	7,881	(5,980)	1,901	(7,339)
Housing equipment	190	(190)	-	(173)
Security equipment	7,638	(7,420)	218	(6,072)
Work in progress	39,768	-	39,768	-
Total	293,766	(78,266)	215,500	(69,983)
			251,108	181,125

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Notes to the Financial Statements

Figures in Maloti thousands

13. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
CBL land and buildings	53,795	105	-	-	8,092	(892)	61,100
Lehakoe land and buildings	73,063	20	-	-	17,326	(1,254)	89,155
Residential land and buildings	7,730	95	-	-	2,886	(143)	10,568
Housing furniture	108	6	-	-	-	(21)	93
Office furniture	2,551	207	-	-	-	(411)	2,347
Motor vehicles	4,971	813	(580)	-	-	(1,564)	3,640
Office equipment	3,480	644	(950)	-	-	(1,752)	1,422
IT equipment	3,191	2,643	(354)	-	-	(1,152)	4,328
LRCC furniture	1,437	15	(354)	-	-	(138)	960
Sports and music equipment	992	2,031	(418)	-	-	(704)	1,901
Housing equipment	17	-	-	-	-	(17)	-
Security equipment	1,363	203	-	-	-	(1,348)	218
Work in progress	28,427	11,543	-	(202)	-	-	39,768
	181,125	18,325	(2,656)	(202)	28,304	(9,396)	215,500

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Figures in Maloti thousands

13. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Transfers	Revaluations	Other changes, movements	Depreciation	Total
CBL land and buildings	54,585	202	-	-	-	-	(992)	53,795
Lehakoe land and buildings	73,932	313	-	-	-	-	(1,182)	73,063
Residential land and buildings	3,930	-	-	-	3,874	-	(74)	7,730
Housing furniture	137	12	-	-	-	-	(41)	108
Office furniture	1,871	1,288	-	-	-	-	(608)	2,551
Motor vehicle	1,265	1,763	(418)	-	3,256	-	(895)	4,971
Office equipment	8,600	68	(137)	-	-	-	(5,051)	3,480
IT equipment	3,045	1,181	(700)	-	130	-	(465)	3,191
LRCC furniture	1,827	18	-	-	-	-	(408)	1,437
Sports & music equipment	1,988	138	-	-	-	-	(1,134)	992
Housing equipment	37	-	-	-	-	-	(20)	17
Security equipment	2,623	54	-	-	-	-	(1,314)	1,363
Work in progress	10,513	19,661	-	(1,084)	-	(663)	-	28,427
	164,353	24,698	(1,255)	(1,084)	7,260	(663)	(12,184)	181,125

Central Bank of Lesotho

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	2011 M '000	2010 M '000
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14. Intangible assets

	2011 M '000			2010 M '000		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	16,418	(9,745)	6,673	12,612	(5,199)	7,413

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	7,413	3,806	(4,546)	6,673

Reconciliation of intangible assets - 2010

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

15. Notes and coins issued

Notes	827,347	621,078
Coins	17,279	17,080
	844,626	638,158

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

Deposits from Banks - Non-interest bearing

Bankers	326,499	345,124
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Other Deposits - Non-interest bearing

International Institutions	2,501	2,705
Parastatals and others	611,559	192,148
	940,559	539,977

17. IMF Maloti Currency Holding

Securities account	245,447	245,447
General resources accounts	88,803	101,139
	334,250	346,586

18. IMF Special Drawing Rights Allocation

Balance at beginning of year	363,817	418,123
Exchange revaluation	(12,949)	(54,306)
Balance at end of year	350,868	363,817

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	2011 M '000	2010 M '000
18. IMF Special Drawing Rights Allocation (continued)		
Lesotho's allocation by IMF of SDR32,878,186 converted at 0.0937054 (2010:SDR 32,878,186 @ 0.090370100).		
19. IMF-PRGF Facility		
Balance at beginning of year	202,501	195,847
Paid during the year	(49,440)	(57,987)
Received during the year	61,594	92,306
Exchange revaluation	(7,303)	(27,665)
Balance at end of year	207,352	202,501

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 SDR19,430,000 converted at 0.0937054 as at 31 December 2011 (2010: SDR18,300,000 at 0.090370100). 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

Balance at beginning of year	(46,351)	5,663
Paid during the year	-	(5,663)
Current year charge	20,652	30,425
Provisional payments made	-	(76,776)
Balance at end of year	(25,699)	(46,351)

21. Due to Government of Lesotho Consolidated Fund

Balance at beginning of year	60,910	568,538
Paid during the year	(60,910)	(568,538)
Profit appropriations for the current year	44,047	60,910
Balance at end of year	44,047	60,910

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.

