Vision

- We are a dynamic institution, in pursuit of excellence in central banking.

Mission

- We strive to achieve and maintain monetary and financial system stability to support balanced macroeconomic development of Lesotho.

Value statement

- The Board, Management and Staff of the Bank shall conduct themselves with utmost respect, integrity and transparency towards all stakeholders in executing the mandate and functions of the Bank, recognising that they are accountable to the Government of Lesotho and Basotho.

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GOVERNOR`S REMARKS

The banking system plays a pivotal role in providing banking services to bankable communities and creation of employment opportunities for Basotho. In the year 2014, transformational changes brought about by innovative world technologies in products and services augmented the efforts developed for the market. The banking sector remained stable and was somewhat sound due to prudent management and the solvency state of these institutions. The political situation in the later part of the year somehow was felt by the industry and brought some uncertainty. Notwithstanding, there were significant strides in the banking environment, which benefitted from technological advancements in the form of e-banking, Internet banking and the credit and debit card system.

The year 2014 experienced a spiralling state in debit cards which substantially increased due, in part, to wage based remuneration as a result of preparations for the 2015 National Elections that necessitated temporary employment of Basotho nationals by the Independence Electoral Commission. Additional products were provided in the banking sphere where the rapid developments in computer and telecommunication technologies such as the M-Pesa and the Eco-Cash mobile money improved financial inclusion in the country.

This report, therefore, serves to inform the market about improvements on the supervisory activities by the Supervision Department and is intended to provide an overview of the industry performance for financial institutions regulated and supervised by the Central Bank of Lesotho (CBL). The key objective is to promote a safe and sound financial system in line with international best practices as provided by the relevant bodies in supervision such as the Basel Committee on Banking Supervision and other related authorities. The continuing review of regulatory and supervisory practices includes Risk Based Supervision Framework now fully in use. Preparations in readiness for migration to and implementation of Basel II.5 in the coming years are underway.

In this regard, of significance has been the regulatory concerns that aimed at restoring confidence and transparency in the financial system. During the year 2014, the CBL prepared and submitted to the Law office, a set of core regulations for the banking industry which are still awaiting gazettement. In addition, and in line with the Financial Institutions Act 2012, CBL worked on extending its supervisory powers to the sector of large cooperatives (SACCOs), which accept deposits and provide credit, and came up with draft regulations for large financial cooperatives. The draft regulations were a step towards dual supervision of systemically important cooperatives by the Commissioner of Financial Institutions and the Commissioner for Cooperatives Development.

Despite these improvements, the industry continued to be pricked by a scourge of ATM bombings which necessitated some tight security measures on the physical outlook and security of the ATMs. In spite of these obstacles, the industry recorded some promising results on branch network expansion where a number of branches, ATMs and Points of Service (POS) devices were operationalised. This also improved financial inclusion.

The industry is required by law to comply with set standards to ensure financial soundness. Compliance with the industry requirements with respect to minimum local assets, liquidity, capital adequacy requirements and foreign currency exposures was good in 2014. As a routine activity, all banks were monitored through on-site examinations to assess risks and mitigation strategies. Although there were initiatives and actions that advocated for supervisory surveillance to adequately monitor performance of the financial sector in the light of adverse effects that continually brought uncertainties in the global economy, the sector remained sound.

GOVERNOR`S REMARKS

During the period, Lesotho acceded to International Monetary Fund (IMF) Article VII1997 by embarking on substantial and gradual measures that relaxed and abolished some of the requirements on capital account transactions on foreign investment. Other responsibilities encapsulated Departmental activities as already outlined in the body of the report and have been crafted in an informative manner to inform stakeholders about the structure and initiatives in the Supervision Department including the performance of the financial sector during the year ❑

Dr. Retšelisitsoe Matlanyane

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OVERVIEW OF THE SUPERVISION DEPARTMENT

THE CENTRAL BANK OF LESOTHO (CBL) is mandated to supervise and regulate the financial institutions in order to attain and maintain a safe, sound and stable financial sector as well as to promote public confidence in the sector. This mandate is coordinated and executed through the Department of Supervision. The Department has four divisions namely Banking Supervision Division (BSD); Insurance, Investments and Securities Supervision Division (IISSD); Non-banks Supervision Division (NBSD) and Deposit Protection Division (DPD) all of which are involved in ensuring financial sector stability in their respective areas.

Through its divisions, the Department aims at promoting a sustainable financial sector by identifying problems in time and taking supervisory measures to eliminate them. This it achieves through on-site and off-site surveillance. The on-site examinations are carried out regularly in order to assess the soundness of the financial institutions and to provide corrective measures where necessary. The off-site surveillance monitors financial institutions through regular analysis of the financial returns to ensure early detection of problems in the sector and to closely monitor institutions already identified as having problems.

2.1 Banking Supervision Division (BSD)

BSD ensures safety and soundness of the banking sector through supervision of the banks. The division licenses the banks and undertakes periodic on-site and off-site analysis of the sector's performance to ensure that banks are operating under safe and sound financial conditions in line with the Financial Institutions Act 2012. The division has gradually adopted the risk based approach to supervision and is also preparing for migration from Basel I to Basel 2.5 which is a newset of banking regulations put forth by the Basel Committee on Bank Supervision, which regulates finance and banking internationally.

In addition, the division takes care of exchange control and anti–money laundering issues.Under Exchange Control Order of 1987 as amended, the Minister of Finance delegates the Central Bank of Lesotho to administer Exchange Control as part of the country's efforts in fighting Money Laundering (ML) and Financing of Terrorism (FT). Pursuant to this exercise, BSD ensures the bank's compliance with the Financial Institutions Anti Money Laundering (AML) Guidelines 2000 and the Financial Institutions Know Your Customer (KYC) Guidelines 2007.

2.2 Insurance, Investment and Securities Supervision Division (IISD)

IISD supervises the insurance sector, investments and securities to ensure safety and soundness of the insurers, fund managers and insurance brokers' operations. This mandate is achieved through continuous off-site monitoring and on-site inspections using the combination of both full scope and risk-based approach. The aim is to adopt risk-based approach in the long-run. The Division ensures compliance to the Insurance Act 2014 by the insurance sector and also enforces compliance with the Collective Investment Schemes Regulations 2001,as well as Securities Market Regulations 2014 in order to promote efficient, fair, safe and stable markets.

2.3 Non-Banks Supervision Division (NBSD)

NBSD oversees the operations of the non-bank financial institutions (NBFIs) through off-site surveillance and on-site inspections in order to ensure compliance with the laws governing the sector. The NBFIs include, but are not limited to credit giving institutions (money lenders and credit-only institutions), ancillary financial service providers (money transfer providers and foreign exchange bureaux), Credit Bureau and Credit Guarantee Fund. The division administers various Acts and Regulations such as Money Lenders Act 1993, Credit Reporting Act 2011, Data protection Act 2010, Credit Reporting Regulations, Credit Only and Deposit Taking Regulations, and Money Transfers Regulations, which are aimed at monitoring and examining performance of the sector.

2.4 Deposit Protection Division (DPD)

The main function of the Division is to set up and operate a deposit insurance fund that will compensate depositors in the event of a bank failure ❑

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BANKING SECTOR REVIEW

3.1 On-site Examination

3.1.1 Risk Assessment

DURING THE YEAR under review, the CBL carried out full scope on-site examinations of all four commercial banks. The examination assessed nine[1] major risks to the local banking industry. Among the risks, operational, compliance and credit risks were found to be inherently high in most banks. Operational risk was high due to out-dated core banking systems which was further exacerbated by the fact that peripheral systems were not integrated to the core banking system. The out-dated systems required excessive manual intervention which heightened operational risk.

Credit risk was also considered high due to a high concentration risk in the industry that arises from an asset portfolio that is not diversified, a fact which mainly reflects the underlying structure of the economy. Compliance function in most banks was combined with either the legal function or the risk function. This compromised the compliance function which then resulted in increased instances of non-compliance. The non-compliance issues do not relate to the Financial Institutions Act 2012 only, but also to other applicable laws.

Against this background, CBL issued directives to all banks requesting them to address the findings that gave rise to the observed risks. Some banks have since undertaken initiatives to separate the compliance function from other functions, thereby ensuring more pro-active and independent human resource allocation to address all compliance related functions. With regard to the out-dated system, some banks have already highlighted intentions to upgrade their systems while others will be migrating to different systems all together. It is envisaged that by end of 2015 the process of upgrading systems will have started.

3.1.2 CAMELS Assessment

CAMELS assessment focuses on six main areas (**C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity and **S**ensitivity to market risk), but main focus is on Management **'M'** since it is regarded as the most important element for successful operations of banks. The Board and Senior Management of commercial banks in Lesotho have the ultimate responsibility of driving the banks' strategies. The Management had clear strategies and goals in directing the banks' business, on monitoring of the financial indicators to be consistent with their strategies. The Board and Senior Management of the banks had delegated the day to day responsibilities to committees consisting of Board of Directors and Senior Officials. Nonetheless, the majority of the Board and Senior Management Committees failed to meet frequently in line with their terms of reference. Consequently, several policies and procedures that guide the day to day operations were not reviewed regularly in line with the CBL's Risk Management Guidelines to reflect the developments in the banking industry.

All banks, except one, were complying with the policy on localisation of executive positions. There was also non-compliance with the Financial Institutions Act 2012 on the appointment of new directors, given that for most banks,more than half of the total number of directors did not constitute independent directors. Notwithstanding the mentioned weaknesses, the Board and Senior Management were able to introduce new products in the market including the facilities that benefited the

[1] Strategic, legal, reputational, credit, operational, liquidity, interest rate, foreign exchange and compliance risks.

unbanked sections of society. The new products intensify competition in the banking industry and improve financial inclusion. Overall, the banks' management rating was 3, which denotes"fair".

3.2 Off-site Surveillance

3.2.1 Banking Sector Performance

i) Total Assets

During the period under review, total assets in the banking system observed a surge of 7.2 percent, from M11.4 billion in 2013 to M12.3 billion in 2014. The acceleration was on account of improved performance of the credit markets driven mostly by the mining sector prominently Letšeng Diamond Mine. Hence, loans and advances accumulated by 12.2 percent from M4.4 billion in 2013 to M4.9 billion in 2014. However, this performance was lower than the previous year`s growth of 21.9 percent, from M3.6 billion in 2012 to M4.4 billion in 2013 as depicted by Table 1 below.

The banking system has so far been able to successfully contain the credit risk within reasonable limits. However, non-performing loans (NPLs) continued to increase suggesting distressed credit portfolio. NPLs increased substantially by 24 .6 percent, from M171.6 million in 2013 to M213.8 million in 2014. Nevertheless, efforts to absorb the increasing strains on credit portfolios have been made as reflected by provisions which improved by 21.4 percent, from M153.7 million to M186.5 million during the period under review.

Table 1 The Growth Rates of Components of Assets (%)

	2012	2013	2014
TOTAL ASSETS	**1.2**	**35.0**	**7.2**
Cash and Cash Items	34.1	21.5	-9.2
Balances with CBL	7.6	157.0	22.7
Balances with local banks	-6.4	97.0	22.4
Balances with banks abroad	-21.9	27.4	10.3
Marketable securities	16.7	-20.6	-8.1
Other investments	-52.2	99.8	-44.9
Loans and advances	40.2	21.9	12.2
Fixed Assets	-1.2	21.3	21.1
Other Assets	4.0	59.5	45.3

Balances with banks abroad increased by 10.3 percent, from M2.3 billion in 2013 to M2.6 billion in 2014. The trend analysis revealed deceleration in this component as compared to previous year which registered 27.4 percent from M1.8 billion in 2012 to M2.3 billion in 2013. It is important to note that, the local banks had no counter-party exposure to African Bank Limited, a South African Bank that was placed under curatorship. As a result, they were not affected by contagion risk emanating from its distress when it experienced some financial difficulties in 2014.

ii) Total Liabilities

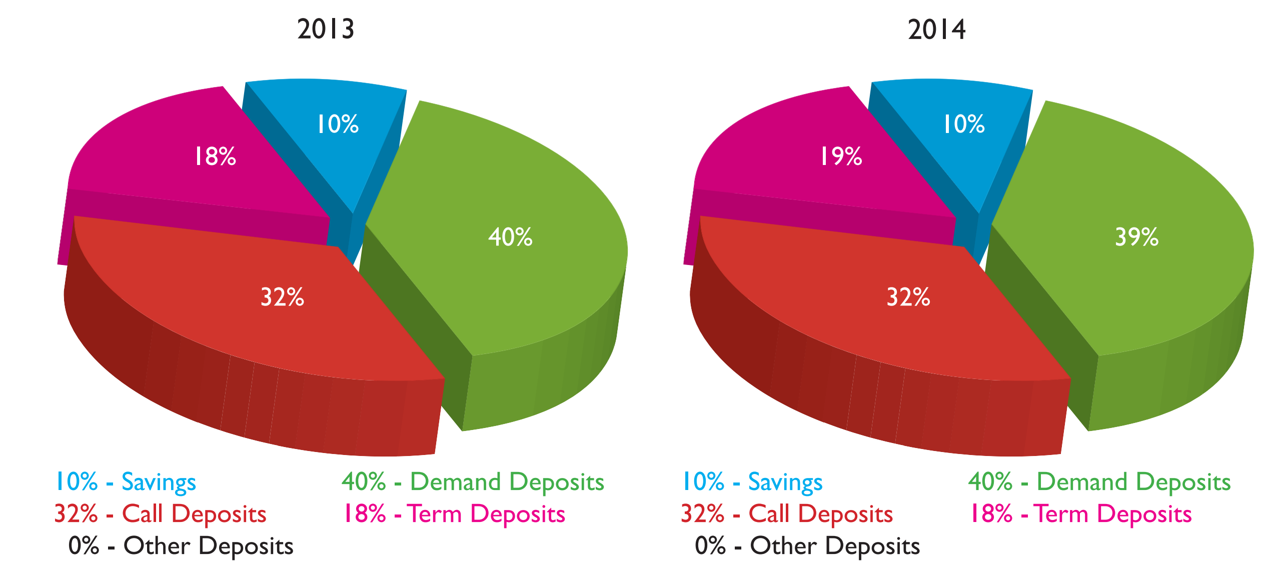
Table 2 highlights an acceleration of 6.2 percent in total liabilities from M10.3 billion in 2013 to M11 billion in 2014. The acceleration was purely driven by deposits liabilities which inched-up by 5.0 percent from M7.8 billion to M8.2 billion. Figure 1 below depicts the structure of deposits in 2014 compared with 2013. The structure of deposits remained the same with some minor shifts noted. Term deposits constituted 18 percent of total deposits in 2013 and rose by 1 percent in 2014 to settle at 19 percent. In addition, 32 percent of total deposits in 2014 were attributed to call deposits which remained unchanged compared to the previous year. In 2014, savings also remained unchanged at 10 percent compared to 2013. Demand Deposits remained at 39 percent of the total deposits. In short, the structure continued to be dominated by short term deposits which highlighted that credit extension was mostly financed from short term deposits in 2014.

Table 2 | The Growth Rates in the Components of Liabilities (%)

	2012	2013	2014
TOTAL LIABILITIES	**-0.4**	**37.3**	**6.2**
Deposits	5.4	28.5	5.0
Due to Local Banks	-9.6	87.9	15.7
Due to Foreign Banks	-72.1	530.8	-37.2
Other Liabilities	-20.7	-14.7	21.8

Given the dominance of wholesale funding and the fact that long-term loans are financed by the short-term deposits, the structure was vulnerable to the political pressures in 2014 which challenged investor confidence. In addition, the interest rate hiking cycles by SARB in 2014, in response to inflationary pressures,also affected top depositors who had a chance to invest where rates were favourable. Fortunately, the interest rate hikes were gradual and did not cause any market imbalance.

Figure 1 | The structure of deposits



Source | Central Bank of Lesotho

iii) Shareholders' Equity

The banking system observed a 16 percent increase in total capital from M1.1 billion in 2013 to M1.3 billion in 2014 as shown in Table 3 below. The increase in total capital was backed up by increasing profitability in 2014. For example, net income increased by 7 percent, from M356.9 million in 2013 to M385.7 million in 2014. However, that was lower than the growth of 31 percent registered in 2013. Total dividends paid in 2014 increased by 10 percent, from M196.7 million to M216.4 million.

Table 3	The Growth Rates in the Components of Capital (%)		
	2012	2013	2014
TOTAL CAPITAL	**16.0**	**16.8**	**16.1**
Paid-up Capital	11.3	10.1	0.0
Statutory Reserve	-4.2	3.6	-0.7
Revaluation Reserves	0.0	0.0	0.0
Other Reserves	128.6	-54.9	64.9
Retained Earnings	19.2	23.4	20.3
Profit/ loss for the year to date	12.1	31.0	7.0

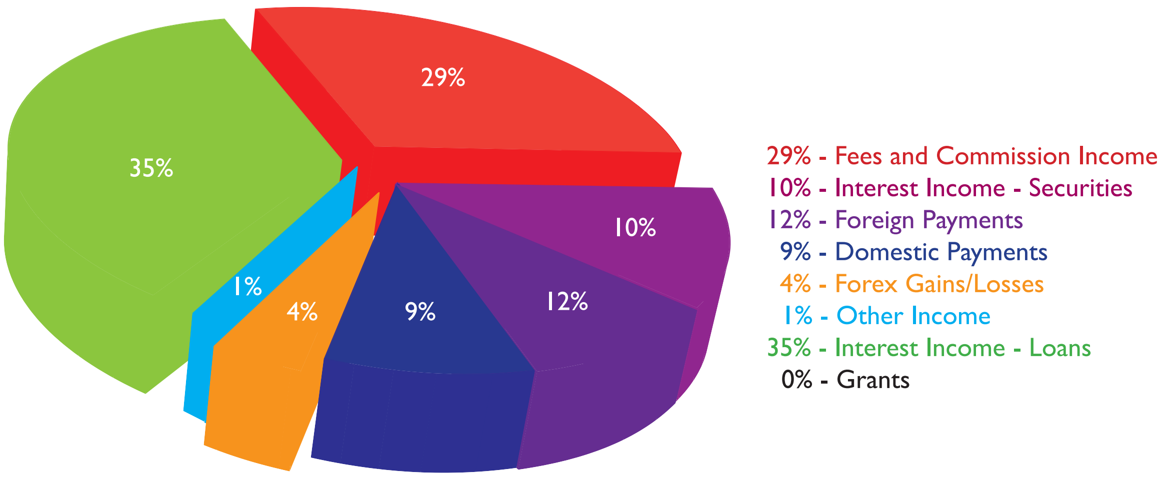
iv) Total Income

Total income of the banking sector accelerated by 7.6 percent, from M1.2 billion in 2013 to M1.3 billion in 2014 as indicated in Table 4 below. The performance in 2014 was slower than 27.5 per cent growth recorded in 2013, from M937.8 million in 2012 to M1.2 million in 2013. The main driving factors behind the increase in total income in 2014 continued to be interest income on loans, commission income and income on placements as depicted by Figure 2 below.

