CENTRAL BANK OF LESOTHO

ANNUAL FINANCIAL STATEMENTS
for the year ended 31 December 2008

BANK INFORMATION

Status:	Statutory body duly continuing in existence in terms of the Central Bank of Lesotho Act No. 2 of 2000
Registered address:	Cnr Airport & Moshoeshoe Roads Maseru 100 Lesotho
Postal address:	P.O. Box 1184 Maseru 100 Lesotho
Auditors:	Sheeran & Associates Chartered Accountants (Lesotho)
Lawyers:	In-house legal Counsel

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CORPORATE GOVERNANCE STATEMENT
for the year ended 31 December 2008

The Central Bank of Lesotho is committed to the principles of transparency, integrity, accountability and openness in its dealings with all its stakeholders and subscribes to the best extent possible the Code of Corporate Practices and Conduct as embodied in the King III Report. The office of Director of Corporate Affairs, as the secretariat to the Board, holds the opinion that the Bank complies in all material respects with the principles enshrined in the aforementioned code. The Governor and Board of Directors are committed to ascertaining that compliance with corporate governance principles remains an integral part of the manner in which the Bank conducts its business.

The Bank has a unitary Board of Directors which comprises five non-executive directors and three executive directors. The office of Deputy-Governor 2, one of the three executive directors, is currently vacant. The other seven directors represent a wide range of skills and have financial, economic, commercial, accounting, governance and legal experience. They are fully aware of their duties to ensure that the Bank maintains a high standard of corporate governance.

The Board of Directors exercises responsibility for the performance of the affairs of the Bank, and retains full and effective control over the Bank. It determines strategic direction of the Bank and monitors executive management in the implementation and execution of its strategies. The Bank continues to publish Annual Reports, Monthly Economic Review, and Quarterly Economic Review and Monetary Policy Statements for the benefit of stakeholders and the general public. During the year 2008, the Board met 7 times to review strategy, operational performance, capital expenditure, internal controls and other material aspects pertaining to the Bank's business. The Board's committees, namely the Audit Committee and the Remuneration Committee also convened to deliberate upon matters requiring specialised attention.

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

Secretary of the Board

REPORT OF INDEPENDENT AUDITORS
for the year ended 31 December 2008

SHEERAN
& ASSOCIATES
Chartered accountants (Lesotho)

INDEPENDENT AUDITOR'S REPORT - TO THE MINISTER OF FINANCE

We have audited the annual financial statements of the Central Bank of Lesotho, which comprise the directors' report, the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory note, as set on pages 46-98.

Directors' responsibility for the Financial Statements

The directors of the Central Bank of Lesotho are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implimenting and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Central bank of Lesotho as at 31 December 2008 and of its financial performance and its cash flow for the year ended in accordance with International Financial Reporting Statements.

Sheeran & Associates

SHEERAN & ASSOCIATES
Chartered Accountants (Lesotho)

Date: 15 October 2009

CENTRAL BANK OF LESOTHO

STATEMENT OF RESPONSIBILITY BY THE BOARD OF DIRECTORS
for the year ended 31 December 2008

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 41 to 98 have been prepared in accordance with International Financial Reporting Standards (IFRS) in all material respects as applicable to central banks, 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 some foreseeable future.

The financial statements were approved by the Board of Directors on 14 October 2009 and are signed on its behalf by:

Dr.M.P. Senaoana	**Mr. J.Q.Lesitha**
Governor	Director

REPORT OF THE DIRECTORS
for the year ended 31 December 2008

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 2008. The financial statements are expressed in Maloti, the national currency of Lesotho.

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 income statement on page 47. The residual profits after a transfer of the foreign exchange currency translation to designated foreign currency translation reserves, and after appropriations have been allocated to the general and other reserves, are paid over to the Government of Lesotho Consolidated Fund as dividends in accordance with Section 21 of the Act. These appropriations have been fully disclosed in the statement of changes in equity on page 48.

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 changes in equity on page 48.

Share capital

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

Board of Directors of the Central Bank of Lesotho

Name	Date of appointment	Date of End of Tenure	Position held
Dr M.P Senaoana	April, 2007		Governor and Chairman
Dr R. Matlanyane	April, 2007		Deputy Governor I
Mrs. P.M.I.S Ledimo ^	November, 2005	October, 2008	Non-Executive Director
Mrs. M.G. Tau-Thabane (Adv.) [3]	July, 2005		Non-Executive Director
Mr. E.K. Molemohi [1]	July, 2006	June, 2008	Non-Executive Director
Mr. J.Q. Lesitha [2]	December, 2005		Non-Executive Director
Dr. P. Mangoaela	December, 2008		Non-Executive Director
Mr. M. Fako	December, 2008		Non-Executive Director
Mr. M. Posholi	December, 2008		Non-Executive Director

Secretary of the Board

Mr. M.G. Malope (Adv.)	October, 2007	Head of Department of Corporate Affairs

1. Contract expired June 2008
2. Commenced Second term December 2008
3. Commenced Second term July 2008
^. Contract expired October 2008

Events subsequent to balance sheet date

The Directors are not aware of any material fact or circumstance, which is necessary for the appreciation of the financial statements, which may have occurred between the end of the financial year and the date of this report.

Auditors

Sheeran & Associates (Chartered Accountants Lesotho) carried out the statutory audit of the Bank.

Dr. M.P. Senaoana
Governor

J.Q. Lesitha
Director

BALANCE SHEET
for the year ended 31 December 2008

	Notes	2008 M'000	Restated 2007 M'000
ASSETS			
Cash and Balances with Banks	**2**	**3 975 935**	2 810 129
Accrued interest due from Banks	**3**	**63 821**	39 121
Treasury Bills (Held to Maturity)	**4**	**769 875**	432 570
Treasury Notes & Bonds held by CBL	**5**	**3 679 700**	3 110 027
IMF Subscription Account	**6**	**429 309**	385 061
IMF Holding of Special Drawing Rights	**7**	**44 201**	43 848
IMF Funded PRGF Advances	**8**	**236 796**	247 145
Lesotho Government Securities (Held to Maturity)	**9**	**183**	62
Deferred Currency Expenditure	**10**	**4 275**	7 438
Claims on Staff	**11**	**23 666**	21 260
Other Assets	**12**	**9 724**	3 891
Property, Plant and Equipment	**13**	**164 711**	174 796
Intangible Asset - Computer Software	**14**	**1 435**	2 245
TOTAL ASSETS		**9 403 631**	7 277 593
LIABILITIES AND EQUITY			
LIABILITIES			
Notes and Coins Issued	**15**	**464 030**	402 221
Deposits	**16**	**323 512**	402 510
Lesotho Government Deposits		**4 728 364**	3 927 858
IMF Maloti Currency Holding	**17**	**385 283**	345 509
IMF Special Drawing Rights Allocation	**18**	**45 994**	41 253
IMF - PRGF Facility	**19**	**236 796**	247 145
Income Taxation Liabilities	**20**	**57 279**	33 280
Due to Government of Lesotho Consolidated Fund	**21**	**505 469**	126 168
Other Liabilities	**22**	**110 873**	40 557
Long-term Employee Benefits	**23**	**78 822**	63 930
Deferred Tax Liability	**24**	**433 022**	308 776
TOTAL LIABILITIES		**7 369 444**	5 939 207
EQUITY			
	25	**25 000**	25 000
Share Capital		**137 372**	137 372
General Reserve		**1 871 815**	1 176 014
Other Reserves			
TOTAL EQUITY		**2 034 187**	1 338 386
TOTAL EQUITY AND LIABILITIES		**9 403 631**	7 277 593

The notes on pages 73-90 and the Risk Management Statements on pages 91-92 are an integral part of these financial statements.

INCOME STATEMENT
for the year ended 31 December 2008

	Notes	2008 M'000	Restated 2007 M'000
Revenue			
Interest Income	26	635 631	449 951
Interest Expense	27	(45 207)	(48 307)
Net Interest Income		590 424	401 644
Other Income	28	429 386	273 625
Total Income		1 019 810	675 269
Operating Expenses			
Operating Expenses	29	(151 630)	(115 546)
Profit before taxation		868 180	559 723
Corporate Taxation	30	(180 036)	(143 574)
Net Profit for the year		688 144	416 149

The notes on pages 73-90 and the Risk Management Statements on pages 91-92 are an integral part of these financial statements.