Profit/(loss) after tax appropriates as follows:

Profit/(Loss) after tax	818,970	(324,289)
Gain on foreign exchange activities	(766,114)	397,381
Transfer to General Reserve	(8,809)	(12,182)
	44,047	60,910

22. Other Liabilities

Donations - Referral Hospital	42,124	40,090
Divisional cheques accounts	2,652	1,298
Other	7,177	18,815
Various accruals	10,690	25,603
	62,643	85,806

The donations account relates to the construction expenses meant for building a new hospital . The project started over 10 years ago. The money received was invested in a Bank account to earn interest.

Central Bank of Lesotho
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Notes to the Financial Statements

	2011 M '000	2010 M '000
23. Long-term employee benefit		
Provision for severance pay		
Opening obligation	13,179	11,300
Interest cost	1,203	1,166
Current service cost	1,258	1,171
Actuarial loss/(gain)	599	420
Benefits paid	(786)	(878)
Closing obligation	<u>15,453</u>	<u>13,179</u>
Provision for gratuity		
Opening obligation	45,684	37,592
Interest cost	4,080	3,793
Current service cost	3,241	2,622
Unrecognised past service cost	-	1,648
Actuarial loss/(gain)	4,189	8,036
Benefits paid	(4,457)	(8,007)
Closing obligation	<u>52,737</u>	<u>45,684</u>
Total	<u>68,190</u>	<u>58,863</u>
Net expense recognised in profit and loss		
Current service cost	4,499	3,793
Interest cost	5,283	4,959
Actuarial losses/(gains)	4,788	8,456
Past service cost	-	1,648
	<u>14,570</u>	<u>18,856</u>
Key assumptions used		
Assumptions used on last valuation on 31 December 2011.		
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	8.25 %	8.50 %
Inflation rate	5.50 %	5.25 %
Salary increase rate	6.75 %	6.50 %

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Notes to the Financial Statements

	2011 M '000	2010 M '000
24. Deferred taxation		
Reconciliation of deferred taxation		
Balance at beginning of year	22,154	300,171
Reversal of foreign exchange (gains)/losses	-	(296,317)
	<u>22,154</u>	<u>3,854</u>
Movements in profit and loss	(7,446)	4,951
Movements in equity	2,081	13,349
Balance at end of year	<u>16,789</u>	<u>22,154</u>
Deferred taxation comprises		
Accelerated capital allowances for tax purposes	(242)	2,569
Liabilities for health care benefits accrued	(17,048)	(14,716)
Deferred expenses	5,118	9,139
Bond revaluation reserve	15,494	20,789
Property revaluation reserve	13,467	4,373
	<u>16,789</u>	<u>22,154</u>

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).

In 2010, 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 was reversed during 2010 to the foreign exchange revaluation reserve.

25. Share capital

Authorised

Authorised capital	<u>100,000</u>	<u>100,000</u>
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Issued

Issued and fully paid	<u>100,000</u>	<u>100,000</u>
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Share capital of M75 million was issued during 2010. The entire issued share capital is held by the Government of Lesotho.

