Central Bank of Lesotho

Supervision Department

Annual Report 2006

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PART I - GOVERNOR'S REMARKS

Significant strengthening of the management of the Central Bank of Lesotho (CBL) took place in 2006 through the appointment of two Deputy Governors. These appointments enabled the Bank to dedicate significant efforts to completing the initiatives started in 2005.

In last year's report, we discussed the Bank's commitment to accelerating financial sector reforms. One of the major considerations in this initiative is to expand financial services to the poor. Lesotho still lags behind other Southern African Development Committee (SADC) member states in financial intermediation and credit availability. Expanding financial services to the poor therefore, requires broadening the reach of formal financial institutions by improving the banking sector's infrastructure for financial intermediation and developing approaches that encourage banks to offer affordable financial products to poor households.

We therefore, in 2006, focused much of our business planning and operational process review towards embedding access to financial services in our policy development and supervisory activities. Accordingly, we strengthened the financial systems regulations, enhanced supervision and continued with efforts to develop money and capital markets. Development of the Non-Banks financial sector was equally pursued.

Another related initiative that was focused upon in 2006 is the enforcement of prudential regulations. We recognise that sound policy and its administration can be undermined unless matched by a commitment to ensuring regulatory compliance. We allowed no regulatory forbearance, exercised a range of powers from imposing financial penalties to prosecution of offenders. Presently, we have two cases before the courts, of suspects apprehended at Moshoeshoe I International Airport for contravening exchange control regulations and money laundering offences. Three more cases have been handed to the Director of Public Prosecutions. We have established close working relations with law enforcement agencies and plan to continue this approach during 2007.

As part of our commitment to combat money laundering, the Bank continued to be actively engaged in fostering a culture of Anti Money Laundering/Combating Financing of Terrorism (AML/CFT) compliance within the financial sector and developing a rigorous anti-money laundering regime.

In conclusion, I wish to thank all CBL staff for their collective effort in making a successful year of change.

M. Senaoana (**Dr**)
GOVERNOR

2.1 REGULATION OF FINANCIAL INSTITUTIONS

One of the key responsibilities of the Department of Supervision is to ensure that the legal framework for the regulation and supervision of financial institutions remains current and relevant. The Department, therefore, has to review the legislation on an on-going basis and make necessary amendments.

In 2006, the Department worked on the following major laws and guidelines:

• *Financial Institutions Act (FIA) 1999*

The Department reviewed the FIA to take account of local and international developments in regulation and markets with the assistance of the International Monetary Fund (IMF). The draft amendments aim at harmonising the system of banking supervision with the Core Principles for Effective Banking Supervision issued by the Basle Committee on Banking Supervision. The reviewed law strengthens the supervisory role of the CBL, which henceforth extends to Microfinance Institutions. The draft amendments are to be submitted to Cabinet for approval in 2007.

• *The Insurance Bill*

The review of the Insurance act was completed and the new Bill has been submitted to the Minister of Finance and Development Planning for consideration and onward transmission to Cabinet for approval. The Insurance Bill aims at strengthening the supervision of the insurance industry.

• *National Payment Systems Bill*

This new law was prepared with the help of the IMF in order to regulate the functioning of the National Payment System. This law aims at regulating Lesotho's national payment system. The Bill has been submitted to the Minister of Finance and Development Planning for onward transmission to Cabinet for approval.

• *"Know Your Customer (KYC) Guidelines"*

In view of the surge in the incidence of reported criminal and suspicious transactions in banks and other financial institutions from both within and outside the country, banks have been encouraged to develop and put in place adequate policies and procedures that would ensure rigorous customer due diligence. The Department prepared "Know Your Customer" Guidelines to assist the banks on procedures necessary for proper knowledge of their customers.

2.2 LICENSING OF NEW FINANCIAL INSTITUTIONS

In 2006, the Bank issued a license to the first merchant bank in Lesotho, namely, Kish City Bank. There were no new insurance companies licensed during 2006. Licenses were issued to eighteen (18) insurance brokers, one Money Transfer and one Bureau de Change. A total of Twenty (20) Money Lenders' licenses were issued.

2.3 FINANCIAL INSTITUTIONS SUPERVISORY FUNCTION

With the assistance of IMF supervision consultants, the Department intensified its supervisory practices through more stringent licensing procedures and vigorous on-site and off-site surveillance of all licensed financial institutions.

The IMF Consultant on Banking Supervision helped the Department to upgrade the On-site Examination Manual by addressing each of the components of the CAMEL (Capital, Assets Quality, Management, Earnings and Liquidity). Henceforth, on-site examination focused on all the five components of CAMEL will be reviewed and enhanced to assess the financial condition and operational performance of licensed commercial banks.

Off-Site analysis continued to be carried out through compliance reviews and financial returns analysis. In order to improve off-site monitoring, a prototype Off-site Monitoring Model developed by IMF was introduced and adopted by the Bank. This model interfaces with the Bank Supervision Application (BSA) already in use.

The performance of the banking industry was generally satisfactory during the reporting period, with prudent regulations being strictly observed. All banks complied with the capital adequacy requirements. A promising trend was observed in the form of a decrease in the ratio of non-performing loans to total capital. However, the industry's exposure on only a few borrowers continued to be a worrisome feature.

Banks remained highly liquid in the reporting period and hence the extent to which banks could meet their short-term liabilities without facing liquidity problems was highly satisfactory. However, the level of compliance with the Weekly Liquidity Requirements Regulations was slightly negative as there were cases of non-compliance which were addressed through penalty impositions. A few other shortfalls had been as a result of the operational hitches associated with the Real Time Gross Settlement System (RTGS) on the side of the Bank. The introduction of the RTGS in the second half of the year brought challenges to both the CBL's operations and the intra-day liquidity management by the banks at the initial stages.

A milestone development in the banking sector in 2006 was the successful conclusion of the merger between Standard Bank and Lesotho Bank (1999) Limited. The CBL worked closely with Standard Bank in analysing the application for merger and ensuring that all the licensing requirements are met.

The insurance industry was also closely monitored through the twin approach of on-site inspection and off-site surveillance. All the five insurance companies were inspected. Compliance with Section 54(1) of the Insurance Act 1976 continued to pose a problem for the majority of insurance brokers who failed to submit their financial statements within six months after the financial year end. There were a few cases in which companies were requested to inject additional capital in order to ensure compliance with the requirements of the law.

As already mentioned in our previous reports, the Microfinance industry is neither organised nor regulated in Lesotho. This leaves a vacuum in the financial sector in as far as credit extension to a large part of the population is concerned, particularly in the rural areas. Efforts to address this undesirable state of affairs continued in the review period.

2.4 OTHER ACTIVITIES

- Monitoring and addressing public complaints has been an important, though time consuming activity for the Department;

- The Department continued efforts to develop a strategy for enhancing the operations of a Commercial Court;

- Efforts to secure assistance for the establishment of Credit Information Registry continued in 2006;

- Discussions on the implementation of the New Basel Accord have continued to take place. Parent companies of subsidiary banks operating in Lesotho are committed to implement the new Accord in 2008.

- The Department continued to participate in the supervisory activities at the regionall level. Bilateral Memoranda of Understanding were negotiated and finalised between the Bank and its regional counterparts.

3.1 LICENSING

3.1.1 Banks

In 2006 CBL licensed the first Merchant Bank under the name of Kish City Bank, although it has not yet commenced operations. This brought the total of licensed banks to five.

3.1.2 Money Lenders

During the period under review, the number of registered money lenders increased from twenty two (22) to forty-two (42). Despite this increase, a large number of money lenders remained unlicensed. Money lenders continue to contravene the Money Lenders Act of 1989 by charging as it was reported in the previous Report. Many complaints were lodged against the industry and were dealt with on an ad hoc basis.

In an effort to strengthen oversight on money lenders, the Bank's proposal to establish a Non-Bank Division was approved. The Division's task is broad as it covers oversight on money lenders, collective investment schemes, money transfers, foreign exchange bureaus and microfinance institutions.

3.1.3 Insurance Companies

During the year under review, there were five licensed insurance companies operating in Lesotho. Of the five, two engaged in short-term and two in long term, while one conducted both short and long term insurance business.

Even though the number of insurance companies remained constant since 2004, during the review year CBL experienced a high expression of interest from prospective insurers. Six companies held preliminary conferences with the CBL and expressed serious intent of establishing insurance business in the country. Subsequent to the preliminary conferences, three companies submitted applications for licensing to operate as insurers. All applications were analysed and findings communicated back to applicants.

It was noted that there could be a number of reasons for the interest shown in operating insurance business. One of such reasons could be that insurance covers are becoming an integral part of risk management plans of commercial enterprises. The other reason could be the changing attitudes and perceptions of the general public towards insurance, spurred by consumer education campaigns conducted by licensed insurance companies and CBL on separate occasions.

3.1.4 Insurance Brokers

As previously reported, there was a significant increase in the number of applications for registration of insurance brokers. This trend continued even in the period under review as evidenced by an increase of more than 100 per cent in insurance brokers. This movement also reflects the insurers' eagerness to trade with licensed brokers and thereby providing incentive to prospective brokers to seek proper authorisation before engaging in insurance brokering.

The number of licensed insurance brokers increased from 14 in 2005 to 32 in 2006. The increased participation in the insurance brokerage market has had positive effect on the development of this market in terms of enhanced competition and regulation. Brokers are becoming more innovative to improve their competitiveness and consequently prompting the Regulator to hone its supervisory skills through amongst others, periodic consultative meetings with the brokers to discuss issues of mutual interest.

3.2 FINANCIAL INSTITUTIONS MONITORING

3.2.1 Banks

Off-Site Surveillance

Since July 2004, commercial banks submit their periodic returns through the BSA. In the first half of 2006, the industry comprised five banks: Lesotho Bank (1999) Ltd, Standard Bank Lesotho Ltd, Nedbank (Lesotho) Ltd, FNB Branch in Lesotho and Lesotho Post Bank. The second half saw the merger of Standard Bank Lesotho Ltd and Lesotho Bank (1999) Ltd, reducing the number of banks to four.

All banks are conversant with the reporting system as evidenced by the returns submitted to the Central Bank in the form of: Foreign Currency Exposure Requirement, Liquidity Requirement, Minimum Local Assets Requirement, Capital Adequacy Ratio, Loans to Top Twenty Borrowers, Loans to Directors, Officers, shareholders and other related parties, Frauds and Losses, Loan Review Summary, Abandoned Funds Properties, Monthly Banking Statistics, Income Statement, and Audited Financial Statements

In this report only two returns, namely Liquidity Requirements and Abandoned Funds Properties, will be highlighted as these are the areas that were largely impacted by the merger of Standard Bank Lesotho Ltd and Lesotho Bank (1999) Ltd.

1) **Liquidity Requirements**

In the first half of the year, banks were highly liquid with liquidity ratios above the minimum requirements. However, it was during the merger of the two large banks: Lesotho Bank (1999) Ltd and Standard Bank Lesotho Ltd that liquidity shortages began to surface. It must be noted that there was no active interbank market taking place in the industry except that these two banks used to exchange balances between themselves, indicating interbank transactions amongst themselves only.

A series of liquidity shortages reported by banks during the second half of the year influenced the move towards the introduction of the interbank market in the industry. Participation in interbank transactions continued to increase towards the end of the year as indicated in the balance sheets of the banks. The year ended with all banks in compliance with the Liquidity Requirements Regulations.

2) **Abandoned Funds Properties**

The Abandoned Funds Properties report for December 2006 showed unclaimed deposits of Two Hundred and Sixty Six Thousand, Eight Hundred and Seventy Seven Maloti (M266, 877) that still remain with the banking system. When Lesotho Bank (1999) Ltd and Standard Bank Lesotho Ltd merged to form Standard Lesotho Bank, all the deposit books of the Standard Bank Lesotho which had been in operation for more than 15 years were inherited by Standard Lesotho Bank. The CBL in collaboration with all banks are exploring ways of treating these balances.

On-Site Examination

In 2006, a full scope examination of three banks and a targeted or special examination of one commercial bank were conducted.

The full scope examinations covered all phases of the operations of the three banks with the aim of determining the safety and soundness, compliance with applicable laws, as well as compliance with the directives issued pursuant to the previous examinations. The full scope examination was based on the capital adequacy, asset quality, management capabilities, earnings/profitability, liquidity and sensitivity to market risk while the targeted examination focused only on asset quality.

The following summarises the findings of the full scope examinations:

i) That all the banks were adequately capitalised, with their capital adequacy ratios well above the required minimum ratio of 8 per cent.

ii) The banks were highly liquid, holding liquidity ratios above the required minimum of 25 per cent of the aggregate value of deposit liabilities, balances due from banks abroad and other borrowings.

iii) The banks were profitable, with the exception of one bank.

iv) All banks maintained local assets well above the minimum required ratio of 5 per cent of the aggregate value of its liabilities to the public in Lesotho and its required paid-up or assigned capital and the reserves.

v) Non-compliance with some provisions of the FIA 1999 and its regulations was still common in the banks. A strong warning has been given to all banks for non-compliance.

The targeted examination revealed that management of credit was satisfactory with reasonably low incidences of non-performing loans. Provisions for probable losses were adequate.

The examinations further revealed that CBL's concern on financial intermediation has still not been addressed. The industry's loans to deposit ratio was still low at 25 per cent. The lending book, which should be representing the largest portion of banks' assets, constituted only 19 per cent of the industry's total assets and continued to be concentrated on the top twenty borrowers. Placement of funds was the largest component at 76 per cent of the total assets. The industry's major source of income was derived from placements of funds and commissions received.

3.2.2 Insurance Companies

Off-Site Surveillance

An analysis of the returns submitted by the insurance companies in 2006 revealed some degree of non-compliance with the Insurance Act 1976. The following summarises major findings:

i) Two insurance companies contravened Section 21 of the Act that requires every insurer to submit audited financial statements to the Commissioner within six months after the end of the financial year. CBL cautioned the insurers that did not submit and or submitted the audited financial statements late that compliance with the Act is mandatory and should be adhered to as failure could lead to penalty being imposed in accordance with Section 58 of the Act.

ii) Section 45(1)(a) requires every life insurance business to keep the value of assets exceeding the value of liabilities by Thirty Thousand Maloti (M30,000) while Section 45(1)(b), requires every general insurance business to keep the value of assets exceeding the value of liabilities by the greater of Fifty Thousand Maloti (M50,000) or one tenth of the net premium income during the last preceding financial year. One company that did not comply with Section 45(1) (a) and 45(1) (b) was penalised for non-compliance in accordance with Section 58 of the Act.

