



2017 SUPERVISION ANNUAL REPORT

CENTRAL BANK OF LESOTHO
BANKA E KHOLO EA LESOTHO



CENTRAL BANK OF LESOTHO
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GOVERNANCE, MISSION & OBJECTIVES

Ownership and Governance

The Central Bank of Lesotho is a statutory organisation fully owned by the Government of Lesotho.

The Central Bank enjoys a fair amount of independence in formulating and implementing monetary policy. The Governor, who is also the chairman of the Board of Directors, together with the two Deputy Governors, are appointed by His Majesty The King on the advice of the Prime Minister. The Minister of Finance appoints the other Board Members.

Mission Statement

The Mission of the Central Bank of Lesotho is to achieve and maintain monetary and financial system stability to support balanced macroeconomic development of Lesotho.

Objectives

The principal objective of the Central Bank of Lesotho, as stipulated in the Central Bank of Lesotho Act of 2000, is to achieve and maintain price stability.

Other related objectives which are supportive to this mission are:

- To foster the liquidity, solvency and proper functioning of a stable market-based financial systems;
- To formulate, adopt and execute the monetary policy of Lesotho;
- To issue, manage and redeem the currency of Lesotho;
- To formulate, adopt and execute the foreign exchange policy of Lesotho;
- To license, register and supervise institutions pursuant to the Financial Institutions;
- To own, hold and manage its official international reserves;
- To act as a banker and advisor to, and as fiscal agent of the Government of Lesotho;
- To promote the efficient operations of the payments system;
- To promote the safe and sound development of the financial system; and
- To monitor and regulate the capital market.



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— Banks increased the pace of digital adoption in an effort to encourage a cheaper channel than the traditional channels.

FOREWORD BY THE GOVERNOR

In the banking sector, vigilance continued to prevail as full-scope on-site examinations were conducted in two banks, while special examinations were carried out in three banks. The credit portfolio continued to grow despite the poor macroeconomic performance, while a notable increase in the mortgage loans which are long-term in nature. However, the business enterprises were struggling to service their facilities in the midst of challenging macroeconomic environment. Banks increased the pace of digital adoption in an effort to encourage a cheaper channel than the traditional channels. Notwithstanding, one new bank branch was opened in 2017 while ATMs and POS terminals across the country increased. Furthermore, efforts to increase awareness and understanding in respect of combatting anti-money laundering and terrorist financing continued. The Central Bank of Lesotho in collaboration with the banks, participated in the development of the National Risk Assessment (NRA). NRA is a process of identifying and evaluating the money laundering and terrorist financing risk, analysing the main sources and drivers of the risks in order to develop effective and risk-based policies and actions, commensurate with the risk identified.

The banking sector remained sound and stable as reflected by satisfactory performance in profitability and capital position. However, the liquidity funding structure, continued to remain a challenge, as funding continued to be sourced through short-term deposits from business enterprises and government, making banks vulnerable to huge withdrawals by top depositors. This therefore, necessitated closer monitoring for asset-liability mismatches. Another critical component, in respect of management information systems, remained an area of concern. This was because systems had not yet stabilised following upgrades and implementation of new core banking systems. This therefore, exposed banks to heightened operational risk as manual intervention continued to be initiated in relevant instances.

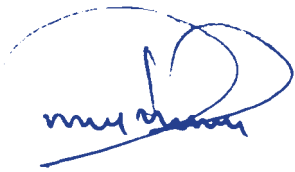
The Commissioner continued to discharge its mandate under the different laws covering the banking, insurance, securities market and non-banks credit institutions. For the insurance, the exercise to monitor and supervise the sector involved inspections that were planned and ad hoc ones in response to emerging risks. These inspections were carried out under the newly implemented risk-based supervision framework, which was expected to be rolled out to the rest of the insurance companies in 2018. In discharging the mandate, the Commissioner revoked or cancelled licenses of three insurance companies; namely, Legal Voice Ltd, Law Protection Clinic Ltd, and Medi-Life Assurance Ltd. Cancellation or revocation of these licences was a culmination of a fruitless attempt to guide the three companies to comply with the Insurance Act of 2014.

On the other hand, the Commissioner carried forward some of the projects that were outstanding in the year 2016 of which some were completed in 2017. Amongst them was to advance the Pension Funds Bill and supporting draft regulations as well as the amendments to the Insurance Act of 2014. These patches to the legislation are expected to enhance regulatory efficiencies and to close regulatory gaps where present. The work to improve on regulatory environment is a continuous exercise that will be on the projects list of the Commissioner in multiple years to come given the rapid pace of technological disruptions and innovation globally.



FOREWORD BY THE GOVERNOR

Generally, the insurance sector remained financial sound with most of the companies adequately capitalised and highly liquid. However, the insurance sector has high management expenses, which may be a reflection of inefficiencies in the sector and these may compromise available funds for investments for future liabilities ▣



A. R. Matlanyane (PhD)
Governor • Mookameli oa Banka

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On an annual basis, Central Bank through its Banking Supervision Division conducts preliminary risk assessments to determine banks which should be examined in a particular year.



BANKING SECTOR REVIEW

1.1 ON-SITE EXAMINATION

On an annual basis, Central Bank through its Banking Supervision Division conducts preliminary risk assessments to determine banks which should be examined in a particular year. The assessments are undertaken in line with Risk Based Supervision Methodology which emphasises the need to obtain and analyse each bank's risk management systems before commencement of on-site examination.

During the year under review, 2017, full-scope on-site examinations were conducted in two banks, while special examinations were carried out in three banks. The full on-site examinations assessed the financial condition as well as the performance of the banks following risk evaluations which revealed most of the areas to be of high risk. The examination placed strong emphasis on understanding and assessing the adequacy, effectiveness and appropriateness of four elements of risk management systems. The risk management systems include Board and Senior Management oversight of the bank's operations, policies and procedures, internal controls as well as the Management Information Systems.

The special examinations on the other hand, specifically focused on the management of dormant accounts, monitoring of government accounts and verification of compliance to specific sections of the Exchange Control Rulings of 2013 and evaluation of Human Resources Department following a report that was made to the Commissioner that the aforesaid were not managed appropriately. Supervisory concerns emanating from the examinations are summarised under two methodologies: Risk Assessment and CAMELS rating system.

1.1.1 Risk Assessment

a) Full-Scope Examinations

Below is a summary of supervisory concerns that were common in the two banks where full scope on-examination was carried.

i) Board and Senior Management Oversight

Some progress had admittedly been made since last examinations. The board and senior management oversight was generally acceptable with minor shortcomings. For instance, there were cases where policies were not appropriately customised to suit the local environment and/or meet the regulatory and supervisory requirements. Other issues relate to inadequate monitoring and implementation of strategic initiatives, inadequate training for board of directors, to mention but a few.

ii) Policies and Procedures

The banks had set policies and procedures with adequate coverage across key functional areas. The only problem that emerged was lack of awareness with policies and procedures by officers below the level of senior management ascribed to poor dissemination of the same by senior management subsequent to approval.

Banks were also expeditiously increasing pace of digital adoption because they were cheaper than the traditional channels.

iii) Management Information Systems

Management information systems remained an area of concern. The systems were not functioning optimally, as had been envisaged. Also, banks had not entirely addressed the CBL's concern about excessive manual intervention ascribed to non- integration of some peripheral systems and applications to the core banking systems.

Banks were also expeditiously increasing pace of digital adoption because they were cheaper than the traditional channels. Although this is a good move in terms of efficiency and convenience, it is vulnerable to cyber risk. To address this, CBL is updating supervisory frameworks aimed at addressing the cyber security threats. Banks are also expected to inform the CBL about their key areas of vulnerability.

iv) Internal controls

Internal controls were generally acceptable mainly due to lack of inaccurate information shared with the Regulator, lack of responsiveness to internal and external audit findings, deficiencies in the credit granting, monitoring and collections of delinquent loans. Other weaknesses were also noted in internal controls that have since resulted in significant frauds.

b) Special Examinations

In all the three banks where special examinations were conducted, instances of breaches to the Financial Institutions Act 2012 and Money Laundering (Politically Exposed Persons) Guidelines 2015 were observed. However, remediation efforts in respect of the findings are on-going.

c) CAMELS Assessment

For full scope examinations, Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk (CAMELS) were also evaluated. Based on the evaluations, a composite CAMELS rating was assigned. The rating ranges from 1 to 5, where '1' is assigned to banks that raise no supervisory concern and '5' is assigned to banks that warrant immediate attention.

i) Capital Adequacy

The banks' prudential capital ratios were above regulatory requirements of 8 and 4 per-cent respectively. However, there were large financial losses and rising credit risk losses which were experienced by one bank which had a potential of eroding its capital base.

ii) Asset Quality

The banks' asset quality and credit administration practice were satisfactory, the credit risk exposure of the bank is commensurate with capital protection and management capabilities.



BANKING SECTOR REVIEW

iii) Management

Management was rated fair owing to the fact that policies were not reviewed annually to ensure continued relevance and some of the approved policies and procedures were not well disseminated to staff responsible for execution. There were also instances of violations to laws and regulations, to mention a few.

iv) Earnings

One bank's earnings were rated satisfactory. Its income was well mixed and mainly driven from interest income, commission and fees. However there were outstanding litigations against the banks that posed a threat to the bank's earnings and capital. For another bank, earnings were deficient, there was excessive reliance on non-interest income from commission charges and credit risk losses that increased remarkably as was reflected by a surge in ratio of provisioning expenses to total income.

iv) Liquidity Management

Banks' liquidity was rated satisfactory, with liquidity position remaining well above minimum regulatory requirements. This indicated that the banks can meet immediate and medium term liquidity obligations.

iv) Sensitivity to Market Risk

The banks' sensitivity to market risk was considered satisfactory, although a negative GAP was noted in one bank implying that it was exposed to interest rate risk.

1.2 OFF-SITE SURVEILLANCE

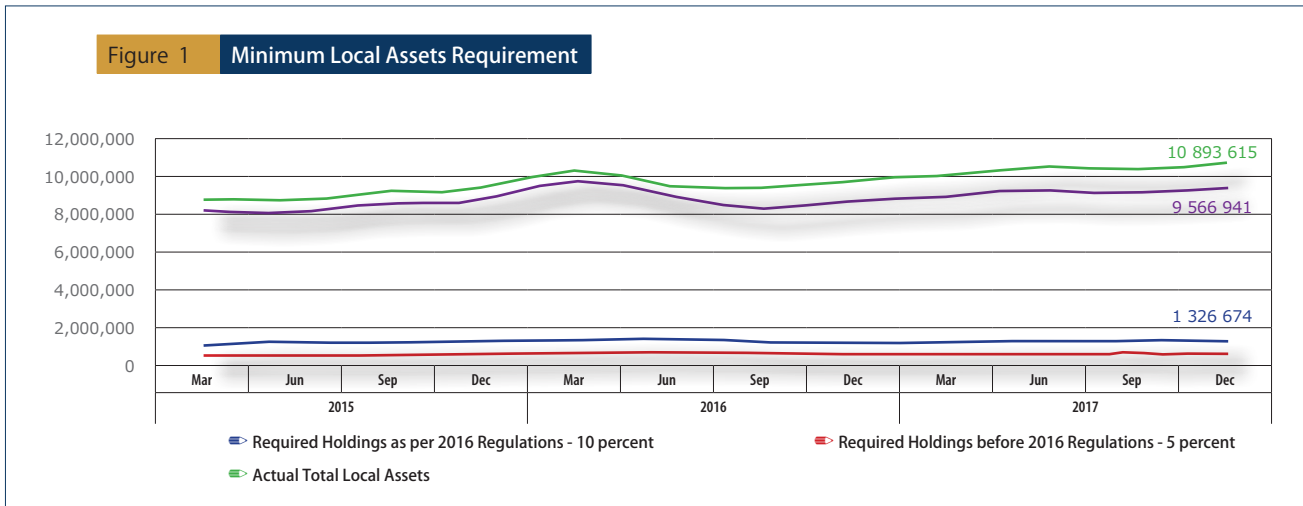
1.2.1 Compliance Issues

During the period under review, the regulated banks continued to adhere and comply with the regulations and guidelines as issued by the Commissioner. In particular, the banks were tested and found compliant with Minimum local assets requirements, minimum liquid assets requirements, regulatory capital adequacy ratios and foreign currency exposure.

a) Minimum Local Assets Requirement

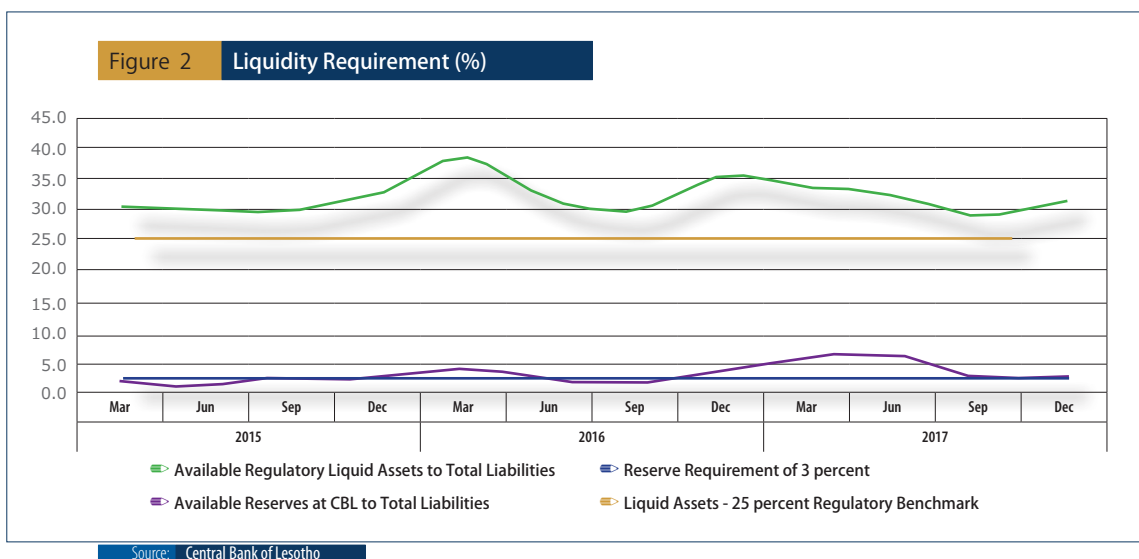
The Financial Institutions (Minimum Local Assets Requirements), 2016 define local assets as advances and credit facilities to persons doing business or residents in Lesotho, properties and other assets situated in Lesotho. The regulations require a bank to maintain local assets at an amount not less than 10 percent of the aggregate value of its liabilities to the public in Lesotho and its required paid up or assigned capital, even in the case of a branch of foreign bank and statutory reserve account. The objective of the minimum local assets requirement is to encourage banks to engage in financial intermediation in Lesotho and to ensure that funds raised locally grow the local economy. Figure 1 illustrates the banking industry's compliance with the regulation, before and after implementation of the regulation. During the period under review, the industry's local assets ratio surpassed the required minimum at least 9.5 times the gazetted 10 percent regulatory requirement, thereby depicting an excess of the same magnitude and requiring no regulatory intervention.

During the period under review, the regulated banks continued to adhere and comply with the regulations and guidelines as issued by the Commissioner.



b) Liquidity

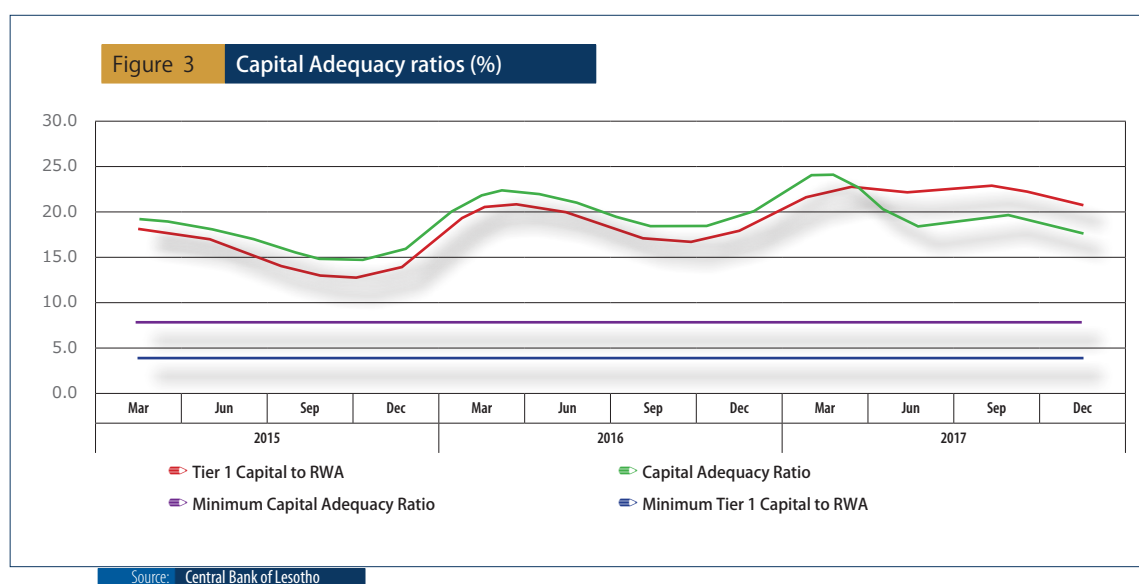
Financial Institutions (Liquidity Requirements), Regulations 2016 stipulate the commercial banks' liquidity requirements. The regulations aim to ensure that a bank maintains adequate liquidity and require frequent reporting and monitoring of liquidity positions both for prudential purposes and for implementation of macroeconomic policies and instilling public confidence in banks in Lesotho. The requisite ratios measure the institution's ability to pay off its short-term debts. The regulations require banks to maintain a reserve ratio of 3 per cent and a liquidity ratio of 25 per cent of the aggregate of deposit liabilities balances' due to banks abroad and other liabilities for reserve ratio of borrowed money excluding CBL and government borrowings as reserve requirements respectively. Figure 2 illustrates compliance with the liquidity requirements regulations. During the period review, the reserve ratio was generally compliant with the reserve requirement averaging 4.6 per cent while the available regulatory liquid assets to total liabilities averaged 32.0 which was in excess of the minimum requirements.



BANKING SECTOR REVIEW

c) Capital Adequacy

Regulatory capital Adequacy Ratio (CAR) is the ratio of a bank's capital to its risk. The CBL tracks a bank's CAR to ensure that it can absorb a reasonable amount of losses and complies with statutory capital requirements, hence the higher the CAR, the greater the ability of a bank to absorb probable losses. In particular, it determines the bank's capacity to meet the time liabilities and other risks such as credit risk, operational risk and market exposures and is expressed as a percentage of a bank's risk weighted exposures. The enforcement of regulated levels of this ratio is intended to protect depositors and promote stability and efficiency of financial systems around the world. Two types of capital are measured; Tier one (1) capital, which can absorb losses without a bank being required to cease trading, and Tier two (2) capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors. During the period under review, as illustrated in Figure 3, the banking sector in Lesotho remained sufficiently capitalized. The ratio of CAR averaged 20.1 per cent while the ratio of Tier 1 capital to risk weighted assets averaged 22.1 per cent in 2017. The overall picture depicts comfortable levels of core capital to "cushion" for potential losses, and protect the bank's depositors and other lenders.



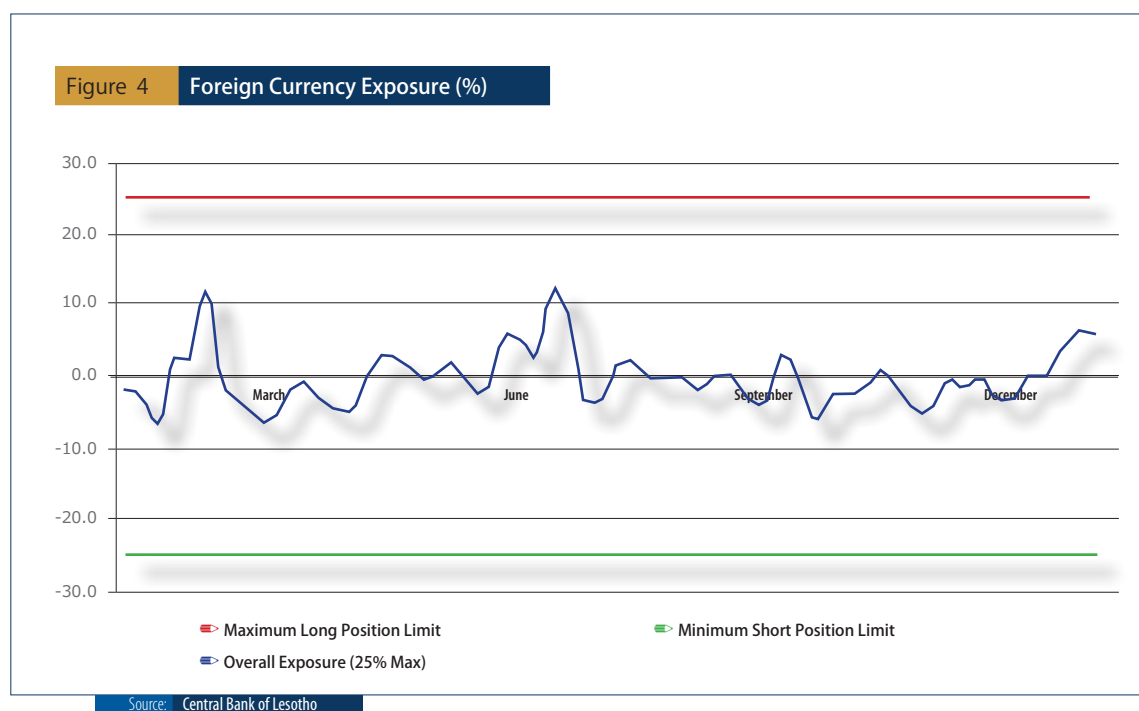
d) Foreign Currency Exposure

The Financial Institutions (Foreign Currency Exposure Limits) Regulations, 2016 require banks to maintain, as at the close of any business day, its foreign exchange exposures, irrespective of short or long positions, at not more than 15 percent of the total capital for any single foreign currency¹ exposure and 25 percent of the total qualifying capital for the overall foreign exchange exposure. The banks are also expected to monitor and maintain, within prudential limits established by the boards of directors, intra-day foreign exchange exposures both in single currency and overall position. The ratios are computed daily, but reported weekly. The regulation's objective is to encourage banks to adopt sound and prudential foreign exchange risk management policies, practices and systems in accordance with

¹ The US Dollar (\$) dominated the single currency exposure of the banks during the period under review.