CENTRAL BANK OF LESOTHO

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2008

	Accumulated Profit M '000	Share Capital M '000	General Reserve Restated M '000	Rand Compensatory Reserve M '000	SDR Revaluation Reserve M '000	Foreign Exchange Revaluation Reserve M '000	Property Revaluation Reserve M '000	Bond Revaluation Reserve M '000	Total M '000
Restated balance at 1 January 2007		25 000	98 522	206 081	(15 217)	1 038 505	71 382	(108 815)	1 315 458
Original Balance at 1 January 2007	-	25 000	102 499	206 081	(15 217)	1 038 505	71 382	(108 815)	1 319 435
Adjustment due to restatement	-	-	(3 977)	-	-	-	-	-	(3 977)
Profit after tax - as previously shown	426 442	-	-	-	-	-	-	-	-
Adjustment due to restatement - refer to note 38	(10 293)	-	-	-	-	-	-	-	-
Restated profit after tax for 2007	416 149	-	-	-	-	-	-	-	416 149
Transfer of foreign exchange - translation to designated reserves (1)	(185 620)	-	-	-	64 260	121 360	-	-	-
Transfer to reserves	(38 850)		38 850	-	-	-	-	-	-
Interim dividend paid	(48 197)	-	-	-	-	-	-	-	(48 197)
Final dividend payable	(143 482)	-	-	-	-	-	-	-	(143 482)
Rand compensatory receipts	-	-	-	22 149		-	-	-	22 149
Fair value adjustment on bonds	-	-	-	-	-	-	-	(205 117)	(205 117)
Deferred tax arising on Reserves	-	-	-	-	-	(57 568)	9 310	51 279	3 021
Asset Revaluation Realised	-	-	-	-	-	-	(21 595)	-	(21 595)
Balance at 31 December 2007	-	25 000	137 372	228 230	49 043	1 102 297	59 097	(262 653)	1 338 386
Profit after tax	688 144	-	-	-	-	-	-	-	688 144
Transfer of foreign exchange - translation to designated reserves (1)	(308 843)	-	-	-	4 479	304 364	-	-	-
Interim dividend paid	-	-	-	-	-	-	-	-	-
Final dividend payable	(379 301)	-	-	-	-	-	-	-	(379 301)
Rand compensatory receipts	-	-	-	24 855	-	-	-	-	24 855
Fair value adjustment on bonds	-	-	-	-	-	-	-	293 362	293 362
Deferred tax arising on Reserves	-	-	-	-	-	-	-	69 539	69 539
Asset Revaluation Realised							(798)		(798)
Balance at 31 December 2008	**-**	**25 000**	**137 372**	**253 085**	**53 522**	**1 406 661**	**58 299**	**100 248**	**2 034 187**
				*	*	*	*	*	

*** = Total Other Reserves** **1 871 815**

(1) = transfer of foreign exchange translation to SDR Revaluation Reserve and Foreign Exchange Revaluation Reserve in terms of Central Bank of Lesotho Act (see explanatory note).
The notes on pages 73-90 and the Risk Management statement on pages 91-92 are an integral part of these financial statements.

CASH FLOW STATEMENT
for the year ended 31 December 2008

	Notes	2008 M '000	2007 M '000
Cash flow from operating activities			
Cash flow from operating activities	31	2 107 817	2 039 343
Taxation paid	20	(108 741)	(65 161)
Rand compensatory receipts		24 855	22 149
Payment to Government of Lesotho Consolidated Fund	21	-	(127 201)
Net cash flow generated / (utilised by) operations		2 023 931	1 869 130
Cash flow from investing activities			
Additions to property, plant and equipment		(4 377)	(7 646)
Proceeds from sale of fixed assets		210	56 462
Additions to Intangible asset - Computer software	14	(399)	(367)
(Increase)/decrease in claims on staff	11	(2 406)	(812)
Decrease/(increase) in other assets	12	(5 833)	602
Net increase in local investments	9	(121)	(22)
Net decrease/(increase) in treasury bills	4	(337 306)	(20 668)
Net increase in foreign investments	5	(569 673)	(1 190 757)
Deferred currency expenditure	10	(30)	(10 987)
Purchase and disposal of deposit held by foreign banks	2.2	(682 999)	(256 687)
Net cash flow from investing activities		(1 602 934)	(1 430 882)
Cash flow from financing activities			
Movement in Notes and coins issued	15	61 809	24 510
Net cash flow from financing activities		61 809	24 510
Net increase in cash and cash equivalents		482 807	462 758
Cash and cash equivalents at the beginning of the year		1 604 395	1 141 637
Cash and cash equivalents at the end of the year		2 087 202	1 604 395

ACCOUNTING POLICIES
for the year ended 31 December 2008

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

1.1 Basis of preparation

These financial statements are prepared in accordance with, and comply with International Financial Reporting Standards 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.

A prior period error was noted and therefore amounts of 2007 have been restated - refer to note 38.

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates 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.

Interpretations effective in 2008 but not relevant
The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Bank's operations:

- IFRIC 12, 'Service concession arrangements'; and
- IFRIC 13, 'Customer loyalty programmes'.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank.

The following standards and amendments to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2009 or later periods, but the Bank has not early adopted them:

- IAS 23 (Revision), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Bank will apply IAS 23 (Amendment) retrospectively from 1 January 2009 but is currently not applicable to the Bank as there are no qualifying assets.

- IAS 23 (Amendment), ‘Borrowing costs’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 ‘Financial instruments: Recognition and measurement’. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Bank will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

- IAS 1 (Revised), ‘Presentation of financial statements’ (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Bank will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

- IAS 32 (Amendment), ‘Financial instruments: Presentation’, and IAS 1 (Amendment), ‘Presentation of financial statements’ – ‘Puttable financial instruments and obligations arising on liquidation’ (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Bank will apply the IAS 32 and IAS 1(Amendment) from 1 January 2009. It is not expected to have any impact on the Bank’s financial statements.

- IAS 36 (Amendment), ‘Impairment of assets’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Bank will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- IAS 38 (Amendment), ‘Intangible assets’(effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Bank will apply the IAS 38 (Amendment) from 1 January 2009.

□ IAS 19 (Amendment), ‘Employee benefits’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008.

– The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

– The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

– The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

– IAS 37, ‘Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.
The Bank will apply the IAS 19 (Amendment) from 1 January 2009.

□ IAS 39 (Amendment), ‘Financial instruments: Recognition and measurement’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008.

– This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

– The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of shortterm profit taking is included in such a portfolio on initial recognition.

– The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, ‘Operating segments’, which requires disclosure for segments to be based on information reported to the chief operating decisionmaker.

– When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Bank will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Bank's income statement.

 IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Bank will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Bank's financial statements.

 There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Bank's accounts and have therefore not been analysed in detail.

 IFRIC 18 clarifies the accounting treatment for transfers of property, plant and equipment received from customers. This Interpretation applies to agreements with customers in which the entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods and services, or to do both.

Interpretations and amendments to existing standards that are not yet effective and not relevant for the Bank's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Bank's operations:

 IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. IFRS 2 (Amended) is not relevant to the Bank's operations

 IFRS 1 (Amendment) ‘First time adoption of IFRS’, and IAS 27 ‘Consolidated and separate financial statements’(effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. IFRS 1 (Amendment) is not relevant to the Bank’s operations.

 IAS 27 (Revised), ‘Consolidated and separate financial statements’, (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting treatment when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (Revised) is not relevant to the Bank’s operations.

 IFRS 3 (Revised), ‘Business combinations’ (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. IFRS 3 (Revised) is not relevant to the Bank’s operations.

 IFRS 5 (Amendment), ‘Non-current assets held-for-sale and discontinued operations’ (and consequential amendment to IFRS 1, ‘First-time adoption’) (effective from 1 July 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. IFRS 5 (Amendment) is not relevant to the Bank’s operations.

 IAS 28 (Amendment), ‘Investments in associates’ (and consequential amendments to IAS 32, ‘Financial Instruments: Presentation’, and IFRS 7, ‘Financial instruments: Disclosures’) (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. IAS 28 (Amendment) is not relevant to the Bank’s operations.

 IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. IFRIC 16 is not relevant to the Bank's operations.

 IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Bank's operations because none of the Bank's ordinary activities comprise renting and subsequently selling assets.

 IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement', is classified as held for sale under IFRS 5, 'Non-current assets held-forsale and discontinued operations', IAS 39 would continue to be applied. The amendment will not have an impact on the Bank's operations.

 IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in associate is accounted for in accordance with IAS 39 'Financial instruments: recognition and measurement', only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'. The amendment will not have an impact on the Bank's operations.

 IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the Bank's operations.

 IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation', and IFRS 7 'Financial instruments: Disclosures'. The amendment will not have an impact on the Bank's operations as there are no interests held in joint ventures.

- IAS 38 (Amendment), ‘Intangible assets’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. The amendment deletes the wording that states that there is ‘rarely, if ever’ support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment will not have an impact on the Bank’s operations, as all intangible assets are amortised using the straight-line method.

- IAS 40 (Amendment), ‘Investment property’ (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment will not have an impact on the Bank’s operations, as there are no investment properties held by the Bank.