Table 4	The Growth Rates in Components of Total Income (%)		
	2012	2013	2014
TOTAL INCOME	**20.4**	**27.5**	**7.6**
Interest Income-Loans	64.2	46.3	8.0
Interest Income-Placements	-19.5	3.2	55.8
i) Foreign Payments	19.8	-15.0	46.2
ii) Domestic Payments	-43.7	-24.3	80.1
Interest Income-Securities	0.0	10.2	28.6
Total Interest Income	14.0	26.5	23.5
Net Interest Income	22.7	28.3	12.3
Fees and Commission Income	20.0	30.5	3.5
Forex Gains/Losses	17.1	-2.6	4.8
Other Income	-34.0	101.3	1.0
Grants	-8.9	30.8	-76.3
Non-interest Income	17.6	26.6	1.8

Interest income from loans increased by 8 per cent, from M519 million in 2013 to M560.3 million in 2014. However, a stronger growth in this component was observed in the previous year, representing an increase of 46.3 percent, from M354.7 million in 2012 to M519 million in 2013.

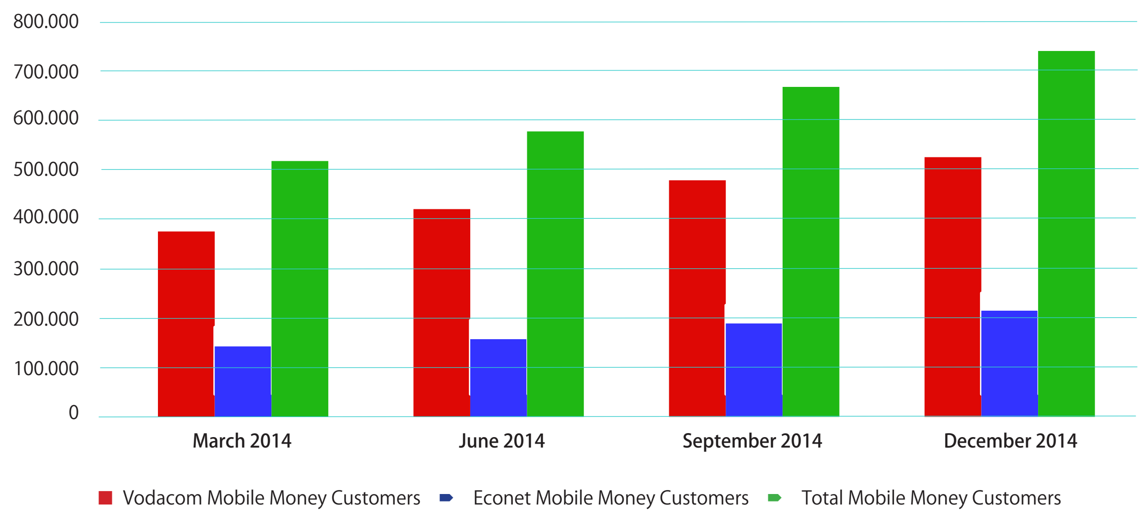
Figure 2 The structure of Total Income in 2014



Source Central Bank of Lesotho

The growth of 55.8 percent from M230.4 million in 2013 to M358.8 million in 2014 from interest on placements is significantly higher than the 3.2 percent growth registered in the previous year. Commission income saw a slight increase of 3.5 percent, from M451.1 million in 2013 to M466.9 million in 2014. In the previous year, commission income increased significantly by 30.5 percent, from M345.6 million in 2012 to M451.1 million in 2013. The slow growth in commission income observed in 2014 could be explained by the emerging competition presented by M-Pesa and Eco-Cash which exhibited exponential growth in 2014 as Figure 3 below depicts.

Figure 3 Mobile Money Registered Customers in 2014



Source Central Bank of Lesotho

v) Total Expenses

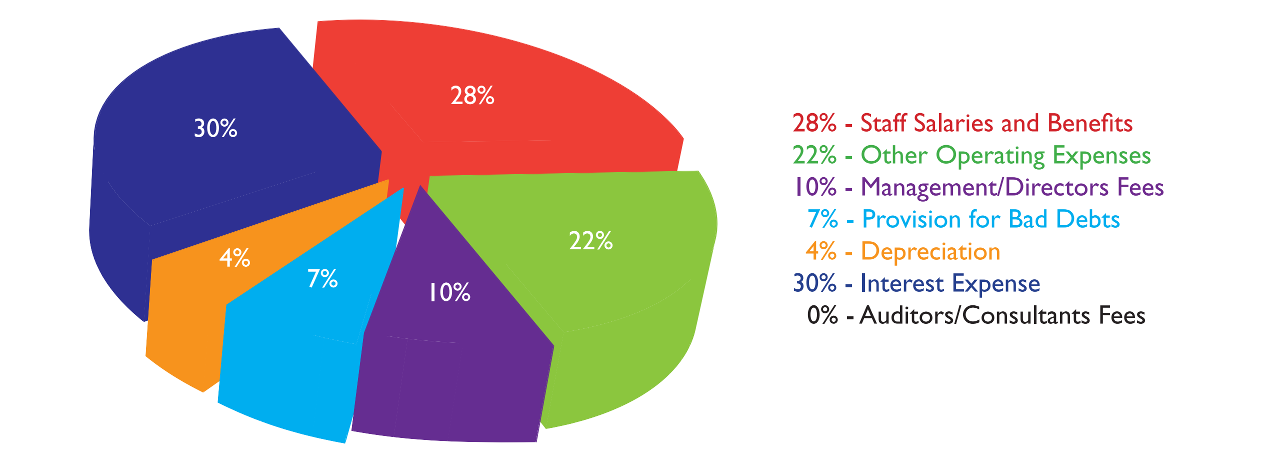
During the period under review, the banking system kept the costs at bay. Total expenses observed an upward trend of 7.6 percent, from M701.6 million in 2013 to M755.2 million in 2014 as shown in Table 5. This increase was significantly below the growth observed in the previous year which revealed 24 percent increase from M566 million in 2014 to M701.6 million in 2013.

Table 5 The Growth Rates in Total Expenses (%)

	2012	2013	2014
TOTAL EXPENSES	**26.1**	**24.0**	**7.6**
Interest Expense	-6.1	21.0	59.4
Staff Salaries and Benefits	1.5	23.9	9.3
Management/Directors Fees	141.8	-26.1	9.1
Auditors/Consultants Fees	8.2	33.3	11.2
Provision for Bad Debts	188.8	31.3	19.6
Depreciation	7.4	28.7	1.0
Other Operating Expenses	6.8	62.8	2.7
Income/Loss before Taxation	12.5	33.0	7.5
Taxation	13.9	38.4	6.1
Net Income before Appropriation	12.1	31.0	8.1
Dividend	-18.9	43.2	10.0
Retained Income	83.0	18.6	15.9

The main contributions to the growth in total expenses during the review period were interest expense, staff salaries and operating expenses. In 2014, interest expenses constituted 30 percent of total expenses, followed by staff salaries at 28 percent and operating expenses at 22 percent as Figure 4 depicts. In 2014, interest expenses increased by 59.4 percent, from M207.7 million in 2013 to M330.9 million in 2014, which was lower than 21 per cent recorded in the previous year. Staff salaries and benefits recorded a 9.3 percent increase, from M275.2 million in 2013 to M300.7 million in 2014 while operating expenses increased slightly by 2.7 percent, from M227.3 million in 2013 to M233.5 million in 2014.

Figure 4 The structure of Total expenses in 2014



Source Central Bank of Lesotho

vi) Profitability

Net income increased moderately by 8.1 percent, from M356.9 million in 2013 to M385.7 million in 2014, a lower growth rate compared to 31 percent recorded the previous year. Profitability was driven mostly by high demand for credit as well as increased prime lending rate due to interest rate hikes in 2014. In addition, lower provision charges also contributed to increased profitability on account of contained credit risk as reflected by non-performing loans ratio of 4 percent which was in line with the industry credit risk appetite of 4 percent.

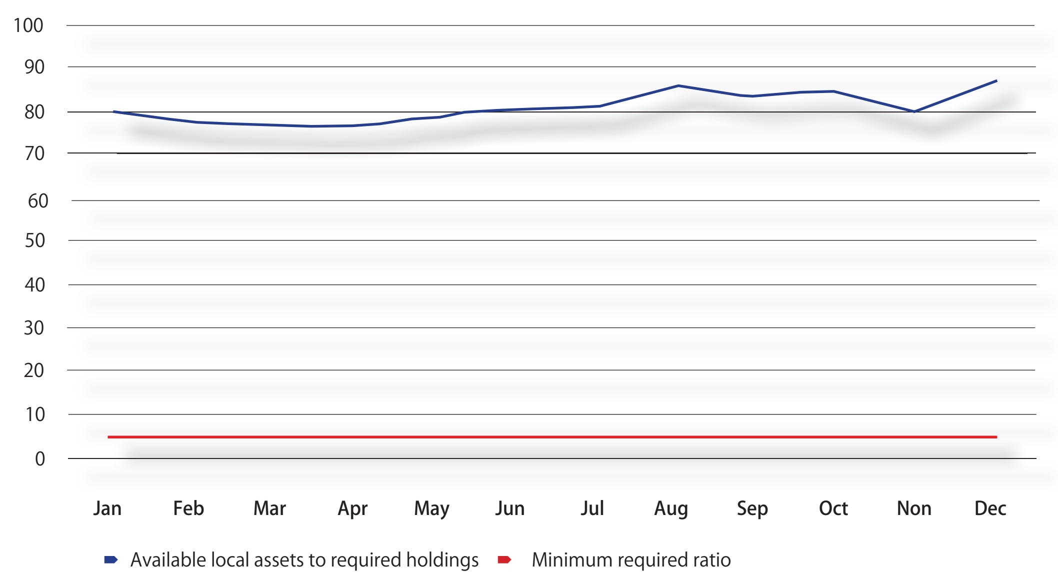
3.2.2 Compliance Issues

The banking industry is required to comply with the Financial Institutions Act (FIA) 2012 and its implementing regulations. In this section, compliance with the minimum local assets requirements, the liquidity requirements, the capital adequacy requirements and the foreign currency exposure requirements for the period under review are analysed.

i) Minimum Local Assets

The Financial Institutions (Minimum Local Assets Requirements) (Amendment) Regulations 2005, requires a bank to maintain local assets at an amount not less than 5 percent of the aggregate value of its liabilities to the public in Lesotho. The industry was highly compliant with the requirement throughout the year as illustrated by Figure 2. Banks maintained a higher percentage than the minimum requirement of 5 percent, ranging from 77-87 percent.

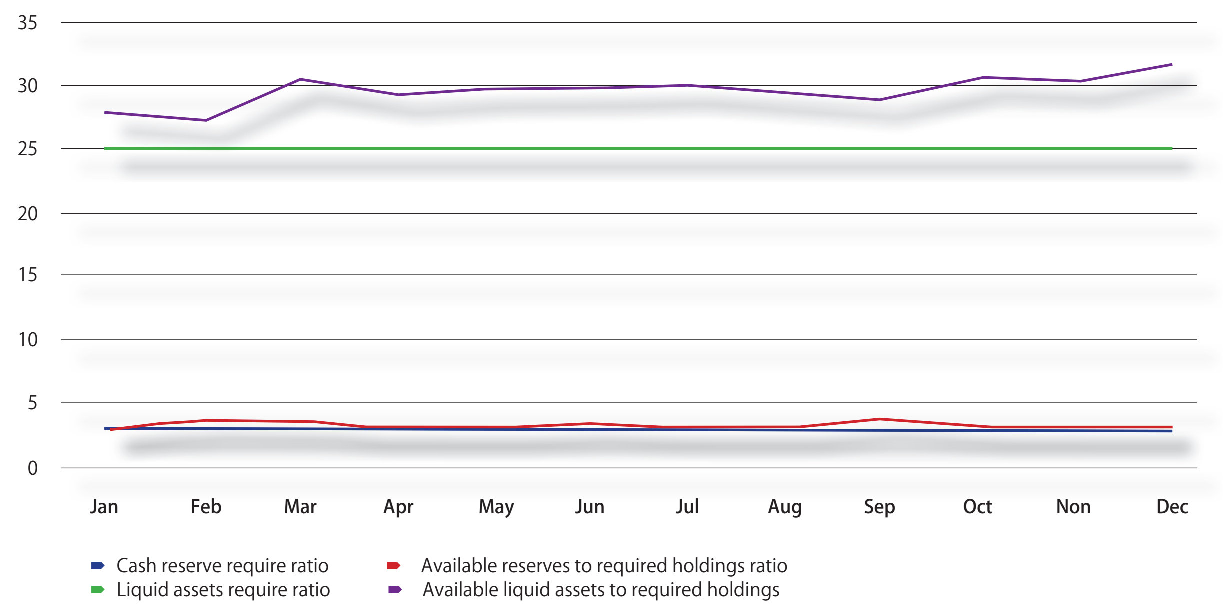
Figure 5 Minimum Local Assets ratio



Source Central Bank of Lesotho

The Financial Institutions (Liquidity Requirements) Regulations 2000 stipulate that all banks shall at all times maintain reserve balance and liquid assets of not less than 3 percent and 25 percent respectively, of the aggregate deposit liabilities, balances due to banks and other liabilities for borrowed money. Figure 3 depicts that in the period under review, the banking industry was compliant with the requirements. The available reserves to required holdings ratio ranged between 3 percent and 3.5 percent in the period under view, highlighting that the banks maintained cash requirements close to the minimum requirement of 3 percent. The available liquid assets to the required holdings ratio ranged from 27 percent to 32 percent which was above the minimum requirement. This indicates that the industry was liquid enough to meet any abrupt cash obligations.

Figure 6 Liquidity Requirements

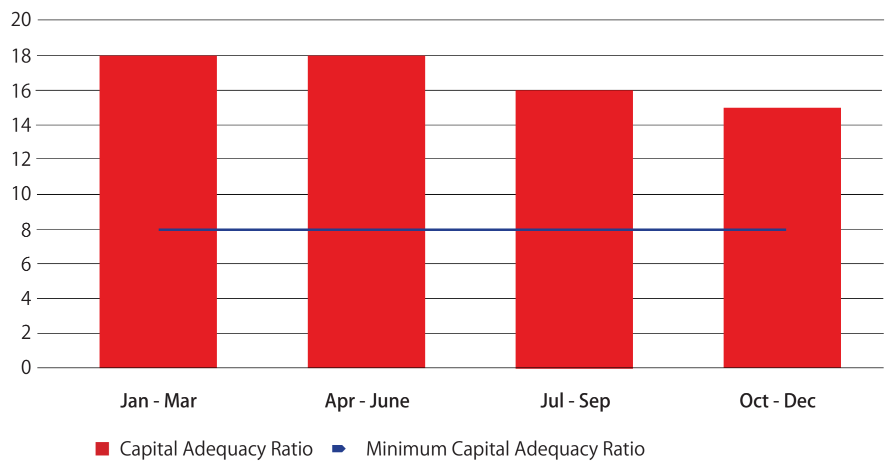


Source Central Bank of Lesotho

iii) Capital Adequacy

The Financial Institutions (Risk-based Capital Requirements) Regulations 1999 are intended to ensure that each bank maintains an adequate level of capital to protect its depositors and creditors and to promote public confidence. Each bank is therefore, required to maintain a capital base of an amount not less than 8 percent of its risk-weighted assets. The CAR reflected a satisfactory position (above the set benchmark of 8 percent) as depicted by Figure 7. The CAR ranged from 12 percent to 16 percent in the period under review, thereby, highlighting that the banks' capital risk was adequate to absorb unpredictable losses.

Figure 7	Capital Adequacy

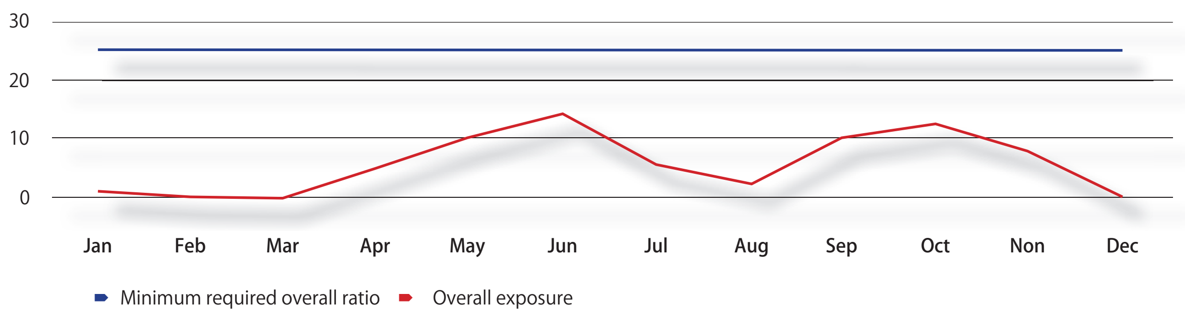


Source Central Bank of Lesotho

i) Foreign Currency Exposure

In accordance with Foreign Currency Exposure Limits (Amendment) Regulations 2002, a bank can hold a maximum of 15 percent of its total qualifying capital on a single currency and a maximum of 25 percent on overall exposure at the end of any business day. Figure 8 demonstrates that in 2014, the overall exposure for the industry was ranging between 0.3 percent and 14 percent. The single currency exposure for the industry was within the required limit of 15 percent. For this reason, the industry was compliant and there were no cases that attracted penal measures.