Capital adequacy ratios provide insight into the robustness of financial institutions to shocks to their balance sheets, i.e., it measures the amount of a bank's capital buffers.

the relevant laws on risk management. Figure 4 illustrates that during 2017, both the industry's single currency exposure and the overall foreign currency exposure requirements were within the regulatory requirements.



1.2.2 Financial Soundness Indicators

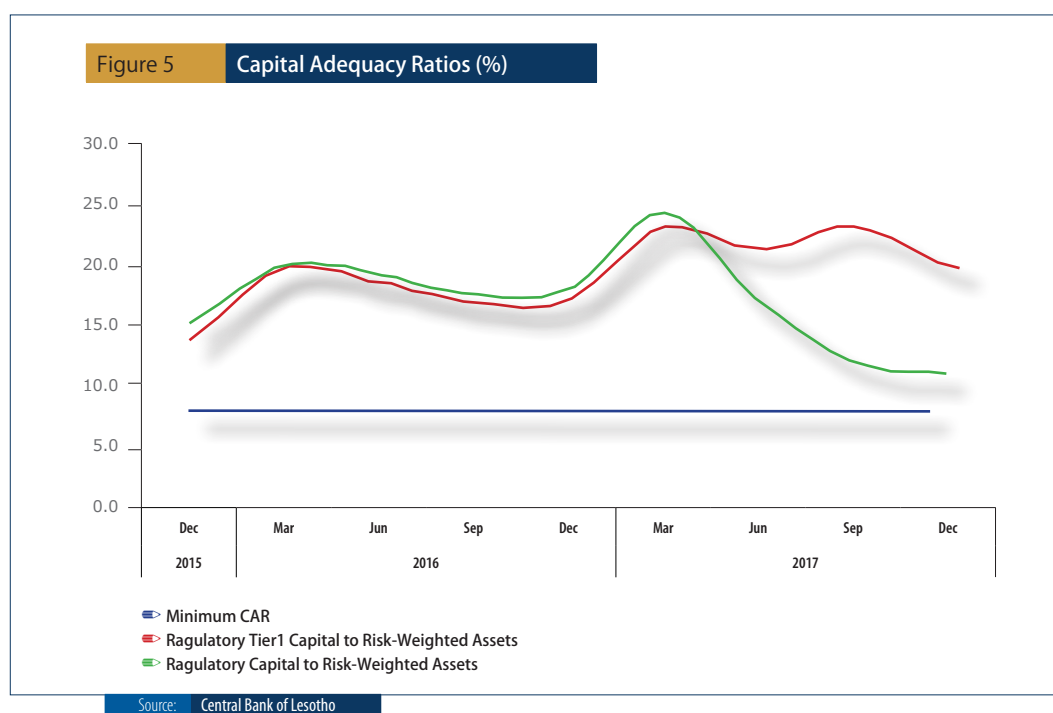
Financial Soundness Indicators (FSIs) are statistical measures designed to monitor the financial health and soundness of a country's financial sector, and its corporate and household counterparts. Analysis of FSIs covered in this report only focused on the banking sector as a whole and were compiled according to the IMF Financial Soundness Indicators Compilation Guide of 2006.

a) Capital Adequacy

Capital adequacy ratios provide insight into the robustness of financial institutions to shocks to their balance sheets, i.e., it measures the amount of a bank's capital buffers. These ratios are expressed as a percentage of risk-weighted exposures. The purpose of having minimum capital adequacy ratios is to ensure that banks can absorb a reasonable level of losses before becoming insolvent and losing depositor's funds. The higher the capital adequacy ratios a bank has, the greater the level of unexpected losses it can absorb before it is rendered insolvent. Bank insolvency often leads to loss of confidence in the financial institution, and may trigger contagion effect to other banks and above all, threaten the general financial sector stability.



BANKING SECTOR REVIEW



The banking sector in Lesotho remained well capitalised for the period ending in December 2017 with capital levels above the minimum regulatory capital requirements². The ratio of total regulatory capital to risk-weighted assets stood at 11 percent, declining by 7.0 percentage points (pps) on an annual basis. The decline was attributed to a rise in intangible assets in December 2017³ while at the same time, total risk-weighted assets increased hence reducing the total ratio in 2017. Tier-1 capital (core capital) to risk-weighted assets ratio increased by 2.7 pps in December 2017 from 19.8 percent in the previous year. This is evidence that the banking industry continued to maintain high core capital levels.

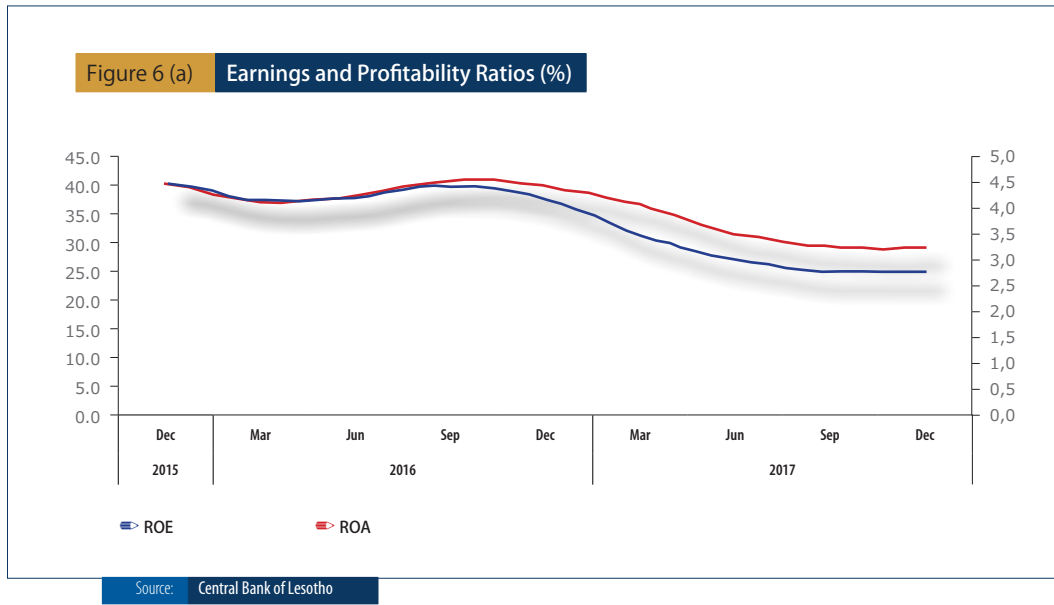
a) Earnings and Profitability

The industry remained profitable during 2017, implying efficient utilisation of the industry's resources (assets and capital) to generate income and less risk of insolvency. The return on assets (ROA) as at December 2017 was 3.3 percent, 1.2 pps lower relative to December 2016. Return on equity (ROE) decreased significantly during the review period. The ratio decreased by 12.9 pps on an annual basis to 25.1 percent in December 2017. The decline was brought about by growth in retained earnings component of revenue in 2017 while equity remained relatively unchanged. Despite both ROA and ROE declining in the review period, the banking sector remained satisfactorily profitable.

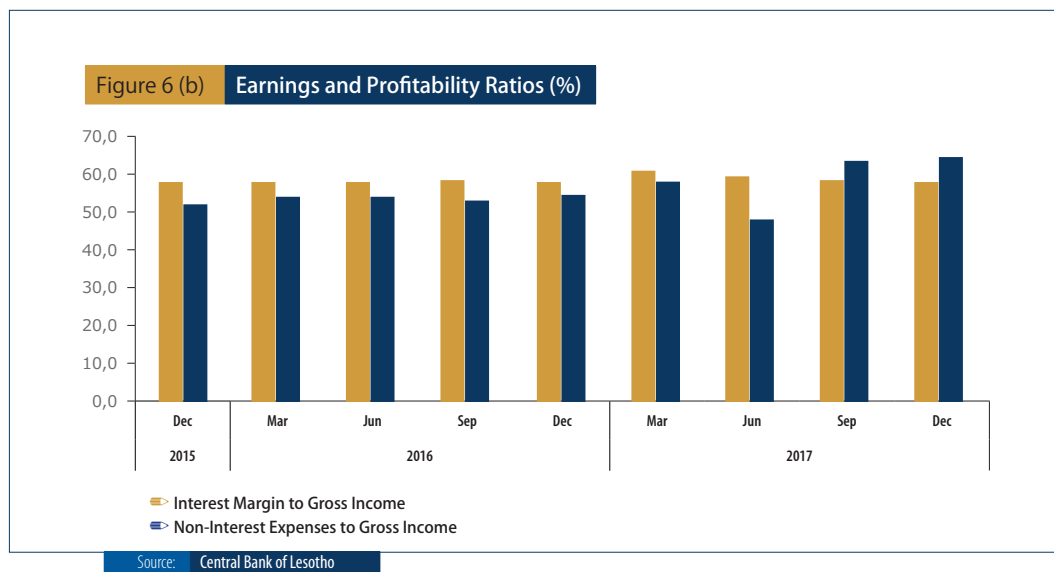
² Regulatory minimum CARs are 8 percent for total regulatory capital to risk weighted assets (RWA) and 4 percent for tier-I to RWA.

³ Intangible assets are treated as deductibles, thus reducing total regulatory capital. Intangible assets grew as result of investments some banks made to upgrade and change their core banking systems.

The ratio of net interest margin to gross income in December 2017 remained stable at 58.1 percent relative to the same period in the previous year.



The ratio of net interest margin to gross income in December 2017 remained stable at 58.1 percent relative to the same period in the previous year. In contrast, the ratio of non-interest expenses to gross income, which measures the proportion of administration expenses to total income or the efficiency of a bank in using its resources to generate income, increased from 54.7 percent in 2016 to 64.6 percent in 2017. The increase was caused by a rise in non-interest expenses such as personal costs and other expenses during the period under review⁴. A higher level of an expense ratio could be an indication that a large portion of income goes into administrative expenses as opposed expenses on income earning assets.



⁵ Since this is the end of the year, most banks do provide bonus to their staff, that is why the value of NIE will increase.



BANKING SECTOR REVIEW

c) Asset Quality

Asset quality indicators provide assurance regarding the quality of the components making up capital ratios and are critical in assessing the overall soundness of the financial institutions. The primary factor affecting overall asset quality is the standard and level of the loan portfolio and the credit administration programmes. Loans typically comprise a majority of a bank's assets and carry the greatest amount of risk to capital⁵ and, therefore, it is important to monitor non-performing loans (NPLs) carefully. The ratio of NPLs to total loans increased from 3.6 percent in 2016 to 4.3 percent in 2017. This ratio increased slightly above the industry's credit risk appetite of 4.0 percent in the review period.



One of the key lessons from the financial crisis is that banks did not always consistently measure, and control aggregate exposures to single counterparties across their books and operations. It is therefore important that banks manage large exposures carefully to minimise concentration risk. The ratio of large exposures to capital increased from 124.5 percent in 2016 to 170.0 percent in 2017. The ratio increased due to a proportionately bigger decline in capital⁶, hence increasing the overall ratio⁷. This ratio is intended to identify vulnerabilities arising from the concentration of credit risk. The industry threshold of this ratio is capped at 800 percent and as at December 2017, the banking industry was below the set threshold. Although the overall asset quality in the banking industry is satisfactory, concentration risk remains persistently high. This is mostly attributed to the structural characteristics of the domestic private sector. Credit extension is concentrated to few a business borrowers and households, showing lack of diversification in the financial institutions' loan book. The observed pattern makes banks more vulnerable to concentration risk, especially in the household sector where most of the lending is unsecured.

⁵ <http://www.fdic.gov/regulations/safety/manual/section3-1.pdf>

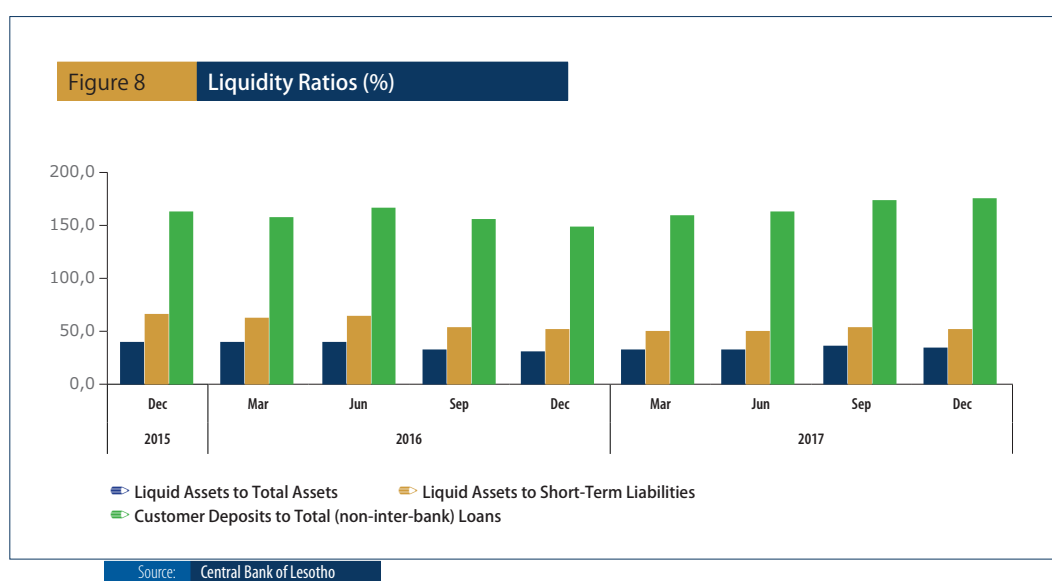
⁶ Rise in intangible assets treated as deductibles from capital.

⁷ Capital declined by approximately 39 percent while exposures to large borrowers declined by approximately 2 percent.

The ratio of liquid assets to total assets is a liquidity management tool used to assess on an on-going basis, the extent to which liquid assets can support the asset base.

d) Liquidity

Liquidity is a measure of the ability and ease with which assets can be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. Examples of liquid assets generally include cash, central bank reserves, and government debt⁸. To remain viable, financial institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Generally, the higher the liquidity ratio, the larger the margin of safety that the bank possesses to cover short-term debts.



The ratio of liquid assets to total assets is a liquidity management tool used to assess on an on-going basis, the extent to which liquid assets can support the asset base. As at December 2017, the ratio was 35.8 percent which was higher than 31.4 percent observed in December 2016. The increase in the ratio was as a result of an increase in liquid assets, most notably currency and deposits. The ratio of liquid assets to short-term liabilities is a liquidity and efficiency ratio that measures an institution's ability to pay off short-term liabilities with its liquid assets. The ratio of liquid assets to short-term liabilities increased from 52.4 percent in 2016 to 53.7 percent in 2017.

The customer deposits to total (non-interbank) loans ratio is used to detect liquidity problems, whereby a low ratio might indicate potential liquidity stress in the banking sector. As at December 2017, the ratio was 173.8 percent which was higher than 149.4 percent that was observed in December 2016. The ratio increased because of a proportionately bigger rise in customer deposit relative to total gross loans. Customer deposits increased by approximately 26 percent whereas total gross loans increased by 9 percent.

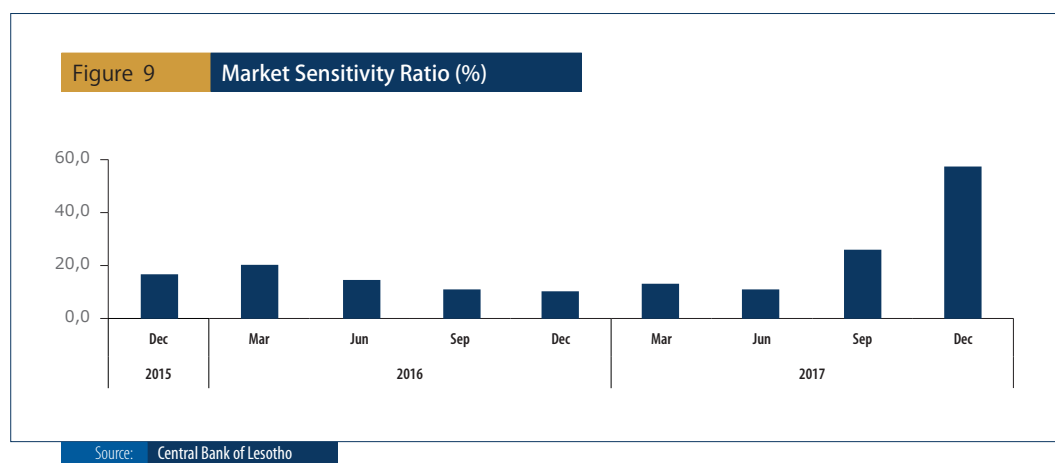
⁸ http://www.federalreserve.gov/faqs/cat_21427.htm



BANKING SECTOR REVIEW

e) Sensitivity to Market Risk

Sensitivity to market risk is commonly described as the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect earnings and/or capital. However, in this report, only the ratio of net open position in foreign-exchange to capital is used to assess sensitivity to market risk. In December 2017, the ratio increased to 56.7 percent from 10.5 percent that was observed in December 2016. The ratio increased as a result of a surge in transferable deposits with non-resident banks. On that note, the banks maintained a long position in foreign currency during the review period, making devaluation risk a concern in the short to medium term, since banks have more foreign currency assets than liabilities. Nonetheless, this position would benefit the banks when the loti depreciates.



The Financial Soundness Indicators discussed above attributes a sound and healthy banking sector in 2017. The indicators revealed that the banking sector remained adequately capitalised and have maintained good asset quality in the review period. Furthermore, the level of liquidity within banking sector remained adequate to withstand shocks to bank's balance sheet and the banking industry was satisfactorily profitable. In relation to sensitivity to market risk, the bank's exposure to foreign exchange risk remained high, signifying increasing sensitivity to market risk.

1.2.3 Banking Sector Performance

a) Balance Sheet Items

i) Total Assets

The banking system balance sheet size improved and grew by 21.8 percent; from M13.2 billion in 2016 to M16.1 billion in 2017 (see Table 1). A pick-up to a larger extent reflected a performance observed in loan portfolio, balances with banks in South Africa, government securities and balances with foreign banks. The credit portfolio reflected improved performance in financial intermediation and was up by 7.4 percent, from M5.4 billion in 2016 to M5.8 billion in 2017. However, a trend analysis revealed that, for the first time over a period of 5 years,

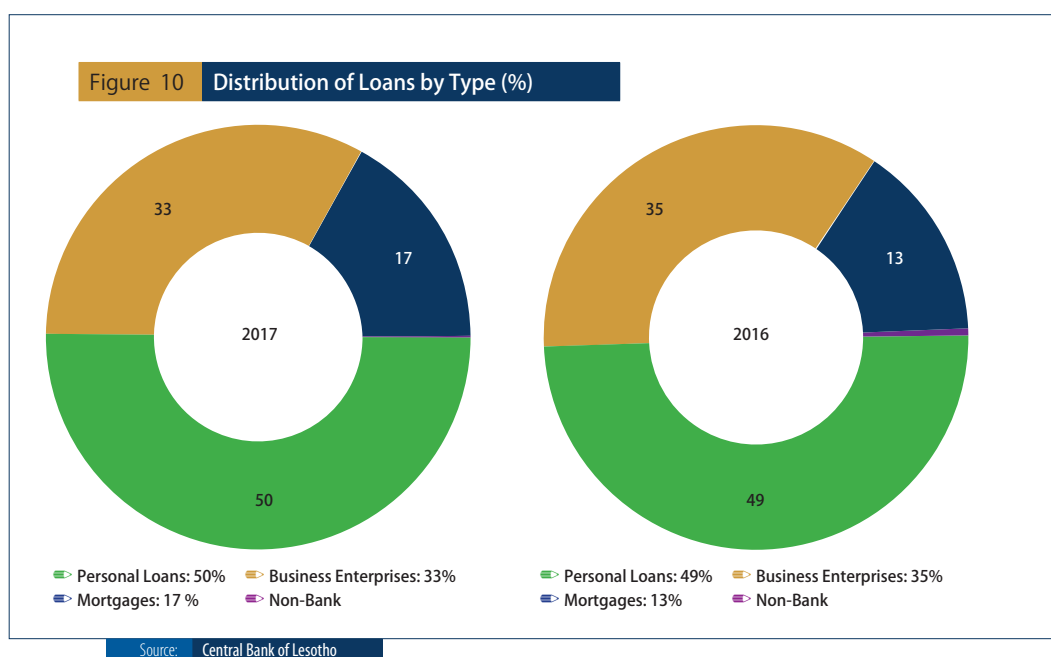
The growth momentum in credit portfolio came at the back of improved performance in personal loans, mortgages and business loans respectively.

overdrafts appeared to be the major drivers. Balances with banks in South Africa continued on the expansion path and recorded a growth of 44.1 percent, from M2.9 billion in 2016 to M4.2 billion in 2017. Balances with foreign banks increased by 271.4 percent, from M135.4 million in 2016 to M503.1 million in 2017. Government securities increased by 32.5 percent, from M757 million in 2016 to M1.0 billion in 2017, setting yet another milestone by crossing a billion-mark.

