2018 SUPERVISION ANNUAL REPORT

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA 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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The Central Bank of Lesotho continued to closely monitor financial stability developments globally and domestically.

FOREWORD BY THE GOVERNOR

The Central Bank of Lesotho continued to closely monitor financial stability developments globally and domestically. These included monitoring of banking and financial institutions to strengthen the soundness and resilience of the financial system. In 2018, banks continued to face some challenges related to funding structures, with short-term deposits dominating the banks' balance sheets and hence, making banks vulnerable to huge withdrawals by top depositors (institutional investors). However, the sector remained stable and profitable, maintaining adequate capital levels.

In the context of emerging vulnerabilities from technologies, banks continued to adopt modernised IT infrastructure to boost efficiency, enhance quality of customer experience. It was observed however, that operational risk remained critical as banks continued to monitor core banking systems which had not yet stabilized post-upgrades and/or following implementation of new core banking systems. In an effort to improve governance in the banks, the Bank issued the Corporate Governance Guidelines for implementation in January 2018, which necessitated improvements to the Board composition of the banks, with some recommended governance committees as well.

The Bank continued to pursue activities related to Anti-Money Laundering and combatting of terrorism (AML/CFT). This area remains a focus area given the space it occupies in the global and domestic arena. In 2018, the Central Bank in collaboration with the Financial Intelligence Unit (FIU) received training from the International Monetary Fund (IMF). Training included review of the laws and the necessary enhancements that could be made in order to smoothen the role of the Bank as an AML/CFT Supervisory Authority. Training translated into the development of frameworks and reports that banks would need to submit for the purpose of monitoring this risk. This was a two-way communication which also allowed banks to develop their own Risk-based Approach methodologies in the assessment of the different categories of clients.

From the insurance sector, the sector continued to maintain resilient through capitalization, reserving and earning accumulation despite the challenging economic environment. The resilience can be witnessed from a number of key indicators of financial soundness by the sector, which were mostly favourable. The Commissioner continued to implement the risk based supervision approach, that was initiated in the previous year, to roll it out to other insurance companies. From the inspections, it is notable that strategic risk is critical to the sector, especially in light of unpredictable economic environment and the ever changing competition landscape. Insurers are challenged to be more innovative and to respond to the changing consumer needs and circumstances.

Efforts to improve regulatory frameworks continued with the aim to fully implement and close the gaps from the Insurance Act of 2014. To that effect, Micro-insurance Regulations were drafted and a number of other regulations were on the pipeline. The Commissioner will continuously improve on the regulatory requirements to adapt to the changing environment.

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FOREWORD BY THE GOVERNOR

With compliance being enforced in the insurance sector, taking cue from the permissible administrative penalties that were introduced by the Insurance Regulations of 2016, it became evident that the sector is not compliance sensitive, especially the brokerage community. This was supported by highest number of penalty incidents and the record amounts of penalties. Compliance is an important facet of the regulated business and non-compliance cannot be condoned. The Commissioner will therefore continue to enforce it in order to protect the public, who are mostly hurt by noncomplying entities ❑

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

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The Central Bank of Lesotho through its Banking Supervision Division conducts annual on-site examination in accordance with its mandate

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BANKING SECTOR REVIEW

1.1 ON-SITE EXAMINATION

The Central Bank of Lesotho through its Banking Supervision Division conducts annual on-site examination in accordance with its mandate. In 2018, there were only two on-site examinations conducted. One bank was examined on a full scope basis and the other bank on a limited (targeted) scope. The scope of the examinations was informed by an exhaustive preliminary assessment.

1.1.1 Main Risks

i) Credit Risk

The businesses especially Small and Medium Enterprises (SMEs) experienced delayed payments from the Government of Lesotho (GoL) and they were not able to meet their scheduled payments. As such, arrears in both banks were on the increasing trajectory. Consequently, banks imposed penalties on such businesses for being in arrears and this may exacerbate pressure on already struggling businesses and result in high default rate. Non-performing loans on mortgages was also on the increasing trend. The two banks loan-to-value (LTV) was high at 100% and this may suggest a higher risk of default.

ii) Cybercrime and Operational Risk

For optimality purposes, banks in Lesotho have shifted their focus towards digitalisation strategies. They are under a huge pressure to invest in modernised IT infrastructure to boost efficiency, enhance quality of customer experience and to enable competition with MNOs. The internal controls that banks have put in place to mitigate cybercrimes were assessed and found satisfactory. However, the likely cyber threats cannot be ruled out at this point hence banks have to be extra cautious. Moreover, during the review period, the two banks experienced extreme system disruptions as a result of upgrade and change of core banking systems.

iii) Liquidity Risk

During the period under review, banks' funding was skewed towards expensive wholesale deposits and GoL. Even though these deposits were considered behaviourally stable, the examinations revealed that the two banks may be vulnerable to liquidity concentration risk.

iv) Compliance Risk

Compliance risk was considered high during the period under review. Several breaches of the Financial Institutions Act (FIA) 2012 were noted during the examinations. For instance, the examined banks were struggling to implement the Commissioner's directive on bank charges due to systems flaws. Nevertheless, no penal measures were taken by the Commissioner as this was considered work-in-progress.