26. Interest income

Foreign currency deposits	78,005	90,196
Other institutions	-	13
Interest on treasury bills	1,960	13,951
Interest on bonds	159,578	179,177
	<u>239,543</u>	<u>283,337</u>

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Notes to the Financial Statements

	2011 M '000	2010 M '000
27. Interest expense		
Parastatal and Government deposits	18	22
Local bank deposits	94	6
IMF SDR allocation account	1,587	998
Interest on bonds	16,424	19,753
Other interest paid	10,487	-
	28,610	20,779
28. Other income		
Rental income	284	310
Profit on sale of treasury bills	6	83
Profit on sale of bonds	19,409	12,687
Interest on staff loans	520	536
Lehakoe proceeds	11,123	10,071
Other income	656	817
Gain on instruments designated as fair value through profit and loss	3,390	12,930
(Loss)/profit on sale of fixed assets	(1,907)	150
	33,481	37,584
29. Operating costs and expense per nature		
Administration and other expenses	32,389	43,082
Auditor's remuneration	2,005	1,085
Deferred currency expense amortised	16,193	15,119
Intangible assets amortised	4,546	3,707
Depreciation and impairments	9,396	13,429
Property, plant and equipment maintenance expenses	12,131	10,476
Loss on revaluation of treasury bills and bonds	7,657	11,224
Personnel costs:		
Staff welfare expenses	9,282	7,795
Non-executive directors' fees	279	308
Executive directors' salaries	1,732	2,482
Key management (heads of departments)	3,777	3,335
Staff salaries and expenses	61,098	57,322
Pension fund contributions	3,297	3,454
Gratuity and severance expenses	14,570	18,856
	178,352	191,674

Central Bank of Lesotho

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for the year ended 31 December 2011

Notes to the Financial Statements

	2011 M '000	2010 M '000
30. Taxation		
Major components of the taxation expense		
Current		
Normal taxation for the year	20,652	30,425
Deferred		
Deferred taxation arising on other profit and loss items	(7,446)	4,951
	13,206	35,376
Reconciliation of the taxation expense		
Chargeable profit (before foreign exchange gain/loss)	66,062	108,468
Statutory tax rate	25 %	25 %
Permanent differences:		
Donations	1.10 %	0.08 %
50 % Entertainment	0.21 %	0.02 %
Training expenses additional 25%	(2.55)%	(1.17)%
Cumulative differences on foreign exchange movements	- %	8.68 %
Other	(3.77)%	- %
Effective tax rate	19.99 %	32.61 %

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Financial Statements

for the year ended 31 December 2011

Notes to the Financial Statements

	2011 M '000	2010 M '000
31. Cash generated from operations		
Profit/(loss) before taxation	832,176	(288,913)
Adjustments for:		
Depreciation and amortisation	9,396	13,429
Deferred computer software amortised	-	3,707
Profit/loss on disposal of fixed assets	-	150
Interest income	(239,543)	(283,337)
Interest expense	28,610	20,779
Actuarial losses	4,788	8,456
Deferred currency expenses amortised	16,193	15,119
Loss on revaluation of treasury bills and bonds	7,657	11,224
Unrealised exchange rate fluctuation	(27,928)	(28,911)
Changes in working capital		
Loans to staff	(3,790)	47,348
Deposit accounts	(512,769)	(770,821)
Treasury bills	(23,163)	103,616
Changes in IMF Maloti currency holding	(12,336)	(51,734)
Changes in IMF subscription account	13,746	57,646
Other Liabilities	(12,949)	(54,306)
Changes in IMF Special Drawing Rights Holding	1,157	19,493
Total cash generated from operations	<u>81,245</u>	<u>(1,177,055)</u>
32. Capital commitments		
Contracted	<u>2,460</u>	<u>12,426</u>
<p>These capital commitments are in respect of the on-going implementation of Automated Clearing House (ACH), and HR Management Solution which will be funded from internal resources in 2012. The 2010 capital commitments related to the upgrade of MIDAS Banking System, Boardroom extension and HR Management Solution.</p>		
Uncontracted	<u>67,405</u>	<u>97,579</u>
<p>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.</p>		
33. Post retirement obligations		
Total employer contributions	<u>3,297</u>	<u>3,454</u>
<p>The Bank contributes towards a post retirement pension scheme that covers all permanent employees. This fund is a multi-employer plan and the assets are held in the Corporate Bodies Pension Scheme managed by Lesotho National Insurance Company and the appropriations to the different contributors are not performed. The assets and liabilities relating to the employees of the Bank cannot be separately determined and is therefore treated as defined contribution plan.</p>		
34. Contingent Liability		
<p>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.</p>		