Figure 8	Foreign Currency Exposure



Source Central Bank of Lesotho

3.2.3 Market Outreach

The rapid developments in computer and telecommunication technologies are transforming the present branch banking into highly integrated mobile and online banking. For example, M-pesa and Eco-cash increased competitive pressure in the banking system. The technologies continue to improve trends on financial inclusion enabling banks to offer services conveniently. Take for example, the e-banking technology; Internet banking, mobile banking, credit cards, debit card and others, which have made it easier to transact.

Table 6 below shows that 2014 marked substantial expansion in debit cards which increased by 52.4 percent from 312 thousand in 2013 to 475 thousand in 2014, surpassing the growth of 19.1 percent in 2013. This sharp increase in debit cards is mostly attributed to the conversion of ATM cards into debit cards. In the first quarter of 2014, the ATM booming and card related frauds remained prevalent. However, card related frauds dropped significantly in the second half of 2014 due to improved ATMs and Card security features.

Table 6 The Growth Rates in Debit Cards, POS Devices and Credit Cards (%)

	2013	2014
Debit cards	19.1	52.1
POS devices	69.4	30.1
Credit Cards	14.02	13.95
ATMs	20.5	12.1

During the year under review, the number of ATMs increased significantly by 12.1 percent, from 141 in December 2013 to 158 in December 2014. Table 6 shows that credit cards increased by 13.9 percent, from 9.3 thousand in December 2013 to 10.7 thousand in December 2014.

The growth of POS devices, though at a decreasing rate as shown in Table 6, further confirmed that e-banking has gained acceptability because customers perform banking transactions in a hassle-free, time convenient, reliable and safe environment, and commercial banks are investing in low cost service channels in an attempt to keep the costs at bay and continue to increase their footprint. The substantial increase of 30.1 percent in POS devices was observed, from 803 in 2013 to 1 000 in 2014. It was, however, lower than the robust growth of 69.4 percent witnessed in 2013.

The banking system continued to play a pivotal role in employment creation. During the review period, the total workforce improved by 7 percent from 1 200 in 2013 to 1 300 in 2014. In addition, short term jobs were created by the industry to handle the projects which had to be implemented, and in response to the rise in demand for banking services, specifically, in the festive season. Such projects include updating KYC documents, as well as transforming ATMs cards into debit cards.

The banking industry remained oligopolistic in nature, mainly controlled by three foreign banks, which accounted for over 97.2 percent of the banking sector's total assets in 2014. Table 7 highlights the market shares and shows that the three banks have a total of 32 branches out of 45 branches. The only state-owned bank in the economy tends to have a stronger presence in remote areas pursuing a more pro-poor strategy.

Table 7 Market Shares (%)

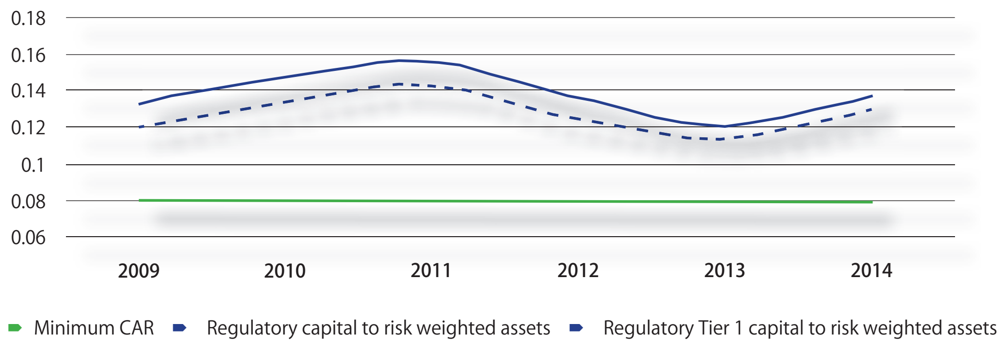
	2012	2013	2014
Market Share of the top 2 Banks	85.91	87.6	86.44
Share of Revenue of the Top 2 Banks	89.91	78.00	81.86
Market Share of foreign Banks	96.70	97.25	97.17

3.2.4 Financial Soundness Indicators

i) Capital Adequacy

Capital adequacy and availability ultimately determine the robustness of banks to adverse shocks to their balance sheets. Capital adequacy ratios are important because they take into account most important financial risks (foreign exchange), credit and interest rate risks, including risks involved in balance sheet operations. They are measured to determine if the banks have enough capital to cover losses they may incur.

Figure 9 Capital Adequacy



Source Central Bank of Lesotho

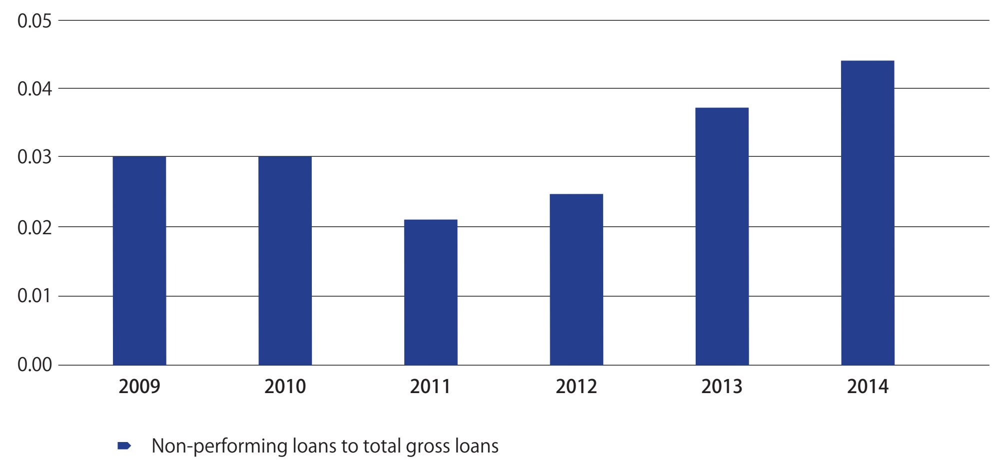
The banking industry in Lesotho remained adequately capitalised during the review period. The banks continued to maintain higher capital than the minimum regulatory requirement under Basel I. The ratio of total regulatory capital to risk-weighted assets was higher at 13.7 per cent in 2014 in comparison to 12.1 per cent observed in 2013 and remained higher than the minimum requirement of 8 percent. The ratio of tier I capital to risk-weighted assets (RWA) also increased during the year under review showing that the banks maintained sufficient levels of core capital to absorb shocks that may arise. As at December 2014, banks had a ratio of tier I capital to RWA of 13.0 percent as compared to 11.2 percent observed during time the previous year.

On the other hand, the ability of banks to withstand losses from NPLs, as measured by the ratio of non-performing loans (NPLs) net of specific provisions to capital, deteriorated during the review period. NPLs grew by 4.2 percent in 2014, as notable from Appendix X, and the total regulatory capital increased by 17.7 percent, hence the fall in the ratio by 1.5 percentage points.

ii) Assets Quality

Asset quality ratios are measured to determine the robustness of banks' credit portfolios as they are a major source of earnings. The ratio of non-performing loans to total loans in particular is intended to identify problems related to assets quality in the loan portfolio. An increase in the ratio may signal deterioration in the quality of the credit portfolio. This ratio remained relatively unchanged between 2013 and 2014. Of the total portfolio of loans, 4 percent were non-performing. This shows that the banking industry maintained a good quality of assets despite there being a slight increase in the ratio in recent years.

Figure 10 | Assets Quality



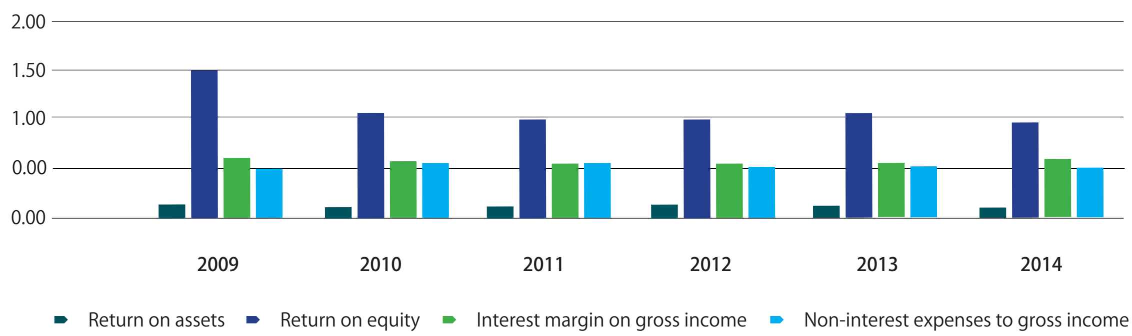
Source | Central Bank of Lesotho

The ratio of large exposures to capital, which is an indication of vulnerabilities arising from the concentration of credit risk, rose during the review period. It increased to 163.4 per cent in comparison to 157.3 per cent observed in 2013 as notable from Appendix X.

i) Earnings and Profitability

Earning and profitability ratios are used to determine banks' efficiency in using capital and assets to generate profits. Banks need to generate enough profits to remain in business thus it is important to measure these ratios in order to determine their sustainability. The industry remained satisfactorily profitable during the period under review, showing that banks have been efficient in using assets and capital to generate income. Return on assets decreased slightly from 12.0 per cent in 2013 to 10.4 per cent in 2014, while return on equity fell from 106.2 per cent to 97.1 per cent during the same period.

Figure 11 | Earnings and Profitability



Source | Central Bank of Lesotho

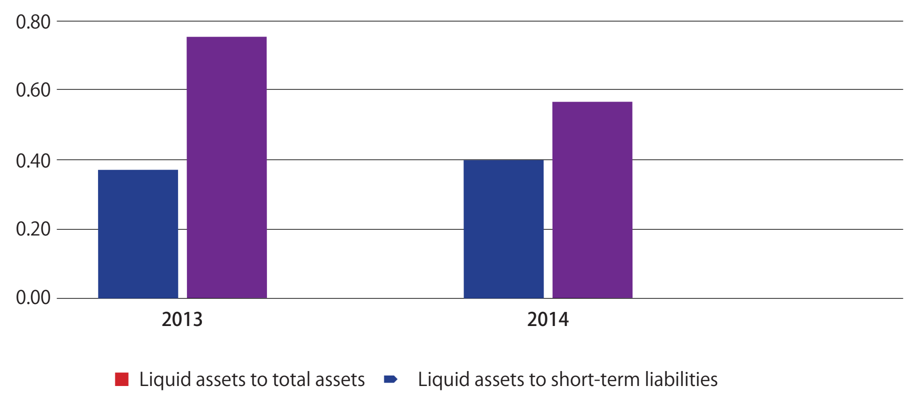
A fair share of the banks' 2014 income came from interest earnings. The ratio of net interest income to gross income was 58.4 percent in 2014, a slight decline from 55.9 percent observed in 2013. The ratio of non-interest expenses to gross income, which measures the proportion of administration expenses to total income or the efficiency of the banks in using its resources to generate income, declined slightly from 52.8 percent in 2013 to 51.1 percent in 2014.

iii) Liquidity

Banks require enough liquidity to cover expected and unexpected cash outflows at any given point in time. Liquidity ratios are measured to monitor the level of liquidity within the banking system. The ratios show that liquidity remained fairly adequate to withstand shocks to banks' balance sheet during the period under review. The liquid asset ratio, which provides an indication of the liquidity available to meet expected and unexpected demands for cash, increased from 35.3 per cent in 2013[2] to 40.6 per cent in 2014.

Furthermore, the extent to which banks are able to meet short-term withdrawal of funds without facing liquidity problems remained fairly sound during the review period. The ratio of liquid assets to short-term liabilities is intended to capture the liquidity mismatch of assets and liabilities. It declined from 71.6 percent in 2013 to 56.1 percent in 2014.

Figure 12 | Liquidity Ratios



Source | Central Bank of Lesotho

The ratio of customer deposits to total (non-interbank) loans can be used to detect liquidity problems by comparing deposits considered relatively stable to total loans. A low ratio may signal a relatively high dependence of banks on volatile funds to cover portfolios of illiquid assets and hence a potential liquidity stress in the banking system. This may lead to loss of depositors' and investors' confidence in the long-term viability of the sector. Despite the decline over time, the ratio remained high in the banking industry in Lesotho. It increased between 2013 and 2014 from 125.1 per cent to 174.2 per cent, respectively (Appendix X).

[2] Data prior to 2013 not available due to methodology change.

iv) Market Sensitivity

Sensitivity to market risk ratios are measured to assess the degree to which changes in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect earnings and/or capital. The ratio of net open position in foreign exchange to capital is one of the indicators used to measure sensitivity to market risk and is intended to show banks' exposure to exchange rate risk in comparison to capital they hold. It is used to assess the mismatch between foreign currency assets and liabilities positions in order to determine the vulnerabilities that may arise from exchange rate movements. Banks' exposure to foreign exchange risk remained low during the review period. It declined slightly from 4.8 percent in 2013 to 3.6 percent in 2014.

3.3 Exchange Control and Anti-Money Laundering

3.3.1 Introduction

The Central Bank of Lesotho (the Bank) is responsible for the administration of Exchange Control laws, namely the Exchange Control Order, the Exchange Control Regulations,1989, Exchange Control Rulings, 2013 and Financial Institutions (Anti Money Laundering) (AML) Guidelines 2000 and Financial Institutions (Know Your Customer) (KYC) Guidelines 2007.

3.3.2 Exchange Control Section Overview

The Bank is responsible for regulating the three Authorised Dealers (AD's) namely Standard Lesotho Bank, Nedbank Lesotho limited and First National Bank, as well as one Authorised Dealer with limited Authority (ADLA), being Interchange Lesotho. Lesotho acceded to the International Monetary Fund (IMF) Article VIII in 1997 as a result of embarking on a substantial but gradual removal of many restrictions over current account transactions. Many restrictions on the capital account transactions have also been relaxed in terms of foreign investment related to private individuals, Lesotho Companies and Lesotho institutional investors such as retirement funds, long term insurers, and collective investment scheme.

3.3.3 Applications to Sell Foreign Currencies

In 2014, a total of 222 applications were submitted by Authorised Dealers to Exchange Control for approval compared to 150 applications submitted in 2013. The value of the applications approved increased from M 1.5 billion in 2013 to M2.4 billion in 2014. The sharp increase was as a result of huge amounts of loans associated with new mining operations by Storm Mountain Diamonds Mine and Liqhobong Mining Development. Furthermore, the construction of Metolong Dam as well as roads construction, countrywide, has also contributed to the increase. The applications were related to payment of professional services, management fees, dividends, royalties, insurance premium, re-insurance premium foreign loans, and consultancy fees.

Notwithstanding the above, the Authorised Dealers are allowed to process a greater volume of applications which are within their level of mandate without applying for approval from the Central Bank. Applications were on importation of capital goods by construction companies, gifts, annual contributions, charitable, religious, scientific and cultural, alimony, and diplomatic transfers.

3.3.4 Current Account Liberalisation

In 2014, the Bank continued to make further removal of exchange controls on both current account and capital account transactions. However, indicative limits are still retained on certain current account transactions under the umbrella of single discretionary allowances. For example, donations to missionaries, maintenance transfers, monetary gifts and loans, travel allowances, study allowance, alimony and child support payments, wedding expenses and other special occasions. For any transaction which exceeds the indicative limits, approval by the Bank is required before the Authorised Dealers (AD's) can effect the transaction. Number of Customer Foreign-Currency Accounts (CFCs) also remained at sixty in 2014. Amounts held in CFC are no longer converted into Maloti after 180 days in order to create a conducive environment for the above account holders, especially producers who buy inputs from abroad are often affected by exchange rate fluctuations.

3.3.5 Balance of Payments Reporting System (BOPCUS)

The Balance of payments reporting system is an electronic system used by the AD's and ADLA's to report all data on cross border transactions irrespective of the currency type. The objective of the system is to ensure accurate and comprehensive reporting of data on cross border transactions for both inflows and outflows. The system is used as compliance and monitoring tool to ensure adherence to exchange control laws and requirements.

During the period under review, the total inflows transactions reported by AD's amounted to M9.9 billion, while the outflows transactions amounted to M15 billion. Overall, the total outflows for the period were more than the total inflows indicating that the country imports more goods and services than it exports. This implies that the country runs down its foreign reserves in order to meet its obligations. This is despite the fact that the Rand (since most imports are sought from South Africa) is not considered a foreign currency for exchange control purposes.

3.3.6 Regional Meetings (CMA and SADC)

Exchange Control Section represented the Bank at the Common Monetary Area (CMA) Exchange Control meetings that were held in Swaziland in May and in South Africa in November 2014. The CMA Exchange Control meetings are held quarterly on rational basis between CMA countries, namely, Lesotho, Namibia, Swaziland and South Africa ❑

INSURANCE SECTOR REVIEW

The short-term industry business continued to register positive underwriting performance in terms of both gross premium collection and underwriting gains.

4

INSURANCE SECTOR REVIEW

4.1 Short Term Insurance Business

INSURANCE ACT 2014 describes short term insurance as general insurance business which is non-life and includes insurance for property, accident and health, motor, transportation, engineering, liability and guarantee. At the end of the period under review, there were 5 companies licensed to operate short term insurance business in Lesotho. In addition to the 5, there was one composite insurer.

4.1.1 Underwriting Results

Underwriting results is a measure of gain or loss that remains after paying of claims and underwriting expenses by an insurer. The short-term industry business continued to register positive underwriting performance in terms of both gross premium collection and underwriting gains. Gross premium collected increased by 37.2 per cent to M326.2 million in 2014 from M237.7 million in 2013 as aggressive marketing campaigns by the industry paid off. Despite the significant growth in gross premium collected, the industry recorded a decrease in underwriting gains which dropped by 16.1 per cent to M25.6 million in 2014 compared to M30.5 million realised in 2013 as a result of a 61.1 per cent increase in underwriting expenses to M158.3 million in 2014 from M97.0 million in 2013. The sharp rise in underwriting expenses was driven by amongst others, a 107.6 per cent increase in management expenses to M38.2 million from M18.4 million in 2013 signifying the need for the industry to tighten control of management expenses.