Insurers' quarterly meetings were held during 2006 in order to discuss issues of mutual concern such as guarding against unethical practices in the insurance industry.

On-Site Inspection

On-site inspections carried out in 2006 revealed failure of some insurance companies to comply with some of the provisions of the Insurance Act 1976 and its implementing Regulations 1985. One insurance company did not comply with section (45) of the Insurance Act by not meeting the prescribed margin of solvency. In addition, insurance companies continued not to comply with some International Association of Insurance Supervisors (IAIS) Core Principles on corporate governance and internal controls. Efforts are being made by insurance companies to strengthen corporate governance and internal controls.

It was observed that the rates of lapses with some insurance companies are too high. Amongst others, the main reason behind this is that clients were offered policies by agents and brokers that did not fully comprehend the nature of products they were selling. The policyholders in most cases were not given good advice on the product at the underwriting stage and were hence found not meet all conditions of the policy at the time that clams were lodged. This trend of events caused policyholders to lodge complaints to CBL against the insurance companies on non payment of claims. High rates of surrenders in all the insurance companies were also observed. The reason cited for this was that, policyholders were surrendering their policies to invest in one of the investment schemes with much higher returns than those offered by the insurance companies.

Some insurance companies were found to continue to take business from unlicensed brokers. Strict directives were issued to such companies to immediately cease dealings with the unlicensed brokers. The problem of transmission of premiums to insurance companies within sixty (60) days of receipt by the broker had improved substantially from the previous years.

3.2.3 Insurance Brokers

In accordance with Section 54(1) of the Insurance Act 1976, every insurance broker is required to submit the balance sheet, revenue account and insurance transactions report within six months after the financial year-end to the CBL. Four insurance brokers did not comply with Section 54(1) of the Insurance Act 1976.

In an effort to minimize the risk of unethical practice and as part of policing the insurance industry, the CBL through the insurance brokers' quarterly meetings continued to encourage insurance brokers to establish the Insurance Brokers Association.

4.1 OBSERVED TRENDS IN BANKS IN LESOTHO

This section reflects on the banks' performance indicators during the period under review. Comparison is made for the three years ended December 2004, 2005 and 2006. The performance ratios include Capital Adequacy, Asset Quality, Liquidity and Profitability. During the period under review, the banks reported high ratios, which were regarded as an indication of good performance. Table 1 provides a summary of the performance ratios. Ratios marked with asterisk have been revised.

Table 1

COMMERCIAL BANK'S PERFORMANCE RATIOS
(Percentages)

	2004	2005	2006	2005/2004
I. CAPITAL ADEQUACY				
a) Basel Capital Ratio	22*	22	19	0
b) Non-Performing Loans to Total Capital	2*	3*	6	1
c) Top 20 Exposures to Total Capital	83*	100	114	17
II. ASSET QUALITY				
a) Loans to Deposit Ratio	22*	29	26	7
b) Earning Assets to Total Assets	94*	93	95	-1
c) Non-Performing Loans to Total Loans	1	2	2	1
d) Reserve for Losses to Total Loans	3	3	3	0
e) Reserve for Losses to Non-Performing Loans	236*	167	125	-69
III. LIQUIDITY				
a) Liquid Assets to Total Deposits	101*	120	100	19
b) Available Reserve to Total Deposits	5*	8	4	3
c) Liquid Assets to Total Assets	66	77	78	11
d) Current Assets to Total Current Liabilities	73*	86	85	13
IV. PROFITABILITY				
a) Net Income after tax as a percentage of total income	21*	18*	22	-3
b) Return on Assets (Net Income to Average Total Assets)	3	1	2	-2
c) Return on Equity (Net Income to Average Total Equity)	27	10	27	-17

* Revised Figures

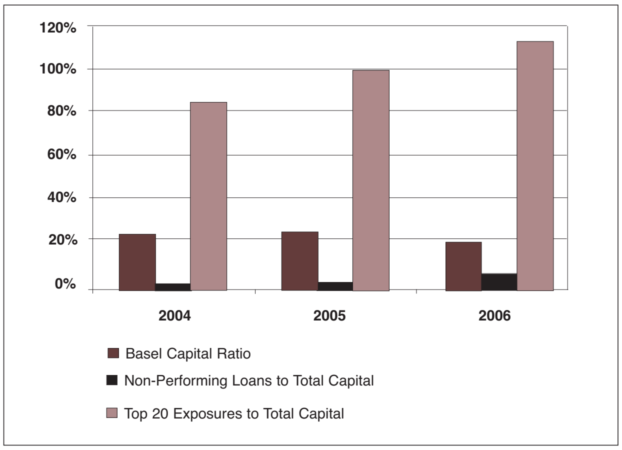
4.1.1 Capital Adequacy

During the period under review, the banking industry remained highly capitalised as reflected in Figure 1. The capital adequacy ratio closed at 19 per cent as compared to 22 per cent that was reported in the years 2004 and 2005. However, the ratio indicated that the industry's capital would still be able to absorb any losses if they were to occur because it was high above the minimum requirement of 8 per cent. The decrease of the ratio was influenced by the capital of Lesotho Bank (1999) Ltd which ceased to exist when the bank merged with Standard Bank Ltd to form Standard Lesotho Bank Ltd. As at the end of December 2006, the new bank's capital had not yet been increased to the required level of M20.6 million as set out in the merger proposal which was accepted by the CBL.

The ratio of non-performing loans to total capital was high at 6 per cent as compared to 3 per cent and 2 per cent reported for 2005 and 2004, respectively. This resulted from a general increase in the non-performing loans in the review period, in comparison to the previous periods.

The banks remained highly exposed to top twenty borrowers, showing a high risk of losses in cases of default. The ratio of top twenty borrowers to total capital closed at 114 per cent as opposed to 100 per cent and 83 per cent reported in December 2005 and 2004, respectively.

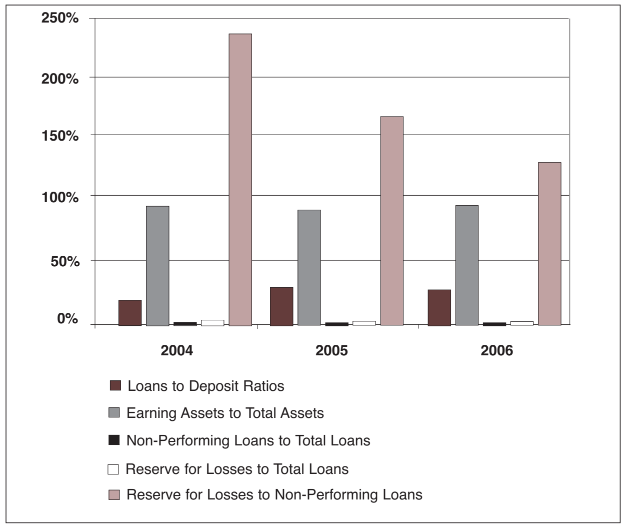
Figure 1: **Capital Adequacy Ratios**



4.1.2 Asset Quality

The banking industry held assets of high quality during the period under review. Figure 2 below comprises of the asset quality ratios for the years ended December 2004, 2005 and 2006. Loans to deposit ratio dropped from 29 per cent reported in December 2005 to 26 per cent in December 2006. This ratio indicated the low level at which the banking industry extended credit to the public from which they mobilised deposits. The ratio of earning assets to total assets rose from 93 per cent reported in December 2005 to 95 per cent as at 31 December 2006. The ratio of non performing loans to total loans remained unchanged at 2 per cent as at end of December 2006. Reserves for losses to total loans ratio remained constant at 3 per cent in the reporting period. Reserves for loan losses to non- performing loans declined from 167 per cent reported in December 2005 to 125 per cent as at the end of December 2006.

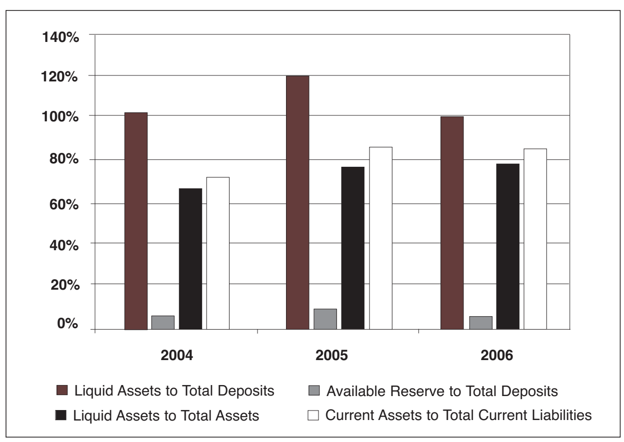
Figure 2: **Loans and Earning Assets Ratios**



4.1.3 Liquidity

The banks remained highly liquid in the period under review. The liquidity ratios are indicated in figure 3 below. The ratio of liquid assets to total assets rose from 77 per cent reported in December 2005 to 78 per cent in December 2006. Liquid assets were adequate to cover deposit liabilities as reflected in the ratio of liquid assets to total deposits at 100 per cent; however, this ratio decreased by 20 per cent when compared to the same period in 2005. Available reserves to total deposits ratio declined by 8 per cent to close at 4 per cent in December 2006. This ratio represented the statutory cash reserve requirements held with the CBL.

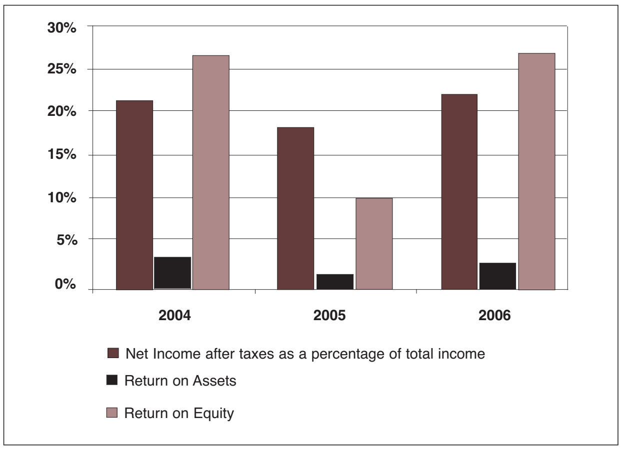
Figure 3: **Liquidity Ratios**



4.1.4 Profitability

The banks were profitable in the period under review as indicated by the profitability ratios reported in December 2006. Figure 4 indicates the profitability ratios for the years ended December 2004, 2005 and 2006. Return on Assets (net income after tax as a percentage of average total assets) rose by one per cent to close at two per cent in December 2006, indicating the industry's ability to generate earnings from its existing assets. Return on Equity (net income after tax as a percentage of average total equity) increased from 10 per cent reported in December 2005 to 27 per cent reported in December 2006. Net income after tax as a percentage of total income rose from 18 per cent to 22 per cent in December 2006. The ratio of total expenses to total income declined from 81 per cent to 70 per cent during the period ending December 2006, indicative of management of operational efficiency.

Figure 4: **Profitability Ratios**



4.2 INSURANCE COMPANIES

Insurance companies in Lesotho do not have the same financial year-end, therefore, the trends analysis shown in Table 1, 2, 3 and 4 compares the annualized audited financial statements for the years ended 31 December 2006, 31 December 2005 and 31 December 2004.

4.2.1 Life Insurance Business

Profitability of Life Insurance Business

Gross Premium written decreased by 1.1 per cent from M251.8 million in 2005 to M248.9 million in 2006 while the same increased marginally by 0.3 per cent from M251 million in 2004. This implied that more business was underwritten in 2005 than in both 2006 and 2004.

Premium ceded increased by 41.2 per cent from M3.9 million in 2005 to M8.5 million in 2006, while the same increased by 67.9 per cent from M3.6 million in 2004. This implied that the absorption capacity of the long-term industry declined from year to year.

Underwriting results improved by 185.9 per cent from a loss of M29.9 million in 2005 to M25.7 million in 2006. The poor results were mainly as a result of increase in claims incurred which increased by 35.1 per cent between 2006 and 2005. Management expenses increased by 49.6 per cent to M267.8 million.

However, due to increased investment income from year to year by 3.9 per cent in 2006 and by 49.5 per cent in 2005, the industry's profit before taxation and other expenses increased by 28.8 per cent in 2006 and by one per cent in 2005. The improved investment income result implied that the industry invested in high interest earning investment instruments.

Ratio Analysis of Life Insurance Business

Table 2 and Figure 5 show that premium ceded to gross premium ratio maintained an upward trend from year to year implying that the absorption capacity of the long-term insurance industry declined. This resulted in a downward movement in net premiums to gross premiums.

Net claims to net premiums experienced a downward movement from 2005 to 2006 implying that the industry incurred less claims and contributed to the improved underwriting results as shown in Table 2 below.

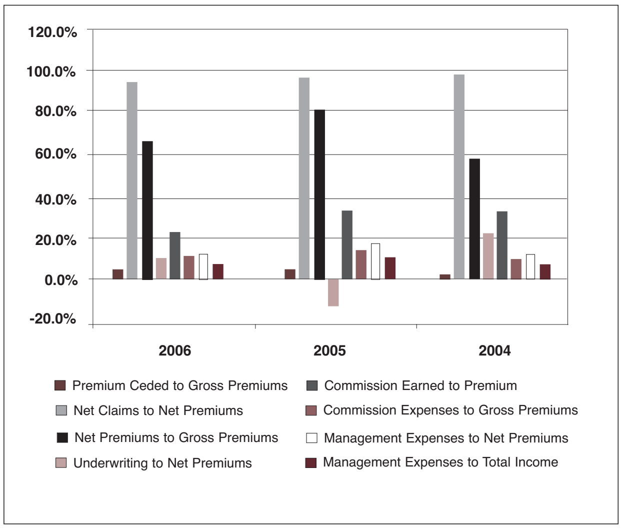
Management expenses ratios on average and commission expenses to gross premiums ratio showed a decreasing trend from 2005 to 2006 and as a result underwriting to net premium ratio improved from a loss of 12.2 per cent to a gain of 10.7 per cent.

Table 2

LIFE INSURANCE PERFORMANCE RATIOS
(In Percentages)

Performance Ratio	2004	2005	2006
Premium Ceded to Gross Premiums	1.4	2.4	3.4
Net Premium to Gross Premiums	98.6	97.6	96.6
Net Claims to Net Premiums	59.0	80.2	66.1
Underwriting to Net Premiums	21.8	-12.2	10.7
Commission Earned to Premium Ceded	34.7	36.4	22.4
Commission Expenses to Gross Premiums	7.6	14.3	11.2
Management Expenses to Net Premiums	12.0	18.1	12.4
Management Expenses to Total Income	7.1	8.8	5.8

Figure 5: **Life Insurance Performance Ratios**



Assets and Liabilities of Life Insurance Business

Total assets increased by 120.9 per cent from M1.4 billion in 2005 to M1.6 billion. The increase in total assets was mainly as a result of increase in investments by 21.9 per cent from M1.3 billion in 2005 to M1,6 billion in 2006, loans and receivables by 67.6 per cent and debt securities by 35 per cent.