Central Bank of Lesotho

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Notes to the Financial Statements

	2011 M '000	2010 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.		
Gross advances made during the year to:		
Heads of Departments	Car loans	-
	Furniture loans	60
		38
Heads of Divisions	Car loans	709
	Furniture loans	50
	Housing loans	944
		-
Balances due at end of December:		
Heads of Departments	Car loans	143
	Furniture loans	21
		205
Heads of Divisions:	Car loans	1,217
	Furniture loans	91
	Housing loans	1,353
		1,472
		121
		513
Interest charged for the the year:		
Heads of Departments	Car loans	4
	Furniture loans	1
		10
Heads of Divisions:	Housing loans	6
	Car loans	44
	Furniture loans	3
		19
		44
		4
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.		
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.		
Annual remuneration to key management which includes car allowances and housing allowances:		
Executive Directors' salaries	1,732	2,482
Key management salaries	3,777	3,335

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Notes to the Financial Statements

for the year ended 31 December 2011

36. Financial assets by category

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

2011
M '000

Financial assets	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Total
Cash and balances with Banks	3,292,691	-	-	3,292,691
Accrued interest due from Banks	14,038	-	-	14,038
Treasury notes and bonds	-	2,813,373	740,434	3,553,807
IMF Subscription Account	372,444	-	-	372,444
IMF Holding of Special Drawing Rights	376,875	-	-	376,875
IMF Funded PRGF Advances	207,352	-	-	207,352
Lesotho Government Securities	19	-	-	19
Loans to staff	32,549	-	-	32,549
	4,295,968	2,813,373	740,434	7,849,775

2010
M '000

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

37. Financial liabilities by category

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

2011
M '000

	Financial liabilities at amortised cost	Total
Notes and coins issued	844,626	844,626
Deposits	940,559	940,559
Lesotho Government Deposits	2,869,107	2,869,107
IMF Maloti Currency Holding	334,250	334,250
IMF Special Drawing Rights Allocation	350,868	350,868
IMF PRGF Facility	207,352	207,352
	5,546,762	5,546,762

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Notes to the Financial Statements

for the year ended 31 December 2011

37. Financial liabilities by category (continued)

2010
M '000

	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

38. Operating lease

Amount receivable within 12 months	138	5
Amount receivable within 13 to 24 months	276	601
	414	606

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:

Central Bank of Lesotho

Notes to the Financial Statements

for the year ended 31 December 2011

39. Risk management (continued)

Market price risk

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

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

The following table summarises the Bank's exposure to Foreign currency exchange rate fluctuations as at 31 December 2011:

Currency	Value of Currency	Exchange Rate	Maloti Equivalent M'000
Cash and balances with Banks			
South Africa	1,781,570	1.0000	1,781,570
United States	142,961	8.1100	1,159,406
Botswana	75	1.0800	81
England	333	12.5202	4,169
European Union	33,404	10.4900	350,408
Switzerland	18	8.6200	158
Treasury notes and bonds			
South Africa	1,495,373	1.0000	1,495,373
United States	253,812	8.1100	2,058,415

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.

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Notes to the Financial Statements

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39. Risk management (continued)

Legal risk

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

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

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

Reputational risk

The Bank's objective of achieving and maintaining price stability in Lesotho exposes it to external scrutiny and possible criticism in the event of any failures. The Bank also strives for 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

2011

Cash	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ZAR	28,194	-	ZAR	None	n/a
USD	501	-	USD	none	n/a
EUR	20	-	EUR	none	n/a
	28,715	-			