While the industry continued to trade profitably, overall profit before tax dropped by 16.8 per cent to M27.8 million from M33.4 million in 2013 due to the aforementioned decline in underwriting performance. A good showing of 38.0 per cent increase in investment income to M18.9 million from M13.7 million in 2013 was cancelled out by a 43.1 per cent increase in other expenses to M18.6 million from M13.0 million in 2013.

4.1.2 Assets and Liabilities

For the period under review, total assets of the short term insurance industry declined by 14.7 percent to M285.6 million from M334.8 million in 2013. The decline in total assets was driven by a 14.7 per cent downward movement in total financial asset balances to M284.2 million from M333.3 million in 2013. This was a result of declines in debt securities as well as loans and receivables. Debt securities dropped by 25.9 per cent to M19.6 million from M26.5 million in 2013. Loans and receivables declined by 38.7 per cent to M51.0 from M83.2 million in 2013.

The decline in loans and receivables was indicative of the sector's improved collection strategies. Receivables included funds due from reinsurers. The improvement in collection resulted in more funds being available for investment, especially, in equity securities which grew to M39.5 million from 37.7 million in 2013.

Shareholders' funds registered a downward movement of 16.9 percent to 76.5 million as at 31st December 2014, from M92.1 million as at 31st December 2013. This was driven by a significant decrease in share capital and share premium and accumulated profits indicating a fall in net worth of the sector.

The industry reported a decline in technical provisions of 10.1 percent to M185.6 million as at 31st December 2014, from M206.4 million as at 31st December 2013. However, there is a concern relating to technical provisions which exceed a combination of bank and cash balances and short-term investment by M11.4 million, posing a threat to cover policyholders' obligation as and when they fall due.

4.1.3 Ratio Analysis

Ratio analysis is an indicator used to measure performance and financial soundness of an insurance industry.

Net premiums to gross premiums ratio measures the portion of risk that the insurance industry retains on its account. This ratio declined marginally by 0.3 percentage points to 49.3 per cent in 2014 from 49.4 percent in 2013. This implied that the industry's absorptive capacity dropped slightly during the period under review as evidenced by an increase in premiums ceded to reinsurers.

Claims incurred to net premiums ratio (loss ratio) is an indicator of how much of net premiums was paid out in claims incurred. Higher ratio may be an indicator of poor pricing policy (The Insurance Insider-the litmus Ratio Guide). However, high risk lines of business have volatile loss ratios. Claims incurred to net premiums ratio registered growth of 52.6 percentage points to 12.8 percent in 2014 from 8.4 percent in 2013. This implied that the industry incurred more claims during the period under review.

Commission earned to premium ceded ratio is a measure of how much commission the industry received from reinsurers for the portion of risk it transferred to them. Commission earned to premium ceded ratio grew by 52.6 percentage points to 12.8 percent in 2014 from 8.4 percent in 2013, indicating that the industry received more commission on increased premiums ceded to reinsurers.

Expense ratio is an indicator of how much of net premiums were used to acquire business (commission expenses) and run underwriting operations (management expenses). This ratio registered an increase of 33.1 percentage points to 38.8 percent in 2014 from 29.1 percent in 2013, indicating that the industry experienced growth in underwriting expenses.

Combined ratio is a measure of the industry's performance on underwriting operations. It is the sum of claims and expense ratios. The ratio below 100 percent implies an underwriting profit while a ratio above 100 percent implies an underwriting loss (The Insurance Insider-the litmus Ratio Guide 2013). Combined ratio increased by 37.4 percentage points to 51.6 percent in 2014 from 37.5 percent in 2013. This implies that the industry's underwriting profit deteriorated during the period under review. This is evidenced by a decrease of 16.1 per cent in underwriting gains.

Table 8 | Selected Ratios of Short-Term Industry

Particulars	2014	2013	Change
Net premiums to Gross Premiums	49.3%	49.4%	-0.3%
Claims incurred to Net Premiums	12.8%	8.4%	52.6%
Underwriting gains to Net Premiums	15.9%	26.0%	-38.7%
Commission earned to Ceded Premiums	12.8%	8.4%	52.6%
Management expenses to Net Premiums	13.2%	12.4%	6.9%
Expense ratio	38.8%	29.1%	33.1%
Combined ratio	51.6%	37.5%	37.4%

4.1.4 Impact of Reinsurance

Gross premiums coupled with premium ceded registered an upward movement during the period under review when compared to 2013. Therefore, the risk transferred to reinsurers increased during the reporting period when compared to the preceding period. It can be observed in Table 9 below that premiums ceded to reinsurers during the period under review increased by 37.6 in line with higher gross premium collection which increased by 37.2 per cent as short term insurance sector prudently transferred excess risk to reinsurers.

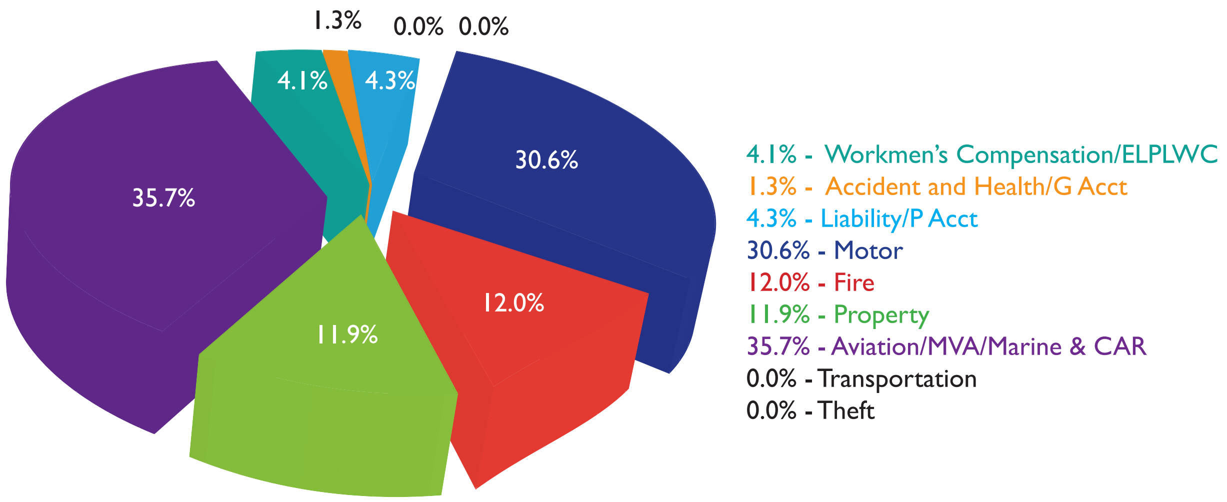
Table 9 Impact of Reinsurance (Million Maloti)

Particulars	2014	2013	% Change 2014/2013
Gross Premium	326.2	237.7	37.2%
Reinsurance Premium	165.5	120.3	37.6%
Net Premium	160.6	117.4	36.8%

4.1.5 Product Portfolio Mix

Motor insurance constituted 30.6% of the total portfolio mix while the combined specialist products (Aviation/MVA/Marine/CAR) reported 35.7% of total mix. The results show that there is still untapped market in the non-life insurance as depicted by the results on the Table 10 below. More education is needed to ensure that the public, private sector and the rest of community are fully conversant with the benefits of insuring their properties. It could also imply that, due to non- competitive pricing, the community is not able to afford the products hence need for attraction of more players which could result in competitive pricing.

Figure 13 Product Mix of Short-Term Insurance Industry

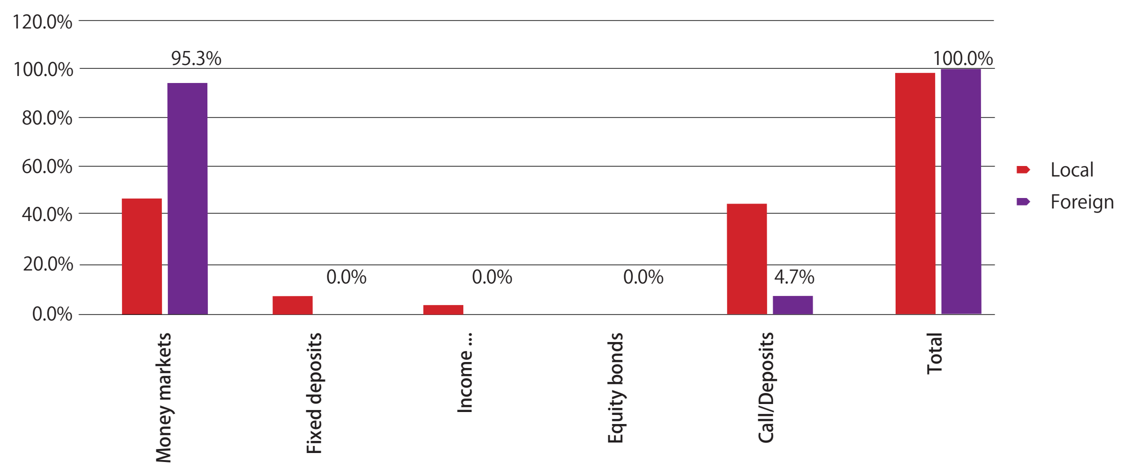


Source Central Bank of Lesotho

4.1.6 Investment Mix

Based on the information gathered, the non-life insurance business investments consisted 50% in money market of which 95.3 per cent was foreign while 47 per cent was local. Call and normal deposits followed at 44.3 per cent and 4.7 per cent, respectively. The results show that there is a need to develop the secondary market in order to make it more possible for the industry to invest in, and therefore, improve the local economy and increase employment as more funds would be invested locally rather than currently when the public funds are being used to develop foreign countries.

Figure 14 Investments of short term insurance industry



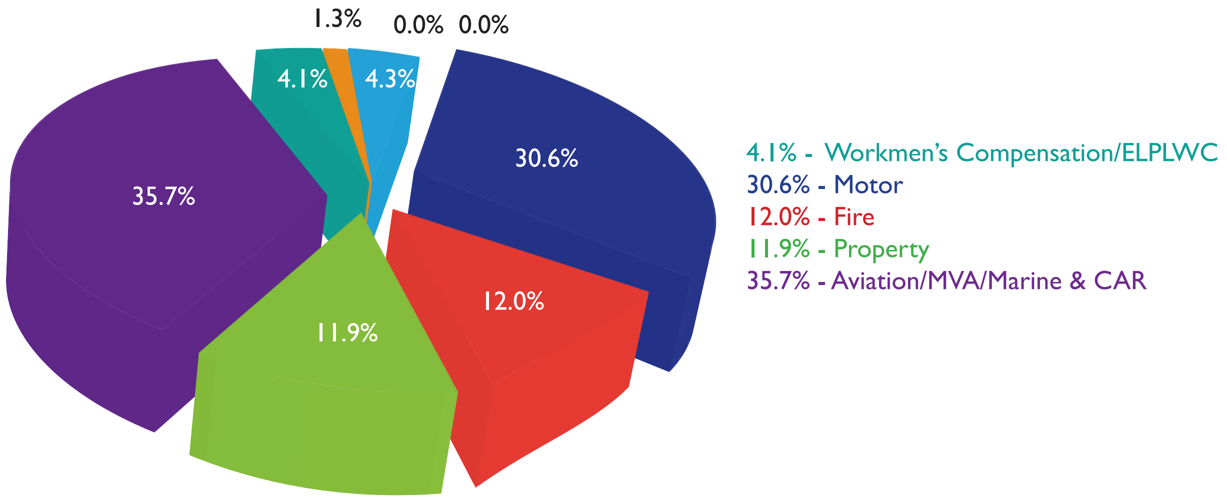
Source Central Bank of Lesotho

4.1.7 Claims Experience

The combined specialist products (Aviation/MVA/Marine/CAR) constituted the highest component of the claims incurred during the period under review at 35.7 per cent while motor constituted 30.6 per cent of the total. Fire and property constituted 12 per cent and 11.9 per cent, while the remainder included, among others, workmen's compensation, accidents, liability. It is comforting to see that the claims incurred are constant with the rate of growth reported underwritten risk as it shows that the industry is compensating the policyholders' as promised in the insurance contracts.

Table 10	Products of Short-Term Insurance Industry
Product	Claims
Motor	30.6%
Fire	12.0%
Property	11.9%
Aviation/MVA/Marine & CAR	35.7%
Workmen's Compensation/ ELPLWC	4.1%
Accident and Health/G Acct	1.3%
Liability /P Acct	4.3%
Transportation	0.0%
Theft	0.0%

Figure 15 Products of Short-Term Insurance Industry



Source Central Bank of Lesotho

4.1.8 Market Share

In terms of gross premiums written, Lesotho National General Insurance Company (LNGIC) constituted the highest component at 59.5 percent followed by Alliance Insurance Company-Short-term Division at 40.5 percent. The Legal Voice Limited, Law Protection Clinic and Zenith Horizon Insurance Company were still establishing themselves in the market.

Table 5 The Growth Rates in Total Expenses (%)				
COMPANY	% ASSETS		% GROSS PREMIUMS	
	2014	2013	2014	2013
LNGIC	60.8	72.9	59.5	65.1
Alliance Insurance Company Limited	39.2	27.1	40.5	34.9
The Legal Voice Ltd	-	-	-	-
Law Protection Clinic	-	-	-	-
Zenith Horizon Insurance Company Limited	-	-	-	-
TOTAL	100	100	100	100

4.2 Long Term Insurance Business

Per the Insurance Act 2014, long term insurance business means a life insurance business comprising products in life, health, assistance, disability, fund and sinking fund. There were 4 operators within the life insurance business category excluding one (1) company which is a composite arrangement. The list in Appendix II shows the institution and the products it is licensed to operate.

4.2.1 Underwriting Results

For the period under review, gross premiums increased by 11.6 percent, to M810.3 million in 2014 from M726.3 million in 2013. This increase was attributable to the improved economic performance, as well as the marketing strategies employed by the life insurance businesses, which resulted in acquisition of new policyholders.

Reinsurance premium ceded also increased by 5.4 percent to M25.3 million in 2014 from M24.0 million in 2013. The ceded premiums accounted for only 3.1 percent of the underwritten premiums, implying that the life insurance industry risk absorptive capacity remained high. This was good for the industry as the retained premiums could be used for investments to increase the industry's asset base.

The long term insurance industry underwriting surplus declined by 14.0 per cent to M118.7 million in 2014 from M138.1 million in 2013 due to an increase of 18.1 per cent in total underwriting expenses which increased to M134.2 million from M121.6 million in the preceding period. The increase in total underwriting expenses was driven mainly by the 23.8 per cent rise in claims incurred (to M408.2 million in 2014 compared to M329.6 million in 2013). The insurers do not have any influence on the occurrence of losses incurred by policyholders which in turn give rise to increase in claims. However, they are expected to be prudent by holding adequate funds to absorb policyholders' claims.

The rise in total expenses was also attributable to upward movements in commission and management expenses which rose by 9.6 per cent and 10.4 per cent, respectively. Commission expenses amounted to M124.2 million in 2014 compared to M113.3 million in 2013. The rate of increase in commission expenses implies that the industry continued to reward intermediaries gross premium collected at unchanged rates compared to the preceding year. Management expenses rose to M134.2 million from M121 million in the preceding reporting period implying that the industry needs to exercise tight control of management expenses.

Despite the decline in underwriting surplus, long term insurance industry recorded a 26.1 per cent rise in operating profit which amounted to M344.8 million in 2014 compared to M273.4 million realised in 2013. The main contributor to the rise in operating profit was investment income which rose by 73.7 per cent to M205.2 million from M118.4 million in 2013 driven mainly by exchange rate gains as the South African Rand continued to weaken relative to the Dollar. The Loti is pegged to the Rand under the Common Monetary Area agreement. This outstanding performance in investment also indicates that the investment portfolio of the industry was well structured.

The performance on total earnings for the year 2014, at 42.60 per cent, was considered to be satisfactory as it improved from 37.60 per cent in 2013.

4.2.2 Assets and Liabilities

The financial soundness and health of the insurance sector improved as at December 2014, this is evidenced by a rise in total assets by 15.5 percent to M4.0 billion as at 31st December 2014 from M3.5 billion as at 31 December 2013. The improvement was a result of a rise in investments (Financial instruments) by 16.8 percent from M3.4 Billion in December 2013 to M4.0 billion as at December 2014.

Due to intensive investments in the current period, the sector managed to accumulate high investment income amounting to M205 million, hence the increase in cash and bank balances by 94.7 percent from M103 million in December 2013 from 53 million as at December 2014. However, the collection of outstanding premiums improved marginally since it only declined by one (1) percent during the period under review. Debtors and reinsurance recoveries increased by 34 percent and 5 percent, respectively, implying that the funds could have been invested and increased return on investments.

Shareholders' wealth improved 8.4 percent to M680 million as at 31 December 2014 from M627 million as at 31 December 2013, as a result of an increase of accumulated funds by 9.8 percent. There was no change in authorized and issued capital as at December 2014.

Technical provisions increased by 14.1 percent to M3.1 billion as at 31st December 2014 from M2.7 billion in December 2013. The increase in technical provisions indicates that the insurance sector will not have any difficulty in settling policy holder's obligations.

Insurance Core Principle (ICP) 17.1.3 states technical provisions as the amount that the insurer requires to fulfil its obligations and settle all commitments to policyholders and other beneficiaries arising over a lifetime of a portfolio.

The assessment is based on the availability of current assets to settle technical provisions and current liabilities. The sector was liquid, current assets exceeded current liabilities and technical provisions by M1.1 billion. This signifies the sector's ability to properly measure and monitor the liquidity position.

4.2.3 Ratio Analysis

The section evaluates the financial soundness of the life insurance industry for the year ending 2014. Premium ceded to gross premium ratio indicates the rate at which the industry shared risk with reinsurance. The ratio decreased by 0.2 percentage points to 3.1 percent in 2014 from 3.3 percent in 2013. In real terms, the ceded premiums had increased in amount, while the ceded amount in relation to gross premium had decreased, indicating that the absorptive capacity had improved. This implied that there were excess funds for investments, which was good for the industry growth.