- IAS 41 (Amendment), ‘Agriculture’ (effective from 1 January 2009). The amendment is part of the IASB’s annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the Bank’s operations as no agricultural activities are undertaken.

- IAS 20 (Amendment), ‘Accounting for government grants and disclosure of government assistance’ (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, ‘Financial instruments: Recognition and measurement’, and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not have an impact on the Bank’s operations as there are no loans received or other grants from the government.

- The minor amendments to IAS 20 ‘Accounting for government grants and disclosure of government assistance’, and IAS 29, ‘Financial reporting in hyperinflationary economies’, IAS 40, ‘Investment property’, and IAS 41, ‘Agriculture’, which are part of the IASB’s annual improvements project published in May 2008 (not addressed above). These amendments will not have an impact on the Bank’s operations as described above

- IFRIC 15, ‘Agreements for construction of real estates’ (effective from 1 January 2009). The interpretation clarifies whether IAS 18, ‘Revenue’, or IAS 11, ‘Construction contracts’, should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the Bank’s operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

1.2 Cash and Cash Equivalents

Cash and cash equivalents disclosed in the cash flow statement 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.

1.3 Foreign currency translation

(a) Functional and presentation currency

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’) which is Maloti.

(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 income statement (and included in the net profit for the year) 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 (also refer to the explanatory note to the statement of changes in equity).

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within ‘finance income or cost’. All other foreign exchange gains and losses are presented in the income statement within ‘other (losses)/gains – net.

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 or 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.

1.4 Financial assets

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.

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

(d) Held-till-maturity investments

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

Recognition and measurement

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

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

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary 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 income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Bank's right to receive payments is established.

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.

1.5 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.

1.6 Impairment of financial assets

An entity 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 income statement to the extent that the asset is impaired and recognised as part of the impairment loss. Any additional impairment loss is recognised in the income statement. 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 income statement.

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 income statement and is recognised as part of the impairment loss.

Financial assets carried at amortised cost

The Bank assesses at each balance sheet 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
- Deliquency 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 income statement. 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 income statement in impairment charge for credit losses.

1.7 Property, plant and equipment

Owner-occupied properties

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement 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; all other decreases are charged to the income statement.

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

The most recent independent valuation was performed at 31 December 2006.

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:

Fixed Asset	**Rates**
Buildings	1.5%
Motor Vehicles	25%
Computers	20%
Office Equipment	20%
Housing Equipment	20%
Housing Furniture	10%
Office Furniture	10%
Security Equipment	20%
Sporting Equipment	20%

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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 (losses)/gains – net' in the income statement.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

1.8 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.

1.9 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.

1.10 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.

1.11 Provisions

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

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

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

1.12 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income
statement, 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 balance sheet 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 income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and subsequently recognised in the income statement together with the deferred gain or loss.

Indirect tax

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

1.13 Employee benefits

(a) Post employment benefits

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

(b) Other long-term employee benefits

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

Long-term employee benefits include:

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

(c) 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 balance sheet date.

1.14 Claims on staff

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

1.15 Deferred Currency expenditure

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

1.16 Share Capital

Ordinary shares are classified as equity.

a) Share issue costs

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

(b) Dividends on ordinary shares

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

1.17 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.

1.18 Revenue and expenditure

Revenues described below represent the most appropriate equivalent of turnover.

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

Interest income and expenses are recognised in the income statement for all interest-bearing instruments on an accrual basis using the effective interest 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 balance sheet, are capitalised to the carrying amount of financial instruments (excluding financial instruments at fair value through profit and loss) and amortised through interest income over the life of the asset.

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

Non-interest revenue

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

1.19 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 income statement 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 assumes 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.

1.20 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.

1.21 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.

1.22 IMF Holding of Special Drawing Rights and IMF subscription account

Upon joining the International Monetary Fund (IMF), Lesotho was allocated a special drawing right of 34 900 000 units and an IMF subscription account. The Central Bank of Lesotho administers the Special Drawing Rights on behalf of Government and accounts for the allocation in the financial records of the Bank. The units are translated daily using a basket of 4 major currencies. The IMF holding and subscription accounts are stated at amortised cost by using the effective interest rate method.

The Special Drawing Rights were initially recorded by accounting for the Allocation of the Special Drawing Rights as a liability and corresponding entry as the Holdings of Special Drawing rights under external assets. As the Special Drawing Rights are utilised by the Government, the Holdings of the Special Drawing Rights are decreased. The allocation of Special Drawing Rights accrues interest expense at an average rate of 2.02% and the Holdings of Special Drawing Rights an income of 2.02%. The interest rate is determined every Friday by the IMF and adjusted by the Bank accordingly. Annually, the rights are translated at the ruling SDR rate and the difference on revaluation is taken to the SDR Revaluation Reserve.

1.23 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.

1.24 Comparative figures

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

Refer to note 38 for the restatement due to prior period error.

1.25 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.

1.26 Dividends

The entire profit as defined by the Central Bank of Lesotho Act of 2000 Section 21(5) (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 is raised as a financial liability for the amount payable.

1.27 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.

1.28 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 income statement of the Bank and are then transferred from distributable reserves to the non-distributable Foreign Revaluation Reserve in terms of Section 54 of the Central Bank of Lesotho Act No. 2 of 2000.

1.29 SDR Revaluation Reserve

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

1.30 Property Revaluation Reserve

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

1.31 Bond Revaluation Reserve

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

1.32 Financial Risk Management

1.32.1 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.

Foreign Exchange Risk (continues)

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 2008, if the currency had weakened/strengthened by 5% against the functional currencies, the bank's foreign assets would have been 2% higher/lower as a result of foreign exchange losses/gains on valuation of foreign currency denominated assets.

(ii) Interest Rate Risk

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

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

As at 31st December, if interest rates had fallen by 1%, the Bank's revenue would decline by 13%, based on the simulation performed. However, if rates had increased by 1%, revenue would increase by 15%.

(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 91-92.

1.32.2 Capital risk management

In terms of the Central Bank of Lesotho Act 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 2007 and 2008 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 because of some restatements in equity statement 2007 now has an allocation.

1.33 IMF Currency Holding Account

The IMF Holdings of Maloti are represented by the Non-Interest Bearing Note of M19 953 268 (2007: M22 246 138) issued by the Government of Lesotho (GOL) in favour of the IMF. GOL chose to substitute non-interest bearing notes for a portion of the balance held in its Fund's No. 1 account and the securites substituted for currency are recorded in the Securities Account. GOL's holding in IMF SDR Department is posted in Account no 1 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 the maloti, both accounts are translated at the prevailing SDR rate.

1.34 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.

(b) Employee benefits (continued)

The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the employment benefit obligations. In determining the appropriate discount rate, the Bank considers the interest rates of Government of Lesotho Treasury Bills that are denominated in the currency in which the benefits will be paid.

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

(c) Fair values

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

i) Balances due to and from banks

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

ii) Loans and advances

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

iii) Investment securities

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

Critical judgements in applying the Bank's accounting policies

(a) 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.

		2008 M '000	2007 M '000
2	**Cash and Balances with banks**		
2.1	**Cash and Cash Equivalents**		
	Foreign Cash	**493**	215
	Rand Currency Holding	**70 373**	47 724
	ZAR Coins Holding	**-**	-
	ZAR Notes Holding	**70 373**	47 724
	Balances with banks (with a maturity shorter than 3 months)	**2 016 336**	1 556 456
	Current and Call Accounts:		
	Overseas Banks	**249 591**	192 080
	South African Banks	**991 409**	504 349
	Total Current and Call Accounts	**1 241 000**	696 429
	Fixed deposits (with maturity shorter than 3 months):		
	Overseas Banks	**508 230**	644 155
	South African Banks	**267 106**	215 872
	Total Fixed deposits (with maturity shorter than 3 months)	**775 336**	860 027
	Sub-total (Cash and Cash Equivalents)	**2 087 202**	1 604 395
2.2	**Fixed deposits (with maturity longer than 3 months):**		
	Overseas Banks	**866 807**	515 234
	South African Banks	**1 021 926**	690 500
	Total Fixed deposits (with maturity longer than 3 months)	**1 888 733**	1 205 734
	Total Cash and Balances with banks	**3 975 935**	2 810 129
3	**Due from Banks**		
	Accrued Interest receivable:		
	Due from banks		
	ZAR Call Accounts	**242**	116
	ZAR Fixed Deposit Accounts	**53 511**	29 271
	NON ZAR Call and Fixed Deposit Accounts	**10 068**	9 734
		63 821	39 121

			2008	2007
			M '000	M '000

4 Treasury Bills

	At fair value through profit and loss	**Held to Maturity**	**Total**	
US Treasury bills at fair value:				
Maturing within 1 month	**-**	**139 486**	**139 486**	-
Maturing within 1 to 3 months	**-**		**-**	236 735
Maturing within 3 to 6 months	**-**		**138 804**	**138 804**
Maturing within 6 to 12 months	**10 956**	**-**	**10 956**	-
ZAR Treasury bills at fair value:				
Maturing within 1 month	**-**	**189 108**	**189 108**	49 068
Maturing within 1 to 3 months	**-**	**99 003**	**99 003**	146 766
Maturing within 3 to 6 months	**-**	**192 518**	**192 518**	
	10 956	**758 919**	**769 875**	432 569

Treasury bills are debt securities issued by the US and SA treasury departments for a term of three months, six months or a year and are treated as securirties held-to-maturity. All bills are subject to fixed interest rate risk (2008: variable/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 & Bonds

	At fair value through profit and loss	**Available for sale**	**Total**	
US Bonds at fair value	**464 270**	**898 612**	**1 362 882**	967 039
ZAR Bonds at fair value	**-**	**2 197 620**	**2 197 620**	1 978 383
US Bonds - movements	**3 587**	**12 581**	**16 168**	12 272
ZAR Bonds - movements	**-**	**103 030**	**103 030**	152 333
	467 857	**3 211 843**	**3 679 700**	3 110 027

The Treasury Notes & 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.