Current and call accounts	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA Bank	29,095	29,095	ZAR	none	P-2/A3
B.I.S	1,195	1,195	EUR	none	n/a
B.I.S	641	641	GBP	none	n/a
B.I.S. Basle	673	673	USD	none	n/a
Bank of England	717	717	GBP	none	P-1/Aaa
Bank of N.Y	54	54	USD	none	P-1/Aaa
Bank of N.Y	16	16	ZAR	none	P-1/Aaa
BankTrust.N.Y	330	330	USD	none	P1/Aa3
Citi Bank	3,840	3,840	ZAR	none	P-1/A2
CITI N.Y	9,432	9,432	USD	none	P-1/A1
Commerz	2,588	2,588	EUR	none	P-1/A2
Crown Agents	98	98	GBP	none	F1/A Fitch
Crown Agents	424	424	USD	none	F1/A Fitch
Deutsche Bundesbank	490	490	EUR	none	n/a
Federal Reserve Bank of N.Y	926	926	USD	none	Aaa
First Rand	15,907	15,907	ZAR	none	P-1/A3
Investec Bank	55,708	55,708	ZAR	none	P-2/A3
NedBank	7,832	7,832	ZAR	none	P-2/A3
South African Reserve Bank	1,218,578	1,218,578	ZAR	none	n/a
Standard Bank	4,068	4,068	ZAR	none	P-2/A3

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39. Risk management (continued)

Standard Chartered Botswana	81	81	BWP	none	n/a
Standard Chartered London	2,717	2,717	GBP	none	P-1/A1
Standard Merchant Swiss Bank	80	80	ZAR	none	P-2/A3
World Bank (IBRD)	151	151	CHF	none	A1
	170	170	USD	none	n/a
	1,355,811	1,355,811			

Fixed deposits	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
Barclays PLC	83,904	83,904	EUR	none	P1/Aa3
Crown Agents	209,760	209,760	EUR	none	F1/A Fitch
Crown Agents	162,208	162,208	USD	none	P-2/A3
Federal Reserve N.Y	29,198	29,198	USD	none	n/a
Firststrand	80,000	80,000	ZAR	none	P-2/A3
Investec	255,694	255,694	ZAR	none	P-2/A3
Standard Bank	80,000	80,000	ZAR	none	P-2/A3
Standard Chartered London	52,440	52,440	EUR	none	P-1/A3
Standard Chartered London	308,338	308,338	USD	none	P-1/Aaa
Standard Bank plc	413,831	413,831	USD	USD	P1/Aa3
World Bank	70,585	70,585	USD	none	n/a
Standard Bank SA	162,208	162,208	USD	none	P-2/A3
	1,908,166	1,908,166			

Accrued interest due from Banks	Carrying amount M	Maximum exposure M	Held in Denomination	Type of collateral held	Credit rating
ABSA	1	1	ZAR	none	P-2/A3
Barclays	39	39	USD	none	P1/Aa3
Citibank	1	1	ZAR	none	P-1/A2
Crown Agents	72	72	EUR	none	F1/A Fitch
Crown Agents	41	41	USD	none	F1/A Fitch
Firststrand	347	347	ZAR	none	P-1/A3
Investec	2	2	ZAR	none	P-2/A3
Nedbank	1	1	ZAR	none	P-2/A3
South African Reserve Bank	178	178	ZAR	none	P-2/A3
Standard Bank	373	373	ZAR	none	P-2/A3
Standard Bank	184	184	USD	none	P-2/Aa3
South African Reserve Bank Special Rand	64	64	ZAR	none	N/A
Firststrand	2	2	ZAR	none	P-1/A3
Investec	756	756	ZAR	none	P-2/A3
Investec	834	834	ZAR	none	P-2/A3
Standard Bank	131	131	USD	none	P-2/Aa3
Standard Bank	1	1	ZAR	none	P-2/A3
Standard Chartered	7	7	EUR	none	P-1/A3
Standard Chartered	67	67	USD	none	P-1/Aaa
	3,101	3,101			

Treasury notes & bonds	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
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Central Bank of Lesotho

Notes to the Financial Statements

for the year ended 31 December 2011

39. Risk management (continued)

South Africa	1,495,392	1,495,392	ZAR	none	P-2/a3
United States	740,434	740,434	USD	none	Aaa
United States	1,317,981	1,317,981	USD	none	Aaa
	3,553,807	3,553,807			

Loans to staff	Carrying amount M'000	Maximum exposure M'000	Held in Deno- mination	Type of collateral held	Credit rating
Housing Loans	14,958	14,958	LSL	Title deeds	n/a
Car Loans	11,505	11,505	LSL	Terminal Benefits	n/a
Furniture Loans	1,103	1,103	LSL	Terminal Benefits	n/a
Other Loans and Advances	4,983	4,983	LSL	Terminal Benefits	n/a
	32,549	32,549			