Claims incurred to net premiums ratio increased by 5.1 percentage points to 52 percent in 2014, from 46.9 percent in 2013. This indicates an increased outflow of funds out of the net premiums, to settle the policyholders' liabilities. The industry still registered a gain despite increased loss, implying a strong position in the underwriting business.

Underwriting gains (loss) to net premium ratio decreased by 4.5 percentage points to 15.1 percent in 2014 from 19.7 in 2013. There was 18 percent increase in underwriting expenses, resulting into low profitability. This implied that the industry incurred higher expenses compared to the previous year. However, when assessing specific underwriting expenses other than claims, it was evident that though in real terms there was an increase, the expenses in proportion to the net premium had decreased. The decrease is therefore accountable on the claims which the industry had no control over, except to have the financial ability to absorb the loss.

Commission expenses to gross premium ratio declined by 0.3 percentage points to 15.3 percent in 2014 from 15.6 percent in 2013. In real terms the amount of commission paid increased, raising the outflow from the gross premium. However, the slight decline on the ratio implies there were no changes in rates used to compensate the intermediaries for the business introduced.

Management expenses to net premium ratio slightly decreased by 0.2 percentage points to 17.1 percent in 2014 from 17.3 percent in 2013. This indicated that the industry was able to control the expense implying there were no changes in rates applicable except for inflation adjustments.

Combined ratio increased by 4.6 percentage points to 84.4 percent in 2014 from 79.8 percent in 2013. The ratio relates to total claims and expenditure paid out of net premiums, and outlines the underwriting performance. A combined ratio of less than 100 percent indicates a gain, while anything over 100 percent indicates a loss. At 84.4 percent the industry registered a gain, indicating a satisfactory profitability growth.

Table 12 | Ratios of Long-Term Insurance Industry

Particulars	2014	2013	Change
Premiums Ceded to Gross Premium	3.1%	3.3%	-0.2%
Net Premiums to Gross Premiums	96.9%	96.7%	0.2%
Claims Incurred to Net Premiums	52.0%	46.9%	5.1%
Underwriting Gains/ Losses to Net Premiums	94.4%	80.6%	13.8%
Commission Expenses to Gross Premiums	15.3%	15.6%	-0.3%
Management Expenses to Net Premiums	17.1%	17.3%	-0.2%
Combined Ratio (Claims Ratio + Expense Ratio)	84.4%	79.8%	4.6%

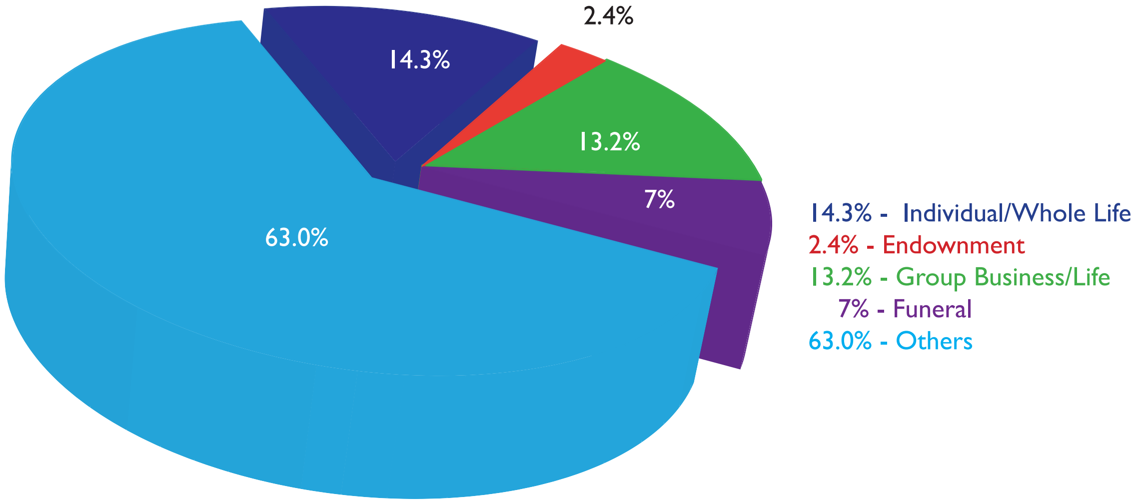
4.2.4 Impact on Reinsurance

Reinsurance is an efficient and flexible option for protecting primary insurers against major claims and accumulated losses, and for strengthening their capital base. The insurers made reinsurance arrangements to spread the risk to the amount of M25.3 million as at December 2014, hence, the industry is protected against the potential large accumulations of individual losses that could result from catastrophic events. Indicative of the industry's confidence in shouldering more risk, however, the premium ceded to reinsurers increased only by 5.4 per cent compared to an 11.6 per cent rise in gross premium collected.

4.2.5 Product Portfolio Mix

Products offered by the long term insurance include individual and whole life covers,funeral cover, investment, group/business life as well as pensions and provident funds. The pensions and provedent funds category constitued 63 percent of the industry's product mix with 27 per cent made up of the rest of the products stated above. Individual life policies are grouped together with whole life policies currently. New reporting templates will require a more accurate classification of the products offered by the industry.

Figure 16 | Product mix of the long term insurance industry



Source | Central Bank of Lesotho

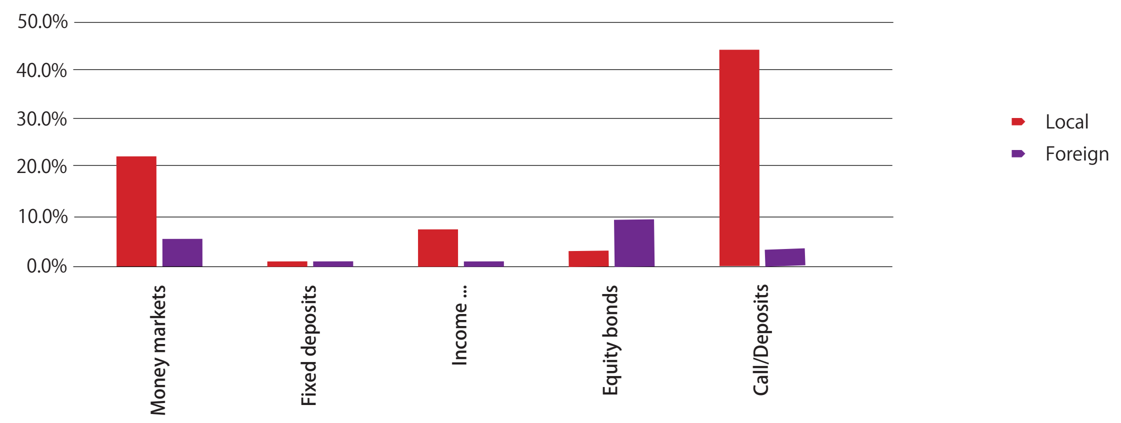
4.2.6 Investment Mix

As depicted in the Table 6 below, the investment portfolio mix for the long-term insurance sector constituted mainly money market and call deposits at 44.8 per cent and 2.6 per cent respectively. Of the total, 44.8 per cent is local while 2.6 per cent is foreign. The long-term industry was within the recommended foreign assets holding. It should be noted that the status might change as a result of proposed admissible assets under which some of the foreign investments (offshore) and or local assets will not be used to measure assets holding unless certain criteria would have been met by individual companies.

Table 13 | Investment Mix of Long-Term Insurance Industry

Portfolio	Local (%)	Foreign (%)
Money Markets	23.8	6.2
Fixed Deposits	0.0	0.0
Income Fund/Working Capital	9.2	0.0
Equity Bonds	1.8	11.6
Call/Deposits	44.8	2.6

Figure 17 | Investment Mix of Long Term Insurance Sector



Source Central Bank of Lesotho

4.2.7 Claims Experience

The industry's claims experience during the period under review comprised more of the other products category at 63 per cent, thus move in the same direction as the written premiums and the product mix as stated under section 2.2.5. Individual/ whole life followed at 14.3 per cent while group business/life constituted 13.2 per cent. It is, therefore, apparent that as a result of mixed reporting by some individual companies, the individual policies and group policies need to be broken down into sub-categories to ensure accurate statistical data which would assist in the development of relevant ratios to enable better assessment of the sector.

Table 14 | Products of Long-Term Insurance Industry

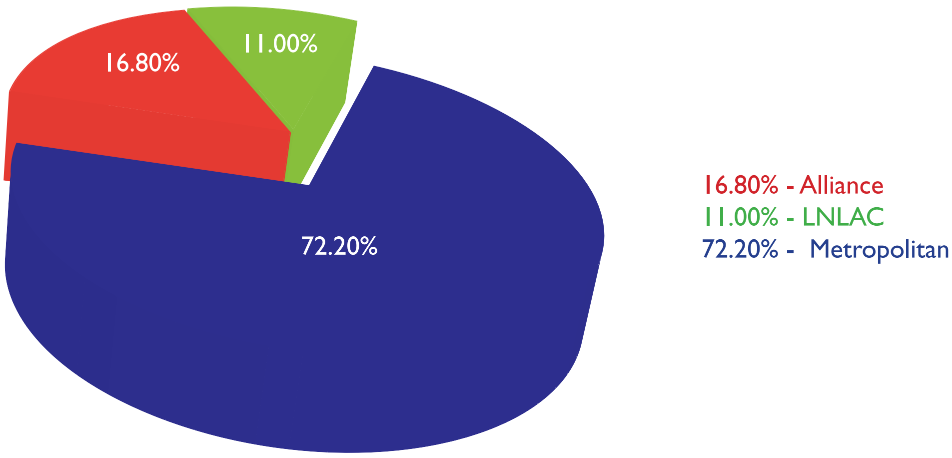
Product	Comp (%)
Individual/Whole Life	14.4
Endowment	2.4
Group Business/Life	13.2
Funeral	7.0
Others	63.0%
Total	**100%**

In terms of gross premiums, Metropolitan Lesotho Limited continued to dominate the market with a share of 72.2 percent

4.2.8 Market Share

In terms of gross premiums Metropolitan Lesotho Limited continued to dominate the market with a share of 72.2 percent, followed by Alliance Insurance at 16.8 percent and LNLAC at 11.0 per cent. Individual insurers' market share is depicted in Figure 18 below.

Figure 18 | Market share in the long term insurance industry



Source Central Bank of Lesotho

4.3 Micro-insurance Business

Currently, there is no operator licensed to operate as a micro-insurance company in Lesotho except that the products deemed to be those of micro-insurance are currently being offered by long-term and short-term insurance companies and the funeral parlors. The Insurance Act 2014 provides for regulation and supervision of micro insurance. However, micro-insurance regulations were still in draft form at the end of the reporting period. Supervision of the micro insurance sector will not only enhance consumer protection but will also greatly advance support to financial inclusion policy strategy of the Government of Lesotho. The regulations were developed with the assistance of the Ministry of Finance through the SUFIL initiative.

4.4 Insurance Brokers

The Lesotho insurance brokerage business for the year 2014 incorporated twenty eight (28) brokers operating in both life and general insurance business. The industry is highly fragmented with the biggest company in terms of commission earned/income valued at M29 million and the smallest at M0.2 million. The review is based on the performance of five (5) brokers who are considered to be major players in the industry, based on commission earned/income.

4.4.1 Profitability

The Insurance Brokerage industry performed well during the period under review in terms of commission earned which improved by the 13.4 percent to M42.4 million in 2014, from M37.3 million in 2013.

There was no change in other income as it remained at M23 million in both periods under review, while the industry's profit before taxation stood at M15.2 million reflecting an increase of 10.8 percent from 2013 results.

4.4.2 Ratio Analysis

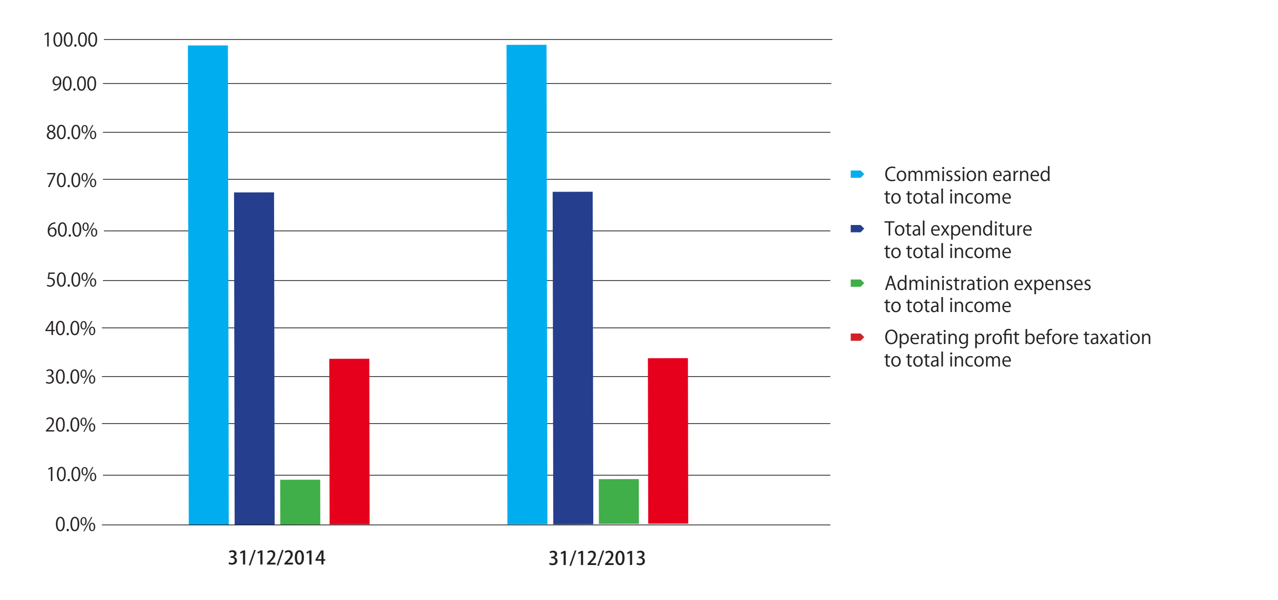
The ratio of commission earned to total income did not change in the period under review as it remained at 99.9 percent in both 2014 and 2013. The total expenditure to total income ratio increased by 1.6 percentage points from 66.9 percent in 2013 to 69.1 percent in 2014.

Operating Profit before taxation to total income ratio stood at 35.9 percent in 2014 signifying a drop of 0.8 percentage points from the previous year's 36.8 percent.

Table 15 | Insurance Brokers Performance Ratios (In Percentages)

Particulars	31/12/2014	31/12/2013	Var. (%)
Commission Earned to Total Income	99.9	99.9	0.0
Total Expenditure to Total Income	69.1	67.5	1.6
Administration Expenses to Total Income	68.3	66.9	1.3
Taxation to Commission Earned	9.9	9.3	0.5
Operating Profit Before Taxation to Total Income	35.9	36.8	-0.8

Figure 19 | Insurance Brokers Performance Ratios



Source | Central Bank of Lesotho

4.4.3 Assets and Liabilities

Total assets stood at M52.6 million in 2014 reflecting an increase of 29 percent from the previous year. The main contributor to the increase in total assets across the board was cash and cash equivalents.

Trade creditors stood at M27 million in 2014 from M19.3 million in 2013 which is a 40 percent decrease in the liability. This decline may imply that brokers are remitting premiums to insurers timeously.

4.4.4 Collective Investment Schemes

i) Licensing

During the period under review, the number of active and formally registered collective investments schemes remained at two. One asset management company manages four funds while the other manages only one fund. There were only two new applications assessed during the period under review. All two funds management companies licenses and five funds licenses were renewed on due dates and there were no surrenders during the period.

One of the main responsibilities of the Central Bank of Lesotho, as a regulator, is to ensure that legal and regulation framework used to supervise these financial institutions remains current and relevant. Therefore, review of regulatory instruments is done on a continuous basis. To this end, the Central Bank of Lesotho (Collective Schemes) Regulations 2001, under which collective investments schemes are licensed and regulated in Lesotho, was due for review in line with international best practices. The exercise to replace the current legislation with the new regulations that will take into account the latest international standards and best practices is still in process.

In the absence of legislation that supports direct oversight of occupational pension funds in Lesotho, it remains a challenge to maintain close supervision of such entities. However, they are currently supervised under the auspices of the Insurance Act 2014.

ii) Market share

STANLIB Lesotho (Pty) Ltd controlled a larger market share in terms of total assets under management, number of funds being managed and monetary values. Both companies placed their funds in various types of investment categories including Central Bank of Lesotho's Treasury Bills, Money Market, Fixed Deposits, Bonds and Unit Trusts. At end of last quarter of the period under review, STANLIB Lesotho held 96 per cent(or M1.305 billion) of the market while African Alliance held the remaining 4 per cent at M0.055 billion. The level of market share gave STANLIB Lesotho (Pty) Ltd a considerable degree of systemic significance.

Table 16 Total Assets Under Management(Billion Maloti)

Company	March	%	June	%	September	%	December	%
STANLIB	1.027	94	1.240	95	1.288	96	1.305	96
African Alliance	0.066	6	0.065	5	0.058	4	0.055	4
Total Assets	1.093	100	1.305	100	1.346	100	1.360	100

iii) Compliance

Non-compliance issues recorded during the review period included late submission of audited financial statements and quarterly returns in contravention of Regulation 18 (1) (a) and (b) of the Central Bank of Lesotho (Collective Investment Schemes) Regulations 2001. This hampered monitoring and timely analysis of the health of the industry.

iv) Sector performance

a) Balance sheet
During the period under review, the overall performance of the collective investment schemes industry has shown a stable and sound financial position. The combined assets under management amounted to M1.360 billion. However, African Alliance Lesotho's total assets under management showed a downward trend during the review period.

b) Income statement
The funds consolidated operating profits totalled M 82 million at the end of the review period, hence, improved net assets attributable to the units' holders. The combined income comprised interest received and dividends.

4.5 Complaints Handling and Monitoring

In terms of both the Insurance Act 2014 and the Central Bank of Lesotho (CBL) Act 2000, CBL is mandated, among other things, to protect the policyholders. It is apparent that financial education is required to make sure that the policyholders understand their rights and the need for insurance being offered to them before they conclude the proposal forms and after they have been given insurance policy contracts. In addition, insurance agents must ensure that it is their fiduciary responsibility to disclose all information to the proposed and existing policyholders as required in terms of both insurance principles and international best practices. It is also important to ensure improved entry requirements for all the intermediaries in the insurance sector.