Total capital and reserves decreased by 23.5 per cent from M233.9 million in 2005 to M178.9 million in 2006. The decrease was as a result of decreased in retained earnings of 50.6 per cent from M108.9 million in 2005 to M53.7 million in 2006.

Policyholders' liabilities constituted 84.8 per cent of total liabilities in 2006 and 79.7 per cent in 2005 implying that adequate provisions were made to take care of policyholders' claims. Policyholders' liabilities increased by 28.7 per cent from M1.1 billion in 2005 to M1.4 billion in 2006.

Other liabilities increased by 71.1 per cent from M40.9 million in 2005 to M70.1 million in 2006, mainly due to a M25.8 million increase in provisions for unearned premiums.

Table 3

ASSETS AND LIABILITIES OF LIFE INSURANCE BUSINESS
(As Percentages of Assets)

Particulars	2004	2005	2006
Other Assets	4.3	3.4	2.6
Financial Instruments	95.7	96.6	97.4
Capital and Reserves	14.4	17.3	10.9
Policyholders Liabilities	84.0	79.7	84.8
Other Liabilities	1.6	3.0	4.3

Figure 6: **Composition of Assets of Life Insurance Business**

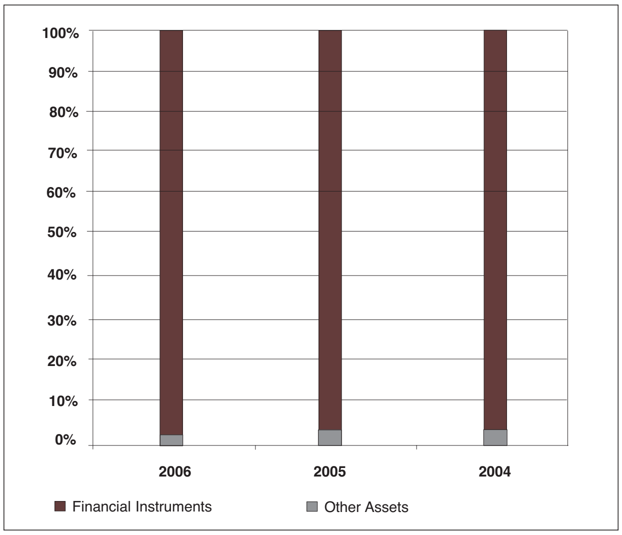
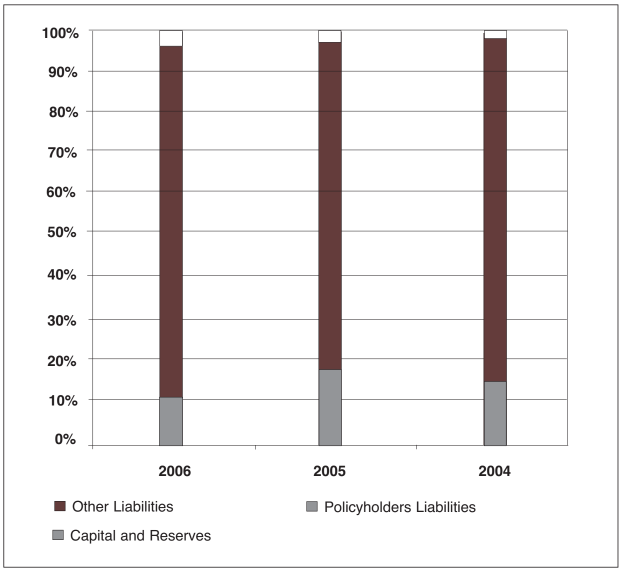


Figure 7: **Composition of Liabilities of Lfe Insurance Business**



4.2.2 General Insurance Business

In accordance with the Insurance Act 1976, general insurance business includes fire, motor, marine accident, employers' liability insurance or any type of insurance but excludes life insurance business.

Profitability of General Insurance Business

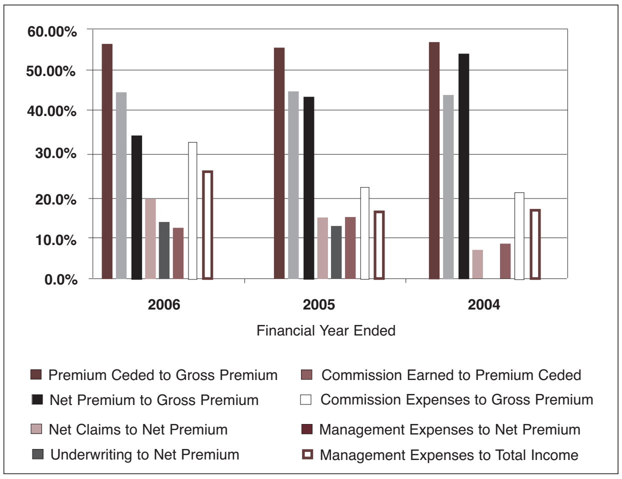
Gross premium written increased by 34.5 per cent from M128.1 million to M172.3 million in 2006 while the same ratio increased by 7.1 per cent from M119.6 million. This implied that more business was underwritten in 2006.

Premium ceded increased by 36.2 per cent from M70.1 to M95.9 million in 2006 and by 4.4 per cent from M67.5 million in 2004. The increase implied that the general insurance industry absorption capacity declined.

Underwriting results increased by 70.6 per cent from M8.9 million in 2005 to M15.3 million in 2006 and by 151.9 per cent in 2004. The improved results were due to an increase in net premium of 32.5 per cent and 69.2 per cent in commission receivable. However, all underwriting expenses components increased from year to year implying that the industry needed to control management of underwriting expenses.

Profit before taxation increased by 55 per cent from M11.1 million in 2005 to M17.3 million in 2006. Investment income decreased from year to year by 27.2 per cent to M3.8 million in 2006 and by 21.2 per cent to M5.2 million in 2005.

Figure 8: **General Insurance Performance Ratios (In Percentages)**



Ratio Analysis of General Insurance Business

Premium ceded to gross premium increased from 55 per cent in 2005 to 56.5 per cent in 2006, implying that absorption capacity of short-term insurance industry declined and as a result net premium to gross premiums experienced a downward trend during the same period under review.

Net claims to net premiums increased to 53.7 per cent in 2006 from 43.9 per cent in 2005 implying that a large percentage of net premiums were used to pay out net claims. This led to decline in the financial muscle hence the increase in premium ceded. Commission expenses to gross premium and management expenses ratios on average declined between 2005 and 2006.

Table 4

GENERAL INSURANCE PERFORMANCE RATIOS
(In Percentages)

Particulars	2004	2005	2006
Premium Ceded to Gross Premium	55.7	55.0	56.5
Net Premium to Gross Premium	44.3	45.0	43.5
Net claims to Net Premiums	34.3	43.9	53.7
Underwriting to Net Premiums	20.0	15.5	6.8
Commission Earned to Premium Ceded	14.5	11.7	0.1
Commission Expenses to Net Premiums	20.4	34.3	30.2
Management Expenses to Net Premiums	33.2	22.4	21.0
Management Expenses to Total Income	26.7	17.3	17.9

Assets and Liabilities of General Insurance Business

Total assets increased by 13.6 per cent from M158.6 million in 2005 to M180.1 million in 2006. The increase was mainly due to investment in equity securities by 83 per cent, cash and cash equivalents by 76.5 per cent, property, plant and equipment by 39.5 per cent and investment in debt securities by 13.5 per cent. This implied that the industry invested in more interest bearing investment instruments.

Total capital and reserves decreased by 12.3 per cent from M50.4 million in 2005 to M44.2 million in 2006 as a result of a decrease in other reserves by 16 per cent. However, retained earnings remained constant at M8.6 million.

Policyholders' liabilities increased by 54.9 per cent from M43.9 million in 2005 to M67.9 million implying that adequate provisions were made. The increase was mainly due to increase in claims outstanding by 21.4 per cent, investment contracts by 50.2 per cent and derivative financial instruments by 100 per cent.

Other liabilities increased by 5.7 per cent from M64.4 million in 2005 to M68 million in 2006 as a result of increase in other payables by 43 per cent and reinsurance contracts by 7.6 per cent while unearned premium provision decreased by 35 per cent.

Table 5
ASSETS AND LIABILITIES OF GENERAL INSURANCE BUSINESS
(As Percentages of Total Assets)

	2004	2005	2006
Other Assets	3.9	8.9	9.2
Financial Instruments	96.1	91.1	90.8
Capital and Reserves	26.7	31.8	24.5
Policyholders Liabilities	28.8	27.7	37.7
Other Liabilities	44.5	40.6	37.8

Figure 9: **Composition of Assets of General Insurance Business**
(As Percentage of Total Assets)

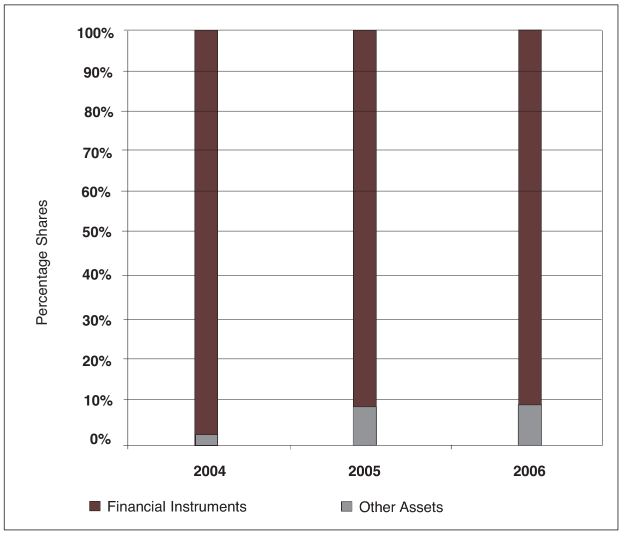
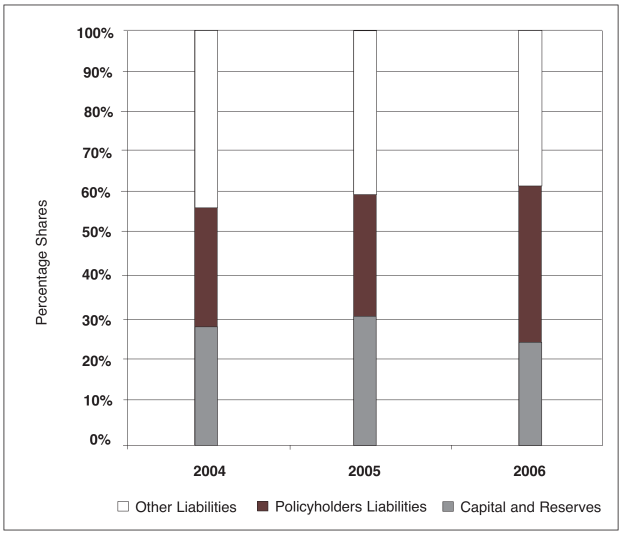


Figure 10: **Composition of Liabilities of General Insurance Business**
(As Percentage of Total Assets)



4.3 Insurance Brokers

The only available information in relation to the insurance brokers was for the period ended 31 December 200, 2004 and 2003 as the financial statements for the year ended 31 December were not yet received at the time of preparing this report.

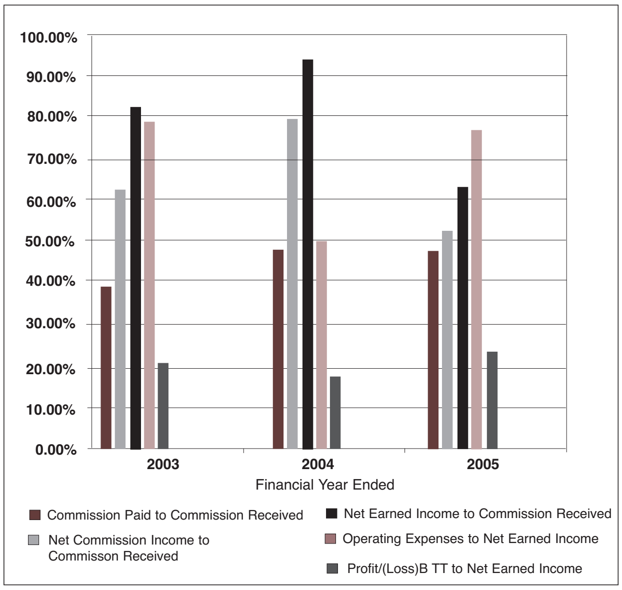
Profitability of Insurance Brokers

Commission received increased by 2 per cent from M14.9 million in 2004 to M15.3 million in 2005, while other income increased by 3 per cent to M1.7 million during the same period under review.

Commission paid increased by 1.9 per cent from M7.1million in 2004 to M7.2million in 2005 during the same period under review while operating expenses increased by 6 per cent from M7.1million to M7.5million in 2005.

Profit before taxation declined by 7.2 per cent from M2.4million in 2004 to M2.3million in 2005. Notwithstanding the decline in profitability from year to year, the industry continued to be profitable for the three years under review.

Figure 11: **Insurance Brokers Performance Ratios**



Ratio Analysis of Insurance Brokers

Commission paid to commission received ratio declined marginally to 47.1 per cent in 2005 from 47.2 per cent in 2004.

Commission income to commission received ratio declined to 52.9 per cent from 79 per cent during the same period while operating expenses to net earned income ratio increased to 76.8 per cent from 50 per cent.

Table 6

PERFORMANCE RATIOS OF INSURANCE BROKERS (In Percentages)

Particulars	2003	2004	2005
Commission Paid to Commission Received	37.4	47.2	47.1
Net Commission Income to Commission Received	62.6	79.0	52.9
Net Earned Income to Commission Received	81.6	94.4	63.8
Operating Expenses to Net Earned Income	78.7	50.0	76.8
Profit / (Loss) B TT to Net Earned Income	21.3	17.2	23.2

Assets and Liabilities of Insurance Brokers

Total assets decreased by 10.8 per cent from M25 million in 2004 to M22.3 million in 2005 due to a decline in majority of components with the exception of investments and cash and cash equivalents which increased by 22.7 per cent and 18 per cent respectively between 2005 and 2004. Amounts due from directors constituted the highest component of total assets at 44 per cent amounting to M9.8 million in 2006.