2010

Cash	Carrying amount M'000	Maximum exposure M'000	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	Carrying amount M'000	Maximum exposure M'000	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	F1/A Fitch
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-1Aa3
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	404	404	EUR	none	n/a
Bundesbank					
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

Central Bank of Lesotho

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for the year ended 31 December 2011

39. Risk management (continued)

Standard Chartered London	2,328	2,328	GBP	none	P-1/A1
Standard Merchant Swiss Bank	51	51	ZAR	none	P-2/A3
World Bank (IBRD)	65	65	CHF	none	n/a
	1,174	1,174	USD	none	n/a
	1,012,386	1,012,386			

Fixed deposits	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	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	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
Commerzebank	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	Carrying amount M'000	Maximum exposure M'000	Held in Denomination	Type of collateral held	Credit rating
ABSA	1	1	ZAR	none	P-2/A3
BIS	3	3	EUR	none	n/a
Citibank	1	1	ZAR	none	P-1/A2
Crown Agents	24	24	EUR	none	n/a
Crown Agents	19	19	USD	none	n/a
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	65	65	USD	none	P-2/A3
Standard Chartered	27	27	USD	none	P-1/Aaa
Nedbank	2	2	ZAR	none	n/a
Commerzbank	266	266	EUR	none	n/a
South African Reserve 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 Lesotho	31	31	USD	none	P-2/A3
Standard Chartered	28	28	EUR	none	P-1/A3
	4,813	4,813			

Central Bank of Lesotho

Notes to the Financial Statements

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39. Risk management (continued)

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

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.

Sensitivity Analysis for the year ended 31 December 2011

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

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

Currency	31-December-2011		31-December-2010	
	Portfolio Level	Exchange rate	Portfolio Level	Exchange rate
ZAR	3,276,942	1.00	2,882,951	1.00
USD	396,753	8.11	405,112	6.63
EUR	33,409	10.49	92,334	8.86
GBP	333	12.52	545	10.28
BWP	74	1.08	324	1.03
CHF	18	8.62	9	7.08
SDR	35,315	10.67	34,153	10.21

Central Bank of Lesotho

Notes to the Financial Statements

for the year ended 31 December 2011

39. Risk management (continued)

Base case

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

Currency	Portfolio level	December 2011		Exchange rate
		Portfolio Level in %		
ZAR	3,276,942	45.35 %		1.00
USD	3,217,828	44.53 %		8.11
EUR	350,403	4.85 %		10.49
GBP	4,173	0.06 %		12.52
BWP	81	- %		1.08
CHF	152	- %		8.62
SDR	376,875	5.22 %		10.67
	7,226,454	100 %		

Base case

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

Currency	Portfolio level	December 2010		Exchange rate
		Portfolio Level in %		
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 %		

5% increase in exchange rate

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

Currency	Portfolio level	December 2011		Exchange rate
		Portfolio Level in %	Level Change	
ZAR	3,276,942	44.14 %	-	1.00
USD	3,378,720	45.51 %	160,891	8.52
EUR	367,923	4.96 %	17,520	11.01
GBP	4,382	0.06 %	209	13.15
BWP	85	- %	4	1.14
CHF	159	- %	8	9.05
SDR	395,719	5.33 %	18,844	11.21
	7,423,930	100 %		

% Change 2.73%

Central Bank of Lesotho

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for the year ended 31 December 2011

39. Risk management (continued)

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

Currency	Portfolio level	December 2010		Exchange rate
		Portfolio Level in %	Level Change	
ZAR	2,882,951	42.77 %	-	1.00
USD	2,685,001	39.83 %	134,250	6.63
EUR	818,292	12.14 %	40,915	8.86
GBP	5,606	0.08 %	280	10.28
BWP	332	0.01 %	818,292	1.03
CHF	64	- %	3	7.08
SDR	348,699	5.17 %	17,435	10.21
	6,740,945	100 %		