	2008 M '000	2007 M '000

6 IMF Subcription Account

Balance at 01 January	**385 061**	316 413
Exchange revaluation	**44 248**	68 648
Balance at 31 December	**429 309**	385 061

The Lesotho Government Quota in the International Monetary Fund is SDR 34,900,000. The local currency equivalent of the subscription account at balance sheet date is converted at the rate of 0.0812935 (2007:0.0906351).

7 IMF Holding of Special Drawing Rights

Balance at 01 January	**43 848**	1 302
Net transactions	**(4 203)**	39 580
Exchange revaluation	**4 556**	2 966
Balance at 31 December	**44 201**	43 848

The value of SDR3,593,248 allocated by the International Monetary Fund less utilisation is converted at 0.0812935 (2007: SDR3,974,184 at 0.0906351).

8 IMF Funded PRGF Advances

Balance at 01 January	**247 145**	218 952
Paid during the year	**(34 755)**	(15 868)
Exchange revaluation	**24 406**	44 061
Balance at 31 December	**236 796**	247 145

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

	2008 M '000	2007 M '000
9 Lesotho Government Securities		
Maturing within 1 month	**183**	62
Maturing within 1 to 3 months	**-**	-
Maturing within 3 to 6 months	**-**	-
Total treasury bills stated at amortised cost	**183**	62

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 (notes and coins)

	2008 M '000	2007 M '000
Balance at 1 January	**7 438**	1 641
Expenditure during the year	**30**	10 987
Amortised during the year	**(3 193)**	(5 190)
Balance at 31 December	**4 275**	7 438

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

11 Claims on Staff

	2008 M '000	2007 M '000
Housing Loans	**10 075**	9 958
Car Loans	**8 995**	8 490
Furniture Loans	**1 046**	927
Other Loans & Advances	**3 550**	1 885
	23 666	21 260

12 Other Assets

	2008 M '000	2007 M '000
Cheques for collection and uncleared items	**1 477**	2 139
Other Prepayments	**5 818**	820
Other Receivables	**2 429**	932
	9 724	3 891

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

13. Property, Plant and Equipment

No revaluation was done on Property, Plant and Equipment for the current year.

	CBL Building M '000	Work in Progress M '000	Residential Building M '000	Lehakoe Building M'000	Motor Vehicles M '000	Office Computer M '000	Office Comp Lehakoe M' 000	Office Equipment M '000	Housing Equipment M '000	Security Equipment M '000	Sports/Music Equipment M '000	Lehakoe Furniture M '000	Office Furniture M '000	Housing Furniture M '000	TOTAL M '000
Cost/Valuation															
At 31.12.2007	61 793	4 178	4 346	80 620	4 695	7 524	356	23 799	190	7 355	8 591	3 877	5 395	667	213 386
Additions	-	885	-	103	-	697	-	1 382	-	-	479	50	773	8	4 377
Disposals	-	-	-	-	-		-	(3 044)	-	-	(989)	-	-	-	(4 033)
Adjustments	-	(1 834)	-	54	-	-	-	-	-	-	(54)	-	-	-	(1 834)
Transfers	-	(1 468)	-	-	1 035	132	-	274	-	26	-	-	(28)	-	(29)
Revaluation															
At 31.12.2008	**61 793**	**1 761**	**4 346**	**80 777**	**5 730**	**8 353**	**356**	**22 411**	**190**	**7 381**	**8 027**	**3 927**	**6 140**	**675**	**211 867**
Accumulated Depreciation															
At 31.12.2007	5 312	-	391	4 411	2 649	4 933	141	10 410	115	2 075	4 006	1 291	2 581	275	38 590
On Disposal	-	-	-	-	-	-	-	(2 763)	-	-	(967)	-	-	-	(3 730)
For the year	945	-	66	1 216	1 020	691	78	3 565	19	1 374	1 988	428	820	86	12 296
At 31.12.2008	**6 257**	**-**	**457**	**5 627**	**3 669**	**5 624**	**219**	**11 212**	**134**	**3 449**	**5 027**	**1 719**	**3 401**	**361**	**47 156**
Carrying Amount															
At 31.12.2007	56 481	4 178	3 955	76 209	2 046	2 591	215	13 389	75	5 280	4 585	2 586	2 814	392	174 796
At 31.12.2008	**55 536**	**1 761**	**3 889**	**75 150**	**2 061**	**2 729**	**137**	**11 199**	**56**	**3 932**	**3 000**	**2 207**	**2 739**	**314**	**164 711**
Transfer to Non-Current Assets held for sale:			-	-	-	-	-	-	-	-	-	-	-	-	**-**
Carrying Amount 31.12.08	**55 536**	**1 761**	**3 889**	**75 150**	**2 061**	**2 729**	**137**	**11 199**	**56**	**3 932**	**3 000**	**2 208**	**2 739**	**314**	**164 711**

	2008 M '000	2007 M '000

14 Intangible Asset - Deferred Computer Software

Balance at 1 January	**2 245**	4 664
Additions	**399**	367
Amortised during the year	**(1 209)**	(2 786)
Balance at 31 December	**1 435**	2 245

15 Notes and Coins Issued

Notes	**449 854**	389 224
Coins	**14 176**	12 997
	464 030	402 221

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	**142 484**	208 444
Other Deposits - Non-interest bearing		
International Institutions	**2 178**	2 257
Parastatals and others	**178 850**	191 809
Total Deposits	**323 512**	402 510

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

		2008 M '000	2007 M '000
17	**IMF Maloti Currency Holding**		
	Securities account	**245 447**	245 447
	General resources accounts	**139 836**	100 062
		385 283	345 509

		2008 M '000	2007 M '000
18	**IMF Special Drawing Rights Allocation**		
	Balance at 1 January	**41 253**	33 899
	Exchange Revaluation	**4 741**	7 354
	Balance at 31 December	**45 994**	41 253

Lesotho's allocation by IMF of SDR3,739,000 converted at 0.0812935 (2007:0.0906351).

		2008 M '000	2007 M '000
19	**IMF-PRGF Facility**		
	Balance at 1 January	**247 145**	218 952
	Paid during the year	**(34 755)**	(15 868)
	Exchange revaluation	**24 406**	44 061
	Balance at 31 December	**236 796**	247 145

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 SDR19,250,000 converted at 0.0812935 as at 31 December 2008 (2007: SDR22,400,000 at 0.0906351). The loan has been on-lent as per note 8. Interest expense and exchange rate differences are borne by the Government of Lesotho.

		2008 M '000	2007 M '000
20	**Taxation Liabilities**		
	Balance at 1 January	**33 280**	14 596
	Paid during the year	**(33 280)**	(14 596)
	Current year charge	**132 740**	83 846
	Provisional payments made	**(75 461)**	(50 566)
	Balance at 31 December	**57 279**	33 280

	2008 M '000	2007 M '000

21 Due to Government of Lesotho Consolidated Fund

Balance at 1 January	**126 168**	59 116
Amount due to GOL from prior period restatement	**-**	2 574
Prior year final dividend paid in current year	**-**	(79 004)
Profit appropriations for the current year	**379 301**	191 679
Current year interim dividend paid	**-**	(48 197)
Balance due at 31 December	**505 469**	126 168

The profit appropriations for the current year is done in terms of Section 21 of the Central Bank of Lesotho Act of 2000. The Foreign exchange differences are eliminated from the Profit after tax, before transferred to the Government of Lesotho Consolidated Fund

Profit after tax appropriated as follows:		
The apportionment to Reserves and the Consolidated Fund (GOL)	**379 301**	230 529
Transfer to Foreign Exchange Reserves	**308 843**	185 620
	688 144	416 149

22 Other Liabilities

Donations Suspense-Goverment-Referral Hospital	**35 087**	31 337
Various Accruals	**68 377**	5 295
Divisional Cheques A/Cs	**1 329**	1 223
Other	**6 080**	2 702
	110 873	40 557

The Donations suspense account relate to the construction expenses that will be rei bursed for a hospital that is being built. The project started over 10 years ago. The money received was invested in a bank account to earn interest.