Total capital and reserves decreased by 3 per cent from M6 million in 2004 to M5.9 million in 2005. The decrease was mainly due to decrease in retained earnings by 6.4 per cent to M4.7 million from M5.1 million during the same period.

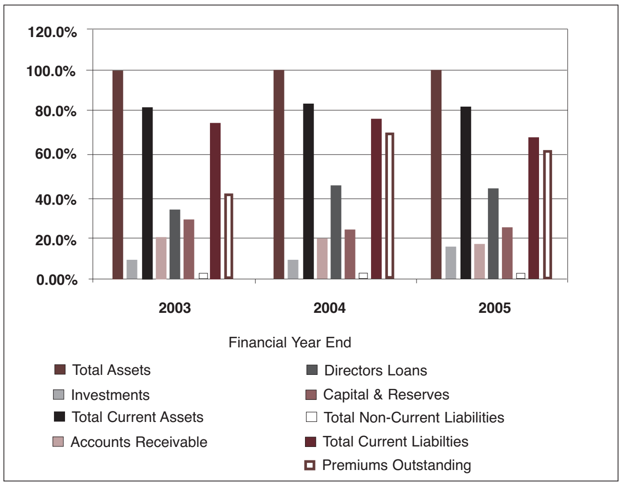
Current liabilities decreased by 18.3 per cent from M19.1 million in 2004 to M15.6 million in 2005 mainly because of 21.3 per cent decrease in trade creditors.

Table 7

ASSETS AND LIABILITIES OF INSURANCE BROKERS
(As Percentages Total Assets)

	2003	2004	200556.
Investments	10.3	10.0	13.8
Total Current Assets	81.0	83.0	81.8
Accounts Receivable	20.9	19.7	16.4
Directors Loans	34.5	47.1	44.0
Capital & Reserves	27.9	24.2	26.3
Total Non-Current Liabilities	3.0	3.3	3.8
Total Current Liabilities	73.3	76.4	69.9
Premiums Outstanding	42.4	70.0	62.1

Figure 12: **Assets and Liabilities of Insurance Brokers (as Percentages)**



5.1 ECONOMIC OVERVIEW

5.1.1 Recent Economic Developments

The Lesotho economy measured by real Gross Domestic Product (GDP) is estimated to have grown by 6.2 per cent in 2006 compared to 2.9 per cent recorded in 2005. The projected acceleration in real GDP was due to positive developments in a number of sub-sectors. For this period, the most important of these sub-sectors were manufacturing, mining and quarrying, electricity and water and wholesale and retail. The financial sector, in particular registered a growth of 13.2 per cent in 2006 compared with 9.4 per cent in the previous year. This good performance of the financial sector in recent years is attributable to strong supervisory framework. Real Gross National Income (GNI), on the other hand, is estimated to have grown by 7.1 per cent in 2006. During the year, real GNI benefited from the strong growth in net factor income from abroad. The number of Basotho employed in the South African mines rose by 3.9 per cent compared to a steep fall in the previous year.

Price developments in Lesotho during the review period continued to follow those in South Africa. Inflation measured by the consumer price index (CPI) is expected to average 6.0 per cent in 2006 compared with 3.4 per cent recorded in 2005. The upward movement in the general price level was mainly due to the imported part of inflation. Imported inflation during the year was mainly driven by the prices of crude oil.

Lesotho's external sector position continued to remain healthy in 2006. At the end of the year, gross reserves were recorded at 6.7 months of import cover. The current account moved from a deficit of 6.7 per cent of GDP in 2005 to a surplus of 0.3 per cent of GDP in 2006. The performance of the current account was mainly influenced by a strong growth in current transfers in the form of SACU non-duty receipts. The capital and financial account deteriorated to a net inflow of 2.41 per cent of GDP compared with 4.85 per cent of GDP recorded last year. This was due to the commercial banks increasing their investment abroad.

The Government of Lesotho budgetary position for 2006/07 is expected to record a surplus equivalent to 4.9 per cent of GDP. The surplus is expected to augment the government position with the Central Bank. The healthy budgetary position is expected to cushion the government in future in the event that SACU revenue declines due to the reduction of tariffs in the region.

5.1.2 Financial Sector Activities

At the end of December 2006, M2 money supply accelerated to 35.4 per cent compared with 9.1 per cent recorded in 2005. The acceleration in money supply was mainly due to developments in the Net Foreign Assets (NFA) of the banking system and domestic credit. The acceleration in the growth rate of money supply was also reflective of the upward trend in inflation experienced during the year. The NFA of the banking system rose by 46.0 per cent in 2006 compared with 6.0 per cent in 2005. Both CBL and commercial banks NFA increased during the year. Net foreign assets of CBL rose by 42.3 per cent while those of commercial banks rose by 56.2 per cent during the year. The increase in net foreign assets of CBL was influenced by increased current transfers to government while the increase in commercial banks' NFA was due to increased foreign exchange earnings from diamonds sales.

Domestic credit rose by 13.7 per cent at the end of 2006 compared with 40.9 per cent at the end of the previous year. This was mainly driven by credit to the private sector which offset the declining credit to statutory bodies. Credit extended to the private sector increased by 16.3 per cent in 2006 compared with 49.9 per cent in 2005.

The yield on the 91-day Treasury-bill, which is the main rate in the economy, fell to 6.76 per cent at the end of 2006 from 6.95 per cent at the end of 2005. At this level, the Lesotho 91 day Treasury-bill rate was below that of a similar instrument in RSA. The decline in the 91-day TB rate was reflective of excess liquidity in the banking system. The average prime lending rate rose from 11.50 per cent to 12.33 per cent while the average savings deposit rate rose from 2.00 per cent to 2.68 per cent during the same period.

5.2 CBL OFF-SITE MODEL

As part of the International Monetary Fund (IMF) Technical Assistance training, in 2006 Financial Institution Supervision Division (FISD) introduced the use of a new tool in analysing the various returns submitted to CBL by financial institutions. This new tool is simply called CBL Off-Site Model. The model makes use of the CAMEL (Capital Adequacy, Asset Quality, Management Capabilities, Earnings Quality and Level, Liquidity Adequacy and Sensitivity to Market Risk) bank rating system and Financial Soundness Indicators (FSIs). FSIs are risk weighted ratios based on industry standards, which have been selected by CBL as basic indicators in the analysis of the Lesotho financial institutions sector.

Table 8 provides an overview of various FSIs under each CAMEL component;

Table 8

FINANCIAL SOUNDNESS INDICATORS UNDER CAMEL COMPONENTS

Capital	**Asset Quality**	**Earnings**	**Liquidity**	**Management and Sensitivity**
Capital/Risk Weighted Assets	Loans/Deposits	Net income After Tax/Average Total Assets	Liquid Assets/Total Deposits	Outcome results will come from the on-site examination through the use of CAMEL rating system
Capital/ Assets	Earnings assets /Total Assets	Net Income After Tax/Average Total Equity	Available Reserves/Total Deposits	
	Non-Performing Loans/Total Capital	Net Interest Margin/Average Total Assets	Liquid assets/Total Assets	
	Non-Performing Loans/Total loans	Total Expenses /Total Income		
	Reserve for Loan Losses/total Loans			
	Reserve for Loan Losses/Non-Performing Loans			
	Exposure to Top 20 Borrowers/ Total Capital			
	Provisions/Non-Performing Loans			

The objective of CBL off-site model is to analyse monthly income statement and balance sheet data from Bank Supervision Application (BSA) and then provide early warning signals concerning probability of failure in the industry, as well as in individual banks. This early warning system also provides timeous information to the on-site examination section.

As at the end of 2006, the model was not yet operational because when initially developed the model was based on five banks, two of which had recently merged; the overall CAMELS being the aggregated rating from all banks. Therefore the model has to be revised to four banks.

It is believed that the collaboration of the on-site CAMELS rating system and CBL off-site model will help improve efficiency and effectiveness of bank supervision.

5.3 ON–SITE CAMELS RATING

In 2006, the Financial Institutions Supervision Division introduced a CAMELS Bank Rating System with the help of IMF Technical Assistance. Before then, the division assessed the condition of banks using CAMELS but no rating was given to the components.

The CAMELS bank rating system is a uniform financial institutions rating system used to rate each of the six components of CAMELS on a scale from one (Strong) to five (critically deficient). A rating of one indicates the strongest performance and risk management practices and therefore the least degree of supervisory concern. A rating of five is the lowest and indicates the weakest performance and critically inadequate risk management practices and therefore the highest degree of supervisory concern.

The six individual component ratings are used to derive one composite rating for the bank. Ratings are assigned based on the findings of an examination but the process is a subjective one.

The CAMELS Rating System is a reliable indicator of a bank's current condition at the time that the rating is made, that is, following completion of an On – Site examination. The rating has to be adjusted on an annual basis as it has a short useful life.

The ratings are an internal tool used by the supervisors and are not, for the time being, communicated to the examined banks. In 2006 the banks were rated a one or two with the exception of one bank which was rated four due to the deficiencies observed during its examination.

5.4 LESOTHO UNIT TRUST

As reported in the previous Annual Report, Lesotho Unit Trust experienced serious operational problems which culminated into the capping of the Fund to new business. The capping prompted the Management Company and Government of Lesotho (GOL) to hold intensive consultations to try and find a pragmatic solution that would ultimately result in uncapping of LUT. The problem of the differences among the Management Company members was resolved when the major shareholder, now Standard Lesotho Bank bought out the minority shareholder, Sentinel Asset Managers (Pty) Ltd effectively from 1 January 2006. Following this buy-out, the Management Company is now equally owned by Standard Lesotho Bank and Stanlib.

The problem of private equities pricing and disposal of the underlying securities still remained though and had to be resolved by both the GOL and the Management Company. In an effort to resolve this problem, at a meeting held on 5 July 2006 the Management Company proposed three options to GOL. The first option was that GOL should make a provision in the national budget for the full market value of the private equities and underwrite the buy-back of these shares at current market value from LUT; second option was that GOL should buy-back the private shares at current market value from LUT and hold them in a special purpose vehicle with a view to listing them on a stock exchange once such an exchange is established, and lastly GOL should consider allowing LUT to enter into a buy-back agreement with its strategic partners, namely AON, Standard Lesotho Bank and Lesotho Brewing Company with the understanding that if LUT is required to sell the shares the sale would be at a predetermined market value. GOL favoured the last option and requested the Management Company to initiate negotiations with the strategic partners. It is expected that the negotiations will be drawn-out and the Fund only be uncapped in 2007.

The culture of saving cultivated by LUT continued to grow despite the capping during the year under review. This was demonstrated by the good performance of the STANLIB collective scheme whose registration was temporary until LUT resolved its problems. Again as was previously reported, the successful performance of LUT triggered interest among investors. CBL held preliminary conferences with three investors who exhibited serious intent to establish a collective investment scheme.

During the year under review, one investor went further and put together the application for registration and it is expected to be submitted early next year. Further during the reporting period, two more prospective investors made enquiries which resulted in dates for preliminary conferences being set for early 2007.

While interest in collective investment schemes increased, CBL is still faced with the task of providing enabling environment that would match the increasing interest. During the reporting period, CBL identified legislation which had to be enhanced and enacted; the collective investment scheme and the securities laws. The collective investment scheme law will strengthen and give more effect to the current CBL collective investment scheme regulations. The securities law will provide the operating framework for non-banking financial institutions.

5.5 LESOTHO NATIONAL PAYMENT SYSTEM

5.5.1 Legal and Regulatory Framework

In an effort to strengthen the payments system legal and regulatory framework, CBL requested technical assistance from the International Monetary Fund (IMF) to review the Lesotho National Payment System (LNPS) legal framework, and the IMF sent a legal expert in February 2006 for drafting of the National Payment System (NPS) Act. The Draft was finalised in April 2006 and has since been passed to the Minister of Finance for his comments and approval en route to law office. Lesotho's Real Time Gross Settlement (RTGS) system was implemented in August 2006 and when it became apparent that the NPS Act would not be in place then, Rules and Procedures were drafted for the RTGS system. Those Rules and Procedures were signed and approved by the participants (the commercial banks together with CBL) before the system went live on 25 August 2006. The Rules and Procedures are binding on the participants and form the legal basis for participating in the RTGS for the time being. The Rules and Procedures determine the criteria to be followed by the bank in order to become a participant, obligations of the parties namely the CBL as the system provider and the commercial banks as the participants, and generally the procedures to be followed in operating the system with special attention dedicated to Business Continuity Plans. Attached to the Rules are the annexes for different requirements including technical and capacity requirements as well as return of payment procedures.

5.5.2 Real Time Gross Settlement

One of the strategies identified by the Vision Document was the strengthening of the domestic payment by eliminating risks inherent in the payments system through the implementation of RTGS system. RTGS system settles large value, time critical transactions in real time and at gross value without netting. The central system is owned and operated by CBL and all the commercial banks in the country are participants in the system. CBL also participates on behalf of the Government of Lesotho as well as for its own payments.

Montran Corporation was selected as the appropriate supplier of the system and they commenced their work in January 2006 with the initial study aimed at finding out exactly what CBL required and the current situation analysis. The initial study was followed up by a report which formed the basis for developing the RTGS system relevant to Lesotho. Subsequent to hardware procurement and customisation, the system was configured and went live on 25 August 2006 and has performed very well since then. Lesotho's RTGS system is called Lesotho Wire (LSW) and all local transactions amounting to M100,000.00 (one hundred thousand maloti) or more are settled through LSW. Cheques worth M100,000.00 shall no longer be accepted in Maseru Clearing and Settlement House with effect from 1st January 2007, otherwise drawers of such cheques will be heavily penalised.

LSW has operated very well so far though the volumes are still very low especially from the commercial banks. The volumes are expected to increase given the fact that with effect from 01 January 2007 all the transactions above M100,000.00 shall be cleared through the LSW. As at end of December 2006, the system had processed a total of 3,233 transactions out of which 2,452 were CBL transactions. NPS has planned refresher training on LSW to be undertaken in early 2007 especially in the northern and southern parts of the country.

5.5.3 Automated Clearing House (ACH)

LSW deals with large and time critical payments, now the next project is to deal with low value high volumes payments through the implementation of Automated Clearing House (ACH). The implementation of ACH is expected to commence in 2007. Millennium Challenge Corporation has tentatively agreed to finance the ACH following the initial study and the recommendations from the consultant who was appointed by FIRST Initiative to undertake such a study.

5.5.4 Developments in Banking Sector

Standard Lesotho Bank is in the process of introducing internet banking and this new product is expected to commence early 2007. Internet banking is aimed at providing customers with real time access to their accounts and enables them to transfer funds within the designated accounts. Nedbank Lesotho introduced interoperable ATM cards in 2006 and these cards can be used on all SASWITCH machines in Lesotho and South Africa. First National Bank Branch in Lesotho opened a Bulk Cash Held facility aimed at reducing large cash deposit at the branch. All the banks have increased their ATM network significantly in 2006 in order to improve access to funds and these machines are interoperable.