Table 1 The Growth Rates of Total Assets (%)						
	2012	2013	2014	2015	2016	2017
TOTAL ASSETS	1.2	35.0	7.5	13.3	-5.2	21.8
Cash and Cash Items	34.1	21.5	-9.2	45.6	8.7	21.7
Balances with CBL	7.6	157.0	22.7	-31.9	19.0	-10.8
Balances with local banks	-6.4	97.0	21.5	6.7	-7.3	2.7
Balances with banks abroad	-21.9	27.4	11.0	36.2	-15.4	30.3
Marketable securities	16.7	-20.6	-8.1	22.5	0.9	32.5
Other investments	-52.2	99.8	-41.0	4.3	-63.1	284.8
Loans and advances	40.2	21.9	12.2	7.3	2.6	7.4
Fixed Assets	-1.2	21.3	20.5	25.7	22.3	114.7
Other Assets	4.0	59.5	42.1	-12.1	34.9	39.9

Source: Central Bank of Lesotho

The growth momentum in credit portfolio came at the back of improved performance in personal loans, mortgages and business loans respectively. Personal loans reflected a growth of 10.1 percent, from M2.8 billion in 2016 to M3.0 billion in 2017. Mortgages reflected improved performance and recorded a growth of 19.2 percent, from M842.8 million in 2016 to M1.0 billion in 2017. Business loans remained constant and inched-up slightly by 0.8 percent, to register M2.0 billion. Figure 10 depicts distribution of the credit portfolio by type.



BANKING SECTOR REVIEW

Despite a moderate credit concentration risk, loans to transport sub-sector continued trending upward at an exponential fashion (see Figure 11). In 2017, loans to transport sub-sector constituted 19 percent of the business loans, thus registering a robust growth of 10 percentage points from 9 percent observed in 2016. Credit concentration risk somewhat took a toll on the back of much uncertainty surrounding transport sub-sector. Anecdotally, signs of a credit bubble in business loans become somehow apparent.

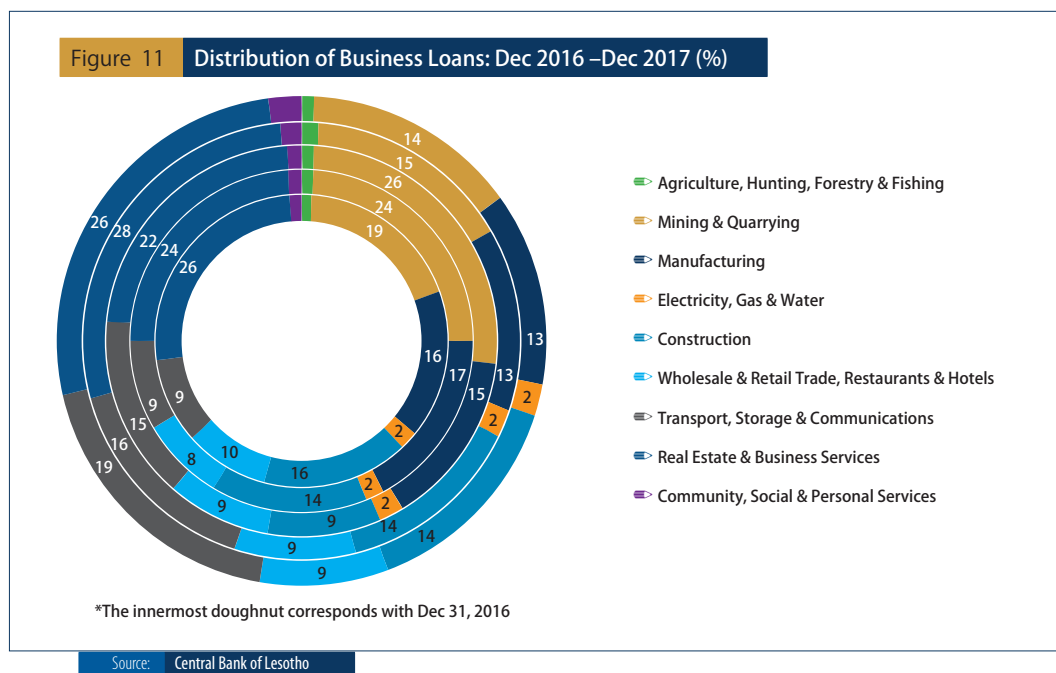
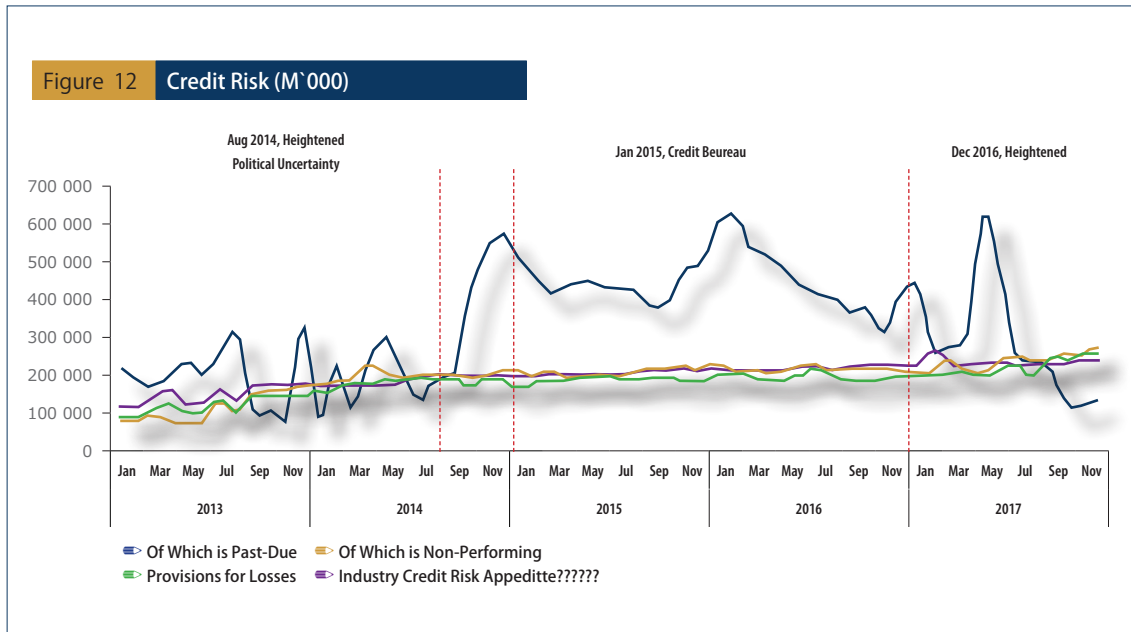


Figure 12 highlights that credit risk remained recalcitrant in banking system. That was pointed by a trend on NPLs, which revealed a double-digit growth of 31.4 percent, from M207.4 million in 2016 to M272.6 million in 2017. NPL ratio inched-up by a percentage point from 4 percent in 2016 to 5 percent, in 2017. The business enterprises struggled to service their facilities in the mist of challenging macro-economic environment and political uncertainty which send a country to snap elections in June 2017. However, to manage increasing credit risk, provisions increased significantly by 27.0 percent, from M197.4 million in 2016 to M250.6 million in 2017. Despite the volatility observed on past-due loans over the year, they appeared to have stabilized and dropped sharply by 67.9 percent, from M413.9 million in 2016 to M133.1 million in 2017.

The outlook on credit quality may be clouded by uncertainty surrounding loans extended to transport sub-sector.



The outlook on credit quality may be clouded by uncertainty surrounding loans extended to transport sub-sector. The impact maybe aggravated by risks facing the domestic economy. For example, tax is likely to increase as well due to pressure on fiscal accounts, fiscal deficits observed over a period of 2 years and declining SACU revenue⁹. Thus, putting more pressure on NPLs. However, on credit growth, a positive outlook is envisioned on the back of expected boost from construction and mining sub-sectors specifically in 2018.

ii) Total Liabilities

Total liabilities revealed a significant growth of 21.7 percent, from M11.5 billion in 2016 to M14.0 billion in 2017 (see Table 2). The growth is primarily on account of deposits which are mostly funded by businesses and government. Total deposits increased significantly by 25.7 percent, from M8.8 billion in 2016 to M11.1 billion in 2017. Balances due to local banks observed a marginal decline of 0.8 percent, from 2016 to record M2.0 billion in 2017. Other liabilities recorded a decline of 25.3 percent, from M434.3 million in 2016 to M543.9 million in 2017.

Table 2	The Growth Rates of Total Liabilities (%)					
	2012	2013	2014	2015	2016	2017
TOTAL LIABILITIES	-0.4	37.3	6.2	13.4	-7.6	21.7
Deposits	5.4	28.5	5.0	13.9	-5.9	25.7
Due to Local Banks	-9.6	87.9	15.6	7.8	-13.6	-0.3
Due to Foreign Banks	-72.1	530.8	-36.9	26.1	-9.7	57.9
Other Borrowings					1.1	0.0
Other Liabilities	-20.7	-14.7	20.6	16.1	-10.3	25.3

Source: Central Bank of Lesotho

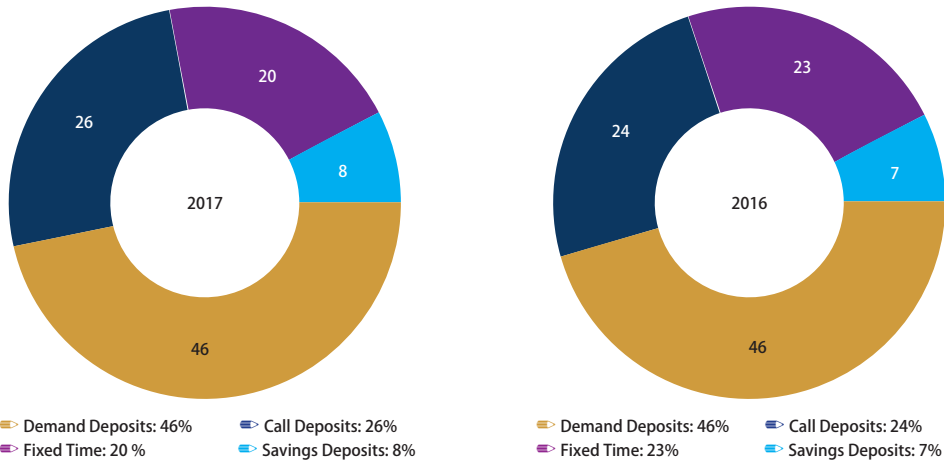
⁹ <https://www.imf.org/en/News/Articles/2017/11/20/pr17445-imf-staff-completes-2017-article-iv-visit-to-the-kingdom-of-lesotho>.



BANKING SECTOR REVIEW

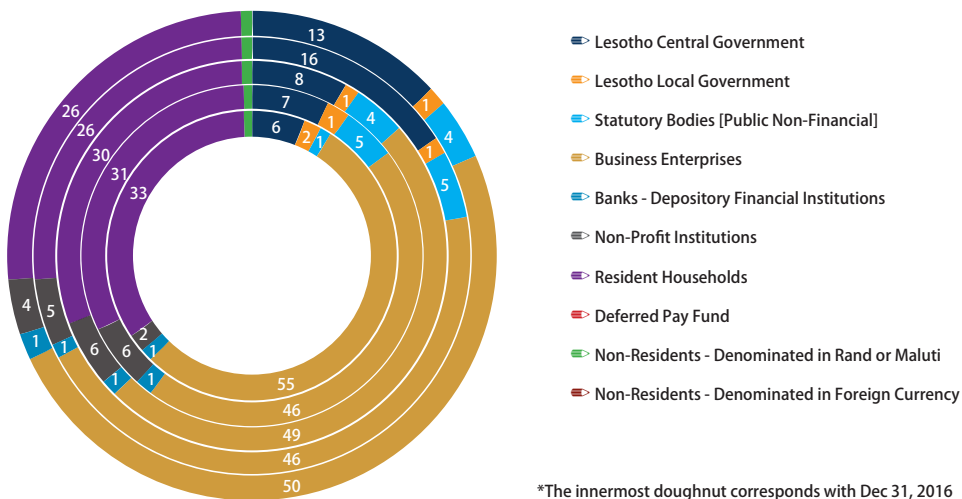
The structure continued to be dominated by short-term deposits and that indicated financial intermediation is mostly financed by short-term deposits as indicated by small percentage of fixed time deposits. The industry recorded only 20 percent of fixed time deposits in 2017 (see Figure 13). Therefore, the asset and liabilities mismatch risk is envisaged to gain even further momentum on the back of increasing mortgages. 74 percent of total deposits continued to be wholesale in nature (see Figure 14). Therefore, the system remains vulnerable to liquidity risk as large wholesale withdrawals may bring liquidity shocks. Banks have to put more efforts on financial inclusion initiatives to improve retail deposits.

Figure 13 The Structure of Deposits (%)



Source: Central Bank of Lesotho

Figure 14 Total Deposits by Holder (%)



*The innermost doughnut corresponds with Dec 31, 2016

Source: Central Bank of Lesotho

Interest income from loans increased by 16.5 percent, from M817.7 million in 2016 to M952.8 million in 2017.

iii) Shareholders' Equity

Total capital observed an increase of 22.2 percent, from M1.7 billion in 2016 to M2.1 billion in 2017 (see Table 3). A primary factor that appeared to strengthen the capital base was retained earnings. Retained earnings increased slightly by 3.3 percent, from M1.30 billion in 2016 to M1.34 billion in 2017. Despite a slim growth on this component, its significant proportion in capital turns to influence movements in capital notably. However, statutory reserve account declined marginally by 4.4 percent, from M194.3 million in 2016 to M185.9 million in 2017. A slim decline was on account of some banks which made some adjustments and reclassifications on the component. Profits decreased by 26.1 percent, from M461.4 million in 2016 to M340.8 million in 2017. Lackluster performance in profits to a large extent is attributed to losses experienced by some banks in 2017.

	2012	2013	2014	2015	2016	2017
TOTAL CAPITAL	16.0	16.8	19.7	11.9	15.1	22.2
Paid-up Capital	11.3	10.1	0.0	13.3	2.0	0.0
Statutory Reserve	-4.2	3.6	-0.7	6.2	47.5	-4.4
Revaluation Reserves	0.0	0.0	16.4	52.1	-6.2	12.7
Other Reserves	128.6	-54.9	64.9	-39.3	12.9	346.2
Retained Earnings	19.9	21.1	25.8	13.2	12.5	3.3
Profit/ loss for the year to date	12.1	31.0	11.5	6.6	8.8	-26.1

Source: Central Bank of Lesotho

The resilience of the banking system continues to firm-up and the outlook remains positive on the back of expected implementation of Basel 2.5. in 2018. However, the outlook is somehow clouded by some banks which recorded some losses in 2017 and increased non-compliance costs.

b) Income Statement Items

i) Total Income

Total income increased by 5.7 percent, from M1.60 billion in 2016 to M1.69 billion in 2017 (see Table 4). Major sources of income continued to be interest income from loans, commission income and interest income from foreign and domestic placements. Interest income from loans increased by 16.5 percent, from M817.7 million in 2016 to M952.8 million in 2017. The growth momentum is mostly driven by increased credit portfolio and declining past-due loans. Interest income from domestic placements observed a decline of 10.9 percent, from M236.5 million in 2016 to M210.6 million in 2017 due to declining interbank placements. Income from foreign placements also observed a decline of 20.1 percent, from M248.6 million in 2016 to M198.6 million in 2017. Commission income observed a slight increase of 4.6 percent, from M574.6 million in 2016 to M601.3 million in 2017.



BANKING SECTOR REVIEW

Table 4	The Growth Rates in Total Income (%)					
	2012	2013	2014	2015	2016	2017
TOTAL INCOME	20.4	27.5	8.7	10.7	10.9	5.7
Interest Income-Loans	64.2	46.3	8.0	27.1	14.9	16.5
Interest Income-Placements	-19.5	3.2	55.8	10.9	21.9	-15.6
Foreign Payments	19.0	-14.6	43.6	2.2	17.1	-20.1
Domestic Payments	-42.9	-23.7	76.3	22.8	27.4	-10.9
Interest Income-Securities	0.0	10.2	28.6	-63.1	6.5	1.6
Total Interest Income	14.0	26.5	23.5	8.5	16.8	4.4
Interest Expense	-6.1	21.0	59.4	4.6	25.3	-3.9
Net Interest Income	22.7	28.3	12.3	10.2	13.3	8.3
Fees and Commission Income	20.0	30.5	5.4	9.4	10.4	4.6
Forex Gains/Losses	17.1	-2.6	11.3	21.0	-23.6	-15.2
Income on Equity Investment						-61.0
Other Income	-34.0	101.3	1.0	49.5	78.5	-23.8
Grants	-8.9	30.8	-70.0	-10.0	2.8	106.4
Non-interest Income	17.6	26.6	4.3	11.4	7.7	2.2

Source: Central Bank of Lesotho

ii) Total Expenses

Total expenses increased by 24.6 percent, from M957.6 million in 2016 to M1.2 billion in 2017 (See Table 5). Interest expenses, operating expenses and staff salaries continued to account for the lion's share of total expenses. Interest expenses on domestic liabilities decreased by 6.5 percent, from M431.5 million in 2016 to M403.3 million in 2017 while interest expenses on foreign liabilities increased by 433.0 percent, from M2.4 million in 2016 to M12.9 million in 2017. Provisions for bad debts picked-up by 8.2 percent, from M96.0 million in 2016 to M103.8 million in 2017 while at the same time, bad debts write-offs increased sharply by 420.4 percent, from M9.9 million in 2016 to M51.65 million in 2017. Over, a period of 5 years, provisions for bad debts and bad debts write-offs have reached the highest levels ever in 2017. Operating expenses accumulated by 35.0 percent, from M281.8 million in 2016 to M380.6 million in 2017.

The banking industry continued to play a major role in the economy as seen by investments in low-cost service channels, employment and increasing market activity.

	2012	2013	2014	2015	2016	2017
TOTAL EXPENSES	26.1	24.0	7.9	13.5	11.5	24.6
Staff salaries and benefits	1.5	23.9	11.3	14.3	13.9	8.5
Management/directors fees	141.8	-26.1	9.1	17.0	4.2	39.6
Auditors/consultants fees	8.2	33.3	11.2	12.4	7.3	14.1
Provision for bad debts	188.8	31.3	24.5	19.7	-2.1	8.2
Bad-debts write-offs/irrevocable losses						420.4
Depreciation	7.4	28.7	1.0	0.3	15.7	13.0
Other operating expenses	6.8	62.8	-0.5	11.1	12.1	35.0
Operating income/loss	12.5	33.0	9.9	6.8	10.0	-22.6
Income/loss before taxation	12.5	33.0	9.9	6.8	10.0	-22.6
Taxation	13.9	38.4	5.9	7.4	13.2	-13.4
Income/loss after taxation	12.1	31.0	11.5	6.6	8.8	-26.1
Dividend	-18.9	43.2	35.4	-0.2	-100.0	

Source: Central Bank of Lesotho

Net income plummeted by 26.1 percent, from M461.4 million in 2016 to M340.8 million in 2017. A weaker performance was chiefly attributed to deterioration in credit quality as seen by increasing write-offs and provisions over the year 2017. In addition, losses recorded by some banks compounded by a fragile and challenging macro-economic environment put severe pressure on net income. In addition, investment on new core banking systems in most banks also played a role in declined net income. During the year under review, the banking system paid-out M250.0 million in dividends.

c) Market Share Analysis

The banking industry continued to play a major role in the economy as seen by investments in low-cost service channels, employment and increasing market activity. The summary of market shares and measures of concentration used to assess the level of the banking sector competitiveness are illustrated in Table 6, while Table 8 depicts additional information on market outreach and total number of employees in banking system.