	2008 M '000	2007 M '000
23 Long-term Employee Benefits		
Provision for Severance pay		
Opening obligation	**12 414**	9 791
Interest	**1 331**	1 050
Current Service Cost	**1 914**	1 573
Closing Obligation	**15 659**	12 414
Provision for Gratuity		
Opening Obligation	**51 516**	41 987
Interest	**5 518**	4 497
Current Service Cost	**6 129**	5 032
Closing Obligation	**63 163**	51 516
Total	**78 822**	63 930

24 Deferred Taxation

	2008 M '000	2007 M '000
Balance at 1 January	308 776	326 598
(Reversing) in current year	-	(17 822)
Arising in the current year	124 246	-
Balance at 31 December	433 022	308 776
Deferred Taxation comprises:		
Capital allowances	1 684	1 264
Provisions	(6 826)	(2 960)
Deferred Expenses	1 428	2 421
Off-market loans	-	1 434
Fair value adjustment of fixed assets	-	958
Foreign exchange Revaluation as restated	454 748	393 210
Bond Revaluation Reserve	(18 012)	(87 551)
Balance at 31 December	433 022	308 776

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2008

		2008	2007
		M '000	M '000
24	**Deferred Taxation (continued)**		
	Deferred tax arising on:		
	Foreign currency translation	**61 538**	57 569
	Other Income Statement items	**(3 714)**	2 159
	Reserves	**375 198**	249 048
		433 022	308 776

25	**Share Capital**		
	Authorised		
	Authorised capital	**100 000**	100 000
	Issued		
	Issued and fully paid	**25 000**	25 000

26	**Interest Income**		
	Foreign Currency Deposits	**311 013**	214 369
	Government Securities	**-**	10
	Other institutions 68 -		
	Interest on Treasury Bills	**52 523**	35 257
	Interest on Bonds	**272 027**	200 315
		635 631	449 951

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

27	**Interest Expense**		
	Parastatal and Government deposits	**36**	28
	Local bank deposits	**2**	1
	IMF SDR allocation account	**1 414**	1 638
	Amortisation of premium on bonds	**43 755**	46 640
		45 207	48 307

	2008 M '000	2007 M '000
28 Other Income		
Rent received	**181**	695
Profit on sale of Treasury Bills	**85**	-
Gain/Loss on instruments designated as fair value through profit and loss	**6 792**	-
Interest on Staff loans	**440**	419
Lehakoe proceeds	**6 555**	6 374
Profit on sale of Property, Plant and Equiptment	**705**	21 770
Revaluation Surplus on Foreign exchange activities	**411 791**	243 188
Other	**2 837**	1 179
	429 386	273 625

29 Operating Costs and Expense per nature

	2008 M '000	2007 M '000
Administration and other expenses	**48 763**	25 036
Auditors' remuneration - current year	**762**	351
Deferred currency expenses amortised	**3 193**	5 190
Deferred computer software expenses amortised	**1 209**	2 786
Depreciation	**12 299**	9 915
Personnel Costs:		
Staff Welfare expenses	**1 930**	3 354
Non-executive directors' fees	**175**	138
Executive directors' salaries	**2 395**	1 802
Key management (Departmental heads)	**2 959**	2 618
Staff salaries and expenses	**46 185**	38 647
Pension fund contributions	**2 641**	2 194
Gratuity and severance expenses	**18 956**	15 451
Property expenses	**10 163**	8 064
	151 630	115 546

	2008 M '000	2007 M '000
30 Taxation		
Normal tax for the year	**132 740**	83 846
Deferred tax arising on foreign currency translation	**51 011**	57 569
Deferred tax arising on other income statement items	**(3 715)**	2 159
	180 036	143 574
Reconciliation of tax expense:		
Chargeable Profit	**456 391**	326 826
Tax calculated at 25%	**114 098**	81 706
Add:		
Donations	**61**	59
Severance pay Provision	**1 315**	883
Gratuity Provision	**15 431**	92
Training Expenses	**807**	722
Depreciation	**3 075**	2 479
50 % Entertainment	**22**	21
Less:		
Capital Allowances	**(1 061)**	(1 214)
Training expenses 125%	**(1 008)**	(902)
Income tax expense	**132 740**	83 846

	2008 M '000	2007 M '000

31 Cash Flow from Operating Activities

Reconciliation of profit before tax to cash generated from operations:

	2008 M '000	2007 M '000
Profit before tax	**868 180**	570 013
Adjustments for:		
Depreciation	**12 299**	9 914
Deferred currency expenses amortised	**3 193**	5 190
Deferred computer software expenses amortised	**1 209**	2 786
Net Profit/loss on disposal of fixed assets	**(705)**	(21 770)
Fair value adjustment on bonds	**(293 362)**	205 117
Unrealised Exchange rate fluctuations	**608 906**	(267 557)
Net cash generated by operating activities	**1 199 720**	503 693
Changes in working capital:		
Balances due from other banks and other debtors' accounts	**(24 700)**	(173 287)
Deposit accounts	**721 508**	1 755 057
Creditors and other liability accounts	**211 375**	9 122
Liabilities available for sale	**-**	(13 000)
Changes in IMF Maloti Currency holding	**39 774**	61 597
Exchange rate fluctuations	**-**	-
Changes in IMF Subscription account	**(44 248)**	(68 648)
Changes in Special Drawing Rights holding account	**(353)**	(42 546)
Changes in Special Drawing Rights allocation account	**4 741**	7 355
Cash utilised by changes in working capital	**908 097**	1 535 650
Cash flow from operating activities	**2 107 817**	2 039 343

32 Capital Commitments

Contracted	**6 248 277**	4 100 000

These capital commitments are in respect of the purchase of currency in 2008 and system upgrades in 2007 which will be funded from internal resources.

	2008	2007
	M ’000	M ’000

33 Post retirement obligations

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

	2008	2007
Total employer contributions	**2 641 417**	2 194 307

34 Contingent Liability

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

35 Related party transactions

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 Balance Sheet.

All payments relating to taxes, property rates and service utilisation are at arms length. Loans to staff are disclosed in note 11.

<u>Gross advances made to:</u>

		2008	2007
Heads of Departments	House	-	-
	Car	300	299
	Furniture	-	20
Heads of Divisions:	House	-	1 139
	Car	293	1 987
	Furniture	101	103

		2008 M '000	2007 M '000
35 Related party transactions (continue)			
Balances due at year end:			
Heads of Departments	House	-	-
	Car	469	237
	Furniture	14	12
Heads of Divisions:	House	557	1 036
	Car	1 279	1 754
	Furniture	96	56
Interest charged for the year:			
Heads of Departments	House	-	-
	Car	6	5
	Furniture	-	1
Heads of Divisions:	House	10	18
	Car	27	31
	Furniture	1	3

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%.

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.

2008
M '000

36 Financial Instruments by category

	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Held to Maturity	Total
31 December 2008					
Financial Assets as per balance sheet					
Cash and Balances with Banks	3 975 935	-	-	-	3 975 935
Accrued interest due from Banks	63 821	-	-	-	63 821
Treasury Bills			10 956	758 919	769 875
Treasury Notes and Bonds	-	3 211 843	467 857	-	3 679 700
IMF Subscription Account	429 309	-	-	-	429 309
IMF Holding of Special Drawing Rights	44 201	-	-	-	44 201
IMF Funded PRGF Advances	236 796	-	-	-	236 796
Lesotho Government Securities	183	-	-	-	183
Claims on Staff	23 666	-	-	-	23 666
Total	4 773 911	3 211 843	478 813	758 919	9 223 486

	Other Financial Liabilities	Total
Financial Liabilities as per balance sheet		
Notes and Coins Issued	464 030	464 030
Deposits	323 512	323 512
Lesotho Government Deposits	4 728 365	4 728 365
IMF Maloti Currency Holding	385 283	385 283
IMF Special Drawing Rights Allocation	45 994	45 994
IMF PRGF Facility	236 796	236 796
Total	6 183 980	6 183 980

2007
M '000

	Loans and receivables	Available for sale	Assets at fair value through profit and loss	Held to Maturity	Total
31 December 2007					
Financial Assets as per balance sheet					
Cash and Balances with Banks	**2 810 129**	**-**	**-**	**-**	**2 810 129**
Accrued interest due from Banks	**39 121**	**-**	**-**	**-**	**39 121**
Treasury Bills	**-**	**432 569**	**-**	**-**	**432 569**
Treasury Notes and Bonds	**-**	**3 110 027**	**-**	**-**	**3 110 027**
IMF Subscription Account	**385 061**	**-**	**-**	**-**	**385 061**
IMF Holding of Special Drawing Rights	**43 848**	**-**	**-**	**-**	**43 848**
IMF Funded PRGF Advances	**247 145**	**-**	**-**	**-**	**247 145**
Lesotho Government Securities	**62**	**-**	**-**	**-**	**62**
Claims on Staff	**21 260**	**-**	**-**	**-**	**21 260**
Total	**3 546 626**	**3 542 596**	**-**	**-**	**7 089 222**

Financial Liabilities as per balance sheet	Other Financial Liabilities	Total
Notes and Coins Issued	**402 221**	**402 221**
Deposits	**412 320**	**412 320**
Lesotho Government Deposits	**3 927 858**	**3 927 858**
IMF Maloti Currency Holding	**345 509**	**345 509**
IMF Special Drawing Rights Allocation	**41 253**	**41 253**
IMF PRGF Facility	**247 145**	**247 145**
Total	**5 376 306**	**5 376 306**

The fair values of the financial instruments approximate their carrying values.