% Change 2.86%

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

Currency	Portfolio level	December 2011		Exchange rate
		Portfolio Level in %	Level Change	
ZAR	3,276,942	46.62 %	-	1.00
USD	3,056,937	43.49 %	(160,891)	7.70
EUR	332,883	4.74 %	(17,520)	9.96
GBP	3,964	0.06 %	(209)	11.89
BWP	77	- %	(4)	1.03
CHF	144	- %	(8)	8.19
SDR	358,032	5.09 %	(18,844)	10.14
	7,028,979	100 %		

% Change -2.73%

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

Currency	Portfolio level	December 2010		Exchange rate
		Portfolio Level in %	Level Change	
ZAR	2,882,951	44.02 %	-	1.00
USD	2,550,752	38.96 %	(134,250)	6.30
EUR	777,379	11.87 %	(40,915)	8.42
GBP	5,325	0.08 %	(281)	9.77
BWP	316	- %	(17)	0.97
CHF	61	- %	(3)	6.72
SDR	331,267	5.06 %	(17,532)	9.70
	6,548,051	100 %		

% Change -2.86%

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Figures in Maloti thousands

39. Risk management (continued)

Interest rate risk

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

2011

Sensitivity of equity Currency	Cash		0 to 6 Months 2011		6 months to 1 year 2011		1 year to 5 years 2011		More than 5 years 2011		Total	
	M 'millions	2011	M 'millions	2011	M 'millions	2011	M 'millions	2011	M 'millions	2011	M 'millions	2011
ZAR	28		1,753	210	679		607		3,277			
USD	1		1,502	294	1,421		-		3,218			
GBP	-		4	-	-		-		4			
EUR	-		350	-	-		-		350			
Other	-		377	-	-		-		377			
Total	29		3,986	504	2,100		607		7,226			

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Figures in Maloti thousands

39. Risk management (continued)

Base case yields

ZAR	0-6 mnth	6 mnth - 1yr	1-5 yr	5yr+
USD	5.83 %	6.64 %	8.41 %	8.25 %
GBP	0.09 %	2.68 %	1.06 %	- %
EUR	0.31 %	- %	- %	- %
Other	- %	- %	- %	- %

100 Basis points increase in yields

ZAR	0-6 mnth	6 mnth - 1yr	1-5 yr	5yr+
USD	6.83 %	7.64 %	9.41 %	9.25 %
GBP	1.09 %	3.68 %	2.06 %	1.00 %
EUR	1.31 %	- %	- %	- %
Other	1.00 %	- %	- %	- %

100 Basis points decrease in yields

ZAR	0-6 mnth	6 mnth - 1yr	1-5 yr	5yr+
USD	4.83 %	5.64 %	7.41 %	7.25 %
GBP	- %	1.68 %	0.06 %	- %
EUR	- %	- %	- %	- %
Other	- %	- %	- %	- %

Nominal return in base case yields

ZAR	0-6 mnth	6mnth-1yr	1-5yr	5yr+
USD	102	14	57	50
GBP	1	8	15	-
EUR	-	-	-	-
Other	-	-	-	-

Nominal return in increasing yields

ZAR	0-6 mnth	6mnth-1yr	1-5yr	5yr+	Nominal Income	% Change
USD	119	16	64	56	319	29
GBP	16	11	29	-	-	-
EUR	-	-	-	-	-	-
Other	4	-	-	-	-	-
	4	-	-	-	-	-
	-	-	-	-	-	-

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Figures in Maloti thousands

39. Risk management (continued)

Nominal return in decreasing yields	0-6 mnth	6mnth-1yr	1-5yr	5yr+		% Change
ZAR	84	12	50	44		
USD	-	4.95	1	-		
GBP	-	-	-	-		
EUR	-	-	-	-		
Other	-	-	-	-		
					Nominal Income	(21)
					197	

Sensitivity: For a 1 percentage increase in yields, Income increases by 29 %

For a 1 percentage decrease in yields, income decreases by 21 %

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Figures in Maloti thousands

39. Risk management (continued)

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	
	M 'millions	2010	M 'millions	2010	M 'millions	2010	M 'millions	2010	M 'millions	2010	M 'millions	2010
ZAR	-		1,051	272	1,435	84						
USD	1,512		1,451	180	1,052	-						2,843
GBP	1		6	-	-	-						4,195
EUR	9		826	-	-	-						7
Other	349		-	-	-	-						835
Total	1,871		3,334	452	2,487	84						8,288