The market-share of top 2 banks observed a decline of 1.0 percentage points, from 93.9 percent in 2016 to 91.9 percent in 2017 was observed. The HHI¹⁰ decreased by 1.1 percentage points from 68.6 percent observed in 2016 to 67.5 percent in 2017. This came at the back of increasing loan book and branch network in a category of other banks.

	2012	2013	2014	2015	2016
Market Share of the top 2 Banks	85.9	87.6	86.4	86.4	80.5
Share of Revenue of the Top 2 Banks	89.9	78.0	81.9	82.0	81.4
Market Share of foreign Banks	96.7	97.3	97.2	97.2	78.0
HHI	75.8	78.3	76.6	76.4	79.8

Source: Central Bank of Lesotho

¹⁰ Text not seen.



BANKING SECTOR REVIEW

Table 7 shows that, POS devices rose significantly by 10.9 percent, from 1,374 in 2016 to 1,524 in 2017 and the ATMs decreased by 0.1 percent to 204 in 2017 while branches increased by 2.1 percent, from 48 in 2016 to 49 in 2017. Trends on employment declined slight by 3.0 percent from 1,722 in 2016 to 1,671 in 2017.

Table 7 Market Outreach for 2016			
	2015	2016	Growth Rates (%)
Branches	47	49	4.3
ATMs	180	204	13.3
POS	1,168	1,374	17.6
Employees	1,409	1,722	22.2

Source: Central Bank of Lesotho

On global front, digital technology continued to transform and disrupt the world of business, exposing organizations to both opportunities and threats. There is a need to continue to improve security measures on cybercrime. A report from McAfee and Center for Strategic and International Studies¹² revealed that, globally it costs businesses almost \$600 billion a year. That is 0.8 percent of global GDP. The report indicated that banks are still the favoured target of cyber criminals. Based on global trends, cybercrime risk remained prominent on the risk profile of the banking system.

1.3 EXCHANGE CONTROL AND ANTI-MONEY LAUNDERING

1.3.1 Exchange Control Issues

a) New Exchange Control Circular

During the period under review, CBL issued new circulars to accommodate recent developments and international trends affecting the Common Monetary Area (CMA) region. A total of three (3) circulars were issued period and were shared with Authorised Dealers (ADs) accordingly. Those were:

- Residents temporarily abroad; Section B4(A) and (I), along with Section B.16(A)
- Travel allowance; Section B.4(E)3
- Amendment to the Exchange Control Rulings; Section D.1(G)

b) Compliance with Exchange Control Rulings

One of the major recurring issues in the past (three) 3 years has been ADs that continue to attest for clients despite not having fully repatriated their proceeds within the 180 days stipulated time period. According to Sections 7, 11 and 12 of the Exchange Control Regulations, 1989, and Section B.18(B) of the Exchange Control Rulings, 2013, clients are required to have fully repatriated export proceeds within six (6) months or (180 days). In line with this, CBL

¹¹ Herfindahl–Hirschman Index: is a measure of market concentration-The closer a market is to being a monopoly, the higher the market's concentration (closer to 100 percent) and the lower the level of competition reflecting in the market.

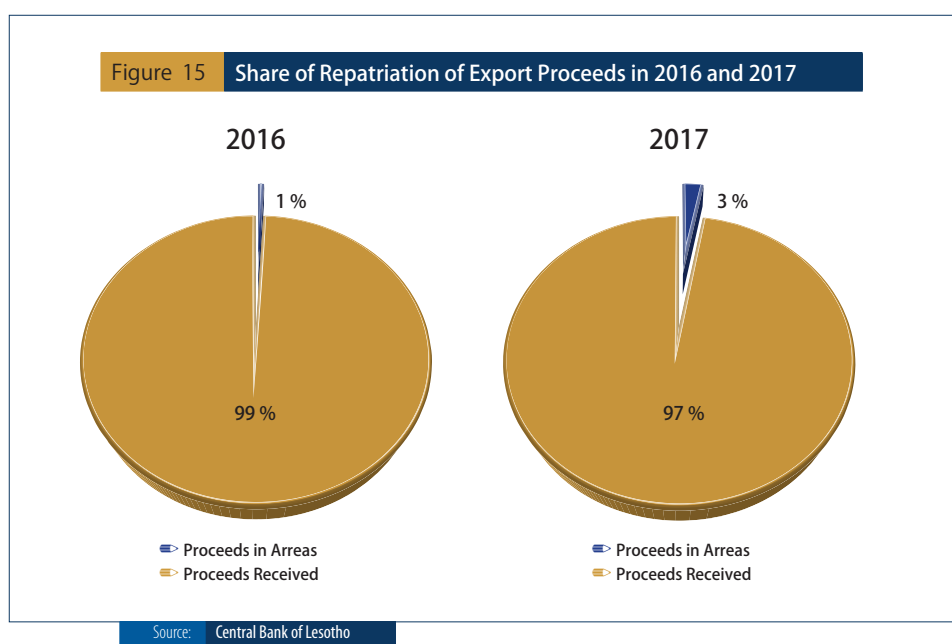
¹² <https://betanews.com/2018/02/21/600-billion-global-cyber-crime/>

There were a total of twenty-six (26) companies in the export business during the review period.

issued two directives for ADs to stop attesting for clients upon failure to repatriate the said proceeds and a significant improvement was realized as a result. However, another persistent issue has been non-reporting and misclassification on the BOPCUS reporting system by some of the Authorized Dealers (ADs). The Financial Surveillance Section has since engaged the ADs in question to try to understand and sort out the issue.

c) Analysis of Export Proceeds

There were a total of twenty-six (26) companies in the export business during the review period. These companies exported a total of M514 million worth of exports, which represents a 134.0 per cent increase from the previous year. As mentioned above, a welcome trend has been realized in the past two years where repatriation of export proceeds has increased significantly from 22.1 per cent and 17.2 per cent in 2014 and 2015 respectively, to a sharp increase of 99.0 per cent as per the revised data and 97.0 per cent in 2016 and 2017 respectively. This was attributable to issuance of the two directives as has been mentioned in section b) above.



d) Applications to Sell Foreign Currencies

During the year 2017, a total of 207 applications were submitted by the ADs to the financial Surveillance Division for approval. All the applications were approved following internal assessment and verification that the funds were transferred for the intended purpose. Relative to 2016, the number of applications rose by 7. However, the value declined by M586.29 million to M340.29 million in 2017. The approved applications mainly comprised of payment for dividends, professional fees, management fees and loan repayments. Companies that made applications for payment of dividends include Chevron Lesotho, Constitution Roads Development, Eclat Evergood textiles and Maluti Mountain Brewery. With regard to management and professional fees, Econet Lesotho, Lets'eng Diamond Mining, Maluti Mountain Brewery, SMS2BETBETTING and Vodacom were some of the companies that requested foreign exchange.



BANKING SECTOR REVIEW

In 2017, payment for most of the services declined relative to the previous year. Payment for dividends declined by 88.5 per cent while payment for royalties, premiums, franchise fees and loan repayment fell by 40.3 per cent, 37.0 per cent, 18.1 per cent and 50.0 per cent, respectively. Payment for professional fees rose by 67.2 per cent while management fees recorded an increase of 12.7 per cent.

Table 8 Application by Type of Service							
Item	2016			2017			% Change
	No. of Applications	Value	% Share	No. of Applications	Value	% Share	
Dividends	10	757.53	81.8	16	87.36	25.7	-88.5
Professional fees	69	49.09	5.3	79	82.09	24.1	67.2
Management fees	8	30.06	3.2	17	33.90	10.0	12.8
Loans	18	29.16	3.1	9	14.58	4.3	-50.0
Premium	10	23.00	2.5	19	14.49	4.3	-37.0
Royalties	32	19.30	2.1	19	11.53	3.4	-40.3
Franchise fees	23	1.44	0.2	17	1.18	0.3	-18.1
Miscellaneous	30	17.00	1.8	31	95.16	28.0	459.8
Total	200	926.58	100	207	340.29	100	-63.3

Source: Central Bank of Lesotho

1.3.2 AML/CFT Issues

a) Regulatory Framework

During the year 2017, the Central Bank of Lesotho continued its participation in Eastern and Southern Africa Money Laundering Group (ESAAMLG) to ensure compliance with the Financial Action Task Force (FATF) recommendations. The country further received training in November 2017 from the World Bank to carry out its National Risk Assessment (NRA). NRA is a process of identifying and evaluating the money laundering and terrorist financing risk in a particular jurisdiction and analyzing the main sources and drivers of the risks in order to develop effective and risk-based policies and actions, as well as allocating the available resources in the most efficient way to eliminate, control and mitigate the identified risks. The main objectives of the NRA training included:

- To the review and discussion of the risk assessment result in order to further clarify, refine and calibrate findings;
- To design and review of risk-based action plan, discussion of implementation issues, challenges and possible solutions; and
- To discuss the NRA strategy for future years, as well as formulating ways to further improve the quality of the NRA process and underlying information, data and statistics for future rounds of the NRA.

During the review period, there were violations with regard to various sections of the Act.

a) Compliance with the Law

During the review period, there were violations with regard to various sections of the Act. There was non-adherence to the law in areas related to Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD), suspicious transaction reporting (STRs), record keeping, training and internal policies and procedures.

On Customer Due Diligence, screening of the client for sanctions and Politically Exposed Persons (PEPs) was still not done before on-boarding. This poses a risk of money laundering and terrorist financing activities more especially from sanctioned individuals and individuals from sanctioned countries. Furthermore, most records of the banks' were still KYC non-compliant. EDD was also not performed on high risk clients including PEPs.

- On suspicious transactions reporting, the time taken for investigating the alerts actioned as potentially suspicious was more than seven days period which is the time stipulated under the MLPCA as the period for reporting STRs with the FIU.
- In terms of keeping records, most closed files of the clients have missing KYC documentation. Banks are required to keep clients' information for a period of ten (10) years after terminating a relationship as per Section 16(1)(b) of the Financial Institutions (Anti-Money Laundering) Regulations, 2015.
- Training was still not done by all employees of the banks as per Section 21 of the Money Laundering (Accountable Institutions) Guidelines of 2013.
- Most banks had inadequate policies and procedures which compromise efficiency of the banks controls.

1.4 CONSUMER PROTECTION

1.4.1 Overview

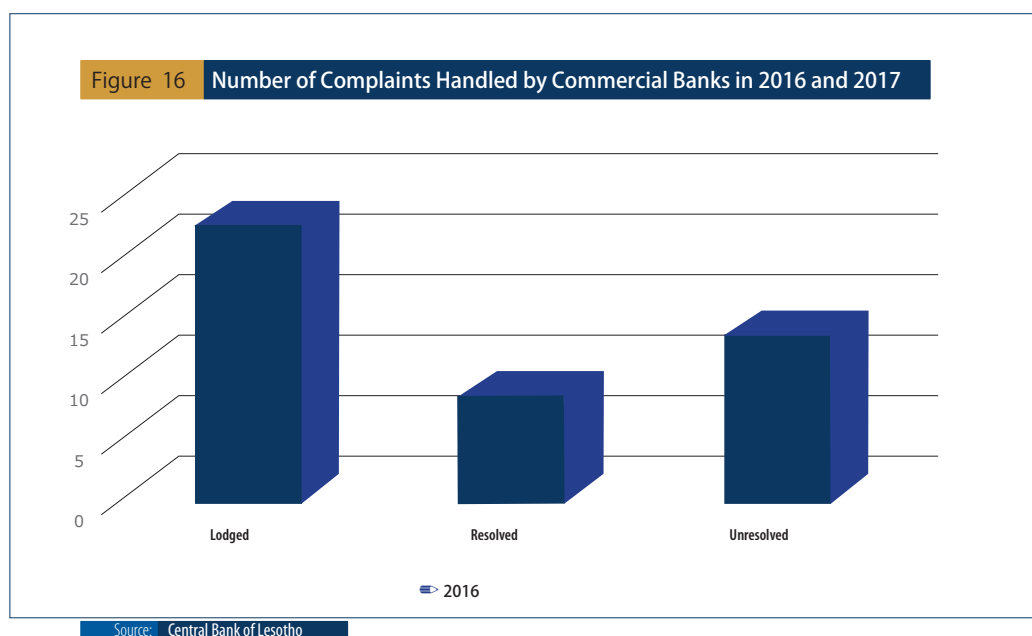
One of the mandates of the Central Bank of Lesotho is to protect interests of consumers in the financial sector, in order to promote financial stability in the country. CBL acts as a mediator where complainants are dissatisfied with the resolutions made by the concerned financial institutions. In 2017, consumer complaints handled by CBL related to the banking industry decreased compared to the previous year. This reflected good performance of banks to handle and resolve their complaints without intervention of CBL.



BANKING SECTOR REVIEW

1.4.2 Complaints Handled by CBL

The number of complaints received by CBL during the year under review decreased significantly by 73.9 per cent in 2017. The prominent reasons behind complaints were poor customer care in the banking industry, fees and charges, the way loans were charged and duration of the loan period and generally consumer financial unawareness of their rights in relation to financial products and services. Figure 17 illustrates the number of complaints received, resolved and unresolved.



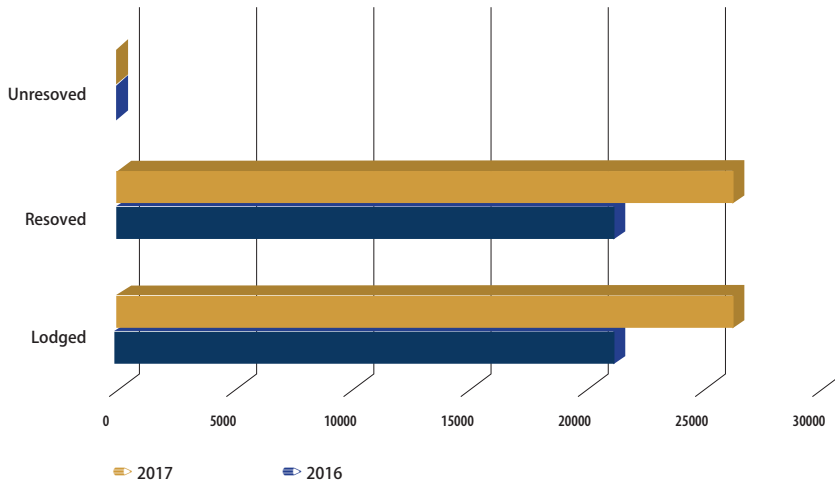
In 2017, complaints resolved by CBL registered 33.3 per cent of the total received and the balance of 66.7 per cent was transferred to 2018 intake due to further investigations being undertaken by CBL.

1.4.3 Complaints Handled by Commercial Banks

In 2017, the number of complaints lodged by consumers of products and services of commercial banks increased by 24.0 per cent from 21,170 in 2016 to 26,247. The most noticeable reasons behind complaints were unknown ATM withdrawals, misunderstanding of loan charges and fees and loan unknown debits, failed channels transactions and others. Number of complaints resolved during the review period rose by 23.9 per cent from 21,147 in 2016 to 26,209 and the remaining of 38 complaints were unresolved. Figure 18 illustrate the number of complaints, resolved and unresolved in 2016 and 2017

The number of complaints received by CBL during the year under review decreased significantly by 73.9 per cent in 2017.

Figure 17 Number of Complaints Handled by Commercial Banks in 2016 and 2017



Source: Central Bank of Lesotho





2

The short-term insurance sector's revenue in terms of gross premium written grew marginally by 3.3 percent to M365.9 million in 2017, from M354.2 million in 2016.

INSURANCE SECTOR REVIEW

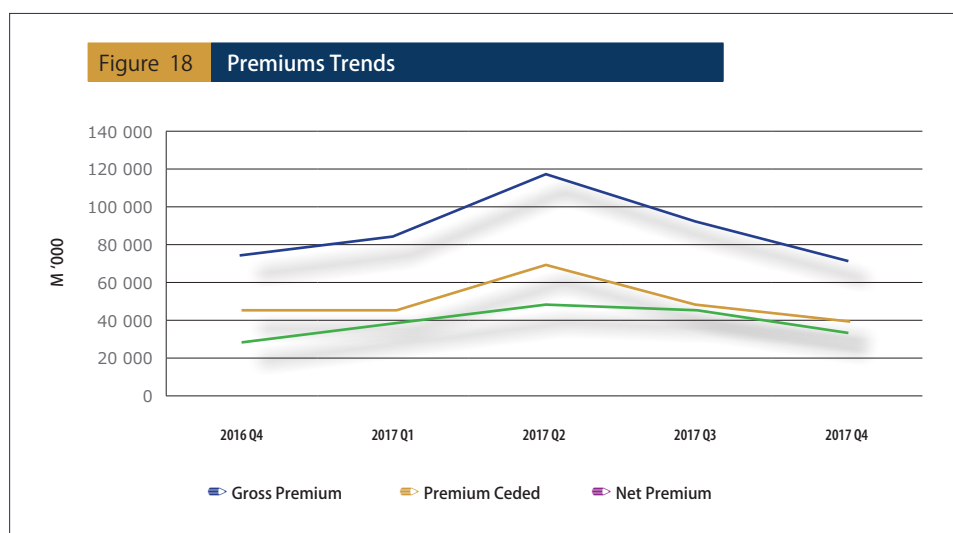
2.1 SHORT-TERM INSURANCE BUSINESS REVIEW

According to Section 5 (2)(b) of the Insurance Act 2014, short-term insurance business is a general insurance business and includes property, accident and health, motor, transportation, engineering, liability and guarantee as specified in Part B of Schedule 1 of the same Act.

2.1.1 Underwriting Results

The short-term insurance sector's revenue in terms of gross premium written grew marginally by 3.3 percent to M365.9 million in 2017, from M354.2 million in 2016. While gross premium had been increasing since the first quarter of 2017, in the last two quarters of the year it registered a decline due to the seasonality in the sector as shown in Figure 19 below.

Premium ceded to reinsurers increased by 5.1 percent to M199.3 million in 2017, from M189.6 million in 2016. This indicates reduction in the short term insurance industry's appetite to shoulder more risk. The level of risk retained by the industry thus fell to 45.5 percent compared with 46.5 percent retained in 2016. This implies that more of the premium is being ceded to reinsurers as new business is being acquired.



Source: Central Bank of Lesotho

Despite the rise in premium ceded to reinsurers, the industry realized a 20.0 percent drop in commission income, which stood at M42.4 million in 2017 compared to M53.0 million received in 2016. Commission income is revenue that the industry receives from reinsurers for premium ceded to them. The reinsurers pay ceding companies this commission so that they can cover administrative and acquisition costs during the underwriting process.



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On the other hand, total underwriting expenses incurred rose by 14.5 percent to M219.0 million from M191.2 million in 2016, mainly due to an increase in net claims incurred and management expenses, which increased by 20.7 percent and 13.1 percent respectively. This calls for the industry to control management expenses for efficient operations in order to spare funds for investment for future liability.

Following the upsurge in the total underwriting expenses, the industry registered an underwriting loss of M10.0 million compared to an underwriting profit of M26.4 million in the previous year. As a result of negative performance in underwriting performance, the industry recorded a 79.4 percent decline in profit before tax to M4.1 million in 2017.

2.1.2 Assets

The short-term sector registered an improvement of 4.6 percent in total assets to M422.7 million in the reporting year from M404.3 million in the previous year. This was attributable to significant increases in short-term investments and unearned premiums from reinsurers. Investible assets stood at 62.8 percent of total assets; an indication that the industry invested a large portion of its funds in productive assets.

2.1.3 Equity and Liabilities

Shareholders' funds were reduced by 7.9 percent to M106.4 million, as the industry cashed-on accumulated profits. Further to this, the sector reported a growth of 11.7 percent in technical provisions as insurance obligations increased. This was driven by a rise in claims reserves, following growth in claims incurred. Current liabilities stood at M37.1 million as at the end of 2017, a growth of 11.7 percent from 2016.

2.1.4 Financial Soundness Indicators

The assessment for financial soundness was done on the sector's operational results and financial position. This assessment was conducted using ratios which serve as early warning indicators, as discussed in detail below.

From the operational financial category of soundness indicators, the industry registered a negative underwriting performance. This is evidenced by a high combined ratio at 129.8 percent, which resulted from a growth in claims incurred and other underwriting expenses. Claims ratio stood at 60.3 percent, an increase of 9.7 percentage points from the previous year. As earlier discussed, the reduction in profit before tax drove the return on equity by 3.5 percentage points to 0.9 percent in 2017. On the positive side, the sector registered a marginal increase in investment yield to 8.0 percent during this period.

Premium ceded to reinsurers increased by 5.1 percent to M199.3 million in 2017, from M189.6 million in 2016.

From the financial position, the sector had mixed performance with some positive ratios in some instances and negative ones in other instances. On the positive side, the sector had invested a larger proportion of its assets in financial assets in order to generate additional income. This is shown by a ratio of investment assets to total assets of 62.8 percent. Technical reserves to total liabilities stood at 88.3 per cent, indicating that the sector was adequately covered in terms of its obligations. In addition, premiums receivable cover was recorded at 38.3 percent, showing that the industry was efficient in managing credit risk emanating from premiums collection.

2.2 LONG-TERM INSURANCE BUSINESS

In terms of Section 5 (2) (a) of the Insurance Act 2014, long-term insurance business means “life insurance business comprising all types of life policies of a class specified in Part A of Schedule 1”. Life, health, assistance, disability, fund and sinking fund are listed as classes of long term insurance business in that schedule.