		2008 M '000	2007 M '000
37	**Operating Leases**		
	Amount receivable within 12 months	**280**	86
	Amount receivable within 13 to 24 months	**132**	114
	Total	**412**	200

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

38 Prior period error

38.1 Severance and Gratuity pay were previously not accounted for in accordance with IAS 19 (Employee benefits) as other long-term employee benefits.
Provision for future services and discounting using the projected credit unit method were not made. It was previously disclosed as part of accruals.
The correction of the error(s) results in adjustments as follows:

	As previously disclosed	Adjustment	2007 Restated
Balance sheet			
Deposits	412 320	(9 810)	402 510
Due to Government of Lesotho Consolidated Fund	192 625	(66 458)	126 168
Accruals	52 565	(12 009)	40 557
Long-term Employee Benefits	-	63 930	63 930
Deferred Tax Liability	319 303	(10 527)	308 776
General Reserve	102 499	34 873	137 372
Income statement			
Personnel expenses			
- Gratuity expense	40 155	11 361	51 516
- Severance expense	13 482	(1 068)	12 414
Income tax expense			
- Deferred tax	13 409	2 573	15 983

38.2 All cash and balances with banks were treated as Investing activities for the cash flow statement with no cash and cash equivalents on the cash flow statement.
However, cash balances and balances with banks with a maturity shorter than 3 months also meet the definition of Cash and cash equivalents and are now shown as such.

Comparative information have been restated as follows:

Cash and balances with banks (as investing activities)	2 810 129	(1 604 395)	1 205 734
Cash and balances with banks (as cash and cash equivalents)	-	1 604 395	1 604 395
Movement on cash flow statement (as investing activities)	(719 445)	462 758	(256 687)
Movement on cash flow statement (as cash and cash equivalents)	-	462 758	462 758

RISK MANAGEMENT STATEMENT
for the year ended 31 December 2008

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 market price, credit, market liquidity, operational, human resource, legal and reputational risks. These are discussed below.

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

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

The following table summarises the Bank's exposure to Foreign currency exchange rate fluctuations as at 31 December 2008:

Currency	Value of Currency	Exchange Rate	Maloti Equivalent M'000
Cash and Balances with Banks			
South Africa	2 363 297	1.0000	2 363 297
United States	44 319	9.3062	412 446
Botswana	8	1.2253	10
England	26 214	13.4635	352 929
European Union	65 138	13.1498	856 550
Switzerland	371	8.8096	3 267
SDR	3 431	12.3011	42 201
LSL	(8 453 849)	1.0000	(8 453 849)
Treasury Bills			
South Africa	480 629	1.0000	480 629
USA	31 081	9.3062	289 246
Treasury Notes & Bonds			
South Africa	2 300 650	1.0000	2 300 650
United States	148 186	9.3062	1 379 050

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

RISK MANAGEMENT STATEMENT
for the year ended 31 December 2008

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 arrangements.

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

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

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

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

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

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

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

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 adheres to best practice established in keeping with international standards and, to this end, it maintains close liaison with its regional peers.

The Bank also strives for full compliance with the Basel Core Principles for effective banking supervision.