Base case yields

ZAR	5.79 %	0-6 month	13.00 %	6 month - 1yr	7.81 %	1-5 yr	6.71 %	5yr+
USD	0.25 %		0.31 %		1.67 %		- %	
GBP	0.44 %		- %		- %		- %	
EUR	0.49 %		- %		- %		- %	
Other	- %		- %		- %		- %	

100 Basis points increase in yields

ZAR	6.79 %	0-6 month	14.00 %	6 month - 1yr	8.81 %	1-5 yr	7.71 %	5yr+
USD	1.25 %		1.31 %		2.67 %		1.00 %	
GBP	1.44 %		- %		- %		- %	
EUR	1.49 %		- %		- %		- %	

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Figures in Maloti thousands

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 %	- %	
GBP	- %	- %	- %	- %	
EUR	- %	- %	- %	- %	
Nominal return in base case yields	0-6 mnth	6mnth-1yr	1-5yr	5yr+	
ZAR	61	35	112	6	
USD	4	1	18	-	
GBP	-	-	-	-	
EUR	4	-	-	-	
Nominal return in increasing yields	0-6 mnth	6mnth-1yr	1-5yr	5yr+	
ZAR	71	38	126	7	
USD	18	2	28	-	
GBP	-	-	-	-	
EUR	12	-	-	-	
Other	-	-	-	-	
					% Change
					Nominal Income
					303
					27
Nominal return in decreasing yields	0-6 mnth	6mnth-1yr	1-5yr	5yr+	
ZAR	50	33	98	5	
USD	-	-	7	-	
GBP	-	-	-	-	
EUR	-	-	-	-	
Other	-	-	-	-	
					% Change
					Nominal Income
					193
					20

Sensitivity: For a 1 percentage increase in yields, income increases by 27 %

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

Central Bank of Lesotho

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Notes to the Financial Statements

Figures in Maloti thousands

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:

2011

	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
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
Financial assets							
Cash and balances with banks	1,384,525	1,457,214	450,952	-	-	-	3,292,691
Accrued interest due from Banks	-	2,357	744	-	-	-	3,101
Treasury notes and bonds	-	16,614	326,985	503,553	2,099,997	606,657	3,553,806
IMF accounts	376,875	-	-	-	-	579,796	956,671
Lesotho Government Securities	-	19	-	-	-	-	19
Loans to staff	-	-	-	4,983	12,608	14,958	32,549
Total Financial Assets	1,761,400	1,476,204	778,681	508,536	2,112,605	1,201,411	7,838,837
Financial liabilities							
Notes & coins issued	844,626	-	-	-	-	-	844,626
Deposits	940,559	-	-	-	-	-	940,559
Lesotho Government Deposits	2,869,107	-	-	-	-	-	2,869,107
IMF Accounts	892,470	-	-	-	-	-	892,470
Total Financial liabilities	5,546,762						5,546,762
Net liquidity gap	(3,785,362)	1,476,204	778,681	508,536	2,112,605	1,201,411	2,292,075

Central Bank of Lesotho

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Figures in Maloti thousands

39. Risk management (continued)

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
	M'000	M'000	M'000	M'000	M'000	M'000	M'000
Financial assets							
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 & 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	3,782,458	-	-	-	-	-	3,782,458
IMF Accounts	912,904	-	-	-	-	-	912,904
Total Financial liabilities	5,873,497	-	-	-	-	-	5,873,497
Net liquidity gap	(4,819,686)	1,734,412	577,139	458,494	2,500,108	1,067,579	1,518,046

Central Bank of Lesotho

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	2011 M '000	2010 M '000
39. Risk management (continued)		
Fair value hierarchy		
Analysis of fair value determination	Quoted market price	Quoted market price
Trading financial assets	740,434	335,150
Available-for-sale financial assets	2,813,373	2,909,431
	3,553,807	3,244,581