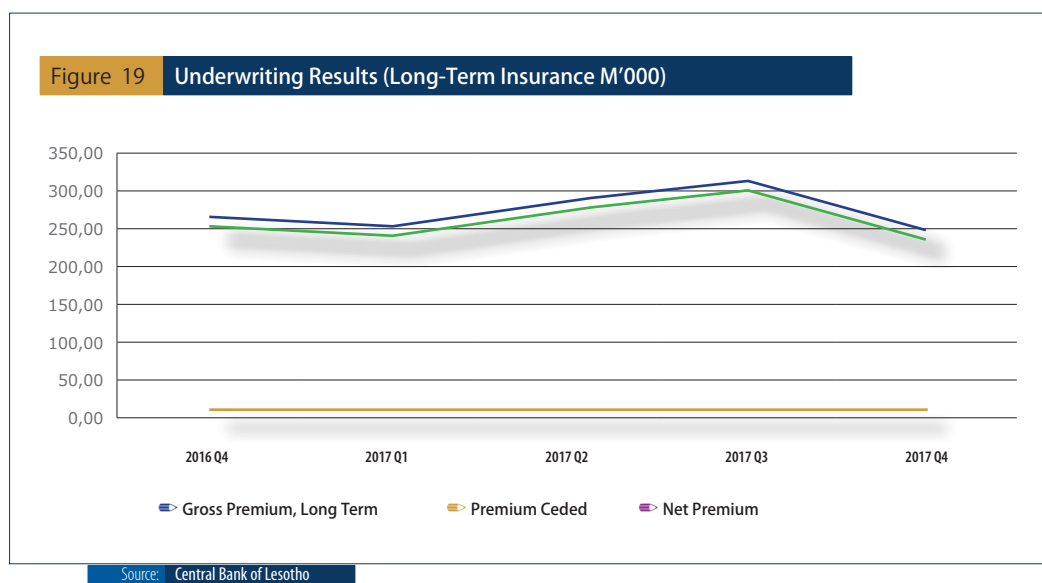
2.2.1 Underwriting Results

The sector collected M1,068.0 million in gross premiums, with 97.5 percent of this contributed by the top 3 insurers in the sector. This indicates how the sector is highly concentrated to few companies and a need for new entrants to induce competition.

Of the total collected premium, 43.8 percent or M59.0 million was ceded to reinsurers in 2017. Despite the increase in premium ceded to reinsurers, the sector’s net premium rose by 8.4 percent to M1 009.0 million in 2017 compared to M930.7 million in 2016. Over time, the same sector has been realising increased premium collections and assets growth. Figure 20 below shows the gross and net premiums for the long-term sector moving in tandem; hence, maintaining the same ratio of premium ceded to reinsurers. Although there is seasonality in the premium collections in the insurance industry, the highest level was recorded in the 3rd quarter of 2017. This was followed by a decline in the 4th quarter of that year.



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Claims incurred increased by 13.7 percent to M569.7 million in 2017 from M501.2 million in 2016. Insurers do not have a control on the occurrence of claims incurred. However, they are expected to act prudently by holding adequate funds or reserves to absorb these claims should they arise. This is evident from the 36 percentage points increase in the technical reserves cover between the two reporting periods.

Commission expenses on the other hand increased by 11.3 percent to M147.2 million in 2017 compared to M132.2 million recorded in 2016; an indication that more business was acquired through intermediaries. Management expenses for the long-term insurance sector is one on the concerning areas. Over the past and in this reporting period, the management expenses have been recorded at higher level, indicating inefficiencies in the management of the sector. For the period under review management expenses increased by 29.3 percent to reach a level of M251.6 million in 2017. The increase in underwriting expense led to a 60.8 percent decrease in underwriting profit to M40.4 million in 2017 from M103.1 million in 2016.

Similarly, investment income registered a significant rise of 288.6 percent to M755.5 million in 2017 while other expenses increased to M297.2 million from M212.2 million in the preceding year. This boosted profit before tax to M613.3 million in 2017.

Shareholders' funds were reduced by 7.9 percent to M106.4 million, as the industry cashed-on accumulated profits.

2.2.2 Assets

Total assets of life insurance business rose by 14.2 percent to M5.6 billion in 2017. The long-term insurance sector, by its nature, requires higher long-term investments than short-term investments to match the long-term policyholders' obligations and promised return. However, during the reporting period, the sector's long-term investments decreased by 15.0 percent to M2.9 billion due to uncertainties and fluctuations in foreign market. Bank and cash balances significantly increased to M242.1 million at the end of 2017, from M66.1 million in the previous year.

2.2.3 Equity and Liabilities

Shareholders' wealth improved by 12.7 percent and was registered at M1.1 billion in the period under review. This was due to a 14.6 and 25.8 percent rise in accumulated funds and retained income, respectively. The sector remained highly liquid as evidenced by the ratio of current assets to current liabilities which exceeded 915.6 percent. This is a favourable condition for the sector as far as policyholders' obligations are concerned. However, there is need to balance this with the need to generate long term income by investing in long-term assets, which may be less liquid, in order meet future claims.

2.2.4 Financial Soundness Indicators

The Financial Soundness Indicators are depicted in Table 9, which shows a significant increase in premium receivable to gross premium. This indicates a worsening credit risk faced by the sector and a need for improved collection strategies by the sector.

Table 9 Financial Soundness Indicators (Long-Term Insurance)		
Category	Indicator	Level (%)
Capital Adequacy	Capital to Liabilities	25.4
	Capital to Technical Provisions	590.4
Asset Quality	Premium Receivable to Gross Premium	38.8
	Investments to total Assets	84.0
Reinsurance	Retention ratio	94.5
Actuarial Liabilities	Claims incurred to outstanding claims Prov.	865.3
Management Soundness	Operating expenses to gross premium	65.2 ↓
Earnings	Loss ratio	56.5 ↓
	Expense ratio	39.5 ↓
	Investment Income to net premium	74.9
	Return on Equity	53.9
Liquidity	Liquid Assets to Current Liabilities	915.6

Source: Central Bank of Lesotho



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Improved profitability is also seen within the sector as shown by the substantial Return on Equity (RoE) which is driven by low operating expenses and high investment income. This is supported by the operating expense to gross premium ratio and the investment income to net premium ratio respectively. The sector therefore needs to manage its expenses while investing in high yielding assets in order to increase the investment income. On the upside the sector has capacity to cover both its long and short term obligations should they fall due, as depicted by a high liquidity ratio and favourable capital adequacy ratio that remained unchanged when compared to the prior period.

2.3 COLLECTIVE INVESTMENTS SCHEMES, PENSION AND SECURITIES

2.3.1 Licensing

The number of formally registered asset managers decreased from four to one during the year. Precient Highlands (Pty) Ltd and JM Busha (Pty) Ltd were registered in 2015. During the review period the two asset managers did not renew their licenses and as such are no longer registered asset manager. Furthermore, African Alliance (Pty) Ltd voluntarily wound up and ceased operations in Lesotho and this made STANLIB Lesotho (Pty) Ltd to be the only active and registered collective investment scheme as at the end of 2017.

In terms of regulatory developments, the Central Bank of Lesotho completed the review of the Collective Investment Schemes Regulations of 2001, which was out dated and no longer addressing recent challenges. The exercise resulted in the draft Collective Investment Schemes Regulations of 2017, being advanced further in the legal process. Oversight and regulation of pension funds in Lesotho remains a challenge as there is no legislation that supports their direct regulation. They however continued to be supervised under the auspices of the Insurance Act of 2014 for companies that happened to be regulated under that Act and providing the pension-related products. The Central Bank of Lesotho, however registered progress in the pension sector by having the Pension Bill progressing towards certification and there is confidence that in 2018, the Bill shall be passed into law. To be pro-active, the Central Bank of Lesotho worked with stakeholders to have the supporting regulations to the Pension Bill drafted so that the length of vacuum is minimised when the Bill is passed into the law.

Total assets of life insurance business rose by 14.2 percent to M5.6 billion in 2017.

2.3.2 Market Share

Due to the deregistration of the mentioned asset managers, STANLIB Lesotho (Pty) Ltd controlled 100% of the market share in terms of total assets under management, number of funds being managed and monetary values; hence, giving it a considerable degree of systemic significance.

2.3.3 Compliance

There were none compliance issues that were recorded during the review period, except house-keeping issues that are constantly raised to the regulated entities as part of on-going monitoring ▣





3

Microfinance institutions in Lesotho mainly offer loans to salaried government and private employees as this line of lending provides ability to deduct loan repayments at source.

NON-BANKS FINANCIAL INSTITUTIONS REVIEW

3.1 OVERVIEW OF THE NON-BANK FINANCIAL INSTITUTIONS

The Non-Banks Financial Institutions comprise of a diverse set of financial institutions as per the following categories and their relevant pieces of legislations:

- Micro-Finance Institutions (MFIs) under the Financial Institutions (Credit Only and Deposit Taking Micro-Finance) Regulations of 2014.
- Money Transfer under the Financial Institutions (Money Transfer) Regulations of 2014
- Credit Bureau under the Credit Reporting Act 2011 and Credit Reporting Regulations 2013.
- Financial Leasing Under the Financial Institutions (Financial Leasing) Regulations of 2013.
- Money Lenders Amendment Act of 1993.

This set of financial institutions are supervised by the Non-Banks Supervision Division which is also tasked with several projects aimed at building requisite financial infrastructure and fostering financial inclusion and access to finance.

3.2 MICROFINANCE INSTITUTIONS (MFIs)

3.2.1 Introduction

Microfinance Institutions (MFIs) in Lesotho are supervised and regulated by the Central Bank of Lesotho under the Financial Institutions Act 2012 and the Financial Institutions (Credit only and Deposit Taking Microfinance Institutions) Regulations 2014. Microfinance as a product is also offered by traditional Money Lenders under the Money Lenders Amendment Act of 1993. This industry is being overhauled and the Regulations are currently under amendment as part of the World Bank Technical Assistance under the First Initiative. The amendments, amongst others, seek to create a more conducive environment for MFIs to operate effectively and efficiently by creating a more accommodative regulatory environment. The amendments will also create space for the small lenders to be regulated under the FIA and as a result pave way for the repeal of the Money Lenders Act of 1993.

3.2.2 Overview of MFIs

Microfinance institutions in Lesotho mainly offer loans to salaried government and private employees as this line of lending provides ability to deduct loan repayments at source. However, there has been a steady uptake of unbanked and MSME financing as a result of both market forces and regulatory efforts.

The legal and regulatory environment in Lesotho provide for both deposit taking and credit-only MFIs, however, there were still no deposit taking MFI licensed in the year under review. During the year ended December 2017, there were 11 licensed credit-only MFIs as compared to the 9 licensed in 2016. These MFIs are predominantly foreign owned with 6 and



NON-BANKS FINANCIAL INSTITUTIONS REVIEW

only 5 locally owned and the market share is highly concentrated towards two largest credit-only MFIs. The increase in the number of MFIs has not had a big impact in the credit extension for MSMEs and unbanked as they mainly compete with commercial banks for salaried clients. However, it is worth noting that these personal loans are both for consumption and investment purposes.

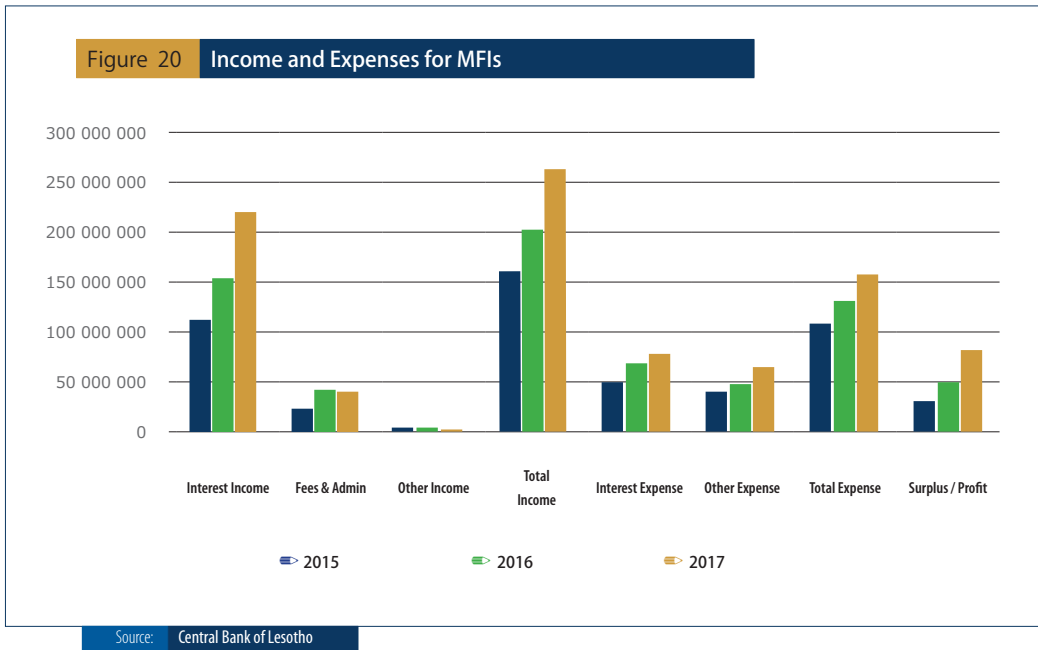
In terms of growth, the MFIs sub-sector continued to grow albeit at a decreasing rate. The size of the subsector grew by 1.8 per cent in the review period down from a strong growth of 36.6 per cent registered in the previous year. In value term, the asset base closed 2017 at 735.4 million compared to the 722.3 million registered in 2016. The deceleration in the size of the sector is in line with the slow-down in credit extension and uptake as the market matures and approach saturation. The slow-down is also as a result of the usage of credit information bureau in credit assessment and evaluation. Issues of borrower over-indebtedness and reckless lending still characterize challenges prevalent in this sub sector. These challenges are attributed to lenders' inability to make proper credit worthiness assessment in their credit decisions and bad market conduct. This challenge contributes to the increase in delinquent borrowers and surging non-performing loans in the sub sector.

In the review period, Credit-Only MFIs were still unable to raise funds from the banking sector to finance their credit extension operations and as such remained dependant on loan funding from parent companies and shareholders' equity.

3.2.3 Financial Performance of the Sector

The MFIs subsector's financial performance continued to record strong growth and remained profitable in the year under review. Profit after tax increased by 59.3 per cent in 2017 as compared to 67.3 per cent recorded in 2016, amounting to M80.9 and 50.8 respectively. This performance is mainly at the back of strong growth in interest income with 43 per cent moderated by 10.2 per cent and 23.4 per cent in fees and administrative charges and other income respectively. As far as expenses are concerned, the sector continued to register growth albeit at a low increase compared to income leading to higher profitability.

Overall, the microfinance sub-sector continued to depict strong growth in financial position and performance in the year under review.



3.2.4 Conclusion

Overall, the microfinance sub-sector continued to depict strong growth in financial position and performance in the year under review. There was also a steady increase of market participants as well as growing loan portfolios. However, non-performing loans are also growing and this is an early warning sign for credit risk in this industry. Extension of credit information and coverage in the bureau and the use of such information have to be deepened in order to mitigate against credit risk. Great efforts should also be directed towards loan book diversification, other loan products and to include MSMEs and the unbanked population. Financial consumer education and empowerment is also pivotal in addressing issues of over-indebtedness from the supply side.

3.3 MONEY-TRANSFER INSTITUTIONS

3.3.1 Introduction

Money transfer business refers to the business of transferring money from one person to another or the equivalent amount in the local currency to another person against a fee or commission. By law this type of financial service is regulated and supervised by the Central Bank under The Financial Institutions (Money Transfer) Regulation 2014.



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The rationale of bringing Money Transfer under a regulatory framework came from concerns of increasing remittances made through unsecure informal channels and emerging global challenges of money laundering and terrorism financing. In addition, flow of remittances has been increasing over time thus contributing significantly to the country's foreign exchange flow.

Money Transfer Institutions provide a formal and critical conduit through which payments are made and remittances are transferred for households and business purpose in a safe manner. These institutions play a critical role in fostering financial inclusion and access to finance which is one of the main objectives of the FSIDS.

3.3.2 Financial Performance in 2016

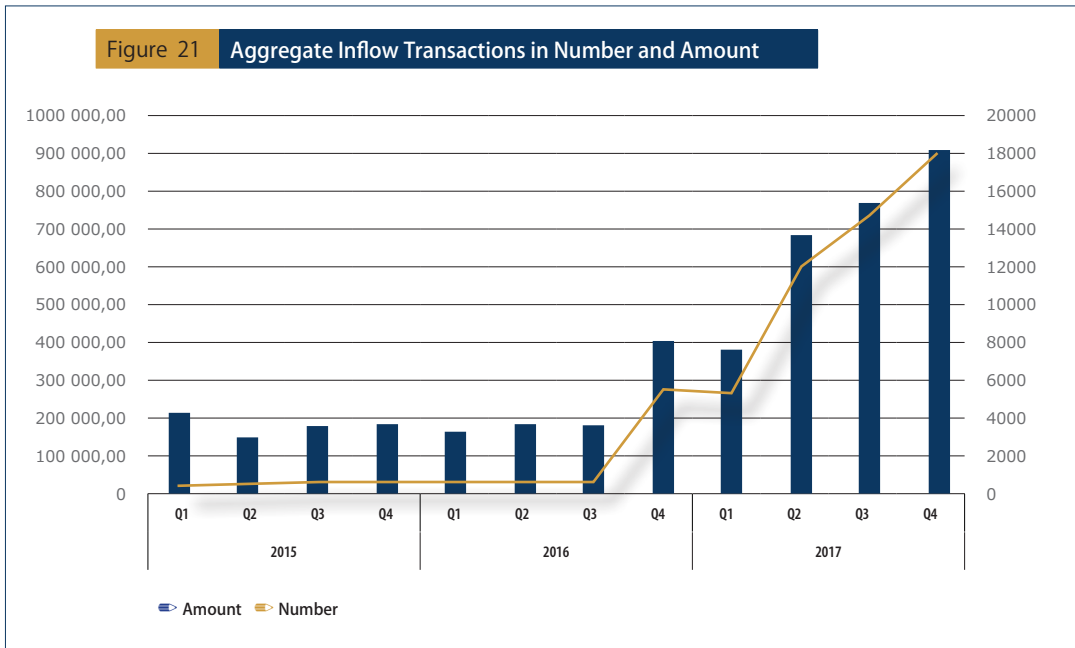
The Central Bank of Lesotho, up to this end, has licensed two stand-alone money transfer institutions, namely: Interchange Lesotho and Inter Africa Bureau de Change. Their main service is transfer of funds from Lesotho to the rest of the world and vice versa. These companies are also licensed to operate as exchange bureaus. The entire money transfer sector has increased significantly in the year under review as compared to previous year. The total assets of the sub-sector have increased by 127% from last quarter of 2016 to the last quarter of 2017 as a result of the continued expansion of the industry's operations and branch network. Profitability of the sub-sector in the year under review has also improved significantly as compared to performance in the year 2016. Return on assets in 2017 was 27% compared to 12% declared in 2016 and return on equity in 2017 was 50% as compared to 20% reported in 2016.

The main factor that has contributed to this improvement in profitability is the 42% decline in expense compared to 31% increase in income. Decline in expense versus significant increase in income reflects the high returns in the short-run from the new investments being made in the sub-sector. The main contributor to this sub-sector's total income is money transfer which accounts for 77% of the income while foreign exchange activities account for 23% of the business.

3.3.3 Inflow Transactions

The inflow transactions for the year 2017 can be divided into two groups: Inflows from the rest of the world excluding South Africa and inflows from South Africa only. In volumes, there were 3,237 inflow transactions from the rest of the world excluding South Africa amounting to US\$ 875,511.42 while there were 47,330 inflow transactions from South African amounting to US\$ 1,888,981.71. In the year under review, the amount of inflow transactions increased by 189 per cent annually. The aggregate inflow transactions in 2017 amounted to US\$ 2,764,493.13.

Inflows made through the South Africa corridor boomed since the last quarter of 2016. This corridor has been opened only on an inbound basis.