5.6 ANTI-MONEY LAUNDERING

5.6.1 Legislation

The draft Money Laundering and the Proceeds of Crime Bill (MLPC) 2006 prepared by the Anti-Money Laundering Task Team was submitted to the office of the Parliamentary Council. The Law Society of Lesotho had raised concerns on some sections of the draft Bill which were considered by the Team. Some concerns had been addressed in the Bill while others would be debated in Parliament.

5.6.2 The Development Strategy Implementation Program

Following the adoption of the Mutual Evaluation Report by the Council of Ministers meeting held at Mbabane, Swaziland in October 2005, the Eastern and Southern African Anti Money Laundering Group (ESAAMLG) undertook a Development Strategy Implementation (DSI) Program in August 2006. The objective of the Program was to identify all the AML/CFT technical assistance needs for Lesotho and produce a report to detail specific needs for the entire program. At the end of the reporting period the report had not been finalised.

5.6.3 The Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) National Strategy

The ESAAMLG member states were mandated to develop the AML/CFT National Strategies. While proceeding with the exercise, the Task Team met some of the following challenges:

- The delay in the tabling of the MLPC Bill in parliament resulted in suspicious transactions reports not being investigated or prosecuted.

- Lesotho is largely a cash-based economy. Most of the business activities are conducted in cash rather than in cheque, credit card or other documented transaction. As a result, investigation of financial crimes is difficult since little in the way of a paper trail is left behind. According to the Financial Sector Assessment Programme Report 2003, only a tiny proportion of the population has access to bank accounts.

- Most banks are concentrated in major towns leaving the majority of the population in the remote areas without financial services, thereby necessitating cash transactions or direct exchange of goods and services.

- In Lesotho, most businesses do not accept personal cheques. High value assets such as real estate and motor vehicles worth thousands of Maloti can be bought in cash.

At the end of the reporting period efforts were made to address some of the above challenges. It is anticipated that the MLPC Bill would be tabled before Parliament on the second quarter of the year 2007.

The CBL is continuously inviting reputable banks to invest in Lesotho in order to encourage more banks in the country. The Lesotho Post Bank has increased agencies in the rural areas in order to encourage the public to use banking services.

6.1 STANDARD BANK LESOTHO AND LESOTHO BANK 1999 LTD. MERGER

One of the fundamental tasks of CBL as Commissioner of Financial Institutions is to keep a stable and sound financial system that is also able to attract competitive players and to protect the depositors.

In the first half of 2006, the financial sector had four commercial banks namely Nedbank Lesotho, Standard Bank Lesotho and Lesotho Bank (1999), of which the majority shareholder was Standard Bank Lesotho and one foreign branch of FirstRand Bank- First National Bank. Since 2001, Standard Bank has had the intention to take over Lesotho Bank (1999), its subsidiary, but the intention was fully completed in July 2006. From the supervisor's point of view, this led to an opportunity to draw the relevant legislation that assesses mergers and acquisitions. The legislation came into operation in 2001.
This was a unique case which was assessed on its own merit as competition was to be decreased. Standard Bank was the major shareholder of Lesotho Bank and it was economical for the two to become one. However, the CBL was still faced with a challenge not to loose focus and to ensure that the transaction proceeds smoothly without denting the financial sector. In line with the regulations, CBL had to see that the transaction would not be detrimental to the public interest. Healthy competition was also of interest. Therefore before licensing the new entity, a comprehensive list of requirements was issued in order to ensure that the merger complies with the legislation and would be of good interest to the public. The list covered the capital requirements, asset quality, management, earnings and liquidity.

The banks took some time to familiarise the employees with the envisaged merger undertook positive steps to remedy possible adverse effects. CBL looked into the financial status in terms of profitability versus cost saving and efficiency of the merged entity compared to the status quo. CBL also assessed the managerial resources and future prospects and strategies of the merged entities. An assurance was made that the needs of the community in terms of convenience and efficiency would be met by the merger and that those benefits outweigh potential adverse effects such as decreased competition, conflict of interest, and undue concentration of resources. This included the scrutiny of the fees structure to make sure that the costs of shareholders when merging would not be passed over to consumers unnecessarily. The purchase price, any funding and sources thereof and any purchase accounting adjustment were looked into.

Obviously this merger would shrink the number of banks from four to three but the fact is that the two had never been direct competitors. As for clients, they may have had preferences between the two, which in the long run might have brought adverse results or performance to one of the banks. The merged entities would also share costs relating to technological expertise which is rapid these days, lines of business like foreign exchange which require large volumes to be viable. As one bank, efficiency is promoted as the merged entity will strategically and systematically focus on one entity and not separate entities as before.

Therefore, the CBL rendered this merger a success story in the financial sector since the purpose to preserve a sound financial system and to avoid unfair competition has been maintained.

7.1 DEVELOPMENT FINANCE

In 2006, the Export Finance and Insurance Scheme had not been accessed by both large and small scale indigenous exporters. This was regardless of the fact that promotional campaigns had been going on throughout the whole year. The follow up exercise of these campaigns had indicated that the scheme had the following weaknesses:

- The large scale exporters had been wooed away from the scheme by some products which are being offered by the banks and seem to be competing well with the scheme. Secondly, some of these exporters were apparently getting financial assistance from their parents companies in the countries from which they originated.

- With regard to the small scale indigenous exporters, the M50,000.00 which had been put as a threshold seems to be unattainable to most of them. If this M50,000.00 minimum loan limit could be removed, and the viability and profitability be considered as some of the requirements instead, most of these entrepreneurs would be able to access the scheme.

- Another constraint to the small scale indigenous exporters is the 50 per cent exports of the annual production requirement. To most of these indigenous small scale exporters, it is unlikely that they can export the 50 per cent of their production without any form of financial assistance. Requirements of this nature therefore had proved to be a hindrance rather than being instrumental towards the success of the scheme.

During 2006 attempts were made to address the above mentioned weaknesses. It is hoped that very soon the blue print would be revised accordingly. Another fund which is also meant to assist in the private sector development is the Development Fund of which its operational modalities had not yet been finalised.

7.2 DEVELOPMENTS IN RURAL FINANCE

Appreciative developments within the operations of the Rural Finance Division (RFD) especially on sensitisation campaigns, monitoring and facilitation of rural communities' operations of the Rural Savings and Credit Guarantee Scheme (RSCGS) were made in 2006. The main thrust of the scheme is to address the discrepancy between savings mobilisation and resource utilisation through promotion of access to bank credit amongst both the rural and low income communities. Joint efforts with the Ministry of Agriculture (MOA), Non Governmental Organisations (NGOs) and other development partners paved the way to the current success reported hereunder for the period under review.

Extensive work on sensitisation of rural communities has been accomplished with most concentration on the remote parts of the country. Selected villages countrywide were covered in sensitisation campaigns conducted in the form of public gatherings (pitsos) organised through chiefs, District Administrators and District Agricultural Officers by the division jointly with partners mentioned above. Agricultural resource centres provided adequate vehicles and venues for attracting several surrounding villages accommodating a wider outreach. The targeted communities having expressed interest and willingness to participate in the scheme have embarked on preparations towards compliance with set qualification criteria. A total of 18 resource centres were sensitised during the period. Apart from sensitisation campaigns onsite, the division continuously received individuals and groups seeking clarification on the modalities of the scheme. A press release was also issued in further attempts to publicise the scheme.

RFD facilitated a visit by International Fund for Agricultural Development (IFAD) mission to the rural communities operating under the scheme. The mission was impressed with findings on the ground. IFAD report proposed interesting ideas to include a promise of provision for more funding to complement the Credit Guarantee Fund administered by the CBL. The timing for this undertaking was opportune when resources were strained by withdrawals in payment of NGO claims, for services rendered to rural groups in mobilising and training that erode the fund. The Division has, during the period under review, embarked on a mission to solicit more funding from development partners to accommodate a wider and deeper intermediation base. The Mission also committed to providing financial support in the areas of training and exposure visits to best practicing institutions in rural and microfinance for the Division and trainers in the scheme.

At the end of 2006, efforts to link groups with commercial banks proved to have yielded good results when out of a total number of 134 groups mobilised, 54 managed to obtain bank accounts and 4 went further accessing loans from commercial banks.

Though some hitches were experienced in the repayment of disbursed loans, the end of the year realised a turnaround in performance with the 4 groups in question servicing their loans well. Furthermore, 10 more groups are preparing to submit loan applications to banks.

An important milestone was reached when a transparent successful completion of NGOs' selection, for support of groups, led to engagement of three, namely, Mineworkers Development Agency, World Vision and Lesotho Council of Non-Governmental Organisations through Rural Self-Help Development Agency, its affiliate. NGOs commenced their operations under a signed agreement between CBL and themselves. First submissions of quarterly progress reports and a claim by one NGO for services rendered were received and attended to accordingly. Following on these reports, on-site visits were conducted to verify that thorough training of groups was done and certificates duly issued to trainees in facilitating entry qualification required by the scheme. Groups exposed to this training were ready to submit their applications to banks while training of other groups continues.

Future success of the RSCG scheme evolves around improvements on issues emanating from experiences reported at the Steering Committee (CBL, NGOs, Government, Banks and Groups' Representatives) meeting. The following challenges face the operation of the scheme:

- Ways of increasing capacity of role-players so that RFD focuses only on administration of the Guarantee fund and contribution to improved policy environment for rural finance operation including oversight of the scheme within the steering committee. Review of the staff complement from MOA and engagement of more NGOs is core for success.

- Lack of a wider and deeper intermediation base.

- Inadequate spread of participating commercial banks with concentration only in town centres.

- Review of bank charges by commercial banks to affordable levels as savings incentive for groups.

7.3 MONEY AND CAPITAL MARKETS DEVELOPMENT

A needs assessment survey was conducted with the purpose of instituting further developments in the money market.

A questionnaire was administered to about 300 firms and corporates, mainly factories and some retail outlets. The sample was drawn from a list of registered companies in Lesotho as per the addresses that appeared on the list. The objectives of the study were to:

(a) obtain the current level of savings and investment

(b) investigate the type and level of money and bond market instruments, the business community has and to establish which instruments they want introduced.

(c) understand the policy environment i.e. what are the current entry barriers?

(d) determine the company structure of the existing companies i.e. whether it constrains or facilitates such investments.

(e) understand the basis for decisions by financial services providers i.e. why they invest in Treasury bills, or send their money to South Africa etc.

(f) understand how economic units finance their investment decisions.

The objectives were addressed, albeit to a certain limited extent. The responses could not assist in determining the level of savings and investment per entity covered by the survey. However, this micro level information could only be indicative, it would be more appropriate to look at the level of savings and investment at a macro level, maybe classified in terms of industries or sectors. The macro data is however not precise, but this poses no danger to the blueprint as the low level of financial intermediation gives an indication that there is a mismatch between savings and investment in which case the level of savings exceeds the level of investment.

The majority of entities acknowledged that they do not have fully funded schemes suggesting that investible funds are limited. Thus most firms managed their own schemes while for a few number of firms the schemes were managed by insurance companies or fund managers, with funds invested mostly in South Africa. Only 6.3 per cent indicated to have fully funded pension scheme, with a wide divergence in amounts in the scheme. The average was M26,676.00 with the highest having around M6 million.

The survey also revealed that most entities do not engage a lot in foreign financial transactions. Only 24.5 per cent had foreign liabilities as at the end of 31 December 2004 with 13.9 per cent having foreign liabilities of values below M500,000.00 and only 9.5 per cent of them having foreign liabilities of values greater than M500,000.00. The same situation prevailed on the asset side; only 3.7 per cent of entities had foreign assets as at the end of 31 December 2004 with 1.5 per cent having foreign assets of values below M500,000.00 and only 1.5 per cent of them having foreign assets of values greater than M500,000.00. The majority of foreign transactions seemed to have been in the import of goods and services, a result reflective even in the country's balance of payments.

Within those who wished to have borrowed, the financial needs ranged from M1,000.00 to M147 million, reflective of the divergence of the size of entities covered by the survey. The duration of the loans ranged from one year to twenty years, while the desired rate ranged from 0 per cent to 30 per cent with a mean of 2.9 per cent. The purpose of the finance, in order of dominance, was to expand the existing business, cater for working capital requirements and financing of asset replacements. It is a small fraction (22.6 per cent) that indicated to be managing the interest rate risk though most of these were not aware of the existence and even operation of derivatives such as swaps.

In terms of exposure to money market instruments, the study discovered that there is a reasonable level of financial literacy in the economy, with significant number of respondents (32.4 per cent) aware of such money market instruments as bankers' acceptances. The literacy was also reflected in the holding of these assets. Only 42.1 per cent showed the desire to invest in corporate bonds issued by private companies in Lesotho. About 16.1 per cent had financial investments outside Lesotho, although most of them (94.5 per cent) were in CMA currencies. Around 19 per cent aspired to have either borrowings or lending instruments that are not offered by institutions in Lesotho. The list of these instruments ranged from leasing products, money market instruments, and corporate bonds to stock market instruments. It could be argued therefore that the introduction of more financial instruments could spark more attention as more surplus spenders shy away from low paying financial instruments. This is a reasonable assumption given that financial institutions and even the CBL acknowledge that surplus spenders tend to invest most of their excess cash in the South African financial markets mainly because of the variety of investment products available.

The extent to which the company structure constrained or facilitated investments in a wide variety of financial instruments could not be determined by the questionnaire. However, the information obtained was that most corporate investments were not financed by financial institutions. This could be expected given the significantly low credit-deposit ratio by any standard, signifying poor financial intermediation. The motive behind this poor intermediation on the part of commercial banks that results in their investments in South African markets was not captured by the questionnaire.

Following these findings, a supplementary survey was conducted in November 2006, with focus on the financial sector, and specifically on insurance companies and commercial banks. The responses indicated that major investment decisions were made locally on a daily basis, although with close collaboration with treasury departments of the South African head offices for most commercial banks. The indication was that the instruments used in money markets were call deposits, term deposits, treasury bills, interbank market and money market funds, while in the capital market, the financial instruments invested in were such as South African equities, unit trusts and government bonds. The pension funds within the respective financial institutions are invested mostly in South Africa due to the diversity of financial instruments available in that market. South African head offices of most commercial banks issue derivatives albeit to a limited extent. The same financial institutions however, provide the usual off-the-shelf products to their clients.