A total of eight (8) complaints was recorded during the year. Six (6) of the complaints were resolved while two (2) were still pending at end of the reporting period. The complaints mainly revolved around a gap between customer expectations and actual delivery by the insurers following lodging of claims by the policyholders. Customer education as well as performance of needs analysis by insurance intermediaries needs to be intensified.

4.6 Compliance with Insurance Act and Supervisory Concerns

The Insurance Act 2014 which is aligned with the core principles of the International Association of Insurance Supervisors (IAIS), was published in 2014 replacing the Insurance Act 1976. Implementing regulations of the new Act were still being developed by the end of the reporting period. The draft regulations will, among others, prescribe enhanced corporate governance and market conduct requirements for the insurance companies as well as intermediaries, which were the major regulatory concerns. The Insurance Act 2014 and regulations afford the regulator greater power to institute punitive measures for non-compliance with provisions of the Act, regulations and directives of the regulator.

5

NON-BANK FINANCIAL INSTITUTIONS REVIEW

5.1 Overview of the Non-Bank Financial Institutions

THE CENTRAL BANK OF LESOTHO has created a conducive legal framework for the Non-Bank Financial Institutions to operate in Lesotho.The following categories are permitted by relevant pieces of legislation: Micro-finance Institutions under the Credit Only and Deposit Taking Micro-Finance Regulations of 2014.

- Money Transfer under the Money Transfer Regulations of 2014
- Credit Bureau under the Credit Reporting Act 2011 and Credit Reporting Regulations 2013.
- Financial Leasing Under the Financial Leasing Regulations of 2013
- Money Lenders Amendment Act of 1993

5.2 Micro-Finance

The Central Bank of Lesotho (CBL) has a clear mandate to supervise and regulate the non-bank financial institutions which include microfinance (MFIs) operating in Lesotho. CBL continuously issues regulations and guidelines to licensed financial institutions and it continuously conducts onsite inspections and offsite supervisions on a regular and need-based. These are done in order to assess compliance of licensed institutions with the existing laws, regulations and prudential norms. The following are laws are for regulation and supervision of MFIs: Central Bank of Lesotho Act 2000; Financial Institutions Act 2012; and the Financial Institutions (Credit-Only and Deposit Taking Microfinance) Regulations 2014. By the time these Regulations were enacted, only six Credit Only MFIs were licensed under the old Credit Only MFIs Regulations of 2010. These MFIs were not fully compliant with these new Regulations and they were given provisional licenses in this transition period while they work on fully complying with the new Regulations.

The outreach of MFIs is still not so outspread as most still operate in Maseru given that the regulations are fairly new and efforts are underway to see to it that this sector grows and extend across the country. Of the six licensed institutions operating today, none of them has employed a group based lending methodology; they have all employed an individual based methodology.

5.3 Money Transfer

5.3.1 Introduction

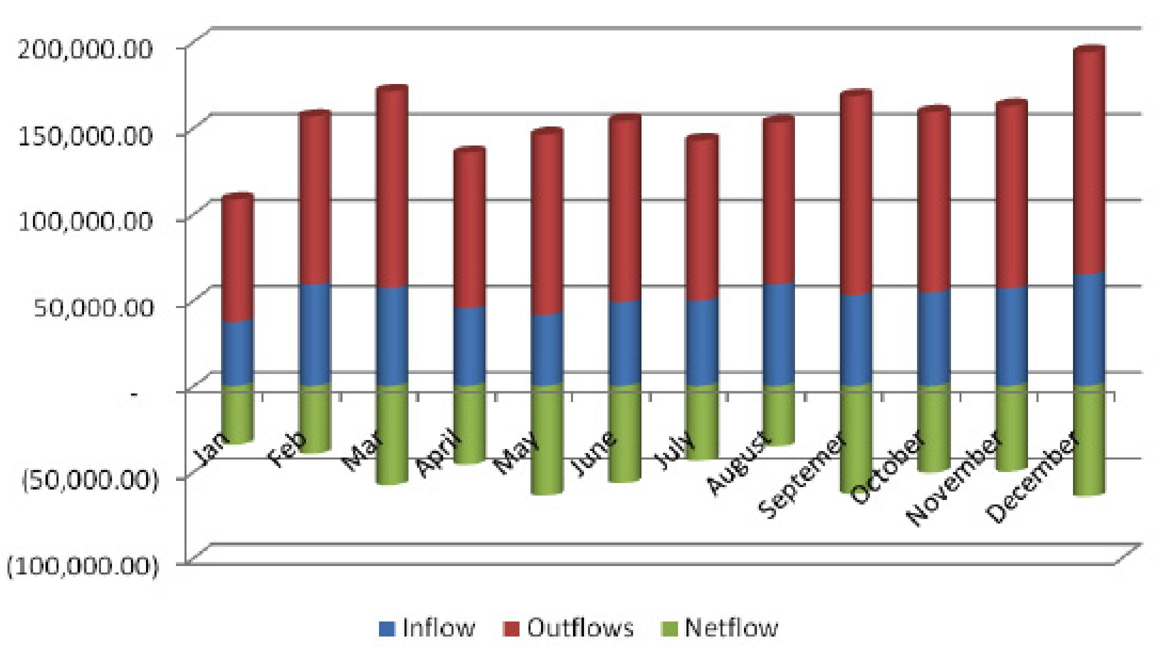
Other than commercial banks in Lesotho, financial institutions which are allowed to offer money remittances are licensed under the Financial Institutions (Money Transfer Institutions) Regulations 2014 of the Kingdom of Lesotho. In the review period, there is one such institution in the country, namely Interchange Lesotho.

5.3.2 Remittances Inflows, Outflows and Net Flows

Overall, the flow of remittances processed through the money transfer platform was very volatile in 2014. In January 2014, the inflows recorded a low of US$ 37, 152 this would be owing to the fact that migrants normally come home during

December holidays and, therefore, would have made large and direct transfers of remittances in person in December. February saw the high of US$58, 855, denoting a 58.4 per cent growth from January 2014 before declining to the low of US$41,273 in May. Since then the inflows of remittances continued on an upward trajectory until the end of the review year.

Figure 19 | Comparison of Total Inflows, Outflows and Net Flows (in Maloti?)



Source | Central Bank of Lesotho

On a quarterly basis inflows closed the first quarter with a cumulative total of US$ 152,956 for the entire quarter. Relative to the first quarter, the second quarter inflows declined by 11.8 per cent with a cumulative total of US$ 134,956. Inflows in the third quarter of 2014 rebounded by 19.9 per cent and recorded a cumulative inflow of US$ 161,810. In the last quarter of the year, remittance inflows increased by 22.3 per cent compared to the third quarter. The year closed at a cumulative high inflow of US$175, 829.43.

Table 16 | Total Assets Under Management(Billion Maloti)

2014	Q1	Q2	Q3	Q4
Inflow (US $)	152 956.01	134 956.02	161 809.98	175 829.43
Outflow (US $)	283 323.88	300 640.10	302 641.11	340 390.35
Net (US $)	-130 367.87	-165 684.08	-140 831.13	-164 560.92

Source | CBL

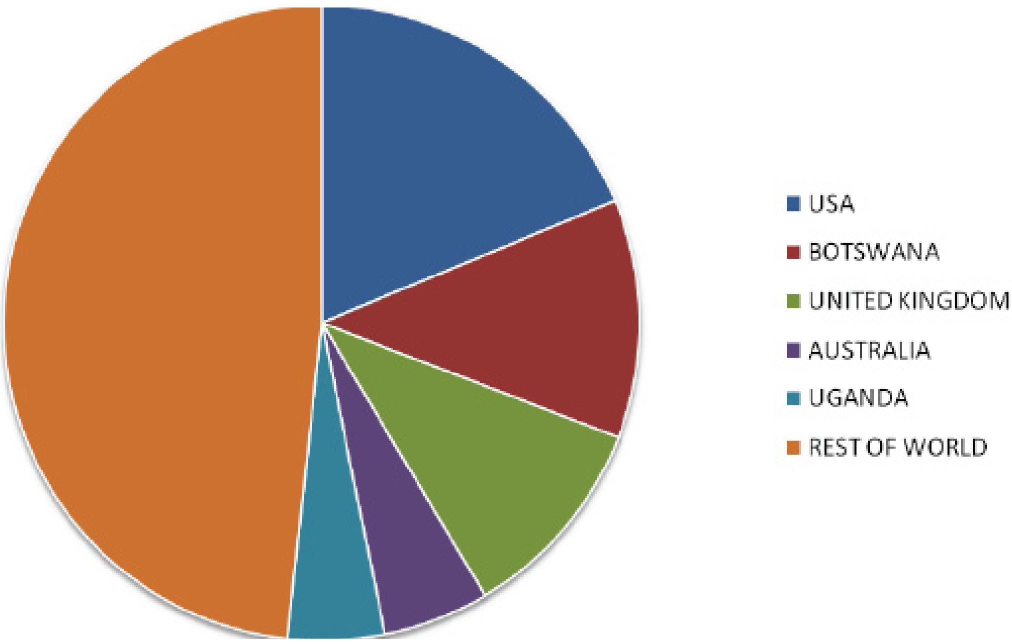
During the first quarter of 2014, remittance outflow surpassed inflows by US $ 130,367.87. This was however, the least quarterly gap of the year. Throughout the year of 2014, remittances that left the country through money transfer platform outweighed the inflows. The second quarter of the year saw the highest net out flows at US $165,684.08, followed by the fourth quarter which recorded US $ 164, 560.92 net-outflows. While these figures may not portray the overall picture of remittance flows for the entire country, it is worth noting the flows of capital which leave the country over the year on the money transfer platform.

During the year under review, the total remittance outflows which passed through the money transfer services operators amounted to US$ 1, 226,995 while the total inflow amounted to US$ 625,551,leading to a net outflow of US$ 601,444. In term of net flows of remittances, it is discernible that Lesotho runs a deficit as outflows are far more than inflows[3]. This is in line with the greater number of migrants from abroad (excluding SA) than Lesotho's Migrants with rest of the world excluding South Africa. The exclusion of South Africa in this platform is mainly because there are many different platforms for remittances to and from South Africa.

5.3.3 Remittance Inflows per Country

While it is observed that remittance funds leaving Lesotho outweigh inflowing funds by a large margin over the year, countries which contribute larger sums of inflowing remittances are: USA, Botswana, UK, Australia and Uganda. USA alone has remitted 18.72 per cent of inflowing funds followed by Botswana and United Kingdom at 12.15 per cent and 10.55 per cent,respectively.

Figure 20 Contribution of Inflows per Country



Source Central Bank of Lesotho

[3] It should be noted that these figures are not aggregates, but refer to a money transfer services provided in Lesotho. Aggregate BOP figures include other platforms and are quite different.

5.4 Credit Bureau

Following the issuance of a license to Compuscan as a credit bureau in 2013, the Central Bank of Lesotho continued with several reforms aimed at making the credit information bureau effective. These include making a proposal to the Court of Justice that it facilitate and grant Compuscan access to civil court judgments for debt and other court orders related to insolvency, sequestrations, and liquidations. This information is considered to have a bearing in assessing creditworthiness of individuals and businesses beyond data supplied by credit providers.

The Bank initiated the establishment of credit providers association (CPAL) in March 2014, with the support of FinMark Trust. The CPAL, from its inception, focused on the sharing of information and the rolling out and reporting of information on the credit bureau. The CPAL also focuses on data protection and getting more people to get on board and to appreciate the value of data sharing. The Bank and the CPAL have been meeting monthly since march 2014. Issues relating to uploading of data, including those faced by lenders towards such uploading of information are discussed in these meetings. The Bank also uses these meetings to promote and ensure compliance with the Credit Reporting Act. The Bank held an induction presentation in March 2014 for the Ministry of Home Affairs employees representing all districts, to inform them about the Credit Reporting Act 2011 and its 2013 Regulations as well as the Data Protection Act. The aim of the presentation was to get the entire Ministry on board with regard to the credit bureau project and to solicit support in the process of identifying and verifying individuals listed on the Bureau.

Following this induction, a working relationship was agreed upon by the Home Affairs Department and Compuscan with an agreement that it would be regulated by an MOU which was yet to be signed by the end of 2014.

5.5 Financial Leasing Market as at 2014

Since the Financial Leasing Regulations were enacted into Law in 2013 there has not been any leasing company applying for a license to operate in this space. There has also been slow interest by Banks or any other already licensed financial institutions to expand services to include leasing as a new product. This was despite the training, promotional and awareness campaigns were carried out in 2014. Furthermore, procedure manual and guidelines were drafted in 2014. These guidelines are still subject to review in order to align them with the leasing market development initiatives.

The lack of interest from prospective market players both domestic and abroad triggered the CBL,supported by PSCEDP and the World Bank,to continue with the development of the Financial Leasing. To that effect a peer learning tour to Ghana was undertaken and a consultant was appointed. Together with Non-Banks Supervision the consultant engaged in a desk review of the market including the legal and regulatory requirements. The outcome was a policy paper which proposed the development of a new plan of action to facilitate the growth of Leasing in Lesotho. Based on this policy paper a new project emerged as can be noted from section 6.4.

5.6 Money Lenders

5.6.1 State of Money Lenders in 2014

Money Lenders operate in Lesotho as per Money Lenders Act of 1989 as amended in 1993. According to the legislations concerned, both public companies and sole traders are free to partake in the business, leading to the industry being all over the country including in the remote rural areas.

As at the end of year 2014, there were at least one hundred license renewals and approximately one hundred and forty new applicants processed.

5.6.2 Challenges

The following challenges have been observed:

- There is evidence to suggest that most money Lenders in Lesotho do not charge the prescribed legal interest rate, which is not supposed to be above 25 per cent per annum;
- Some money Lenders force their clients to leave the important documents as security. Such documents include the Automatic Telling Machine Cards (ATM) together with their secret codes, passports and other important documents;
- Most of the money lenders do not have compliance officers as prescribed by the law;
- The monthly returns required by CBL are filled manually, incorrectly and are not submitted regularly and/or on time.
- Some of the money lenders use one and the same license in different business locations across the Country;
- Money Lenders do not assess clients' credit worthiness as per the legal requirements.
- Money Lenders take by force customer's property in case of default despite the available legal ways to be followed;
- Clients sign contracts without sufficient understanding of contracts' contents but they complain afterwards.

Based on the above challenges, the Bank in collaboration with the Ministry of Finance and Rural Financial Intermediation Programme (RUFIP) has paved way for the establishment of Microfinance Association (LEMFA). To achieve this objective, several meetings were held by the stakeholders including the registered money lenders, aspiring micro lenders and Credit Only MFIs were invited to forums, where intensive training was undertaken. As a follow up to the training by external consultants, a detailed constitution was drawn and registered. The expectation being that all micro Lenders would register with the LEMFA as member and in that way, individual micro-lenders would be regulated and supervised by the association.

5.6.3 Consumer Education

Several radio stations were engaged to disseminate information on the right way of conducting Money Lending business. This was done to protect the market and the consumers as well. Due to the above, several consumers have been enlightened and have lodged complaints against licensees and all those complaints were resolved in time and amicably.

5.6.4 Way Forward

Due to inefficiencies in the legislations governing Money Lenders, and as a way of improving the industry of money lending in Lesotho, steps are being taken to develop the industry as a way of formalizing it. The main objective is to protect the consumer and producers to avoid over indebtedness of consumers, hence, non-repayment of loans. To overcome the challenge of over-indebtedness, the Credit Bureau has been established to provide the necessary information for making sound credit decisions. ❑

DEVELOPMENTS RELATED TO SUPERVISION

The Central Bank of Lesotho continues to strengthen and maintain the safety and efficiency of the National Payment System (NPS) infrastructure as one of its strategic objectives.

6

DEVELOPMENTS RELATED TO SUPERVISION

6.1 Lesotho National Payments Modernisation Project

THE CENTRAL BANK OF LESOTHO continues to strengthen and maintain the safety and efficiency of the National Payment System (NPS) infrastructure as one of its strategic objectives. Safety and efficiency in the NPS requires that payments are carried out timeously, securely and at an affordable cost. To ensure safety of the NPS infrastructure, the CBL operates and administer Lesotho Wire (LSW). This is a Real Time Gross Settlement system used for settlement of large funds transfers between commercial banks in the country. LSW is based on the credit push principle in order to mitigate systemic risks. Banks are required to closely monitor the liquidity positions and fund their accounts where necessary before sending transactions to counterparties. LSW is also a very important payment system as it is a settlement system for other retail payment system, namely Cheque and Electronic Funds Transfer (EFT). During the period under review, a total of 61,631 transactions with a monetary value of M118.2 billion were processed.

Lesotho Wire performed relatively well with increased values and volumes in comparison to the previous year.

6.1.1 National Payment Systems (NPS) Act 2014

The Bank continually pursues reforms aimed at improving and modernising payment systems in the country. The reform of the legal and regulatory framework was identified as one of the key strategies for payment system modernisation as it would afford CBL the legal basis and support as the Overseer of Lesotho National Payment System.

The major milestone achieved in the current year is the promulgation of Payment Systems Act, 2014. Furthermore, the Act effectively supports the development and operations of payment systems in the country. It legally enforces concepts and principles of payment systems operations by clearly defining the rights and obligations of operators, participants and regulators. The legal certainty of Lesotho's payment systems in turn support regional integration programmes such as cross border payment systems development and operations.

Payment Systems Act, 2014 goes a long way in fulfilling an important requirement that all payment systems should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions. In the coming year, Payment Systems Regulations shall be developed to support the implementation of the Payment Systems Act, 2014.

6.1.2 Maseru Image Automated Clearing House (MIACH)

Several payment systems have been implemented in Lesotho since the modernisation process commenced. Following the implementation of Real Time Gross Settlement System (RTGS) in 2006, a number of retail payment systems have been implemented. These include Electronic Funds Transfer (EFT Credits and Debits), Mobile Money for domestic payments and SADC Integrated Regional Electronic Settlement System (SIRESS) for cross-border payments in Common Monetary Area (CMA) countries and other SADC countries.