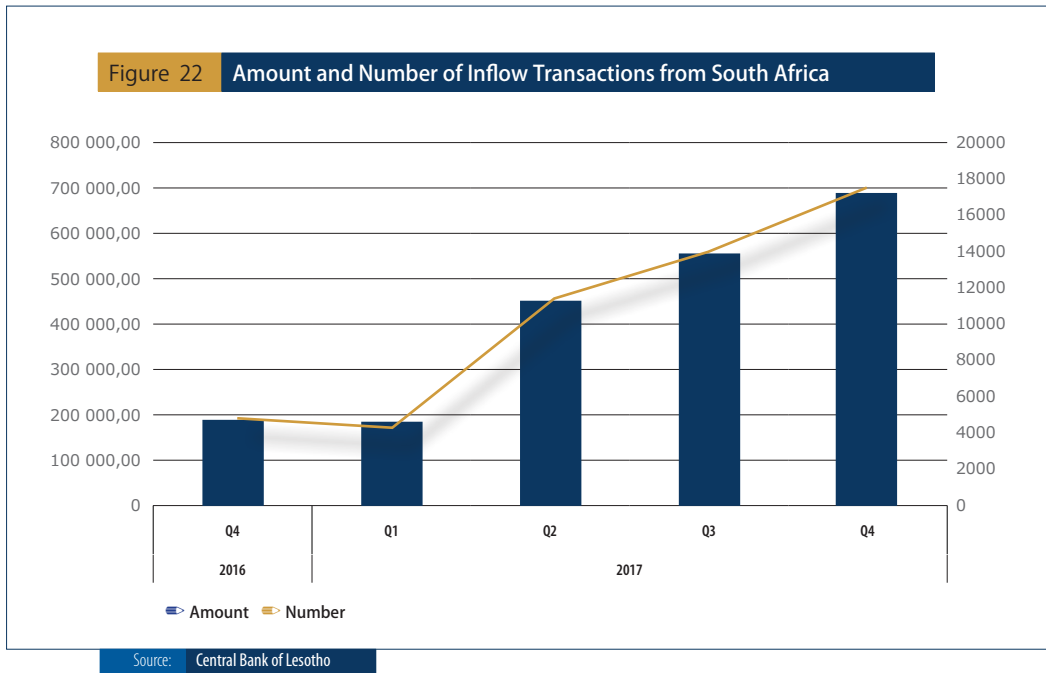


Source: Central Bank of Lesotho

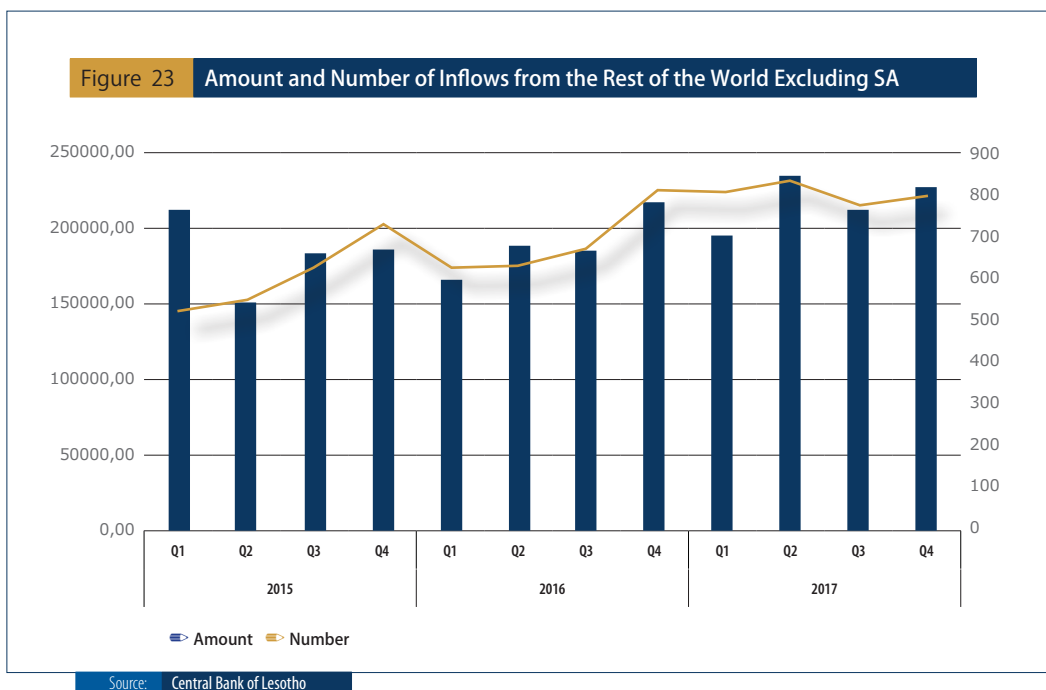
Inflows made through the South Africa corridor boomed since the last quarter of 2016. This corridor has been opened only on an inbound basis. The figure below depicts inflows from South Africa and portrays an increasing trend both in number and amount of transactions from the last quarter of 2016 to the last quarter of 2017. This increase is attributed to the introduction of an integration of the money transfers systems with mobile money platforms. This made it possible for remittances made through the money transfer to be accessibility through mobile money.



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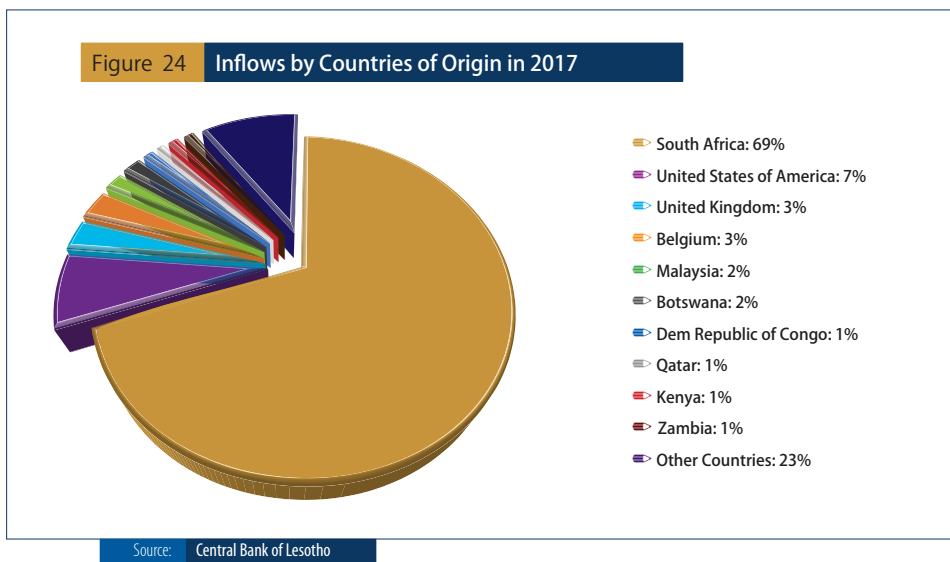


Inflows from the rest of the world have also grown steadily in both amounts and number of transactions, albeit at a lower rate compared to those from South Africa. The figure below depicts inflow trends from the rest of the world excluding South Africa. In 2017, the average growth of the transactions in amount and number was respectively 2 per cent and 4 per cent.



Money transfer platforms in Lesotho were able to receive funds from many countries across the globe.

Money transfer platforms in Lesotho were able to receive funds from many countries across the globe. The figure below zooms into inflows by country of origin and shows the 2017 percentage share of inflow by each country. The depiction shows that the highest percentage share, 69% of inflow transactions came from South Africa, followed by United States of America which accounted for 7%, next was United Kingdom and Belgium with 3%, Botswana and Malaysia accounted for 2%. Other countries combined accounted for 10%. This picture may relatively be associated with statistics of Lesotho migrant workers living abroad. The highest recipients of Lesotho immigrants are South Africa, United State of America, United Kingdom and Botswana.



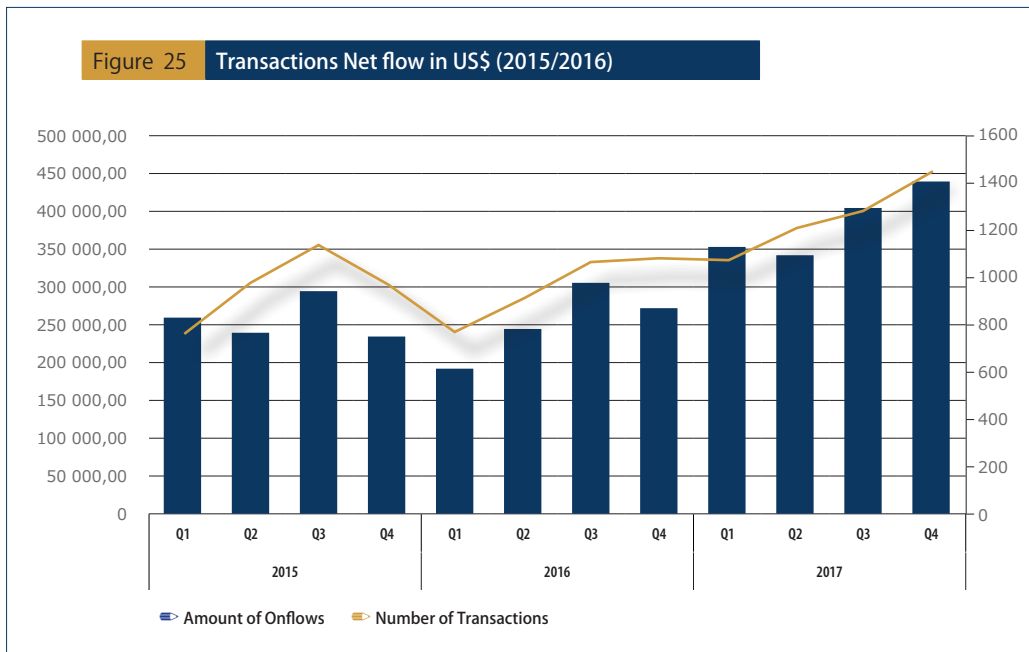
3.3.4 Outflow Transactions

In 2017, the amount and number of outflows remitted through the money transfer platform has been on the increase, respectively growing on average at 13% and 8%. Looking at the quarterly trend from first quarter of 2015 to end 2017, the average growth of both amount and number of transactions was 6% and 7% respectively. In the year under review, the number and amount of transfers abroad excluding South Africa stood at 5001 and US\$ 1,530,850,75 respectively.



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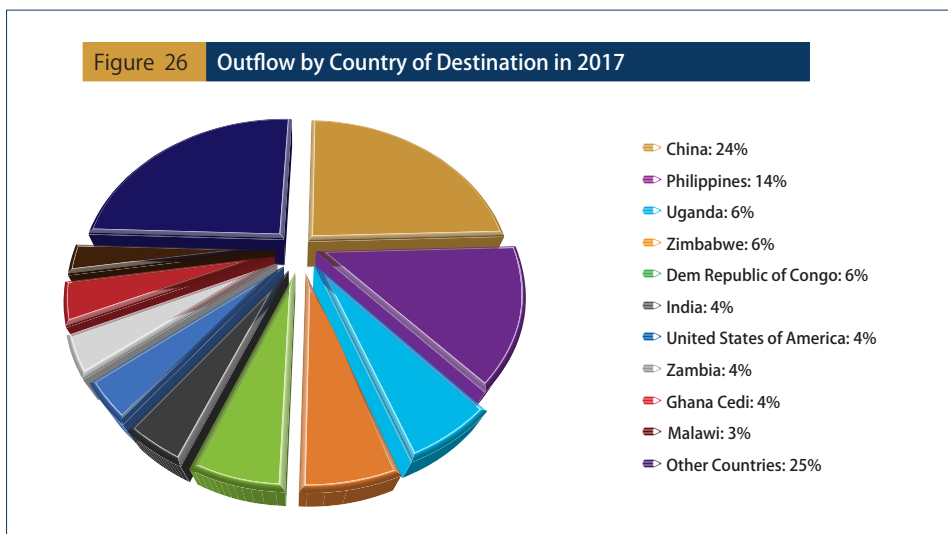
Figure 25 Transactions Net flow in US\$ (2015/2016)



Source: Central Bank of Lesotho

The money transfer sub-sector in Lesotho is also able to remit funds to many countries globally. In the year 2017, outflow transactions by country of destination mostly went to China 24 per cent, followed by Philippines with 14 per cent, Uganda, Zimbabwe and DR Congo with 6 per cent. This is in line with the number of migrants of these countries in Lesotho. South Africa is a special case, where the transfer of funds is largely made through the banking sector and other channels given the level of integration and the linkage between Lesotho and South African banking system.

Figure 26 Outflow by Country of Destination in 2017



Source: Central Bank of Lesotho

In the period under review, 100 per cent of commercial banks and SACCOs credit information was live and accessible on the Bureau as far as consumer credit information is concerned.

The outflow transactions are mostly destined to Asian and African countries while inflow transactions are mainly from South Africa, Europe and North America. Money transfer sector is mainly utilised by migrant workers to send money home for households' consumption and to a lesser extent for business or productive purposes. Therefore the picture above portrays the dynamics of immigrants in and out of Lesotho. Large proportions of Migrants from Lesotho, excluding South Africa, settle in the United Kingdom and North America while many immigrants in Lesotho are of Asian and African descent.

3.4 CREDIT INFORMATION SHARING

3.4.1 Introduction

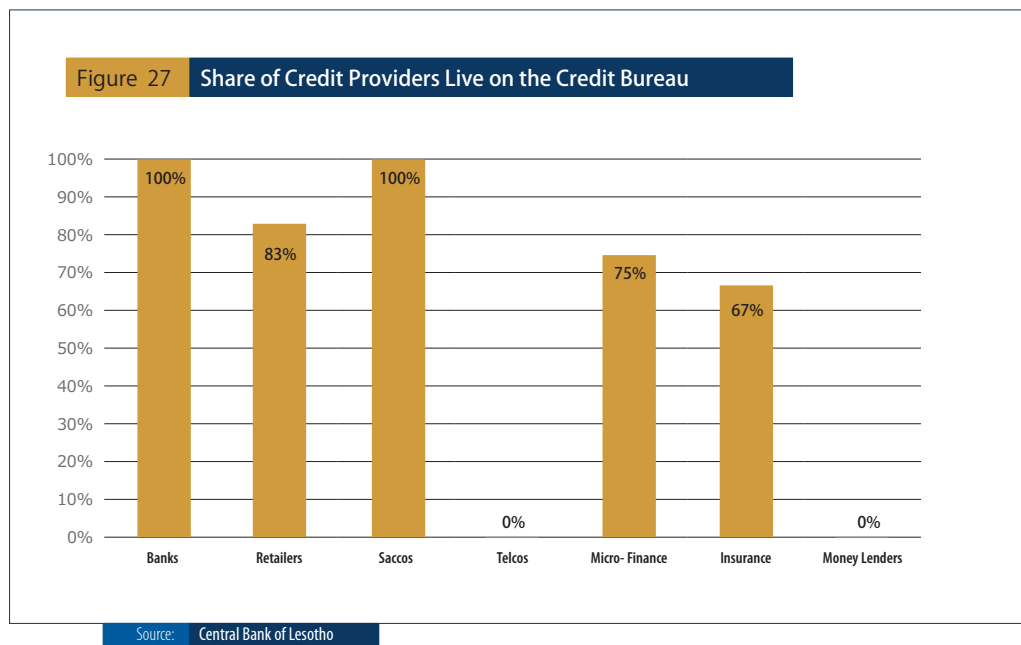
Following the formal launch of the Lesotho Credit Information Sharing initiative in early 2016, significant strides continued to be made in uploading more data into the system and in increasing coverage of credit providers to report to the bureau. Throughout the year 2017, Consumer Credit information has been shared and used by the following credit providers: banks; microfinance institutions; retailers; savings and credit cooperatives; telecommunication and utility companies in Lesotho. In addition, the Ministry of Home Affairs provides Lesotho ID holders verification services to the credit bureau while the High Court provides judgements relating to credit affairs of persons.

3.4.2 Credit Providers with Live Data

In the period under review, 100 per cent of commercial banks and SACCOs credit information was live and accessible on the Bureau as far as consumer credit information is concerned. Retailers, MFIs and insurance companies followed with 83 per cent, 75 per cent and 67 per cent respectively. As at the end of 2017 consumer credit information for all money lenders and telecommunication companies was not yet uploaded on the Bureau as they were working on connection requirements to upload data into credit bureau.



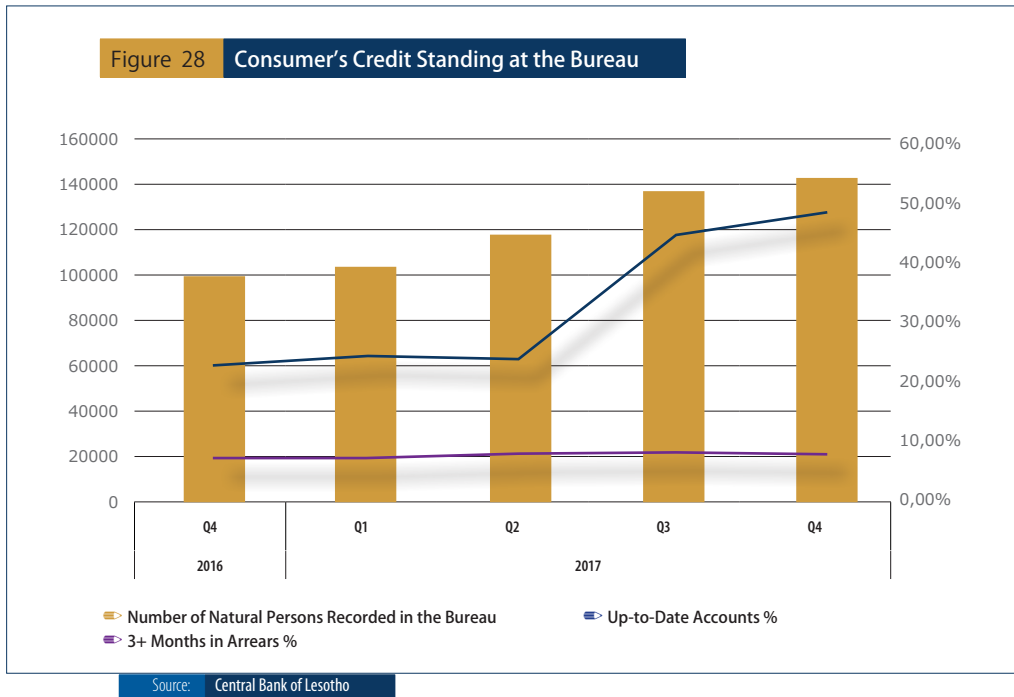
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3.4.3 Annual Credit Activity Growth by Product Type

In general the number of natural persons with credit information captured at the bureau continued to grow in the year under review, albeit at a lower rate of growth compared to 2016. By end of 2017, the number of consumers with a credit record in the bureau increased by 40.6 per cent year-on-year amounting to 143,000 individuals. This increase is attributable to more institutions that were actively reporting credit information and the increase in demand for credit in general across all credit providers and products.

The number of borrowers in 3+ months in arrears remained flat while the number of up to date accounts continued to increase.



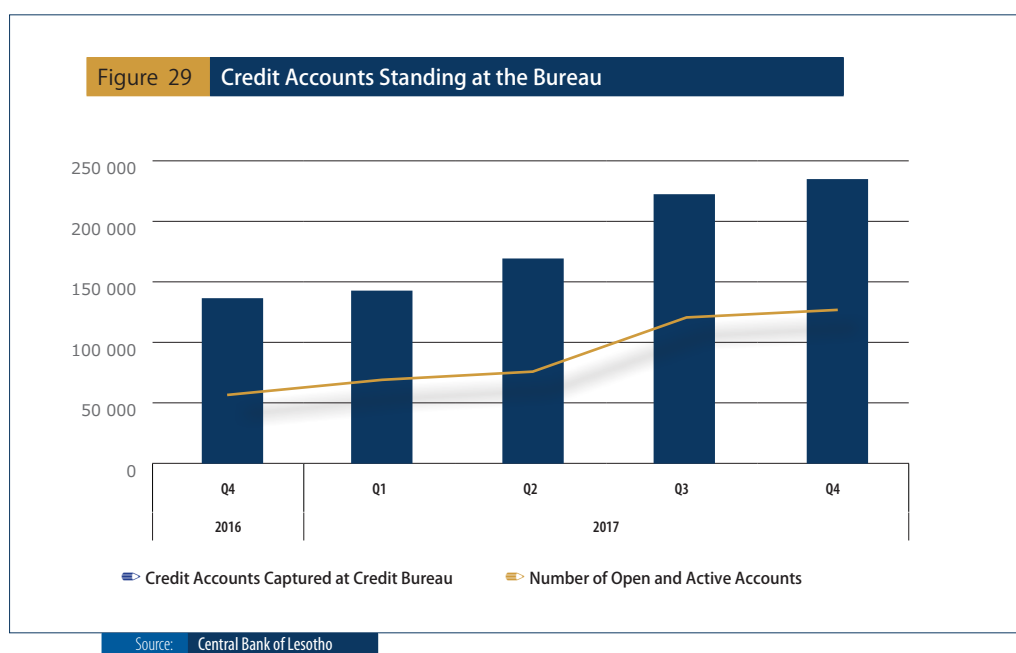
As depicted on the figure above, the number of borrowers in 3+ months in arrears remained flat while the number of up to date accounts continued to increase. Out of 143,000 borrowers in the bureau, 9084 persons were reported as 1 to 2 months behind with their payments while 11 260 borrowers were 3 months and above behind in their monthly loan repayments.



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3.4.4 Credit Account Standing at the Bureau

Borrower standings refer to the status of consumer credit accounts as reported by credit providers, it breaks down the consumers in terms of their account status with regard to their repayments.