The financial sector indicated the need for new financial instruments both in the money and capital market, including government paper, bankers' acceptances, negotiable certificates of deposit, repos, reverse-repos, floating rate notes, equities, corporate and government bonds. Financial institutions showed that they would also be interested in offering the instruments to their clients. The constraints identified for the introduction of these include limited level of skills and regulatory framework. In addition to the constraints mentioned above lack of credit database and long term yield curve which can be used to benchmarks rates were mentioned as a constraints.

7.4 CREDIT BUREAU / CREDIT INFORMATION REGISTRY

During the year under review, the CBL relentlessly continued with its efforts to promote credit extension in the Country. In the preceding year, FIRST Initiative in collaboration with the International Finance Corporation (IFC) and the World Bank conducted a study into the feasibility of establishing the credit information registry (CIR) within the CBL and issued a report thereon this year. The study revealed and elucidated several crucial factors which induced the CBL to revise its decision. The study also furnished advice with regard to various options for the establishment of a credit bureau open to the CBL.

The study investigated the cost of setting up a credit information registry, Lesotho's credit market, the legal framework, the institutional framework for reporting and recommendations. The cost of setting up a CIR was found to be prohibitively massive due to the small size of the Country's credit market, with rough estimate of the bankable population amounting to 200,000 and approximate inquiry volume likely to be around 30,000 per year. This statistic is inclusive of all credit lending institutions' participation in the credit extension activity. Since credit registry operation is driven by economies of scale, the cost of setting up such a facility must be recovered from the sale of credit information. As a result the CBL faced a challenge of setting up a viable CIR given the probability of a likely low volume of credit information sales.

To address the challenge of setting up a viable CIR, the study recommended that CBL should consider the development of a CIR on a shared platform with South African providers. Such approach would be cost efficient, sustainable and conducive to regional financial integration. The CBL adopted this recommendation and also reviewed its entire decision. Thus rather than developing an internal CIR, the CBL resolved to support the Government's initiative of a public national credit bureau. At the time, Government was engaged in intense negotiations with the US Government through the Millennium Challenge Corporation (MCC) for the latter to finance the public bureau initiative. Government of Lesotho also co-opted the CBL in the negotiating team because of its interest in the matter. The credit bureau project attained both the eligibility and endorsement for MCC's support.

The CBL was then mandated by GOL to manage the credit bureau proposal and conduct all activities integral to the success of the initiative. The CBL is now preparing to draw a project proposal that would be submitted to MCC for approval in the coming year.

8.1 INSURANCE SECTOR REFORM PROJECT

In the last reporting period, it was indicated that, both CBL and the FIRST Initiative Consultants had made comments on the Insurance Bill, which resulted in the third draft Bill. However, there were still some outstanding issues regarding the Bill, which both parties had to address and agree upon before the Consultants could finalise the Bill. The discussions were completed in early 2006 as anticipated, and the bill finalised.

Following finalisation of the Bill by CBL, it was circulated to the stakeholders for further scrutiny and comments. The resultant comments were then discussed in the stakeholders' workshop held in July 2006. The objective of the workshop was to ensure that stakeholder's inputs and views were taken on board before the Bill could be prepared for legislative enactment.

These inputs were incorporated by the end of the reporting period. The final version of the Bill, together with the Explanatory Memorandum, Cabinet Memorandum and Ministerial Brief were submitted to the Minister of Finance and Development Planning for presentation to Cabinet.

The Department had contemplated completing discussions on and thereby finalising Regulations relating to technical provisions of the insurance practice. This target was not achieved due to unanticipated emergence of several issues regarding the Bill. The Regulations will be debated and be prepared for publication in the coming year.

8.2 FINANCIAL INSTITUTIONS ACT 1999

8.2.1 Amendments to the Financial Institutions Act (FIA) 1999

The Department continued to deliver on its mandate of regularly reviewing the regulatory and supervisory framework. During the year under review the Department pursed the review of FIA 1999 with vigour and paid a scrupulous attention to the IMF report relating to the matter.

In the preceding year it was reported that the review done by the Department on the FIA 1999 was sent to IMF Legal Department (LEG) for further development. After scrutinising the internal review, the IMF sent a mission to the CBL during the period under review for further consultations with the CBL. Prior to the mission's arrival, LEG sent a report which would form the basis of the consultations. The report encompassed an evaluation of our review and new proposals raised by LEG. LEG also recognized that for the proposed amendments to be meaningful and effective, the overall powers of CBL under the Central Bank Act 2000 needed to be enhanced. Consequently LEG provided the recommended amendments to CBL Act and formalised them in a report which they also sent to CBL prior to the mission's visit.

LEG's report on FIA 1999 amendments was comprehensive and instructive. Not only did the report dwell on the contentious provisions which begged for review but rather adopted a holistic approach to the review. In general LEG's review of Lesotho's legal framework on banking supervision was measured against international best practice.

The report first examined the configuration of the entire Act and made proposals with respect to its personal scope of application. On analysis, the scope of application was found to be too wide to distinguish between different kinds of financial institutions with different needs of regulation. The report stipulated that the scope of application should consider the risks involved in the operations of the different financial institutions and align them with appropriate supervisory regime. The general deduction from the analysis was that it was not expedient to apply all banking supervisory prescriptions on financial institutions which are of different nature. Finally on personal scope, the report recommended that the exemption clause be reformulated to exclude only financial institutions which would otherwise fall within the jurisdiction of the Act.

The report then examined the licensing structure of the Act. It called for enhancement of the licensing provisions in both the principal and subsidiary legislation. Amendments included definition of ‘fit and proper’ test, a specific well drafted provision enumerating all licensing criteria, inclusion in the business plan of operating and financial plans, enhancement of right of appeal procedure in the event that the licence is denied, right to be conferred on Commissioner to amend the licence conditions at any time if justified, grounds for refusal of licence must be specified and a list of authorised activities which a bank can engage in.

The report then examined provisions for ongoing supervision and meticulously addressed transfer of ownership, approval of major acquisitions or investments, capital adequacy, large exposures, bank related lending, consolidated supervision, risk management and control, external auditors and access to information. The report concluded this section by recommending that a new provision should be included to authorise the Commissioner to enter into formal and informal cooperation arrangements. Furthermore such a clause must be exempt from the secrecy provisions. The report concluded by making a detailed analysis of the provisions relating to bank governance, regulatory corrective measures and sanctions, immunity and judicial accountability.

The consultative conferences between CBL and IMF mission began on and lasted for two weeks. The report was debated and the Bank’s views taken on board for further analysis. The conferences also elicited the Bank’s concerns over the report’s failure to address a specific request for technical assistance on bank resolution and tiering of the banking system. The mission responded that bank resolution was a highly specialised area that required a special expert and the IMF was willing to render assistance to the Bank on it as well but would treat it separately from the broad review of the FIA. On the issue of tiering, the IMF felt that if the current provision on personal scope of application was reformulated to consider four financial institutions subgroups according to the risks inherent in their activities and properly align them to their respective supervisory requirements, there would be no need to tier the banking system of Lesotho. The four sub-groups referred are: commercial banks and similar institutions (mutual banks); deposit taking institutions of a specific nature (credit unions, dedicated banks, savings banks, deposit taking microfinance); non-bank financial institutions with fiduciary obligations towards their customers (merchant banks, stock brokers); and credit-only institutions and similar financial institutions (mortgage and leasing companies).

The mission was supposed to continue with the review immediately after the visit and issue a second report which hopefully would reflect all comments and suggested amendments but the IMF deferred the exercise until it had assisted the CBL with a more pressing need of national payment system.

8.2.2 Financial Institutions (Know Your Customer) Guidelines.

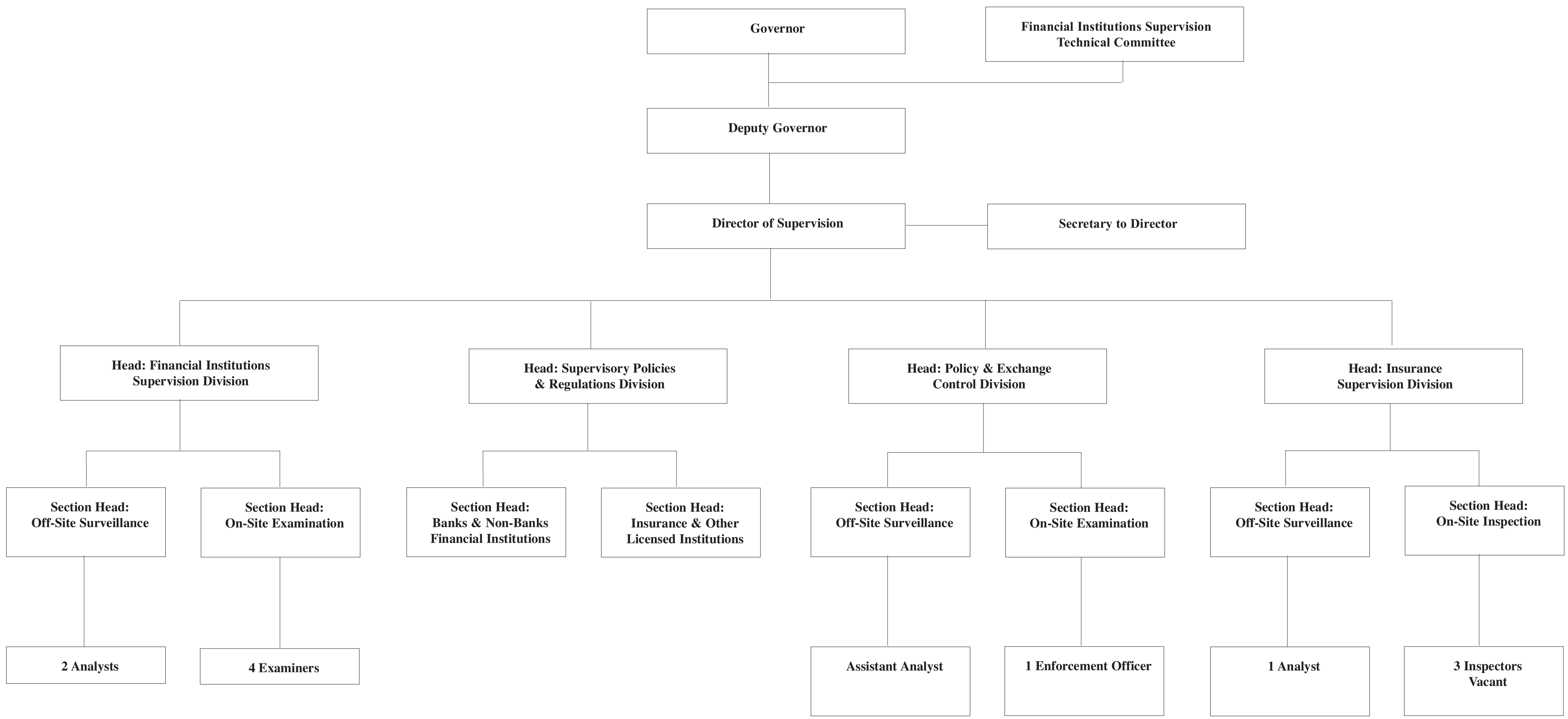
In terms of section 71 of the Financial Institutions Act, 1999, the CBL may issue guidelines as it might find it necessary or expedient for giving effect to the provisions of the Act. During the reporting period, pursuant to this section, the CBL prepared Know Your Customer (KYC) Guidelines.

The purpose of KYC Guidelines is to outline basic procedures that banks’ management should ensure are in place within their institutions with a view to assisting in suppression of unwanted vices through the banking system, to prevent banks from being used, intentionally and unintentionally, by criminal elements for money laundering activities; and to enable banks to know or understand their customers and their financial dealings in order to manage their risks prudently.

The draft Guidelines were approved by an internal Technical Committee. Following the approval, stakeholders' comments and inputs were taken on board. At the end of the reporting period, the draft Guidelines were finalised and submitted to Government Printing for gazettement by the office of the Parliamentary Counsel. The gazettal would be effected early 2007.

APPENDIX 1

SUPERVISION DEPARTMENT ORGANISATION STRUCTURE



APPENDIX II (a)

BANKING INDUSTRY BALANCE SHEET AS AT DATES INDICATED BELOW

	AMOUNT (M'000)			COMPONENTS (%)		
BALANCE SHEET	31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-04	31-Dec-05	31-Dec-06
1. TOTAL ASSETS	**3,082,811**	**2,826,585**	**3,951,119**	**100**	**100**	**100**
a. Cash and Cash Items	67,722	103,668	125,711	2	4	3
b. Balances with CBL	110,857	168,826	107,343	4	6	3
c. Balances with local banks	452,288	7,086	420,936	15	0	11
d. Balances with banks abroad	489,718	1,016,251	1,506,654	16	36	38
e. Marketable securities	1,427,137	663,132	877,060	46	23	22
f. Other investments	35,867	-	3,519	1	0	0
g. Loans and advances	323,076	698,478	770,010	10	25	19
h. Fixed Assets	91,976	89,065	65,148	3	3	2
i. Other Assets	84,170	78,436	74,738	3	3	2
j. Goodwill	-	1,643	-	0	0	0
2. TOTAL LIABILITIES	**2,807,295**	**2,568,986**	**3,656,968**	**91**	**91**	**93**
a. Deposits	2,065,800	2,382,705	3,392,348	67	84	86
b. Due to Local Banks	439,050	29	100,578	14	0	3
c. Due to Banks abroad	188,073	42,899	30,323	6	2	1
d. Other Borrowings	-	-	-	0	0	0
e. Other Liabilities	114,372	143,353	133,719	4	5	3
3. CAPITAL	**311,337**	**257,596**	**294,152**	**10**	**9**	**7**
a. Paid-up	86,500	41,500	44,701	3	1	1
b. Statutory Reserve	78,949	69,618	39,701	3	2	1
c. Other Reserve	2,991	9,169	7,154	0	0	0
d. Retained Earnings	142,897	134,027	169,462	5	5	4
e. Share Premium	-	-	28,878	0	0	1
f. Other Capital Account	-	-	-	0	0	0

	AMOUNT (M'000)			COMPONENTS (%)		
BALANCE SHEET ACCOUNTS	31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-04	31-Dec-05	31-Dec-06
IV. CONTINGENT ACCOUNTS						
a. Letters of Credits	-	4,151	3,090	0	0	0
b. Guarantees	69,582	62,042	191,496	2	2	5
c. Others	-	-	-	0	0	0
V. MEMORANDA ITEMS						
a. Past-Due Loans/Advances	6,640	-	-	0	0	0
b. Non-Performing Loans/Advances	7,497	10,767	19,255	0	0	0
c. Provisioning (Gen/Specific/Susp.)	15,547	15,340	22,121	1	1	1
VI. RATIOS (percentages)						
a. Return on Assets	**4.64**	**4.74**	**4.29**	**4.64**	**4.74**	**4.29**
b. Return on Equity	**45.90**	**52.03**	**57.61**	**45.90**	**52.03**	**57.61**
c. Loans to Deposit ratio	**15.64**	**29.31**	**22.70**	**15.64**	**29.31**	**22.70**