Although, Cheque usage is declining as a result of the afore-mentioned alternative payment instruments, they are still widely used by the public and some organisations. Consequently, the Commercial Banks and the Central Bank of Lesotho under the umbrella body called Payment Association of Lesotho (PAL) developed a new automated system of clearing cheque payments based on cheque images. The electronic clearing centre known as the Maseru Image Automated Clearing House (MIACH) went live on 13th September, 2014.

The entire essence of MIACH technology lies in the use of images of cheques (instead of the physical cheque) for payment processing (Cheque Truncation). Cheque truncation thus obviates the need to move the physical instruments across branches to the clearing house. This effectively eliminates the associated cost of movement of the physical cheques, reduces the time required for their collection and brings excellence to the entire cheque clearing process. MIACH is a more secure and efficient system as opposed to the exchange of physical documents (cheques). Cheque Truncation enables faster processing of cheques resulting in improved service for the users. It reduces the scope for cheque related frauds or loss of instruments in transit, thus benefitting the system as a whole.

6.2 Development of the Credit Information Bureau Project

6.2.1 Introduction

The Credit Bureau initiative is another project aimed at improving access to finance in Lesotho for private sector institutions. The rationale behind the bureau is due to the fact that access to credit by individuals and the private sector, particularly MSMEs, still remains a huddle, as financial service providers in Lesotho are reluctant to provide credit using a diversity of credit products suitable for Lesotho's market. Financial providers also commonly reject credit applications due to their inability to appropriately assess credit worthiness of borrowers. This inability to assess credit worthiness affects a significant portion of the Lesotho market of the under banked.

6.2.2 The Credit Bureau Project

As a result, the Central Bank of Lesotho in line with the Financial Sector Development Strategy is responsible for facilitating the development and operationalization of the credit bureau. The process entails, among others, to: bring different categories of credit providers into the reporting system on a phased basis, starting with banks;and introduce standardized reporting and database formats, and communications systems for the credit bureau. The Bank also has the responsibility to develop and enforce the use of reporting frameworks by the credit bureau and the commercial bank. In Support of this project, the CBL, with the support of The Private Sector and Economic Diversification Project, embarked on a consultancy aimed at designing and establishing supervisory and reporting systems for the Credit Bureau. The consultancy is also on training regulators on how to analyse bureau reports and produce industry statistics and reports. Part of the consultancy is on designing a communications strategy that is to focus on consumer education campaigns on credit bureau modalities and its benefits.

6.2.3 The Legal and Regulatory Framework for the CIB

To lay the foundation for the inception of the bureau, three laws we passed. The Data Protection Act 2011 establishes the data protection commission and makes provision for principles for regulation of processing of personal information. The act is also for purposes of protecting and reconciling the fundamental and competing values of personal information privacy and other related matters. Other pieces of legislations include the Credit Reporting Act 2011 and the Regulations of 2013. The former makes provisions for regulation of a credit reporting system for licensing and registration of a private bureau operator while the latter makes conditions, criteria and reporting standards for such a player.

6.2.4 The Way Forward

The projects agenda, going forward, is to: facilitate an information uploading project to increase the quantity of data on the bureau platform; launch the information sharing initiative; and conduct education campaigns targeted at different stakeholders. The main objective of the project is to provide valuable data which enhances better credit assessment. Moreover, it ensures that all stakeholders understand and appreciate the use of a credit bureau and the value it could add their business operations. The CBL shall, from time to time, build and strengthen supervisory and regulatory tools in order to ensure efficiency and effectiveness of the credit bureau.

6.3 Establishment of Secured Transactions Regime on Movables and the Collateral Register

6.3.1 Background

The 2013 Financial Sector Development Strategy as adopted by Cabinet identified financial inclusion and access to credit as a high priority and one of the main financial sector challenges. It also mentioned that addressing these challenges would require a focus on both the supply of credit, and the factors which affect the demand for credit especially by small to medium enterprises (MSMEs). One of the factors identified as integral to improving supply to credit was the development of a modern secured transactions Regime on Movables and the Collateral Registry.

6.3.2 What the Secured Transactions System or Regime

It is the legal and institutional framework that facilitates the use of movable property as collateral for both business and consumer credit. Key to this system to function effective and efficiently is the development of the modern Secured Transactions in Movable Property Law and the electronic Registry. This registry is a publicly accessible facility which principally registers charges and collateral pledges created by borrowers to secure credit facilities provided by lenders. This facility enhances secured lending because credit providers are able to hold interests (security interest, pledge or charge) in debtors movable property such as inventories, account receivables, livestock, equipment and machinery as collateral against loans and other debt obligations,

However, this type of lending is not yet common in Lesotho. In the year under review, the CBL, in its efforts to foster access to finance, embarked on the development of a Movable Collateral Registry project. Laying the foundation and structures for this regime will enable other financial institutions to serve the traditionally under-banked and un-banked efficiently, hence,promoting the necessary access to finance. Currently, the credit market only serves large businesses and employed individuals who are able to pledge immovable assets as collateral.

6.4 Development of the Financial Leasing Market

6.4.1 Introduction

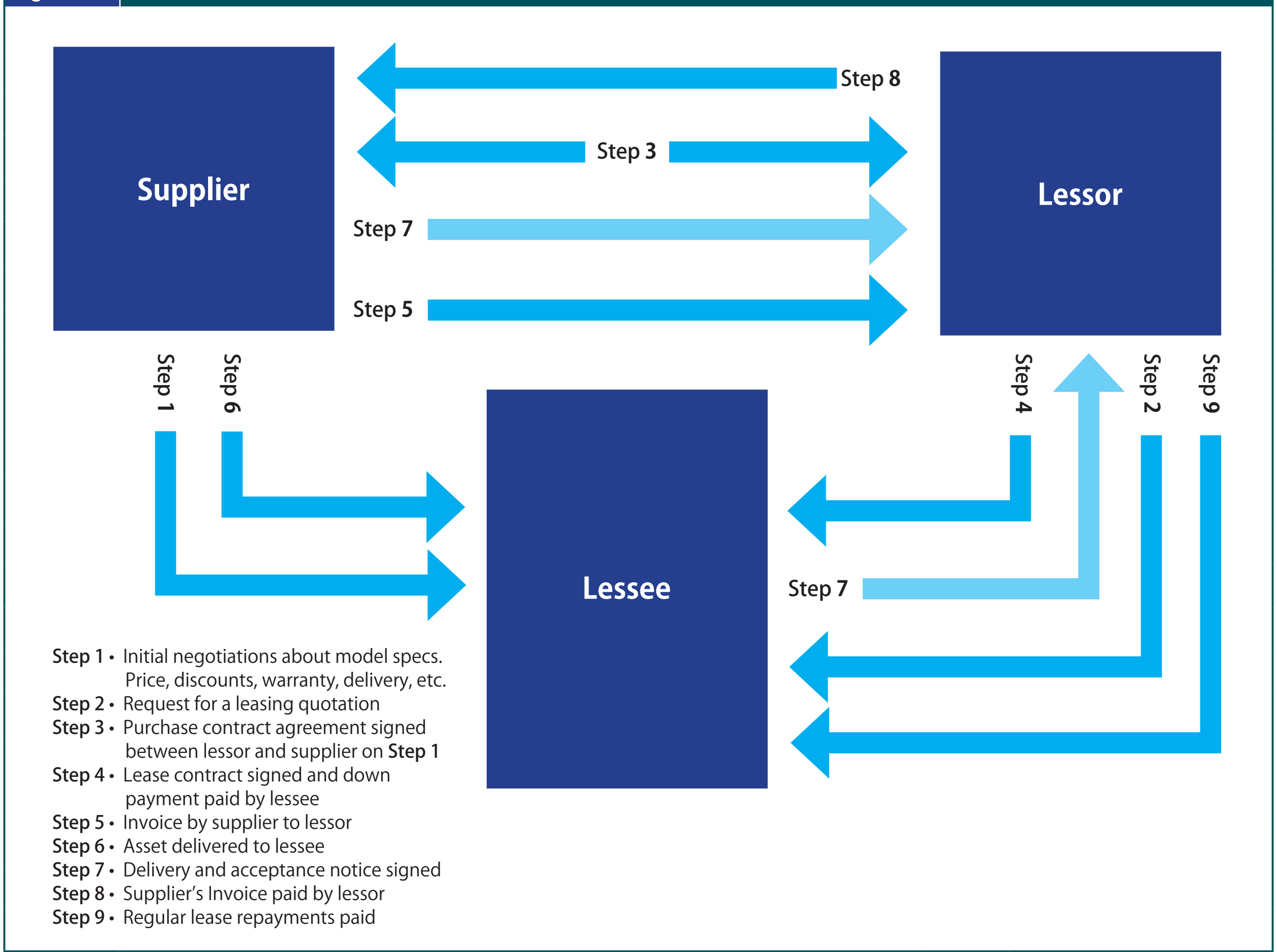
The National Strategic Development Plan (NSDP) identifies development of the financial sector, increasing financial inclusion and access to credit as high priorities and as some of the main financial sector challenges. One of the main constraints limiting access to credit is the lack of collateral, particularly amongst MSMEs. In addressing these challenges the FSDS identifies Lease finance as an alternative to collateral and as an attractive means for individuals and MSMEs to acquire assets.

Consequently, the Financial Leasing Regulations were enacted into Law in 2013. To date, only Standard Lesotho Bank expressed interest and was licensed in 2013.

6.4.2 What is Financial Leasing?

The IFC leasing guide (2009: 7) defines leasing as, "a means of providing access to finance and a contract between two parties wherein one party (the lessor) provides an asset for use to another party (the lessee) for a specified period of time in return for specified payments". It is a medium term financial instrument for the procurement of machinery, equipment, vehicles and/or properties and is fundamentally asset based financing. By its nature leasing provides the leased asset to be some type of security for its financing. The leasing transactions normally follow or adopt a tripartite relationship involving the lessee, the lessor and the supplier of equipment to be leased as depicted by Figure 24 below.

Figure 24 Finance Lease Transactions



Source IFC Leasing Guide (2009)

6.4.3 Policy Options and Way Forward

Going forward, there is a need to review the legal framework and undertake the environmental scan in general with a view to identifying and unlocking the potential barriers for entry in to the leasing space. This shall also include a thorough assessment of the regulatory and supervisory tools or requirements (e.g. minimum capital requirements) under which the leasing industry is to be subjected. The environmental scan shall include an assessment of Lesotho's competitiveness against its peers in the region with regard to attracting leasing companies. In an attempt to enhance active participation in leasing finance, CBL shall: undertake a demand and supply market scoping study or survey of the credit and leasing market. This study shall be aimed at quantifying the potential for leasing in Lesotho, identifying market segments and type of equipment for such segments. It shall also estimate the potential scope of leasing by economic sectors with emphasis on supply chain and downstream impact analysis. This document shall form a basis for developing an investment guide for leasing development incentive packages that are aimed at making leasing and micro leasing attractive and as an alternative for asset financing particularly for MSMEs and the 'unbanked'. These packages may, amongst others, include tax concessions, investment related incentives and partial credit guarantees or any other schemes that may be suitable for Lesotho;

Undertake training and awareness campaigns aimed at instilling the culture of leasing as a viable business for potential lessors and as a preferred facility or product for lessors. Training shall be based on the assessment of the processes, structures, systems and expertise for a leasing company to operate efficiently. Awareness campaigns shall include road shows targeting consumers as well as domestic and regional investment promotion forums targeting domestic and regional prospective players in the leasing market; and strengthen the regulatory and supervisory capacity within the Supervision Department. This can be achieved through reviewing and improving frameworks like manuals and procedure guidelines, adoption of risk based supervision and improved analysis and reporting standards.

Box I Migration from Basel I to II

One of the major developments in the supervision department was the Bank's decision to migrate from Basel I to Basel II. The motivation for this migration stemmed from three issues; first, Basel II is more risk sensitive than its predecessor as such its adoption will ensure that the capital banks hold is commensurate to the level of inherent risk in those banks. Suffice to say, this will greatly improve the risk management practise in banks which will further bolster their resilience. Second, it is envisaged that this will ease the regulatory burden faced by majority of the local banks that results from high compliance costs due to differences in the local regulatory framework and the regulatory framework in their parent banks' jurisdiction. Third, the Bank felt it had made significant strides in meeting the pre-conditions for implementation which are full implementation of Basel I, implementation of a risk based supervision and compliance with the Basel core principles for effective banking supervision.

The Bank successfully implemented risk based supervision in 2010, while the amendment to Basel I which incorporated market risk was addressed in the newly finalised risk based capital requirements regulations. This therefore ensured that Basel I is fully implemented. With regard to compliance with the Basel core principles the Bank has legislation that is in line with several principles. However, a thorough assessment of compliance with these principles was still lagging and scheduled for 2015. Against this background the Bank drafted a first consultative paper (henceforth the paper) that mapped out a selective adoption plan of Basel II. The paper is scheduled to be shared with the banking industry in 2015 in order to solicit inputs from banks on how to implement the accord. In deciding on the elements of the accord that could be implemented, the Bank's decision hinged on two pillars namely simplicity and suitability. That is, the aspects of the accord that are to be implemented have to be simple and suitable to the domestic market.

The paper proposed that pillar 1 be implemented however, all banks be required to adopt the same approach so as to ensure that a level playing field is maintained. For computing capital requirements for credit risk the simplified standardised approach was proposed. This is mainly because under the approach the credit risk weighted assets are fixed and pre-determined implying that the approach would be implemented with relative ease. The other approaches on the other hand were deemed not suitable. For instance, due to the lack of third party credit ratings in the country the standardised approach could not be considered while the internal ratings based approach requires banks to have long and reliable databases which are currently not available. For market risk, the standardised measurement method was recommended. This is because the internal models approach requires banks to use their internal models to compute market risk capital charges which was considered more complicated as compared to the standardised measurement method where capital charges are calculated based on pre-determined ratios.

The basic indicator approach was proposed for calculating operational risk capital charges. Despite proposing the capital calculations under Basel II, the minimum capital requirements set out in Basel III were recommended for adoption. This is because, Basel II retained the Basel I minimum requirements which the Bank feels are increasingly becoming inadequate to address the high concentration risk in the industry. Pillar 2 which is intended, amongst others, to encourage banks to develop and use better risk management techniques in monitoring and managing their risk was also considered for adoption. While Pillar 3 was excluded from the proposed regulatory basket, this is due to the fact that the pillar is intended to apply at the consolidated level of a banking group as such it was considered not applicable to the domestic market where majority of the banks are subsidiaries of foreign banks.

Box II Implementation of Financial Sector Development Strategy (FSDS)

Following cabinet approval of the Financial Sector Development Strategy (FSDS) as one of the implementing strategies of the National Strategic Development Plan (NSDP) late in the previous year, in 2014, the Central Bank of Lesotho commenced with preparatory work for the implementation of the strategy. The FSDS was developed with the joint assistance from the International Monetary Fund (IMF) and the World Bank through Financial Sector Reform and Strengthening (FIRST) Initiative. As identified in the NSDP, one of the main financial sector challenges is increasing financial inclusion and access to credit. Addressing these challenges requires a focus on both the supply of credit, and the factors which affect the demand for credit. Thus the FSDS projects cover the following areas :improving access to finance,increasing alternatives for mobilising financial resources,promoting a savings culture,improving financial sector efficiency, bridging the skills gaps in the financial sector and increasing financial literacy as well as improving financial stability and soundness.

The rationale behind the FSDS is that for a successful implementation of the comprehensive financial sector reforms necessary for Lesotho to attain high, shared and employment creating economy, coordination is of paramount importance. This is also informed by previous initiatives whereby progress was stalled by competing objectives among different government institutions. As a result, in order to enhance overall the FSDS implementation and monitoring some institutional changes have been suggested. These include: establishment of high level FSDS implementation Committee comprising of Principal Secretaries and Heads of Agencies for oversight, establishment of a Steering Committee for financial sector legal reform, establishment of FSDS Secretariat,designation of individual high level champions for each set of policy actions

The FSDS secretariat is being hosted by the Central Bank and is tasked with day to day coordination of the FSDS projects. Amongst its function, the secretariat is liaising with donor communities to minimize duplication of projects and ensure effective intervention. In conclusion, it must be highlighted that most of the projects in the FSDS were already being implemented or on the pipe-line. As such the main focus is solely on implementation.

Box III Developments under Deposit Protection

A policy paper proposing the establishment of a Pay-box *with a narrow mandate* has been finalised and has already been passed on to Government for adoption. The proposed model's role is limited to ensuring reimbursement of depositors in the event of a failure and closure of a member institution only. It has no intervention, supervisory, regulatory or liquidation authority on failing member institutions as is the case with a system that has an extended or broad mandate. However, even under this model the system requires adequate information on depositors as well as adequate funding to ensure proper and timely reimbursement of depositors in the event a failure.

During the year under review the Division considered a legal framework for the system in preparation for its establishment if adopted by the Government.