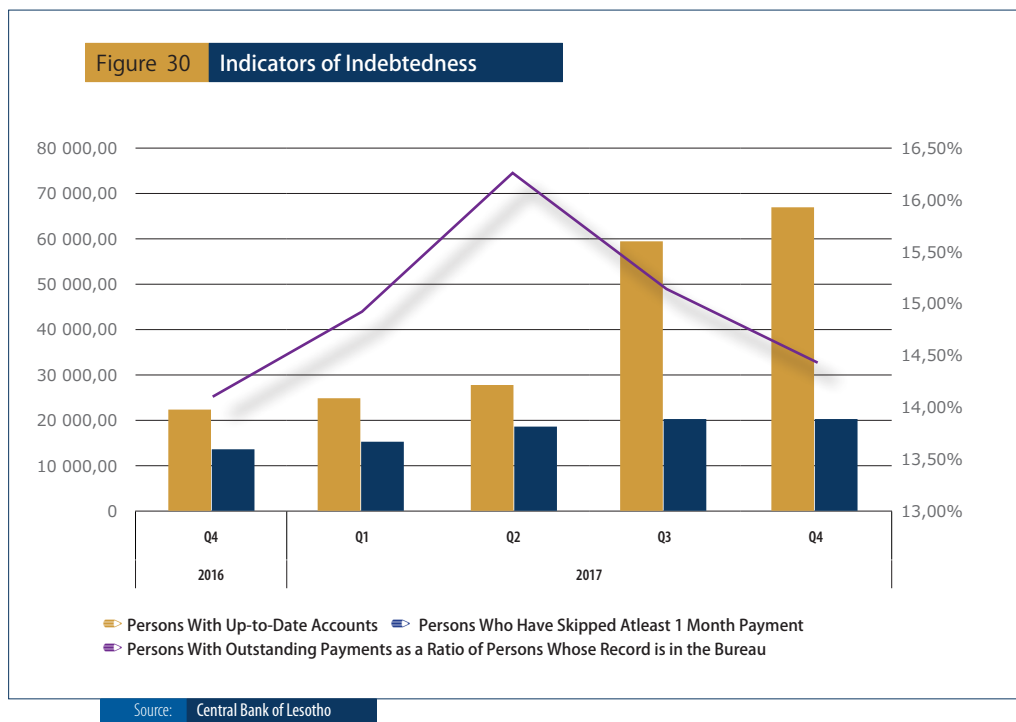


In line with the increase in the number of natural persons captured at the bureau, the number of accounts has also shown a double digit growth. By the end of 2017, up to 232,825 credit records were captured in the credit bureau accounting for a 71 per cent increase year-on-year compared to 2016. This increase is attributable to more institutions that were actively reporting credit information and the increase in demand for credit in general across all credit providers and products. Accounts reported as outstanding for 1 month to 2 months fell by 0.77% from 2016 while active and up-to-date accounts increased in the same period.

3.4.5 Consumer Indebtedness

While there is no universal agreement on which indicator best captures true over-indebtedness, it is broadly measured by the ratio of loan and interest repayments to income, months in arrears and the number of loan accounts per household. In the absence of data on income and repayments the report only assesses the last two indicators.

As far as the number of credit accounts per natural persons recorded in the Bureau, there were 1.6 credit accounts per household compared with the 1.4 accounts in 2016.



On the one hand, the number of persons with up-to-date accounts increased fourfold and on the other hand, the number of persons who have skipped at least one month payment has increased at a slower rate of 46 per cent. This increase implies that as more consumer credit information is uploaded on the Bureau, consumers in good standing account for the largest share as compared to consumers with at least 1 month in arrears.

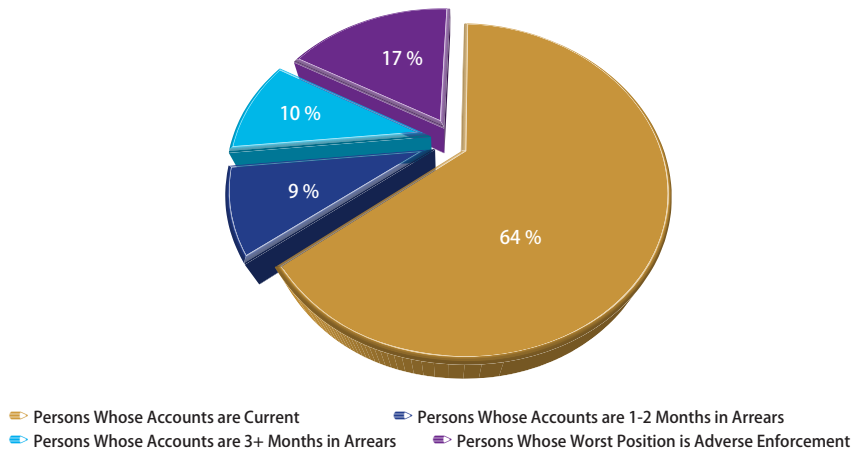
As far as the number of credit accounts per natural persons recorded in the Bureau, there were 1.6 credit accounts per household compared with the 1.4 accounts in 2016. As at the end of 2017, the number of persons who were reported as having skipped one month of their loan repayments constituted 14.5 per cent of overall persons who have credit record compared to 14.1 per cent recorded in 2016.

As depicted on the following figure, 64 per cent of persons whose accounts were reported at the bureau in 2017 serviced their loans well while 19 per cent of borrowers were reported as having fallen behind for at least three months. This is an indication of high levels of over-indebtedness by all standards. The number of accounts which credit providers were enforcing recovery on accumulated to 17 per cent albeit declining by 18.2 per cent year-on-year. This indicates that although many accounts were being handover for collection and recovery, there is a slight improvement in borrowers discipline in terms of servicing their debts as compared to 2016.



NON-BANKS FINANCIAL INSTITUTIONS REVIEW

Figure 31 Borrower Accounts Standing

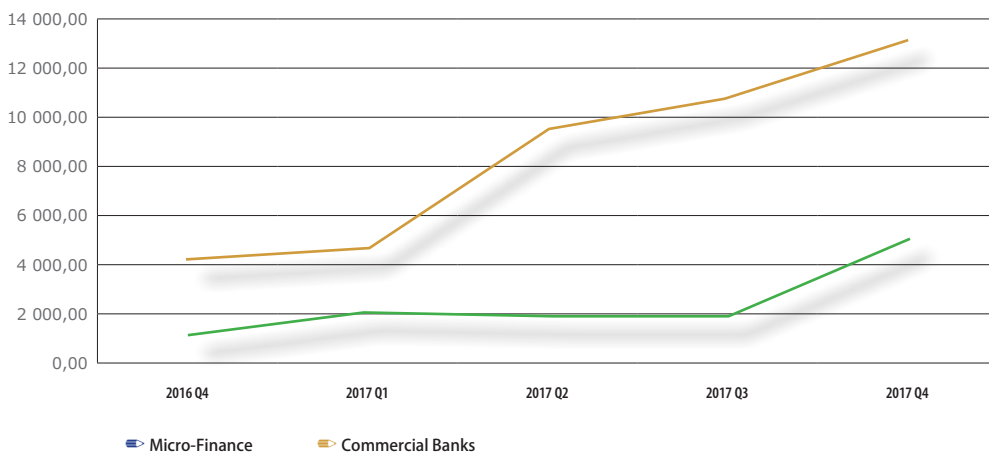


Source: Central Bank of Lesotho

3.4.6 Credit Market Activity

Credit market activity in this report refers to number of inquiries which credit providers make of their clients accordingly. Credit bureau holds and facilitates exchange of consumer credit information between credit providers to strengthen credit underwriting or appraisal when processing loan applications. Credit providers inquire of consumers’ credit reports from credit bureau to assess their credit worthiness and affordability, thereby reducing credit risk.

Figure 32 Credit Providers’ Inquiry Hits

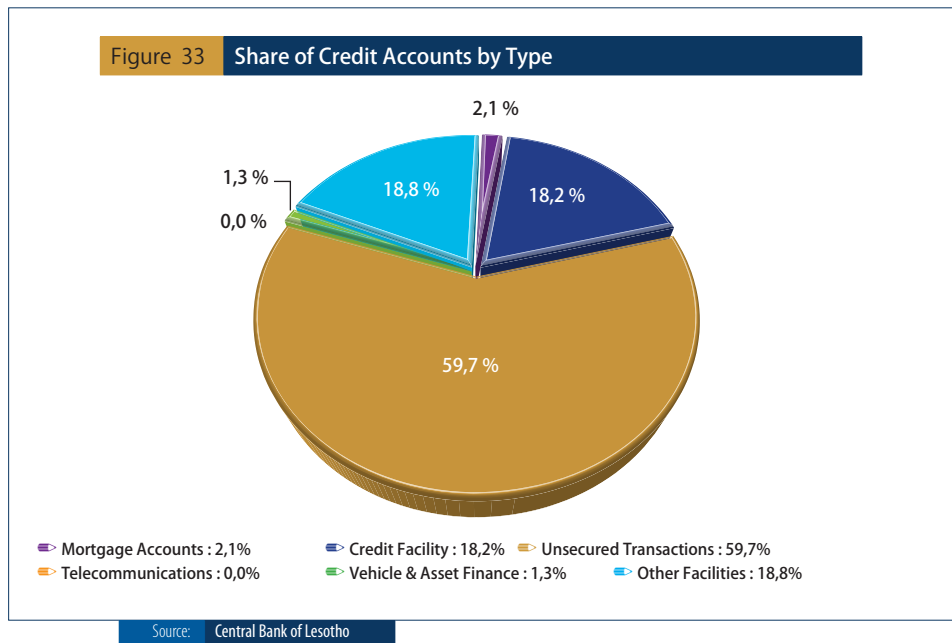


Source: Central Bank of Lesotho

Borrowers access various loan products from different lenders or credit providers.

Credit inquiries are predominantly used by Commercial Banks and MFIs during the credit assessment and the figure above depicts an increasing trend for both. In 2017, there was a total of 17,602 inquiry hits for commercial banks while MFIs reached 4,194. Retail shops, savings and credit cooperatives and money lenders did not make any borrower credit information inquiry even though they already share information with credit bureau.

3.4.7 Credit Market Breakdown by Product Type



Borrowers access various loan products from different lenders or credit providers. As at the end of 2017, there were 232,825 credit accounts information reported to credit bureau, out of which unsecured credit accounts constituted the greatest share of 59.7 per cent. The share of mortgage and vehicle finance accounts remained low at 2.1 per cent and 1.3 per cent respectively



4

Lesotho Wire (LSW) remained the backbone of the payment and settlement system in Lesotho since its introduction in 2006.

DEVELOPMENTS RELATED TO SUPERVISION

4.1 LESOTHO WIRE PERFORMANCE IN 2016

4.1.1 Enhancement of Payment Systems Legal Framework

The Central Bank of Lesotho continues to make efforts to strengthen the legal and regulatory framework to achieve safety and efficiency of the National Payment Systems in line with the mandate bestowed upon it by the Central Bank of Lesotho Act 2000 and clearly stated by the Payment Systems Act 2014. Therefore, in order to operationalize the Payment System Act 2014 and to strengthen the mobile money regulation, promote market confidence, protect investors and manage risks associated with issuance of electronic payment instruments (including mobile money) in the country, the Payment Systems (Issuers of Electronic Payment Instruments) Regulations 2017 were gazetted and promulgated by the Parliament of the Kingdom of Lesotho in March 2017 following their drafting by the Bank. The objective of these regulations is to provide for the licensing and oversight of issuers of electronic payment instruments (including issuance of e-money) as well as to provide general provisions applicable to all e-money issuers in the country. Consequently, all new and existing issuers of electronic payment instruments are expected to abide by these regulations.

4.1.2 Lesotho Wire

Lesotho Wire (LSW) remained the backbone of the payment and settlement system in Lesotho since its introduction in 2006. In 2017 this system was available to participants for 99.63 percent of the time and allowed the processing and settlement of large value and time critical payments in the country. During this reporting period, the system processed and settled a total of 29,968 transactions to the tune of approximately M43.07 billion compared to 23,917 transactions valued at M34.26 billion processed and settled in the previous year. This represents approximately 25 percent growth in terms of both transaction volumes and values from 2016. The growth in transactions volumes and values associated with this system is a testimony of the significance of this system to the economy of Lesotho.

4.1.3 Lesotho Automated Clearing House (LACH) Performance in 2017

In line with growth in LSW transactions reported for 2017, transactions cleared through the Lesotho Automated Clearing House (LACH), which hosts both Electronic Funds Transfers (EFTs) and cheques clearing systems also grew during the reporting year. In particular, EFT system cleared a total of about 1.12 million transactions worth M5.12 billion during the reporting year relative to 863,342 EFT transactions valued at M2.79 billion cleared in 2016 on the one hand. This represents approximately 29 percent and 84 percent growth in terms of transaction volumes and values, respectively. On the other hand, a total of 120,710 cheques worth about M1.76 billion were cleared by the cheque system in 2016 compared to 229,486 cheque transactions worth about M3.12 billion processed through this system in 2016. This constitutes about 47 percent and 44 percent decline in terms of transaction volumes and values, respectively. The increase in EFT transactions was on account of the general consumer preference of electronic payment methods due to their efficiency in processing

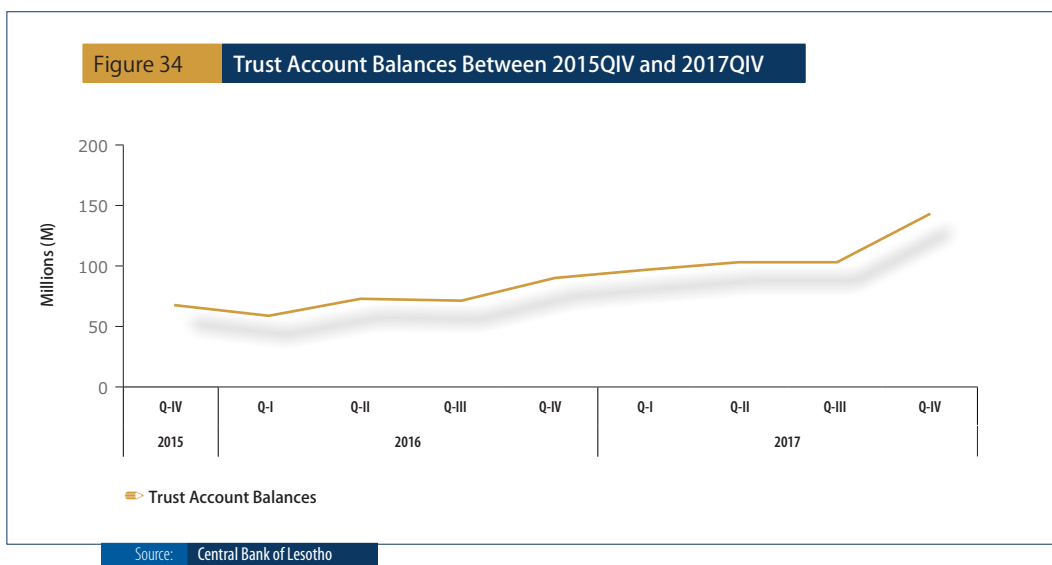


DEVELOPMENTS RELATED TO SUPERVISION

payments during the reporting period while the decline in cheque based transactions was influenced operational challenges, which resulted in non-issuance of cheques by government and, in part, by the consumers' preference towards more efficient electronic payment methods such as EFTs.

4.14 Mobile Money

Mobile money (EcoCash and M-pesa Systems) processed a total of 11.45 million transactions valued at M1.74 billion during as at the end of last quarter of 2017. In line with the growth in transaction volumes and values, the trust account balances also continued to grow during the period under review. Figure 20 below depicts the trends in the trust account balance, which holds funds at the commercial banks on behalf of mobile money users, between fourth quarter 2015 and fourth quarter 2017. During the period under review, the trust account registered about M143.31 million as at the end of 2017. Year-on-year, the trust account balance grew by approximately 62 percent from the fourth quarter 2016, signifying the growth in mobile money usage in the country.



Mobile money (EcoCash and M-pesa Systems) processed a total of 11.45 million transactions valued at M1.74 billion during as at the end of last quarter of 2017.

4.2 DEPOSIT PROTECTION

Efforts to establish a Deposit Insurance System (DIS) for Lesotho continued during the year under review. The division assigned to look into the modalities of establishing the system focused on two major areas: a self-assessment for compliance with the International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems and drafting of a legal framework for the system.

IADI was established in 2002 with the aim of enhancing effectiveness of deposit insurance systems worldwide by providing guidance to jurisdictions that have established the systems and those intending to. In 2009 IADI in collaboration with the Basel Committee on Banking Supervision (BCBS) issued the Core Principles for Effective Deposit Insurance Systems and subsequently in 2010 a Compliance Assessment Methodology for the Core Principles was finalised.

The purpose of the assessment is to identify weaknesses in Deposit Insurance Systems (DISs) and the extent to which they are in compliance with the Core Principles. It is a benchmark on how well the system can fulfil its mandate. As such, it guides the policy makers on proper and relevant improvements in the DISs whether they are implementing or reviewing the existing systems.

Lessons learned from the global financial crisis of 2007 – 2009 revealed the need for strengthening of the Core Principles to put more emphasis on increased coverage, strengthening of funding arrangements, provision for operational independence and better integration into the financial safety-net. These lessons triggered the need for a review of the Core Principles. IADI then established a steering committee to undertake the exercise in 2013 and a review was finalised in 2014.

It is with this background in mind that it was found essential to do the compliance assessment that would advise as to whether the proposal for setting up the system in Lesotho was still in line with the Core Principles. According to the IADI and BCBS methodology, the assessment would take into account many aspects such as supervisory environment, structure of the banking sector, the operating environment for the DIS, the current macroeconomic environment, business environment and other areas. However, the assessment focused purely on the proposal and draft legal framework for the proposed system since the system was not yet operational and as such, it would not be easy to consider and assess all other areas. The results of the assessment revealed that in some areas, a review was necessary and, such a review would be considered in 2017.

A draft legal framework covering relevant areas of the proposed system was also completed during the period under review and would go through the structures of the Bank before finalisation and submission to relevant Government structures for ratification. A compliance assessment revealed that even the draft legal framework would also require a similar review as that of the proposal for the establishment of the system.



DEVELOPMENTS RELATED TO SUPERVISION

4.3 FINANCIAL INCLUSION TECHNICAL ASSISTANCE PROGRAM IN LESOTHO

In 2016, the CBL as one of the main stakeholders participated in the planning phase of the Lesotho Scaling Inclusion through Mobile Money (Lesotho SIMM) project. Lesotho SIMM is a project conceptualised by the United Nations Development Programme (UNDP) to foster the development of an inclusive business ecosystem in Lesotho. Specifically, the project intends to improve access to financial services for the poor through the development of an inclusive ecosystem for mobile financial services. To achieve its objectives the project has brought together the CBL, local MNO's, Ministry of Finance, UNDP, Finmark Trust, commercial banks and other relevant stakeholders in the country. Moreover, the project objectives have been broken down further into four key pillars for ease of implementation, these pillars are first; policies and incentives; this involves the development of a financial inclusion policy framework. Second, product development; concentration in this stream is on fostering financial inclusion through innovation of inclusive and sustainable solutions. Third is financial literacy that focuses mainly on supporting the implementation of financial education for existing and potential mobile money users. Fourth, capacity of agents; this entails identifying agents' capacity needs so as to develop their training programs. This project was officially launched in May 2017 and is expected to be completed in 2019.

4.4 ESTABLISHMENT OF THE SECURED TRANSACTION REGIME ON MOVABLES AND COLLATERAL REGISTRY

4.4.1 Introduction

With the aim of strengthening the financial sector and fostering financial inclusion and access to finance in Lesotho, the FSDS proposed the development of modern secured transactions in movable property law and establishment of a national public registry for securities in movables. The aim was to increase access to finance for businesses as well as consumers by using valuable movable assets as collateral. The hope is that with quality collateral there would be a reduction in risk to lenders through increased security in case of non-payment and therefore increase in loan approvals and decrease in interest and cost to customers of financial institutions.

4.4.2 Developments in 2017

The bank continued in its development of the collateral registry regime in Lesotho. After a series of various stakeholder engagements and continuous partnership with the industry, the Security in Movable Property Bill was finalised by the technical working committee that comprised of members of the banking sector, the microfinance association, the credit providers association, private sector foundation of Lesotho, law society, members of the insurance industry and governmental departments including the ministries of finance, trade and Law. A local consultant was also engaged to ensure that the draft bill did not conflict with current existing laws including the deeds registry and its existing regime.

The bank continued in its development of the collateral registry regime in Lesotho.

The conclusion from this exercise was that there was no clash of regimes and hence the bill was given a go ahead for enactment by the industry at large.

The public registry system was installed into the Bank's environment and tested for efficiency and functionality. Several evaluations were conducted by both the consultant and the Bank's implementing team. Two workshops were held to demonstrate to the industry the system's function and to emphasize its use and purpose. The registry is built to be simple and easy to use for both the financial institutions and its customers. The industry was also given demonstration to show case this ease of use and also for further input which it provided.

4.4.3 Way Forward

Going forward the Central Bank and other related stakeholder intend to intensify:

- Specific training on the use of the registry for identified credit employees of financial institutions.
- Uploading of information of movable collateral currently existing within the industry so that it coincides with the enactment of the law. This would help perfect the collaterals as per some sections of the Bill.
- Expedite the enactment of the Bill and implementation thereof. .

Awareness and promotion campaigns on this regime in general.