APPENDIX II (b)

BANKING INDUSTRY AUDITED INCOME STATEMENTS FOR THE PERIOD ENDED AS DATES INDICATED BELOW

	AMOUNT (M'000)			COMPONENTS (%)	
INCOME STATEMENTS ACCOUNTS	31-Dec-04	31-Dec-05	31-Dec-06	31-Dec-04	31-Dec-05
I. TOTAL INCOME	**268,468**	**302,483**	**332,017**	**100**	**100**
Interest Income - Loans	51,097	62,899	89,124	19	21
Interest Income - Placements	47,048	80,748	92,021	18	27
i) Foreign Payments	14,775	40,666	41,640	6	13
ii) Domestic Payments	-2,116	2,900	1,735	-1	1
Interest Income - Securities	115,627	59,900	56,652	43	20
Total Interest Income	**213,772**	**203,547**	**237,797**	**80**	**67**
Interest Expense	**65,545**	**54,862**	**73,847**	**24**	**18**
Net Interest Income	**148,227**	**148,685**	**163,950**	**55**	**49**
Fees and Commission Income	103,123	122,583	133,718	38	41
Forex Gains/Losses	12,686	15,459	19,921	5	5
Income on Equity Investment	0	0	0	0	0
Other Income	4,432	5,764	4,977	2	2
Grants	0	9,992	9,451	0	3
Non interest Income	**120,241**	**153,798**	**168,067**	**45**	**51**
II. TOTAL EXPENSES	**162,984**	**213,850**	**208,944**	**61**	**71**
Staff Salaries and Benefits	81,454	90,526	97,288	30	30
Management/Directors Fees	2,517	15,303	17,760	1	5
Auditors/Consultants Fees	240	287	115	0	0
Provision for Bad Debts	1,854	3,237	4,481	1	1
Bad-Debts Write-offs	0	672	5,907	0	0
Depreciation	14,587	12,555	12,995	5	4
Other Operating Expenses	62,332	91,270	70,398	23	30
III. OPERATING INCOME/LOSS	**105,484**	**88,633**	**123,073**	**39**	**29**
IV. SHARE OF PROFITS OF ASSOCIATES	0	0	2,329	0	0
V. **INCOME/LOSS BEFORE TAXATION**	**105,484**	**88,633**	**125,402**	**39**	29
VI. INCOME TAX	41,729	42,355	48,336	16	14
VII. **NET INCOME BEFORE APPROPRIATION**	**63,755**	**46,278**	**77,066**	**24**	15
IIX. TRANSFER TO STATUTORY RESERVE	0	0	0	0	0
IX. Transfer to General Provision for Loan Losses	0	0	0	0	0
X. DIVIDEND	0	0	0	0	0
XI. RETAINED INCOME	63,755	46,278	77,067	24	15
XI. TOTAL COST TO TOTAL INCOME (percent)	**61**	**71**	**63**	**61**	**71**

APPENDIX III (a)

LIFE INSURANCE BALANCE SHEET AS AT THE DATES INDICATED BELOW
(Amounts in Thousand Maloti)

	2006 M'000	% Comp	2005 M'000	% Comp	2004 M'000	% Incr/Decr	2006/2005 % Change	2005/2004 % Change
Property, Plant & Equipment	8,870	0.6	7,786	0.6	8,827	0.7	13.9	-11.8
Intangible Assets	33,961	2.1	38,400	2.8	43,200	3.6	-11.6	-11.1
Total Other Assets	**42,831**	**2.6**	**46,186**	**3.4**	**52,027**	**4.3**	**-7.3**	**-11.2**
Financial Instruments								
Equity Securities	782,349	47.9	693,787	51.3	516,708	42.8	12.8	34.3
Debt Securities	256,406	15.7	189,915	14.1	210,620	17.5	35.0	-9.8
Loans and Receivables	253,320	15.5	151,130	11.2	291,116	24.1	67.6	-48.1
Cash and Cash Equivalents	298,954	18.3	270,177	20.0	135,790	11.3	10.7	99.0
Total Financial Instruments	**1,591,029**	**97.4**	**1,305,009**	**96.6**	**1,154,234**	**95.7**	**21.9**	**13.1**
TOTAL ASSETS	**1,633,860**	**100.0**	**1,351,195**	**100.0**	**1,206,260**	**100.0**	**20.9**	**12.0**
EQUITY								
Share Capital	121,172	7.4	121,172	9.0	121,683	10.	0.0	-0.4
Other Reserves	3,955	0.2	3,837	0.3	3,646	0.3	3.1	5.2
Retained Earnings	53,746	3.3	108,877	8.1	48,538	4.0	-50.6	124.3
Total Capital & Reserves	**178,873**	**10.9**	**233,886**	**17.3**	**173,867**	**14.4**	**-23.5**	**34.5**
Outstanding Claims	33,678	2.1	59,230	4.4	36,347	3.0	-43.1	63.0
Insurance Contracts Liabilities	958,012	58.6	741,356	54.9	923,429	76.6	29.2	-19.
Investment Contracts	393,209	24.1	275,458	20.4	53,557	4.4	42.7	414.3
Derivative Financial Instruments	-	0.0	309	0.0	-	-100.0	-100.0	0.0
Total Policyholders Liabilities	**1,384,899**	**84.8**	**1,076,353**	**79.7**	**1,013,333**	**84.0**	**28.7**	**6.2**
Reinsurance Contracts	1,424	0.1	1,320	0.1	494	0.0	7.9	167.2
Employee Benefit Obligations	40	0.0	33	0.0	1,430	0.1	21.2	-97.7
Provision for unearned premium	63,057	3.9	37,308	2.8	15,670	1.3	69.0	138.1
Other Payables	5,567	0.3	2,295	0.2	1,466	0.1	142.6	56.5
Total Other Liabilities	**70,088**	**4.3**	**40,956**	**3.0**	**19,060**	**1.6**	**71.1**	**114.9**
Total Equity and Liabilities	**1,633,860**	**100.0**	**1,351,195**	**100.0**	**1,206,260**	**100.0**	**20.9**	**12.0**

APPENDIX III (b)

LIFE INSURANCE UNDERWRITING RESULTS AND INCOME STATEMENT FOR THE PERIOD ENDED AS AT THE DATES INDICATED BELOW (Amounts in Thousand Maloti)

	2006 M'000	% Comp	2005 M'000	% Comp	2004 M'000	% Incr/Decr	2006/2005 % Change	2005/2004 % Change
Income								
Gross premium	248,922	100.0	251,772	100.0	251,042	100.0	-1.1	0.3
Premium Ceded	8,460	3.4	5,991	2.4	3,568	1.4	41.2	67.9
Net Premium	**240,462**	**96.6**	**245,781**	**97.6**	**247,474**	**98.6**	**-2.2**	**-0.7**
Commission Earned	1,898	0.8	2,183	0.9	1,238	0.5	-13.1	76.3
Earned Income	**242,360**	**97.4**	**247,964**	**98.5**	**248,712**	**99.1**	**-2.3**	**-0.3**
Outgo								
Claims incurred	158,880	63.8	197,210	78.3	145,967	58.7	-19.4	35.1
Commission Paid	27,894	11.2	36,090	14.3	18,966	7.6	-22.7	90.3
Management Expenses	29,898	12.0	44,584	17.7	29,811	11.9	-32.9	49.6
Total Outgo	**216,672**	**86.1**	**277,884**	**110.4**	**194,744**	**77.6**	**-22.0**	**42.7**
Underwriting profit / loss	**25,688**	**10.3**	**(29,920)**	**-11.9**	**53,968**	**21.5**	**-185.9**	**-155.4**
Investment Income	267,762	90.9	257,693	112.7	172,392	68.7	3.9	49.5
Other Income	1,048	0.4	896	0.4	-	0.0	17.0	100.0
PBT and Other Expenses	**294,498**	**100.0**	**228,669**	**100.0**	**226,360**	**90.2**	**28.8**	**1.0**

APPENDIX IV (a)

GENERAL INSURANCE BALANCE SHEET AS AT THE DATES INDICATED BELOW
(Amounts in Thousand Maloti)

	2006 M'000	% Comp	2005 M'000	% Comp	2004 M'000	% Incr/Decr	2006/2005 % Change	2005/2004 % Change
Assets								
Property Plant & Equipment	**1,603**	0.9	1,149	0.7	1,290	1.0	39.5	-10.9
Other Assets	14,912	8.3	12,906	8.1	3,883	2.9	15.5	0.0
Total Other Assets	**16,515**	9.2	14,055	8.9	5,173	3.9	17.5	171.7
Financial Instruments								
Equity Securities	15,389	8.5	8,411	5.3	9,737	7.3	83.0	-13.
Debt Security	107,909	59.9	95,060	59.9	80,077	59.9	13.5	18.7
Loans and Receivables	29,837	16.6	35,115	22.1	18,954	14.2	-15.0	85.3
Cash and Cash Equivalents	10,463	5.8	5,929	3.7	19,662	14.7	76.5	-69.8
Total Financial Instruments	163,598	90.8	144,515	91.1	128,430	96.1	13.2	12.5
TOTAL ASSETS	**180,113**	100.0	**158,570**	100.0	**133,603**	100.0	13.6	18.7
EQUITY								
Share Capital	2,500	1.4	2,500	1.6	2,500	1.9	0.0	0.0
Other Reserves	33,092	18.4	39,390	24.8	24,759	18.5	-16.0	59.
Retained Earnings	8,564	4.8	8,464	5.3	8,464	6.3	1.2	0.0
Total Capital & Reserve	**44,156**	24.5	**50,354**	31.8	**35,723**	26.7	-12.3	41.0
Outstanding claims	26,040	14.5	21,441	13.5	19,492	14.6	21.4	10.0
Investment Contracts	33,669	18.7	22,423	14.1	18,963	14.2	50.2	18.2
Derivatives Financial Instruments	8,244	4.6	-	0.0	-	0.0	100.0	0.0
Total Policyholders Liabilities	**67,953**	37.7	**43,864**	27.7	**38,455**	28.8	54.9	14.1
Reinsurance Contracts	23,071	12.8	21,441	13.5	19,492	14.6	7.6	10.0
Employee Benefit Obligations	4,757	2.6	5,139	3.2	5,139	3.8	-7.4	0.0
Unearned Premium Provision	11,543	6.4	17,745	11.2	4,229	3.2	-35.0	319.6
Other Payables	28,633	15.9	20,027	12.6	30,565	22.9	43.0	-34.5
Total Current Liabilities	**68,004**	37.8	**64,352**	40.6	**59,425**	44.5	5.7	8.3
Total Reserves & Liabilities	**180,113**	100.0	**158,570**	100.0	**133,603**	100.0	13.6	18.7

APPENDIX IV (b)

GENERAL INSURANCE UNDERWRITING RESULTS AND INCOME STATEMENT FOR THE YEAR ENDED AS AT THE DATES INDICATED BELOW (Amounts in Thousand Maloti)

	2006 M'000	% Comp	2005 M'000	% Comp	2004 M'000	% Incr/Decr	2006/2005 % Change	2005/2004 % Change
Income								
Gross Premium	172,328	100.0	128,092	100.0	119,562	100.0	34.5	7.1
Premium Ceded	95,971	55.7	70,484	55.0	67,541	56.5	36.2	4.4
Net Premium Income	**76,357**	44.3	**57,608**	45.0	**52,021**	43.5	32.5	10.7
DA Contributions	-	0.0	1,050	0.8	914	0.8	-100.0	14.9
Commission Receivable	13,930	8.1	8,233	6.4	85	0.1	69.2	9585.9
Net Earned Income	**90,287**	52.4	**66,891**	52.2	**53,020**	44.3	35.0	26.2
Claims paid and outstanding	26,220	15.2	25,287	19.7	27,953	23.4	3.7	-9.5
Commissions Expenses	23,033	13.4	19,743	15.4	10,605	8.9	16.7	86.2
Management Expenses	25,349	14.7	12,919	10.1	10,912	9.1	96.2	18.4
Excess of Loss Costs	428	0.2	-	0.0	-	0.0	100.0	0.0
Underwriting Results	**15,257**	8.9	**8,942**	7.0	**3,550**	3.0	70.6	151.9
Investment	3,790	2.2	5,208	4.1	6,609	5.5	-27.	-21.2
Other Income	956	0.6	2,551	2.0	1,192	1.0	-62.5	114.0
	20,003	11.6	16,701	13.0	11,351	9.5	19.8	47.1
Other Expenses	**2,734**	1.6	**5,560**	4.3	**2,941**	2.5	-50.8	89.1
Profit Before Taxation	**17,269**	10.0	**11,141**	8.7	**8,410**	7.0	55.0	32.5

APPENDIX V (a)

INSURANCE BROKERS BALANCE SHEET AS AT THE DATES INDICATED BELOW
(Amounts in Thousand Maloti)