CENTRAL BANK OF LESOTHO

CREDIT RISK ANALYSIS
for the year ended 31 December 2008

	2008					2007				
	M'000 Carrying amount	M'000 Maximum exposure	Held in Deno-mination	Type of collateral held	Credit rating	M'000 Carrying amount	M'000 Maximum exposure	Held in Deno-mination	Type of collateral held	Credit rating
CASH AND BALANCES WITH BANKS	**3 975 935**					**2 810 129**				
Cash	**70 866**			none	n/a	**47 939**	-		none	n/a
Cash in ZAR	**70 373**		ZAR			**47 724**		ZAR		
Cash in USD	**426**		USD			**183**		USD		
Cash in GBP	**59**		GBP			**3**		GBP		
Cash in EUR	**8**		EUR			**29**		EUR		
Balance with Banks	**3 905 069**					**2 762 190**	2 762 190			
Call and Current A/CS	**1 240 999**					**696 429**				
Swiss Bank	**404**	404	CHF		n/a	**542**	542	CHF		n/a
B.I.S	**2 863**	2 863	CHF		n/a	**1 674**	1 674	CHF		n/a
Deutsche Bundesbank	**845**	845	EUR	none	n/a	**427**	427	EUR	none	n/a
B.I.S	**168 080**	168 080	EUR	none	n/a	**90 783**	90 783	EUR	none	n/a
Bank de Belgique	**13**	13	EUR	none	n/a	**14**	14	EUR	none	n/a
Commerz	**2 678**	2 678	EUR		P-1/Aa3	**10 070**	10 070	EUR	none	F1/A
Bank of England	**3 643**	3 643	GBP	none	n/a	**1 568**	1 568	GBP	none	n/a
Standard Chartered London	**3 967**	3 967	GBP	none	P-2/A3	**5 953**	5 953	GBP	none	F1/A+
Crown Agents	**7**	7	GBP	none	n/a	**1 414**	1 414	GBP	none	F1/A
B.I.S	**61 135**	61 135	GBP	none	n/a	**65 823**	65 823	GBP	none	n/a
Federal Reserve Bank of N.Y	**941**	941	USD	none	n/a	**1 036**	1 036	GBP	none	n/a
BankTrust.N.Y	**436**	436	USD	none	n/a	**298**	298	USD	none	n/a
B.I.S. Basle	**1**	1	USD	none	n/a	**2 260**	2 260	USD	none	n/a
Bank of N.Y	**10**	10	USD	none	P-1/Aaaa	**167**	167	USD	none	F1+/AA-
CITI N.Y	**3 134**	3 134	USD	none	P-1/A1	**7 730**	7 730	USD	none	F1+/AA
Crown Agents	**88**	88	USD	none	n/a	**2 310**	2 310	USD	none	F1/A
World Bank (IBRD)	**1 334**	1 334	USD							
South African Reserve Bank	**852 854**	852 854	ZAR	none	n/a	**372 743**	372 743	USD	none	n/a
ABSA Bank	**26 983**	26 983	ZAR	none	P-2/Baa1	**8 168**	8 168	ZAR	none	F1+AAA
Investec Bank	**46 076**	46 076	ZAR	none	P-2/Baa1	**41 399**	41 399	ZAR	none	F1+/AA-
First Rand	**2 411**	2 411	ZAR	none	P-1/Baa1	**6 539**	6 539	ZAR	none	F1+/AA+
Citi Bank	**20 282**	20 282	ZAR	none	P-1/A1	**30 860**	30 860	ZAR	none	F1+/AA
Bank of N.Y	**(66)**	(66)	ZAR	none	P-1/Aaaa	**5**	5	ZAR	none	F1+/AA-
NedBank	**11 601**	11 601	ZAR	none	P-2/Baa1	**9 313**	9 313	ZAR	none	F1+/AA
Standard Bank	**14 883**	14 883	ZAR	none	P-2/Baa1	**6 334**	6 334	ZAR	none	F1+/AA+
Standard Merchant	**3 301**	3 301	ZAR	none	P-2/Baa1	**1 307**	1 307	ZAR	none	F1+/AA+
ACT.ABSA	**13 085**	25 569	ZAR	none	P-2/Baa1	**27 685**	27 698	ZAR	none	F1+/AAA
Standard Chartered Botswana	**10**	10	BWP	none		**7**	7	BWP	none	
Fixed Deposits	**2 664 070**					**2 065 761**				
B.I.S	**390 923**	390 923	EUR	none	n/a	**360 918**	360 918	EUR	none	n/a
Firstrand	**131 498**	131 498	EUR	none	P-1/Baa1	**100 255**	100 255	EUR	none	F1+AA+
Crown Agents	**162 505**	162 505	EUR	none	n/a	**70 179**	70 179	EUR	none	F1/A
Crown Agents	**219 143**	219 143	GBP	none	n/a	**157 996**	159 410	GBP	none	n/a
BIS	**64 976**	64 976	GBP	none	n/a	**75 377**	75 377	GBP	none	n/a
FedralReseve N.Y	**125 634**	278 291	USD	none	n/a	**252 026**	252 026	USD	none	n/a
Bank of N.Y	**168 826**	168 826	USD	none	P-1/Aaaa	**21 657**	21 657	USD	none	F1+/AA-
Crown Agents	**111 533**	111 533	USD	none	n/a	**120 981**	120 981	USD	none	F1/A
ABSA Bank	**220 000**	220 000	ZAR	none	P-2/Baa1	**120 000**	120 000	ZAR	none	F1+/AAA
Investec	**320 668**	236 008	ZAR	none	P-2/Baa1	**296 372**	296 372	ZAR	none	F1+/AA-
Firstrand	**120 000**	120 000	ZAR	none	P-1/Baa1	**100 000**	100 000	ZAR	none	F1+AA+
CitiBank	**160 000**	160 000	ZAR	none	P-1/A1	**100 000**	100 000	ZAR	none	F1+/AA
NedBank	**237 417**	237 417	ZAR	none	P-2/Baa1	**180 000**	180 000	ZAR	none	F1+/AA-
Standard Bank	**230 947**	230 947	ZAR	none	P-2/Baa1	**110 000**	110 000	ZAR	none	F1+AA+
Due from Banks	**63 821**					**39 121**				
BIS	**3 259**	3 259	EUR	none	n/a	**3 042**	3 042	EUR	none	n/a
BIS	**7**	7	GBP	none	n/a	**754**	754	GBP	none	n/a
Crown Agents	**2 444**	2 444	EUR	none	n/a	**406**	406	EUR	none	n/a
Crown Agents	**2 381**	2 381	GBP	none	n/a	**1 656**	1 656	GBP	none	n/a
Crown Agents	**608**	608	USD	none	n/a	**1 724**	1 724	USD	none	n/a
Bank of N.Y	**806**	806	USD	none	P-1/Aaaa	**211**	211	USD	none	P-1/Aaaa
Firstrand	**561**	561	EUR	none	P-1/Baa1	**1 929**	1 929	EUR	none	P-1/Baa1
Standard Chartered	**2**	2	GBP	none	P2/A3	**2**	2	GBP	none	P2/A3
Federal Reserve	**-**	-	USD	none	n/a	**10**	10	USD	none	n/a
Nedbank	**9 317**	9 317	ZAR	none	P-2/Baa1	**7 709**	7 709	ZAR	none	P-2/Baa1
Standard Bank	**7 624**	7 624	ZAR	none	P-2/Baa1	**4 025**	4 025	ZAR	none	P-2/Baa1
Firstrand	**3 907**	3 907	ZAR	none	P-1/Baa1	**3 901**	3 901	ZAR	none	P-1/Baa1
ABSA	**13 163**	13 163	ZAR	none	P-2/Baa1	**3 535**	3 535	ZAR	none	P-2/Baa1
Investec	**14 488**	14 488	ZAR	none	P-2/Baa1	**7 613**	7 613	ZAR	none	P-2/Baa1
Citibank	**5 012**	5 012	ZAR	none	P-1/A1	**2 487**	2 487	ZAR	none	P-1/A1
South African Reserve Bank	**223**	223	ZAR	none	n/a	**80**	80	ZAR	none	n/a
Standard Bank	**7**	7	ZAR	none	P-2/Baa1	**4**	4	ZAR	none	P-2/Baa1
Citibank	**12**	12	ZAR	none	P-1/A1	**31**	31	ZAR	none	P-1/A1
Treasury Bills	**769 875**					**432 569**				
South Africa	**480 629**	480 629	ZAR	none		**195 834**	195 834	ZAR	none	
United States	**289 246**	289 246	USD	none		**236 735**	236 735	USD	none	
Treasury Notes & Bonds	**3 679 700**					**3 110 027**				
South Africa	**2 300 650**	2 300 650	ZAR	none		**2 130 716**		ZAR	none	
Unites States	**1 379 050**	1 379 050	USD	none		**979 311**		USD	none	
Staff Loans	**23 666**					**21 260**				
Housing Loans	**10 075**	10 075	LSL	Title Deeds		**9 958**		LSL	Title Deeds	
Car Loans	**8 995**	8 995	LSL	Terminal Benefits		**8 490**		LSL	Terminal Benefits	
Furniture Loans	**1 046**	1 046	LSL	Terminal Benefits		**927**		LSL	Terminal Benefits	
Other Loans and Advances	**3 550**	3 550	LSL	Terminal Benefits		**1 885**		LSL	Terminal Benefits	

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.

CENTRAL BANK OF LESOTHO

SENSITIVITY ANALYSIS
for the year ended 31 December 2008

The following tables below show the sensitivity of both currency and foreign investment risk should the interest rate move either +5% or -5% directions. 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 of 2000.

Data for Currency and Foreign Investment Risk (figures in original currencies)

	31-Dec-08 Portfolio level	exchange rate		31-Dec-07 Portfolio level	exchange rate
zar	5 144 576	1.00	zar	3 836 590	1.00
usd	223 585	9.31	usd	236 987	6.81
eur	65 138	13.15	eur	63 632	10.03
gbp	26 214	13.46	gbp	22 742	13.65
bwp	8	1.23	bwp	6	1.13
chf	371	8.81	chf	366	6.06
sdr	2 930	14.40	sdr	235	10.75

Base Case
Data for Currency and Foreign Investment Risk (figures in LSL)

	31-Dec-08 Portfolio level	Port. Level in %	exchange rate	31-Dec-07 Portfolio level	Port. Level in %	exchange rate
zar	5 144 576	60.67%	1.00	3 836 590	59.91%	1.00
usd	2 080 725	24.54%	9.31	1 614 240	25.21%	6.81
eur	856 550	10.10%	13.15	637 943	9.96%	10.03
gbp	352 929	4.16%	13.46	310 449	4.85%	13.65
bwp	10	0.00%	1.23	7	0.00%	1.13
chf	3 267	0.04%	8.81	2 217	0.03%	6.06
sdr	42 201	0.50%	14.40	2 529	0.04%	10.75
	8 480 258			6 403 975		

5% increase in exchange rate
Data for Currency and Foreign Investment Risk (figures in LSL)

	31-Dec-08 Portfolio level	Port. Level in %	Level Change	exchange rate	31-Dec-07 Portfolio level	Port. Level in %	Level Change	exchange rate
zar	5 144 576	59.50%	-	1	3 836 590	58.73%	-	
usd	2 184 762	25.27%	(104 037)	9.77151	1 694 952	25.95%	(80 712)	7.1521
eur	899 378	10.40%	(42 828)	13.80729	669 840	10.25%	(31 897)	10.5268
gbp	370 576	4.29%	(17 647)	14.136675	325 972	4.99%	(15 522)	14.3333
bwp	10	0.00%	-	1.286565	8	0.00%	-	1.1831
chf	3 431	0.04%	(163)	9.25008	2 328	0.04%	(111)	6.3578
sdr	44 311	0.51%	(2 110)	15.1242	2 655	0.04%	(126)	11.2896
Total	8 647 043				6 532 345			
% Change	-2%							

5% decrease in exchange rate
Data for Currency and Foreign Investment Risk (figures in LSL)

	31-Dec-08 Portfolio level	Port. Level in %	Level Change	exchange rate	31-Dec-07 Portfolio level	Port. Level in %	Level Change	exchange rate
zar	5 144 576	61.88%	-	1.0000	3 836 590	61.13%	-	
usd	1 976 689	23.78%	104 036	8.8409	1 533 528	24.44%	80 712	6.4709
eur	813 723	9.79%	42 827	12.4923	606 045	9.66%	31 897	9.5242
gbp	335 283	4.03%	17 646	12.7903	294 927	4.70%	15 522	12.9683
bwp	9	0.00%	-	1.1640	7	0.00%	-	1.0705
chf	3 104	0.04%	163	8.3691	2 107	0.03%	111	5.7523
sdr	40 091	0.48%	2 110	13.6838	2 402	0.04%	126	10.2144
Total	8 313 475				6 275 606			
% Change	2%							

SENSITIVITY ANALYSIS
for the year

Interest rate risk 2008

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other varibales held constant, of the group's income statement:

Currency		Sensitivity of net interest 2008 Mm	Sensitivity of equity Cash	0 to 6 months 2 008 Mm	6 months to 1 year 2 008 Mm	1 year to 5 years 2 008 Mm	More than 5 years 2 008 Mm	Total
Rand			70	2 457	915	298	1 405	5 144.58
USD			0	726	80.82	1 141	132.33	2 080.73
GBP			0	352.87				352.93
EUR			0	856.54				856.55
Others				45.48				45.48
Increase in Yiels		1.00%						8 480
Decrease in Yields		-1.00%						

Base Case Yields	0-6mnth	6mnth-1yr	1-5yr	5yr+
Rand	10.80%	9.75%	11.66%	7.82%
USD	0.04%	0.16%	4.30%	4.82%
GBP	0.73%			
EUR	1.47%			
Other	0.02%			

100 Basis points increase in Yields	0-6mnth	6mnth-1yr	1-5yr	5yr+
Rand	11.80%	10.75%	12.66%	8.82%
Dollar	1.04%	1.16%	5.30%	5.82%
Euro	1.73%			
GBP	2.47%			
Other	1.02%			

100 Basis points decrease in Yields	0-6mnth	6mnth-1yr	1-5yr	5yr+
Rand	9.80%	8.75%	10.66%	6.82%
Dollar	0.00%	0.00%	3.30%	3.82%
Euro	0.00%			
GBP	0.47%			
Other	0.00%			

Nominal return in Base CaseYields

	0-6mnth	6mnth-1yr	1-5yr	5yr+		
Rand	265.32	89.23	34.69	109.83		
Dollar	0.29	0.13	49.11	6.38		
Euro	2.58					
GBP	12.59				Norminal Income	% Change
Other	0.01				570.17	0%

Norminal Return in Increasing Yields

	0-6mnth	6mnth-1yr	1-5yr	5yr+		
Rand	289.89	98.39	37.66	123.88		
Dollar	7.55	0.94	60.53	7.70		
Euro	6.10					
GBP	21.16				Norminal Income	% Change
Other	0.46				654.26	15%

SENSITIVITY ANALYSIS
for the year

Norminal Return in Decreasing Yields

	0-6mnth	6mnth-1yr	1-5yr	5yr+		
Rand	240.76	80.08	31.71	95.79		
Dollar	-	-	37.70	5.05		
Euro	-					
GBP	4.03				Norminal Income	% Change
Other	-				495.12	-13%

Sensitivity: For a 1 percentage increase in yields, Income increase by 15 %
For a 1 percentage decrease in yields, income decreses by -13 %

Interest rate risk 2007

The table below indicates the sensitivity to a reasonable possible change in interest rates, with all other varibales held constant, of the group's income statement:

Currency	Sensitivity of net interest 2008 Mm	Cash	Sensitivity of equity 0 to 6 months 2007 Mm	6 months to 1 year 2007 Mm	1 year to 5 years 2007 Mm	More than 5 years 2007 Mm	Total
Rand			1 799.54	146.43	1 832.01	58.60	3 836.59
USD			95.51		127.44	14.04	236.99
GBP			22.74				22.74
EUR			63.63				63.63
Others			4.99				4.99
Increase in Yiels	1.00%						4 165
Decrease in Yields	-1.00%						

Base Case Yields	0-6mnth	6mnth-1yr	1-5yr	5yr+
Rand	11.50%	11.90%	10.66%	8.17%
USD	3.76%	3.48%	4.67%	5.60%
GBP	5.06%			
EUR	3.97%			
Other	1.99%			

100 Basis points increase in Yields	0-6mnth	6mnth-1yr	1-5yr	5yr+
Rand	12.50%	12.90%	11.66%	9.17%
Dollar	4.76%	4.48%	5.67%	6.60%
Euro	6.06%			
GBP	4.97%			
Other	2.99%			

100 Basis points decrease in Yields	0-6mnth	6mnth-1yr	1-5yr	5yr+
Rand	10.50%	10.90%	9.66%	7.17%
Dollar	2.76%	2.48%	3.67%	4.60%
Euro	4.06%			
GBP	2.97%			
Other	0.99%			

Nominal return in Base CaseYields

	0-6mnth	6mnth-1yr	1-5yr	5yr+		
Rand	206.95	17.43	195.29	4.79		
Dollar	3.59	-	5.95	0.79		
Euro	1.15					
GBP	2.53				Norminal Income	% Change
Other	0.10				438.56	0%

SENSITIVITY ANALYSIS
for the year

Norminal Return in Increasing Yields

	0-6+l27mnth	6mnth-1yr	1-5yr	5yr+		
Rand	224.94	18.89	213.61	5.37		
Dollar	4.55	-	7.23	0.93		
Euro	1.38					
GBP	3.16				Norminal Income	% Change
Other	0.15				480.21	9%

Norminal Return in Decreasing Yields

	0-6mnth	6mnth-1yr	1-5yr	5yr+		
Rand	188.95	15.96	176.97	4.20		
Dollar	2.64	-	4.68	0.65		
Euro	0.92					
GBP	1.89				Norminal Income	% Change
Other	0.05				396.91	-9%

Sensitivity: For a 1 percentage increase in yields, Income increase by 9 %
For a 1 percentage decrease in yields, income decreses by -9 %

CENTRAL BANK OF LESOTHO

LIQUIDITY RISK
for the year

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

	Note	Redeemable on demand M'000	Maturing within 1 month M'000	Maturing after 1 month but within 6 months M'000	Maturing after 6 months but within 12 months M'000	Maturing after 12 months but within 5 years M'000	Maturing after 5 years M'000	Total M'000
2008								
Financial assets								
Cash and balances with banks	2	3 975 935	-	-	-	-	-	3 975 935
Due from banks	3	95	19 289	35 341	9 096	-	-	63 821
Treasury Bills	4	-	328 594	430 325	10 956	-	-	769 875
Treasury Notes & Bonds	5	-	-	639 581	-	2 140 089	900 030	3 679 700
IMF accounts	6, 7, 8	-	-	-	-	-	710 306	710 306
Lesotho Government Securities	9	-	183	-	-	-	0	183
Claims on staff	11	-	-	-	3 550	10 041	10 075	23 666
Total Financial Assets		3 976 030	348 066	1 105 246	23 602	2 150 130	1 620 411	9 223 486
Financial liabilities								
Notes & Coins issued	15	464 030	-	-	-	-	-	464 030
Deposits	16	323 512	-	-	-	-	-	323 512
Lesotho Government Deposits		4 728 364	-	-	-	-	-	4 728 364
IMF Accounts	17, 18, 19	-	-	-	-	-	668 073	668 073
Total Financial liabilities		5 515 906	-	-	-	-	668 073	6 183 979
Net Total recognised financial instruments		(1 539 876)	348 066	1 105 246	23 602	2 150 130	952 338	3 039 507
Letters of credit and financial guarantees								
Financial guarantees								
Irrevocable unutilised facilities								
Total unrecognised financial instruments		-	-	-	-	-	-	-
Net liquidity gap		(1 539 876)	348 066	1 105 246	23 602	2 150 130	952 338	3 039 507

	Note	Redeemable on demand M'000	Maturing within 1 month M'000	Maturing after 1 month but within 6 months M'000	Maturing after 6 months but within 12 months M'000	Maturing after 12 months but within 5 years M'000	Maturing after 5 years M'000	Total M'000
2007								
Financial assets								
Cash and balances with banks	2	744 278	712 871	1 352 980	-	-	-	2 810 129
Due from banks	3	115	13 459	25 547	-	-	-	39 121
Treasury Bills	4	-	49 068	383 501	-	-	-	432 569
Treasury Notes & Bonds	5	-	-	-	-	1 841 925	1 268 102	3 110 027
IMF accounts	6, 7, 8	-	-	-	-	-	676 054	676 054
Lesotho Government Securities	9	-	61	-	-	-	-	61
Claims on staff	11	-	-	-	1 885	9 417	9 958	21 260
Total Financial Assets		744 393	775 459	1 762 028	1 885	1 851 342	1 954 114	7 089 221
Financial liabilities								
Notes & Coins issued	15	402 221	-	-	-	-	-	402 221
Deposits	16	412 320	-	-	-	-	-	412 320
Lesotho Government Deposits		3 927 858	-	-	-	-	-	3 927 858
IMF Accounts	17, 18, 19	-	-	-	-	-	633 907	633 907
Total Financial liabilities		4 742 399	-	-	-	-	633 907	5 376 306
Net Total recognised financial instruments		(3 998 006)	775 459	1 762 028	1 885	1 851 342	1 320 207	1 712 915
Letters of credit and financial guarantees								
Financial guarantees								
Irrevocable unutilised facilities								
Total unrecognised financial instruments		-	-	-	-	-	-	-
Net liquidity gap		(3 998 006)	775 459	1 762 028	1 885	1 851 342	1 320 207	1 712 915

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