DEVELOPMENTS RELATED TO SUPERVISION

Box I | MIGRATION FROM BASEL I TO BASEL II

During the period under review, the implementation plan of CBL regarding the migration from Basel I to Basel II, in particular section three (3), continued in earnest. The section comprises rolling out the implementation through preparation of consultative papers for commercial banks perusal and review and subsequent issuing of guidelines.

In the main, guidelines on basic disclosure requirements and corporate governance which formed part of volume II of QIS-I were finalized. The purpose of this volume of consultative papers was to initiate a consultative process that would culminate into publication of two sets of guidelines, that is, guidelines on basic disclosure and on corporate governance. The preparatory work for the guidelines had commenced the previous year, in 2016. Implementation of Basel II requires market discipline and conduct of business in line with sound corporate governance principles. Market discipline constitutes pillar III of the accord. In order to enhance risk management practices and market discipline, banks will be required to disclose financial information to the Commissioner and to the public. Banks are also expected to prepare, disclose, and adhere to a corporate governance framework.

The implementation plan with respect to pillar I, in particular guidelines for computation of capital charges for credit, operational and market risks handed over from the previous period and continued unabated but remained slightly behind schedule. Needless to say, as part of pillar I, the CBL completed research work with respect to the role of capital buffers for banks in Lesotho. The Basel III reforms introduced a framework to promote conservation and countercyclical capital buffers. On the one hand, a conservation buffer provides a useful cushion in periods of stress and also restricts the ability of parent banks and government owners to repatriate capital. On the other hand, a countercyclical buffer regime aims to achieve the macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth that has been associated with the build-up of system-wide risk.

Given the foregoing, it is evident that a great deal of work has been done with respect to the migration process. The process had completed aspects of pillar 2 (SREP and ICAAP) and pillar 3 (disclosure). However, there remained sizeable work on the guidelines for computation of capital charges for credit, operational and market risks. However, the migration process and its implementation plan remained on course and banks will be required to demonstrate movement with Basel II in 2018 in preparation for full compliance in 2019.



Appendices



APPENDICES

Appendix I Audited Banking Sector Industry Balance Sheet as at the Dates Indicated (M'000)							
BALANCE SHEET	2011	2012	2013	2014	2015	2016	2017
TOTAL ASSETS	8,373,136	8,472,376	11,441,254	12,295,054	13,926,566	13,201,813	16,074,849
Cash and Cash Items	261,996	351,431	426,976	387,871	564,886	613,960	747,067
Balances with CBL	162,043	174,311	447,963	549,673	374,398	445,400	397,372
Balances with local banks	965,562	903,599	1,780,323	2,163,450	2,307,861	2,138,905	2,196,629
Balances with banks abroad	2,342,103	1,830,326	2,332,483	2,590,189	3,528,206	2,985,556	3,891,395
Marketable securities	718,913	839,216	666,030	612,183	750,200	756,951	1,003,304
Other investments	1,112,531	532,188	1,063,519	627,325	654,354	241,703	930,077
Loans and advances	2,559,526	3,588,483	4,375,961	4,907,856	5,265,522	5,403,718	5,804,732
Fixed Assets	146,361	144,577	175,394	211,284	265,665	324,867	697,537
Other Assets	104,101	108,245	172,605	245,223	215,474	290,753	406,736
TOTAL LIABILITIES	7,565,468	7,535,848	10,347,048	10,985,499	12,461,502	11,515,455	14,013,566
Deposits	5,777,309	6,087,825	7,822,771	8,213,781	9,352,181	8,796,049	11,060,237
Due to Local Banks	1,097,954	992,324	1,864,779	2,156,610	2,325,171	2,009,065	2,002,976
Due to Foreign Banks	178,138	49,674	313,361	197,786	249,352	225,095	355,442
Other Borrowings	0	0	0	0	50,417	50,981	50,965
Other Liabilities	512,067	406,025	346,137	417,322	484,381	434,266	543,946
TOTAL CAPITAL	807,671	936,527	1,094,205	1,309,555	1,465,063	1,686,361	2,061,281
Paid-up Capital	88,858	98,858	108,858	108,858	123,358	125,858	125,858
Statutory Reserve	125,909	120,625	124,919	124,059	131,777	194,331	185,876
Revaluation Reserves	13,975	13,975	13,975	16,261	24,740	23,211	26,162
Other Reserves	11,711	26,775	12,070	19,903	12,074	13,628	60,803
Retained Earnings	558,649	669,740	810,813	1,019,916	1,155,039	1,299,873	1,343,053
Profit/ loss for the year to date	243,054	272,382	356,919	397,870	423,949	461,415	340,795
Other Capital account	0	0	0	0	0	0	19,939

APPENDICES

Appendix II	Audited Industry Income Statement for Period Ending at the Indicated Year (M'000)						
	2011	2012	2013	2014	2015	2016	2017
TOTAL INCOME	779,079	937,818	1,196,139	1,300,320	1,439,500	1,596,248	1,687,750
Interest Income - Loans	216,056	354,706	519,024	560,308	711,899	817,655	952,771
Interest Income - Placements	277,283	223,323	230,404	358,880	397,896	485,133	409,325
<i>Foreign Payments</i>	142,323	169,348	144,646	207,677	212,271	248,609	198,571
<i>Domestic Payments</i>	196,741	112,410	85,759	151,203	185,626	236,524	210,755
Interest Income - Securities	110,940	110,905	122,176	157,164	57,934	61,674	62,690
Total Interest Income	604,279	688,934	871,604	1,076,352	1,167,729	1,364,462	1,424,786
Interest Expense	182,689	171,576	207,659	330,943	346,249	433,950	417,099
Net Interest Income	421,590	517,358	663,945	745,409	821,480	930,512	1,007,687
Fees and Commission Income	288,043	345,598	451,125	475,642	520,386	574,645	601,250
Forex Gains/Losses	51,810	60,655	59,049	65,699	79,523	60,737	51,477
Income on Equity Investment	0	0	0	0	0	510	199
Other Income	7,394	4,879	9,822	9,916	14,822	26,463	20,158
Grants	10,242	9,328	12,198	3,654	3,289	3,381	6,979
Non-interest Income	357,489	420,460	532,194	554,911	618,020	665,736	680,063
TOTAL EXPENSES	448,684	565,995	701,571	756,673	858,974	957,596	1,193,497
Staff Salaries and Benefits	218,733	222,110	275,201	306,336	350,179	398,896	432,995
Management/Directors Fees	49,294	119,209	88,122	96,164	112,558	117,250	163,647
Auditors/Consultants Fees	3,105	3,359	4,478	4,979	5,596	6,006	6,855
Provision for Bad Debts	17,318	50,011	65,685	81,805	97,947	95,919	103,802
Bad-Debts Write-offs	0	0	0	0	0	9,917	51,613
Depreciation	29,514	31,693	40,787	41,200	41,307	47,795	53,998
Other Operating Expenses	130,720	139,613	227,298	226,189	251,387	281,813	380,587
Operating Income/Loss	330,395	371,823	494,568	543,647	580,526	638,652	494,253
Income/Loss Before Taxation	330,395	371,823	494,568	543,647	580,526	638,652	494,253
Taxation	87,341	99,441	137,649	145,777	156,578	177,236	153,458
Net Income	243,054	272,382	356,919	397,870	423,948	461,416	340,795
Dividend	169,245	137,286	196,659	266,363	265,754	0	250,000
Retained Income	73,811	135,097	160,260	135,686	155,833	155,833	459,327



APPENDICES

Appendix III Short-Term Insurance Business Underwriting and Revenue Accounts (Million Maloti)					
Particulars	2017	% Comp	2016	% Comp	% Change
Gross Premium	365.9	100.0%	354.2	100.0%	3.3%
Reinsurance Premium	199.3	54.5%	189.6	53.5%	5.1%
Net Premium	166.6	45.5%	164.6	46.5%	1.2%
Commission Income	42.4	11.6%	53.0	15.0%	-20.0%
Other underwriting income	0.1	0.0%	0.0	0.0%	100.0%
Net Earned Income	209.1	57.1%	217.6	61.4%	-3.9%
Claims Incurred	126.1	34.5%	87.0	24.6%	44.9%
Less Reinsurance share	25.7	7.0%	3.8	1.1%	576.3%
Net claims incurred	100.4	27.4%	83.2	23.5%	20.7%
Commissions Expenses	51.9	14.2%	49.7	14.0%	4.4%
Management Expenses	63.9	17.5%	56.5	16.0%	13.1%
Change in IBNR	0.5	0.1%	0.3	0.1%	66.7%
Change in unearned premiums	2.3	0.6%	1.5	0.4%	53.3%
Underwriting Expenses	219.0	59.9%	191.2	54.0%	14.5%
Underwriting Gains/Loss	-10.0	-2.7%	26.4	7.5%	-137.7%
Investment Income	21.6	5.9%	18.7	5.3%	15.5%
Other income	2.8	0.8%	1.8	0.5%	55.6%
Operating Profit	14.5	3.9%	46.9	13.2%	-69.2%
Other Expenses	10.3	2.8%	26.8	7.6%	-61.6%
Profit Before Taxation	4.1	1.1%	20.1	5.7%	-79.4%

APPENDICES

Appendix IV	Short-Term Insurance Industry Balance Sheet as at Indicated Dates (Million Maloti)				
	2017	% Comp	2016	% Comp	Change %
ASSETS					
Fixed Assets	3.9	0.9%	4.6	1.1%	-15.2%
Long-Term Investments	55.4	13.1%	167.5	41.4%	-66.9%
Loans to related parties	20.1	4.8%	19.8	4.9%	1.5%
Deferred tax	0.3	0.1%	0.5	0.1%	-40.0%
Deferred finance charges	0.0	0.0%	0.2	0.0%	-100.0%
Goodwill	0.0	0.0%	5.1	1.3%	-100.0%
Total Non-Current Assets	79.7	18.9%	197.70	48.9%	-59.7%
Current Assets					
Bank and Cash	4.3	1.0%	6.4	1.6%	-32.8%
Short-term investments	210.0	49.7%	94.9	23.5%	121.3%
Debtors	4.0	0.9%	1.5	0.4%	166.7%
Outstanding premiums	40.7	9.6%	37.6	9.3%	8.2%
Inter-company borrowings	0.0	0.0%	0.2	0.0%	-100.0%
Amounts due from Reinsurers	10.7	2.5%	55.5	13.7%	-80.7%
Reinsurers' share of unearned premium	63.2	15.0%	10.4	2.6%	507.7%
Prepaid Expenses	10.1	2.4%	0.0	0.0%	100.0%
Total Current Assets	343.0	81.1%	206.5	51.1%	66.1%
Total Assets	422.7	100.0%	404.2	100.0%	4.6%
EQUITY AND LIABILITIES					
Share Capital	17.3	4.1%	14.3	3.5%	21.0%
Share Premium	19.5	4.6%	19.5	4.8%	0.0%
Accumulated Profit	69.6	16.5%	83.0	20.5%	-16.1%
Total shareholders Funds	106.4	25.2%	116.8	28.9%	-8.9%
Non-current Liabilities					
Borrowings	0.0	0.0%	1.0	0.2%	-100.0%
Amounts due to related parties	0.0	0.0%	3.3	0.8%	-100.0%
Total non-Current Liabilities	0.0	0.0%	4.3	1.1%	-100.0%
Technical Provisions					
Insurance Fund	7.1	1.7%	5.1	1.3%	39.2%
Outstanding claims Provision	146.1	34.6%	116.9	28.9%	25.0%
Unearned Premium Provision	82.8	19.6%	93.2	23.1%	-11.2%
Other underwriting Provisions (Reinsurance Premiums)	20.2	4.8%	33.9	8.4%	-40.4%
IBNR	21.7	5.1%	0.4	0.1%	5325.0%
Unexpired risk reserve	1.3	0.3%	0.1	0.0%	1200.0%
Cash Collaterals on Bonds	0.0	0.0%	0.3	0.1%	-100.0%
Total Technical Provisions	279.2	66.1%	249.9	61.8%	11.7%
Provisions for Taxation	0.7	0.2%	5.6	1.4%	-87.5%
Provision for Doubtful Debts	4.8	1.1%	3.1	0.8%	54.8%



APPENDICES

Appendix IV	Short-Term Insurance Industry Balance Sheet as at Indicated Dates (Million Maloti) continued				
	2017	% Comp	2016	% Comp	Change %
Creditors	28.6	6.8%	19.7	4.9%	45.2%
Government Stamp duty	0.2	0.0%	0.0	0.0%	100.0%
Employees Tax & Salaries Control	0.0	0.0%	1.1	0.3%	-100.0%
Inter-Divisional Current Account	2.6	0.6%	3.5	0.9%	-25.7%
Contingent liabilities	0.2	0.0%	0.2	0.0%	0.0%
Total Current Liabilities	37.1	8.8%	33.2	8.2%	11.7%
Total Capital, Reserves and Liabilities	422.7	100.0%	404.2	100.0%	4.6%

APPENDICES

Appendix V	Financial Soundness Indicators: Short-Term	2016	2015
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Appendix VI	Long-Term Underwriting Results and Revenue Account as At Dates Indicated (Million Maloti)				
Particulars	2017	%	2016	%	%
	M'000	Comp	M'000	Comp	change
Gross Premium	1 068,0	100,0%	971,7	100,0%	9,9%
Premium Ceded	59,0	5,5%	41,0	4,2%	43,8%
Net Premium Income	1 009,0	94,5%	930,7	95,8%	8,4%
Commission Income	0,0	0,0%	0,3	0,0%	-100,0%
Reinsurance recoveries	0,0	0,0%	-	0,0%	-100,0%
Net Earned Income	1 009,0	94,5%	931,0	95,8%	8,4%
Claims Incurred	569,8	53,4%	501,2	51,6%	13,7%
Commission Expenses	147,2	13,8%	132,2	13,6%	11,3%
Management Expenses	251,6	23,6%	194,5	20,0%	29,3%
Underwriting Expenses	968,6	90,7%	827,9	85,2%	17,0%
Underwriting Profit /(Loss)	40,4	3,8%	103,1	10,6%	-60,8%
Investment Income	755,5	70,7%	194,4	20,0%	288,6%
Other Income	114,7	10,7%	47,4	4,9%	141,9%
Operating Profit	910,5	85,3%	344,9	35,5%	164,0%
Other Expenses	297,2	27,8%	212,2	21,8%	40,1%
Profit Before Taxation	613,3	57,4%	132,7	13,7%	362,2%



APPENDICES

Appendix VII Long-Term Insurance Business Balance Sheet as at Dates Indicated (Million Maloti)					
Particulars	2017	%	2016	%	%
Non-Current Assets	M'000	Comp	M'000	Comp	change
Fixed assets	42,0	0,7%	31,9	0,6%	31,8%
Long Term Investments	2 871,7	51,1%	3 376,8	68,7%	-15,0%
Loans to policy holders	176,3	3,1%	167,8	3,4%	5,0%
Investment in subsidiaries	68,9	1,2%	100,5	2,0%	-31,5%
Loans to subsidiary companies	79,5	1,4%	56,4	1,1%	40,8%
Investment properties	85,9	1,5%	86,2	1,8%	-0,4%
Other assets	2,3	0,0%	3,7	0,1%	-37,5%
Total Non-Current Assets	3 326,5	59,2%	3 823,3	77,7%	-13,0%
Current Assets					
Bank and Cash	242,1	4,3%	66,1	1,3%	266,2%
Short Term Investments	1 608,0	28,6%	657,1	13,4%	144,7%
Amounts due from reinsurers	6,3	0,1%	5,2	0,1%	23,2%
Outstanding Premium	178,3	3,2%	163,6	3,3%	9,0%
Intercompany accounts	18,3	0,3%	24,5	0,5%	-25,4%
Amounts due from related parties	20,9	0,4%	23,3	0,5%	-10,3%
Prepaid tax	0,0	0,0%	4,0	0,1%	-100,0%
Debtors	218,0	3,9%	150,6	3,1%	44,7%
Total Current Assets	2 292,0	40,8%	1 094,4	22,3%	109,4%
Total Assets	5 618,6	100,0%	4 917,8	100,0%	14,2%
Equity, Reserves and Liabilities					
Share Capital	148,8	2,6%	143,9	2,9%	3,4%
Share Premium	11,0	0,2%	11,0	0,2%	0,0%
Accumulated Profit	928,3	16,5%	810,2	16,5%	14,6%
Retained Income	46,9	0,8%	37,3	0,8%	25,8%
Other reserves	3,0	0,1%	7,8	0,2%	-61,5%
Total Shareholders Funds	1 138,0	20,3%	1 010,1	20,5%	12,7%
Non-Current Liabilities					
Borrowings	0,0	0,0%	0,1	0,0%	-100,0%
Total Non-Current Liabilities	0,0	0,0%	0,1	0,0%	-100,0%
Policy holders funds					
Long-term insurance contracts	2 123,9	37,8%	1 965,0	40,0%	8,1%
Financial instrument-Discr participation	1 237,8	22,0%	1 080,3	22,0%	14,6%
Designated at fair value through income	71,6	1,3%	67,8	1,4%	5,6%
Employee benefits (provident fund)	375,2	6,7%	314,6	6,4%	19,3%
Assurance Fund	229,1	4,1%	215,2	4,4%	6,5%
Total policy holders funds	4 037,5	71,9%	3 642,8	74,1%	10,8%
Technical Provisions					
Outstanding Claims provision	137,6	2,4%	107,6	2,2%	27,9%
Unearned Premium provision	50,5	0,9%	15,2	0,3%	231,5%

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Appendix VII Long-Term Balance Sheet as at Dates Indicated (Million Maloti) continued					
Particulars	2017	%	2016	%	%
	M'000	Comp	M'000	Comp	change
Non-Current Assets					
Other Underwriting and Premium provision	4,6	0,1%	2,1	0,0%	116,7%
Total Technical Provisions	192,8	3,4%	125,0	2,5%	54,3%
Amount due to related Parties	17,8	0,3%	10,2	0,2%	74,1%
Overdrafts	0,0	0,0%	0,4	0,0%	-100,0%
Contingent liabilities	5,7	0,1%	8,7	0,2%	-33,9%
Creditors	224,4	4,0%	120,6	2,5%	86,1%
Provision for Tax	2,4	0,0%	0,0	0,0%	100,0%
Total Current Liabilities	250,3	4,5%	139,9	2,8%	79,0%
Total Equity, Reserves and Liabilities	5 618,6	100,0%	4 917,8	100,0%	14,2%

Appendix VIII Long-Term Financial Soundness Indicators					
Categories	Indicator	2017	2016		
		%	%	%	%
		Change	Change	Variance	
Capital Adequacy	Capital(share holder funds)/(total liabilities-shareholder funds)	25,4%	25,8%	-0,5%	
	Capital/total assets	20,3%	20,5%	-0,3%	
	capital/technical provisions	590,4%	808,4%	-218,0%	
Asset quality	Receivables/total assets	7,4%	6,9%	0,5%	
	Receivables/gross premiums	38,8%	34,9%	4,0%	
	Investments(both long & short+cash&cash equiva)/total assets	84,0%	83,4%	0,7%	
	Equity(shares/stocks)/total assets	20,3%	48,9%	-28,6%	
Reinsurance	Risk retention ratio (net premium/gross premium)	94,5%	95,8%	-1,3%	
Actuarial liability	Claims incurred/Outstanding claims provision	414,0%	865,3%	-451,4%	
Management Soundness	Operating expenses(commision+mgt+ other operating xpen/gross premium	65,2%	107,0%	-41,9%	
Earnings and Profitability	Expense Ratio (expenses(mgt+ commision)/net premium)	39,5%	68,1%	-28,5%	
	Loss Ratio (net claims/net premiums)	56,5%	100,0%	-43,6%	
	Combined ratio(Expense + claims ratio)	96,0%	168,1%	-72,1%	
	Return on equity (ROE)=net income(Profit before tax)/shareholders' equity	53,9%	13,1%	40,8%	
	investment income/investment assets	16,9%	4,8%	12,0%	
	investment income/net premium	74,9%	20,9%	54,0%	
Liquidity	Liquid assets (current assets/current liabilities)	915,6%	782,6%	133,0%	
Subsidiaries	Loans to related parties(subsidiaries)/total assets	0,0%	0,0%	0,0%	



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Appendix IX		List of Licensed Insurance Companies
No.	Institution	Class
1.	Lesotho National Life Assurance Company (LNLAC)	Long-term Insurance (All categories of life insurance products)
2.	Metropolitan Lesotho Limited	Long-term Insurance (All categories of life insurance products)
3.	Alliance Insurance Company	Long term Insurance (All categories of life insurance products). Short-term Insurance (All Categories of general insurance products)
4.	NBC Insurance Lesotho Limited (New)	Long-term Insurance (Pension and retirement administration and Life insurance(funeral))
5.	Liberty Life Lesotho Limited	Long-term Insurance (All categories of life insurance products)
6.	Lesotho National General Insurance (LNGIC)	Short-term Insurance (All categories of general insurance products)
7.	Zenith Horizon Insurance Company	Short-term Insurance (All Categories of general insurance products)
8.	Specialised Insurance Company	Short-term Insurance (All Categories of general insurance products)

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