APPENDICES

Appendix I	List of Licensed Banks		
Name of the Bank	**Title and Name of Chief Executive**	**Postal and Website Address**	**Telephone and Fax**
Standard Lesotho Bank	**Mr. Mpho Vumbukani** - Chief Executive	Standard Lesotho Bank P. O. Box 1053 • Maseru – 100 www.standardlesothobank.co.l	Tel: (+266) 2221 2000 Fax: (+266) 2231 7321
Nedbank Lesotho Limited	**Mr. Petrus Bouwer** - Managing Director	Nedbank Lesotho Limited P. O. Box 1001 • Maseru 100 www.nedbank.co.ls	Tel: (+266) 2231 2692 Fax: (+266) 2231 0025
First National Bank Lesotho	**Mr. Martin Knollys** - Chief Executive Officer	First National Bank Lesotho P. O. Box 11902 • Maseru-100 www.fnb.co.ls	Tel: (+266) 2224 1000 Fax: (+266) 2231 7039
Lesotho Postbank	**Mr. Molefi Leqhaoe** - Managing Director	Lesotho PostBank Private Bag A121 • Maseru – 100 www.lpb.co.ls	Tel: (+266)2231 7842 Fax: (+266) 2231 7832

Appendix II	List of Licensed Insurance Companies		
No.	**Principal**	**Approved Activities**	**Principal Office**
1.	Lesotho National Insurance Company Limited	Non-Life Insurance	**Mr. Ralitapole J. Letsoela - Managing Director** LNGIC House • Constitution Road • Maseru • Lesotho
2.	Lesotho National Life Assurance Company Limited	Life Assurance	**Mr. Ralitapole J. Letsoela - Managing Director** LNGIC House • Constitution Road • Maseru • Lesotho
3.	Metropolitan Lesotho Limited	Life Assurance	**Mr. Nkau Matete - Managing Director** Metropolitan Building • Kingsway • Maseru • Lesotho
4.	Alliance Insurance Company Limited	Non-Life Insurance Life Assurance	**Mr. Angus Yeats - Managing Director** Alliance House • 4 Bowker Road • Maseru • Lesotho
5.	Medi-Life Assurance Limited	Health Insurance Only	**Dr. Molotsi Monyamane - Principal Officer** LNDC Building • Block D • Level 6 • Kingsway • Maseru • Lesotho
6.	Law Protection Clinic	Legal Insurance Only	**Advocate Liphapang Monesa** Mandlebe Royal • Empire Room 3 • Opposite Bible College P. O. Box 2450 • Maseru 100
7.	Legal Voice Limited	Legal Insurance Only	Shop No. 5B • Sefika Shopping Complex • Maseru
8.	Zenith Horizon Insurance Company Limited (New)	Non-Life Insurance	**Ms. Smangela Molumeli - CEO** 1st Floor Christie House • Orpen Road, P. O. Box 0293 • Maseru West 105 • Maseru • Lesotho.
9.	NBC Sechaba Insurance Company Limited	Life Assurance (New)	**Mr. Godfrey Vatsha** Private Bag 2001 • 04 Bowker Road • Maseru 100 • Lesotho

Appendix III	List of Licensed Insurance Brokers In Lesotho as at 31 December 2014		
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 • Insurecare Brokers (Pty) Ltd	**Mr. Mohasi** Managing Director	P. O. Box 11007 Maseru 100	(+266) 22321973 (+266) 22310669
3 • Roseland Insurance Brokers (Pty) Ltd	**Mr. M. Mahlaha** Managing Director	Christie House Ground Floor Orpen Road	(+266) 22322060 (+266) 22325489
4 • Thaba-Bosiu Risk Solutions (Pty) Ltd.	**Mrs. 'Matokelo Seturumane** Managing Director	1st Floor Options Building Pioneer Road Maseru 0100	(+266) 62853340
5 • BMM Insurance Brokers (Pty) Ltd.	**Ms. M. Khalema** Principal Officer	Maseru Book Centre Kingsway Road Maseru	(+266) 22327940 (+266) 58854451
6 • Ideal Insurance Brokers (Pty) Ltd.	**Ms. Theresa Mosenye** Principal Officer	P.O. Box 11403 Maseru 100	(+266) 58432359
7. • Setha Insurance Brokers (Pty) Ltd.	**Mr. M. G. Setilo** Principal Officer	P.O. Box 112 Mafeteng 900	(+266) 22701203 (+266) 63074712
8 • Hamilton Solutions Short –Term Brokers Pty (Ltd)	**Ms. Charmaine Heymans** Principal Officer	Shop 21 Seipobi Building Moshoeshoe Road Maseru 100	(+266) 22627701
9. • Risk 2020 Pty (Ltd)	**A.W. Meyer** Principal Officer	Block B LNDC Development House Kingsway Road	(+266) 2224 1000 (+266) 2231 7039
10 • DBM Insurance Brokers (Pty) Ltd	**Doreen Brown Masilo** Principal Officer	Block B LNDC Development House Kingsway Road	(+266) 22311704
11 • IB Pty (Ltd)	**Joyce Mokhothu** Principal Officer	Dolphin House 23 Motsoene Road Industrial Area Maseru	(+266) 22316556
12 • Risk Managers Lesotho (Pty) Ltd	**Paseka Moletsane** Principal Officer	Sechaba House 4 Bowker Road	(+266) 22321898
13 • MSS Insurance Brokers (Pty) Ltd	**Tšeliso Makara** Principal Officer	Red Cross Building 23 Mabile Road Maseru	(+266) 28323269
14 • Mahlaseli Insurance Brokers (Pty) Ltd	**Mapotsane G. Matsoso** Principal Officer	MathabisoTlelai Building Room 14 Cathedral Area Maseru	(+266) 22314807
15 • MOTS Insurance Brokers (Pty) Ltd	**Montseng B. Phakoana** Principal Officer	Husteds Building 1st Floor Room 13 Maseru 100	(+266) 22310011
16 • DBM Insurance Brokers (Pty) Ltd	**Doreen Brown Masilo** Principal Officer	Block B LNDC Development House Kingsway Road	(+266) 22311704
17 • Brokersure Insurance Brokers (Pty) Ltd	**'Marorisang Lepheane** Principal Officer	Lithoteng Ha Pita Maseru 100	(+266) 58842863
18 • Elite Insurance Brokers (Pty) Ltd	**Ilza Venter** Principal Officer	Block B LNDC Development House Level 3 Room 310	(+266) 57430605
19 • Amazing Grace Insurance Brokers (Pty) Ltd	**Ngaka William Sekokotoana** Principal Officer	Credit Union Building Kingsway Road Maseru	(+266) 62853255
20 • Ultimate Risk Solutions (PTY) LTD	**Paul Jankie Mohapi** Principal Officer	Shop UG 38B Pioneer Mall Maseru	(+266) 57334326
21 • Mokoma Insurance Brokers (Pty) Ltd	**Martin Mokoma** Principal Officer	Block B LNDC Development House Level 5 Room 505	
22. • Client care Risk Consultants (PTY) LTD	Mrs. Popi Kaizer Principal Officer	House # 224 Kingsway Road	(+266) 62731768

Appendix IV	Audited Consolidated Income Statement for Banking Sector			
	2011	2012	2013	2014
TOTAL INCOME	779,079	937,818	1,196,139	1,286,955
Interest Income-Loans	216,056	354,706	519,024	560,308
Interest Income-Placements	277,283	223,323	230,404	358,880
i) Foreign Payments	135,773	162,669	138,332	202,245
ii) Domestic Payments	193,183	108,782	82,329	148,252
Interest Income-Securities	110,940	110,905	122,176	157,164
Total Interest Income	604,279	688,934	871,604	1,076,352
Interest Expense	182,689	171,576	207,659	330,943
Net Interest Income	421,590	517,358	663,945	745,409
Fees and Commission Income	288,043	345,598	451,125	466,872
Forex Gains/Losses	51,810	60,655	59,049	61,872
Income on Equity Investment	0	0	0	0
Other Income	7,394	4,879	9,822	9,916
Grants	10,242	9,328	12,198	2,886
Non-interest Income	357,489	420,460	532,194	541,546
TOTAL EXPENSES	448,684	565,995	701,571	755,167
Staff Salaries and Benefits	218,733	222,110	275,201	300,745
Management/Directors Fees	49,294	119,209	88,122	96,164
Auditors/Consultants Fees	3,105	3,359	4,478	4,979
Provision for Bad Debts	17,318	50,011	65,685	78,579
Bad-Debts Write-offs/Irrecovable losses	0	0	0	0
Depreciation	29,514	31,693	40,787	41,200
Other Operating Expenses	130,720	139,613	227,298	233,500
OPERATING INCOME/LOSS	330,395	371,823	494,568	531,788
INCOME/LOSS BEFORE TAXATION	330,395	371,823	494,568	531,788
TAXATION	87,341	99,441	137,649	146,103
NET INCOME BEFORE APPROPRIATION	243,054	272,382	356,919	385,685
DIVIDEND	169,245	137,286	196,659	216,363
RETAINED INCOME	73,811	135,097	160,260	185,686

Appendix V	Audited Consolidated Balance Sheet for Banking			
BALANCE SHEET	2011	2012	2013	2014
TOTAL ASSETS	**8,373,136**	**8,472,376**	**11,441,254**	**12,260,074**
Cash and Cash Items	261,996	351,431	426,976	387,871
Balances with CBL	162,043	174,311	447,963	549,673
Balances with local banks	965,562	903,599	1,780,323	2,179,873
Balances with banks abroad	2,342,103	1,830,326	2,332,483	2,573,765
Marketable securities	718,913	839,216	666,030	612,183
Other investments	1,112,531	532,188	1,063,519	585,627
Loans and advances	2,559,526	3,588,483	4,375,961	4,907,856
Fixed Assets	146,361	144,577	175,394	212,483
Other Assets	104,101	108,245	172,605	250,743
TOTAL LIABILITIES AND CAPITAL	**8,373,136**	**8,472,376**	**11,441,254**	**12,260,074**
TOTAL LIABILITIES	**7,565,468**	**7,535,848**	**10,347,048**	**10,989,852**
Deposits	5,777,309	6,087,825	7,822,771	8,213,781
Due to Local Banks	1,097,954	992,324	1,864,779	2,157,610
Due to Foreign Banks	178,138	49,674	313,361	196,786
Other Borrowings	0	0	0	0
Other Liabilities	512,067	406,025	346,137	421,675
TOTAL CAPITAL	**807,671**	**936,527**	**1,094,205**	**1,270,223**
Paid-up Capital	88,858	98,858	108,858	108,858
Statutory Reserve	125,909	120,625	124,919	124,059
Revaluation Reserves	13,975	13,975	13,975	13,975
Other Reserves	11,711	26,775	12,070	19,903
Retained Earnings	567,218	676,294	834,383	999,555
Profit/ loss for the year to date	243,056	272,383	356,919	385,683
CONTINGENT ACCOUNTS	**293,833**	**991,842**	**1,049,878**	**663,661**
Letters of Credits	27,373	4,115	5,645	0
Guarantees	241,680	490,943	580,907	222,096
Others	24,780	496,784	463,326	441,565
MEMORANDAM ITEMS	**64,223**	**77,006**	**67,362**	**3,435,542**
Past-Due Loans/Advances	3,880	9,588	26,723	3,226,032
Non-Performing Loans/Advances	38,640	26,604	118,134	215,111
Provisioning (General/Specific)	55,182	93,219	15,309	156,847

Appendix VI	Short-Term Insurance Industry Balance Sheet as at December 2014				
Particulars	2014 Millions	Comp	2013 Millions	Comp	Change 2014/2013
ASSETS					
Property Plant and Equipment	1.4	0.5%	1.5	0.5%	-8.4%
Intangible Assets	-	0.0%	-	0.0%	0.0%
Total Other Assets	**1.4**	0.5%	**1.5**	0.5%	-8.4%
Financial Instruments					
Equity Securities	39.5	13.8%	37.7	11.3%	4.7%
Debt Securities	19.6	6.9%	26.5	7.9%	-25.9%
Loans and Receivables	51.0	17.9%	83.2	24.9%	-38.7%
Cash and Cash Equivalents	174.1	61.0%	185.9	55.5%	-6.3%
Total Financial Instruments	**284.2**	99.5%	**333.3**	99.5%	-14.7%
TOTAL ASSETS	**285.6**	100.0%	**334.8**	100.0%	-14.7%
EQUITY AND LIABILITIES					
Share Capital	4.0	1.4%	6.0	1.8%	-33.3%
Other Reserves	64.1	22.4%	76.7	22.9%	-16.5%
Retained Earnings	8.4	2.9%	9.3	2.8%	-10.1%
Total Capital & Reserves	**76.5**	26.8%	**92.1**	27.5%	-16.9%
Outstanding Claims	89.4	31.3%	76.3	22.8%	17.2%
Provision for unearned Premium	96.2	33.7%	130.0	38.8%	-26.0%
Total Technical Provisions	**185.6**	65.0%	**206.4**	61.6%	-10.1%
Current Liabilities					
Other Payable	23.5	8.2%	36.3	10.9%	-35.3%
Total Current Liabilities	**23.5**	8.2%	**36.3**	10.9%	-35.3%
Total Capital, Reserves and Liabilities	**285.6**	100.0%	**334.8**	100.0%	-14.7%

Appendix VII	Non-Life Insurance Underwrting Revenue Accounts for the Period Ending December 2014 (In Million Maloti)				
Particulars	2014 Millions	Comp	2013 Millions	Comp	Change 2014/2013
Gross Premium	326.2	100.0%	237.7	100.0%	37.2%
Reinsurance Premium	165.5	50.7%	120.3	50.6%	37.6%
Net Premium	**160.7**	49.3%	**117.4**	49.4%	36.9%
Commission Income	21.2	6.5%	10.1	4.2%	109.9%
Net Earned Income	**181.9**	55.8%	**127.5**	53.6%	42.7%
Claims Incurred	94.0	28.8%	62.8	26.4%	49.7%
Commissions Expenses	24.1	7.4%	15.8	6.6%	52.5%
Management Expenses	38.2	11.7%	18.4	7.7%	107.6%
Total Underwriting Expenses	**156.3**	47.9%	**97.0**	708.0%	61.1%
Underwriting Surplus/(Loss)	**25.6**	7.8%	**30.5**	12.8%	-16.1%
Investment Income	18.9	5.8%	13.7	5.8%	38.0%
Other income	1.9	0.6%	2.2	0.9%	-13.6%
Operating Profit	**46.4**	14.2%	**46.4**	19.5%	0.0%
Other Expenses	18.6	5.7%	13.0	5.5%	43.1%
Profit Before Taxation	**27.8**	8.5%	**33.4**	14.1%	-16.8%

Appendix VIII	Long-Term Insurance Business Balance Sheet as at December 2014 (Million Maloti)				
Particulars	2014 Millions	Comp	2013 Millions	Comp	Change 2014/2013
ASSETS					
Property Plant and Equipment	21.0	0.5%	55.0	1.6%	-61.8%
Intangible Assets	11.2	0.3%	13.8	0.4%	-18.8%
Total Other Assets	**32.2**	0.8%	**68.8**	1.9%	-53.2%
Financial Instruments					-38.7%
Equity Securities	2 658.4	65.1%	2 289.3	64.7%	16.1%
Debt Securities	1 070.4	26.2%	856.0	24.2%	25.0%
Loans and Receivables	217.7	5.3%	268.6	7.6%	-19.0%
Cash and Cash Equivalents	103.6	2.5%	53.2	1.5%	94.7%
Total Financial Instruments	**4 050.1**	99.2%	**3 467.1**	98.1%	16.8%
TOTAL ASSETS	**4 082.3**	100.0%	**3 535.9**	100.0%	15.5%
EQUITY AND LIABILITIES					
Share Capital	128.7	3.2%	125.7	3.6%	2.4%
Other Reserves	522.1	12.8%	26.2	0.7%	1892.7%
Retained Earnings	29.5	0.7%	475.6	13.5%	-93.8%
Total Capital & Reserves	**680.3**	16.7%	**627.5**	17.7%	8.4%
Outstanding Claims	95.6	2.3%	88.9	2.5%	7.5%
Provision for unearned Premium	30.8	0.8%	20.6	0.6%	49.5%
Insurance Contracts Liabilities	1 874.9	45.9%	1 623.0	45.9%	15.5%
Investment Contracts	1 119.6	27.4%	1 003.9	28.4%	11.5%
Total Policyholders Liabilities	3 120.9	76.4%	**2 736.4**	77.4%	14.1%
Employee Benefits Obligations	55.3	1.4%	60.2	1.7%	-8.1%
Other Payables	225.8	5.5%	111.8	3.2%	102.0%
Total Other Liabilities	**281.1**	6.9%	**172.0**	4.9%	63.4%
Total Equity & Liabilities	**4 082.3**	100.0%	**3 535.9**	100.0%	15.5%

Appendix IX	Long-Term Insurance Underwriting Income Statement (Million Maloti)				
Particulars	**2014 Millions**	**Comp**	**2013 Millions**	**Comp**	**Change 2014/2013**
Gross Premium	810.3	100.00%	726.3	100.00%	11.6%
Reinsurance Premium	25.3	3.10%	24	3.30%	5.4%
Net Premium	**785**	96.90%	**702.3**	96.70%	11.8%
Commission Income	0.3	0.00%	0.3	0.00%	0.0%
Net Earned Income	**785.2**	96.90%	**702.6**	96.70%	11.8%
Claims Incurred	408.2	50.40%	329.6	45.40%	23.8%
Commissions Expenses	124.2	15.30%	113.3	15.60%	9.6%
Management Expenses	134.2	16.60%	121.6	16.70%	10.4%
Total Expenses	**666.6**	82.30%	**564.5**	77.70%	18.1%
Underwriting Surplus/(Loss)	**118.7**	14.60%	**138.1**	19.00%	-14.0%
Investment Income	205.2	25.30%	118.4	16.30%	73.3%
Other income	20.9	2.60%	16.9	2.30%	23.7%
Operating Profit	**344.8**	42.60%	**273.4**	37.60%	26.1%

Appendix X Financial Soundness Indicators

		2009	2010	2011	2012	2013	2014
Capital Adequacy	Regulatory capital to risk weighted assets	0.13	0.15	0.16	0.14	0.12	0.14
	Regulatory Tier I capital to risk weighted assets	0.12	0.13	0.14	0.12	0.11	0.13
	Nonperforming loans net of provisions to capital	0.05	0.06	0.03	0.04	0.11	0.10
Assets Quality							
	Nonperforming loans to total gross loans	0.03	0.03	0.02	0.02	0.04	0.04
	Large exposures to capital	1.93	2.28	2.21	1.66	1.55	1.63
Earnings & Profitability	Return on assets	0.12	0.09	0.09	0.12	0.12	0.10
	Return on equity	1.48	1.06	0.98	1.01	1.06	0.97
	Interest margin to gross income	0.60	0.56	0.55	0.56	0.56	0.58
	Noninterest expenses to gross income	0.52	0.55	0.54	0.54	0.53	0.51
Liquidity	Liquid assets to total assets					0.35	0.41
	Liquid assets to short-term liabilities					0.72	0.56
	Customer deposits to total (non-interbank) loans	2.98	2.74	2.23	1.70	1.25	1.74
Sensitivity to Market Risk	Net open position in foreign exchange to capital					4.55	4.27

NOTES