BALANCE SHEET ACCOUNTS	2005 M'000	% Comp	2004 M'000	% Comp	2003 M'000	% Incr/Decr	% Change 2005/2004	% Change 2004/2003
I. ASSETS	**22,325**	100.0	**25,029**	**100.0**	**22,380**	**100.0**	-10.8	11.8
NON- CURRENT ASSETS:	**4,062**	18.2	4,261	17.0	4,249	19.0	-4.7	0.3
Fixed Assets	984	4.4	1,012	4.0	1,183	5.3	-2.8	-14.5
Investments	3,078	13.8	2,509	10.0	2,304	10.3	22.7	8.9
Employees Share Ownership Trust	-	0.0	202	0.8	224	1.0	-100.0	-9.8
Intangible Assets	-	0.0	538	2.1	538	2.4	-100.0	0.0
CURRENT ASSETS:	**18,263**	81.8	**20,768**	**83.0**	**18,131**	**81.0**	-12.1	14.5
Cash and Cash Equivalents	4,782	21.4	4,054	16.2	3,915	17.5	18.0	3.6
Accounts Receivable	3,665	16.4	4,923	19.7	4,677	20.9	-25.6	5.3
Directors Loans and Other Receivables	9,816	44.0	11,791	47.1	9,539	34.5	-16.8	23.6
Others/(Receiver of Revenue)	-	0.0	1,090	4.4	1,121	5.0	-100.0	-2.8
II. EQUITY AND LIABILITIES	**22,325**	100.0	**25,987**	**103.8**	**23,335**	**104.3**	-14.1	11.4
CAPITAL AND RESERVES:	**5,866**	26.3	**6,045**	**24.2**	**6,255**	**27.9**	-3.0	-3.4
Issued Share Capital	20	0.1	19	0.1	23	0.1	5.3	-17.4
Non-Distributable Reserves	1,075	4.8	990	4.0	38	0.2	8.6	2505.3
Distributable Reserves	42	0.2	2	0.0	1,723	7.7	2000.0	-99.9
Retained Income/(Loss)	4,729	21.2	5,053	20.2	1,186	5.3	-6.4	326.1
Share Premium	-	0.0	-	0.0	3,308	14.8	0.0	-100.0
NON-CURRENT LIABILITIES:	**852**	3.8	**829**	**3.3**	**681**	**3.0%**	2.8	21.7
Amount owing to group company	138	0.6	-	0.0	81	0.4	100.0	-100.0
Directors Loans	714	3.2	829	3.3	600	2.7	-13.9	38.2
CURRENT LIABILITIES:	**15,607**	69.9	**19,113**	**76.4**	**16,399**	**73.3**	-18.3	16.5
Trade Creditors	13,866	62.1	17,608	70.4	9,493	42.4	-21.3	85.5
Other payables	1,514	6.8	1,423	5.7	6,824	30.5	6.4	-79.1
Receiver of Revenue	227	1.0	82	0.3	82	0.4	176.8	0.0

APPENDIX V (b)

INSURANCE BROKERS INCOME STATEMENT FOR THE YEAR ENDED AS AT THE DATES INDICATED BELOW
(Amounts in Thousand Maloti)

INCOME	2005 M'000	2004 M'000	2003 M'000	% 2005/2004	% 2004/2003
Commission received	15,260	14,954	16,482	2.0	-9.3
Commission Paid	7,195	7,058	6,159	1.9	14.6
Net Commission Income	**8,065**	**11,815**	**10,323**	-31.7	14.5
Other Income	1,665	1,616	3,120	3.0	-48.2
Net Earned Income	**9,729**	**14,113**	**13,443**	-31.1	5.0
EXPENDITURE					
Profit/(Loss) Before Interest & Taxation	**2,255**	**2,431**	**2,860**	-7.2	-15.0
Interest on Shareholders Loans	10	10	-	0.0	100.0
Profit After Interest and BeforeTaxation	**2,245**	**2,421**	**2,860**	-7.3	-15.3

APPENDIX VI

LIST OF LICENSED BANKS IN LESOTHO AS AT 31 DECEMBER 2006

NAME OF INSTITUTION	NAME AND TITLE OF PRINCIPAL OFFICER	POSTAL ADDRESS	TELEPHONE/ FAX	AGENTS	BRANCH NETWORK
1. Nedbank (Lesotho) Ltd	**Mr. K. Reid** Managing Director	P. O. Box 1001 Maseru 100	(+266) 22312696 (+266) 22310025	-	4
2. Standard Lesotho Bank Ltd	**Mr. C. Addis** Managing Director	P. O. Box 115 Maseru 100	(+266) 22315737 (+266) 22310268	4	11
3. First National Bank Branch in Lesotho	**Mr. R. Hudson** Chief Executive Officer	P. O. Box 11902 Maseru 100	(+266) 22222200 (+266) 22222222	-	1
4. Lesotho Post Bank	**Mr. M. Vumbukani** Chief Executive	Private Bag A121 Maseru 100	(+266) 22317842 (+266) 22317832	-	12
5. Kish City Bank	**Mr. Allan Thomas** Managing Director	P. O. Box 1176 Maseru 100	0027 12 460 1606 0027 12 460 1336	-	1

APPENDIX VII

LIST OF LICENSED INSURANCE COMPANIES IN LESOTHO AS AT 31 DECEMBER 2006

NAME OF INSURANCE COMPANY	NAME AND TITLE OF CHIEF EXECUTIVE	POSTAL ADDRESS	TELEPHONE/FAX	AGENT	BRANCH NETWORK
1. Lesotho National General Company	**Mr. R. Letsoela** **General Manager**	**Private Bag A65** **Maseru 100**	**(+266) 22313031** **(+266) 22310008**	**0**	**2**
2. Lesotho National Life Assurance Company	**Mr. R. Letsoela** **General Manager**	**Private Bag A65** **Maseru 100**	**(+266) 22314144** **(+266) 22310008**	**23**	**2**
3. Alliance Insurance Company Ltd	**Mr. J. Pienaar** **Managing Director**	**P. O. Box 01118** **Maseru 100**	**(+266) 22312357** **(+266) 22311381**	**7**	**1**
4. Metropolitan Lesotho Ltd	**Mr. T. Mphahlele** **Managing Director**	**P. O. Box 645** **Maseru 100**	**(+266) 22323970** **(+266) 22222300**	**165**	**4**
5. Sentinel Insurance Ltd	**Mr. T. McAlpine** **General Manager**	**P. O. Box 699** **Maseru 100**	**(+266) 22327940/1** **(+266) 22314738**	**0**	**1**

APPENDIX VIII

LIST OF LICENSED INSURANCE BROKERS IN LESOTHO AS AT 31 DECEMBER 2006

NAME OF INSURANCE BROKERS	NAME AND TITLE OF PRINCIPAL OFFICER	POSTAL ADDRESS	TELEPHONE/ FAX
1. AON Lesotho (Pty) Ltd	Mrs. L. Mohapeloa Managing Director	P. O. Box 993 Maseru 100	(+266) 22313540 (+266) 22310033
2. Insurcare Brokers (Pty) Ltd	Mrs. P. Kaizer Managing Director	P. O. Box 11007 Maseru 100	(+266) 22321973 (+266) 22310669
3. Lesotho Insurance Brokers (Pty) Ltd	Mr. Iiza Vender Managing Director	P. O. Box 01052 Maseru 100	(+266) 22322060 (+266) 22325489
4. Maluti Insurance Brokers (Pty) Ltd	Mr. Andre Mentz Managing Director	P. O. Box 1515 Maseru 100	(+266) 22310557
5. Mamoth Insurance Brokers	Mr. R. Theko Managing Director	P.O. Box 1695 Maseru 100	(+266) 22322383 (+266) 22329782 (+266) 22329764/31
6. Prosperity Insurance Brokers (Pty) Ltd	Mr. S. Siimane Executive Director	P. O. Box 14173 Maseru 100	(+266) 58842861
7. DIB International (Pty) Ltd	Mr. D. du Randt Managing Director	P. O. Box 478 Maseru 100	(+266) 22312576
8. ABC Insurance Brokers (Pty) Ltd	Mr. S. Makape Managing Director	P. O. Box 9036 Maseru 100	(+266) 22324061 (+266) 22310970
9. Vicgera Insurance Brokers	Mr. Victor Nkala Managing Director	P.O. Box 01142 Maseru West 105	(+266) 58902605
10. Mokant Insurance Brokers (Pty) Ltd.	Mr. Moise Mopeli Principal Broker	P.O. Box 15609 Maseru 100	(+266) 63015544
11. Borata Insurance Brokers (Pty) Ltd.	Mr. Liau J. Motale Principal Officer	P.O. Box 13407 Maseru 100	(+266) 62749154/ 58749454
12. Multi-Vision Insurance Brokers (Pty) Ltd.	Mrs. Doreen Brown Principal Brokers	P.O. Box 9646 Maseru 100	(+266) 63007108
13. Thaba-Bosiu Risk Solutions (Pty) Ltd.	Mrs. 'Matokelo Seturumane Managing Director	P.O. Box 7770 Maseru 100	(+266) 62853340
14. Letta Insurance Brokers (Pty) Ltd.	Mrs. Matebello Mapola Principal Officer	P.O. Box 8007 Maseru 100	(+266) 63002860
15. Unity Lesotho Brokers (Pty) Ltd.	Ms. Rosemary Palesa Ntsukunyane Principal Officer	P/Bag A432 Maseru 100	(+266)58767240
16. Country Insurance Brokers (Pty) Ltd.	Mr. Ezekiel Letsunyane Principal Officer	P.O. Box 11034 Mohales'Hoek	(+266) 58984215
17. Moyeni Insurance Brokers (Pty) Ltd	Mrs. Mponakae Mpobole Principal Officer	P.O. Box 4260 Maseru	(+266)58840343
18. Lianakoena Insurance Brokers (Pty) Ltd.	Mr. Molibeli Lekhesa Principal Officer	P.O. Box 10886 Maseru 100	(+266) 62984454
19. Rainbow Insurance Brokers (Pty) Ltd.	Mr. Thabo Ntelo Principal Officer	P.O. Box 186 Maseru 100	(+266) 58170932/22313954
20. Cecilia Insurance Brokers (Pty) Ltd.	Ms. Cecilia Mohapi Principal Officer	P. O. Box 223 Maseru 100	(+266)63018039
21. BMM Insurance Brokers (Pty) Ltd.	Mr. M. Monethi Principal Officer	P.O. Box 14745 Sebaboleng 104	(+266)58854518
22. Best Insurance BrokerLesotho	Mr. Louis Mokete Mokete Principal Officer	P.O. Box 405 Mazenod 160	(+266) 63114020/58853270/ 22351275
23. Motho-Pula Investment Holdings	Mr. Emile P. Seala Director	P. O. Box 1150 Maseru 100	(+266) 58779425
24. None Consulting Services (Pty) Ltd	Mr. Seetsi Kabi Principal Officer	P.O. Box 13407 Maseru 100	(+266) 63130333

LIST OF LICENSED INSURANCE BROKERS IN LESOTHO AS AT 31 DECEMBER 2006

NAME OF INSURANCE BROKERS	NAME AND TITLE OF PRINCIPAL OFFICER	POSTAL ADDRESS	TELEPHONE/ FAX
25. Bohlale Insurance Brokers (Pty) Ltd	Mr. Fred Mohajane Principal Officer	P. O. Box 16133 Maseru	(+266) 63093070/ 58109271/ 58109891
26. Wealth Insurance Brokers (Pty) Ltd	Mr. Mosito E. Moeketsi Principal Broker	P. O. Box 14839 Maseru 100	(+266) 62756802
27. Minco Insurance Brokers (Pty) Ltd	Mr. Rantsane L. Leqele Principal Officer	P.O. Box 10384 Maseru 100	(+266) 58704519/ 58710093/ 58859284
28. Ideal Insurance Brokers (Pty) Ltd.	Ms. Theresa Mosenye Principal Officer	P.O. Box 11403 Maseru 100	(+266) 58432359
29. Setha Insurance Brokers (Pty) Ltd.	Mr. Leqhaoe I. Thabane Principal Officer	P.O. Box 112 Mafeteng 900	(+266) 22701203/ 63074712
30. Unicom Insurance Brokers (Pty) Ltd.	Ms. Nthabisi Leburu Principal Officer	P.O. Box 1359 Maseru 100	(+266) 63014226
31. Explicit Insurance Brokers (Pty) Ltd.	Mrs. Malineo Monahali Principal Officer	Private Bag A408 Maseru 100	(+266) 62856438
32. Born-Best Insurance Brokers (Pty) Ltd.	Mr. Setha R. K. Lethola Principal Officer	P.O. Box 172 Maputsoe 350	(+266) 27056243

APPENDIX IX

LIST OF LICENSED MONEY LENDERS AS AT 31 DECEMBER 2006

1. J. P. Financial Services (Mr. E.T. Mojapela)	P. O. Box 1666, Maseru 100
3. B. M. Ntsie	P. O. Box 118, Mokhotlong 500
4. Financial Services Holding (Pty) Ltd	P. O. Box 13371, Maseru 100
5. Edu-Loan	P. O. Box 1932, Maseru 100
6. Afrisure Personal Loans Lesotho (Pty) Ltd	P. O. Box 9717, Maseru 100
7. T. Lekata	P. O. Box 132, Maseru 100
8. M. S. Koetje	P. O. Box 15, Ha Mamathe 210,
9 T. Motselekatse	P. O. Box 317, Maseru 100
10. J. H. Kente	P. O. Box 108, Mohales Hoek 800
11. M. Paanya	P. O. Box 599, Mafeteng 900
12. Star Lion Gold Coin Investment (Pty)	P. O. Box 12634, Maseru 100
13. Liharatha Cash Loans	P. O. Box 470, Teyateyaneng 200
14. T. M. Lebusa	P.O. Box 583, Butha-Buthe 400
15. M. T. Mojapela	P. O. Box 901, Butha-Buthe 400
16. E. T. Mafeke	P. O. Box 219, T.Y 200
17. P. M. Makakole	P. O. Box 7363, Maseru 100
18. Sechaba Personal Financial Advisors	P. O. Box 16101, Maseru 100
19. Bathusi Solutions	P. O. Box 928, Maseru 100
20. Makhulong Multi Finance	P.O. Box 0960, Maseru 100
21. Lebohang Leqela	P.O. Box 2 Mafeteng 900
22. Senettam Financial Services	P.O. Box 749, Maseru 100
23. L. J. Mofube, Nova Holdings	Private Bag A164, Maseru 100
24. T. S. Matete, Financial Maid	P. O. Box 108, Mohales' Hoek 800
25. J. Khomojoo	P. O. Box 10216, Maseru 100
26. Select Management Services	Private Bag A104, Maseru 100
27. Tsietsi Polane	P. O. Box 9, Kolonyama Ha 'Nena, T.Y.
28. Prosperity Financial Services	P. O. Box 9693, Maseru 100
29. Green Pastures Financial Services	P. O. Box 397, Maseru 100
30. Mr. G. K. Ramakatane	P. O. Box 825, Maseru 100
31. Mr. T. Molikolooe	P. O. Box 10559, Maseru 100
32. Mr. Pitso Moeti	Private Bag A454, Maseru 100
33.Smart Credit Loans	P.O. Box 28 Maseru 100
34.M.R. Naheng	P.O. Box 901 Butha-Buthe 400
35. Seotlong Financial Services	P.O. Box 12045, Maseru 100
36. M.A. Makalo	P.O. Box 336, Quthing 720
37. Makhulong Financial Services	P.O. Box 14401, Maseru 100
38. Mr. G. M. Thamaha	P.O Box 298, Butha-Buthe
39. Feed the Nations	P.O. Box 7187, Maseru 100
40. Mr. Mabutu Phera	P. O. Box 3, Butha-Buthe
41. Mrs. Litlhare Mafatle	P.O. Box 13371, Maseru
42. Mr. Ntoi Seoe	P.O. Box 54, Peka