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The banks held capital way above the minimum required regulatory capital.

1.1.2 CAMELS

i) Capital Adequacy

The Central Bank of Lesotho requires banks to maintain an adequate level of capital to protect its depositors and creditors and to promote public confidence. The banks held capital way above the minimum required regulatory capital. During the period under review, the two bank's capital adequacy ratio was 19 percent on average which was way above the minimum requirement of 8 percent. Tier I capital to risk weighted assets also ranged between 15 percent and 20 percent. Banks also held adequate provisions that matched their estimated expected losses.

ii) Management

Management in both banks was found unsatisfactory. Both banks' Board and Senior Management did not hold meetings in line with their charters and this affected attainment of other strategic initiatives.

iii) Sensitivity to Market Risk

Banks remained highly asset rate sensitive as revealed by the 12 months positive gap. This implies that increases in interest rates will favour banks and lead to an increase in Net Interest Income (NII). However, decline in interest rates will have an adverse impact on the NII. Banks were also minimally exposed to foreign exchange risk. One bank had a positive exposure to foreign currency through its investment denominated in foreign currency.

iv) Liquidity

Banks continued to comply with the liquidity regulatory requirements of 3 percent and 25 percent for reserve balance and liquid assets, respectively. However, the funding structure remained concentrated towards large wholesale deposits.

v) Earnings

The banking industry was profitable during the period under review. Banks obtained income largely from interest income. Operational expenses were also within acceptable margins.

iv) Asset Quality

The two banks experienced rapid growth in non-performing loans resulting from defaults of some top borrowers. However, the industry's ratio of non-performing loans to total loans was below 4 percent which may indicate low default rate in the banking industry.

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BANKING SECTOR REVIEW

1.2 OFF-SITE SURVEILLANCE

1.2.1 Balance Sheet Analysis

i) Total Assets

The banking system balance sheet size observed growth of 8.3 percent, from M16.1 billion in 2017 to M17.4 billion in 2018 (see Table 1). A built-up in growth momentum was mainly explained by credit portfolio, balances with banks in SA and investment securities. Credit portfolio reflected double-digit growth of 12.4 percent, from M5.8 billion in 2017 to M6.5 billion in 2018 despite sessions of strains from subdued macroeconomic performance. Balances with banks in SA increased by 17.9 percent, from M4.2 billion in 2017 to M4.9 billion in 2018. In addition, bonds observed growth of 92.3 percent, from M516.1 million in 2017 to M992.5 million in 2018. However, T-bills declined by 20.0 percent, from M485.9 million in 2017 to M388.9 million in 2018. Thus, highlighting a shift in investment strategy from money markets to capital markets. A decline in balances with local banks and foreign banks further suggested that banks had restructured their balance sheets to invest in capital markets. Balances with local banks declined by 22.8 percent, from M2.2 billion in 2017 to M1.7 billion in 2018. Balances with foreign banks declined by 22.9 percent from M3.9 billion in 2017 to M4.8 billion in 2018. Anecdotally, bubbles of sovereign risk were becoming somewhat apparent given the recent fiscal difficulties[1].

Table 1 The Growth Rates of Total Assets (%)

	2012	2013	2014	2015	2016	2017	2018
TOTAL ASSETS	**1.2**	**35.0**	**7.5**	**13.3**	**-5.2**	**21.8**	**8.3**
Cash and Cash Items	34.1	21.5	-9.2	45.6	8.7	21.7	2.0
Balances with CBL	7.6	157.0	22.7	-31.9	19.0	-10.8	-15.2
Balances with local banks	-6.4	97.0	21.5	6.7	-7.3	2.7	-22.8
Balances with banks abroad	-21.9	27.4	11.0	36.2	-15.4	30.3	22.9
Marketable securities	16.7	-20.6	-8.1	22.5	0.9	32.5	68.6
Other investments	-52.2	99.8	-41.0	4.3	-63.1	284.8	-39.5
Loans and advances	40.2	21.9	12.2	7.3	2.6	7.4	12.4
Fixed Assets	-1.2	21.3	20.5	25.7	22.3	114.7	-6.8
Other Assets	4.0	59.5	42.1	-12.1	34.9	39.9	0.2

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. Personal loans reflected growth of 12.7 percent, from M3.0 billion in 2017 to M3.4 billion in 2018. Mortgages reflected improved performance and recorded growth of 16.0 percent, from M1.0 billion in 2017 to M1.2 billion in 2018. Business loans increased by 6.4 percent, from M2.0 billion in 2017 to M2.1 billion in 2018. Figure 1 depicts distribution of the credit portfolio by type.

[1] See IMF 2019 Article IV.

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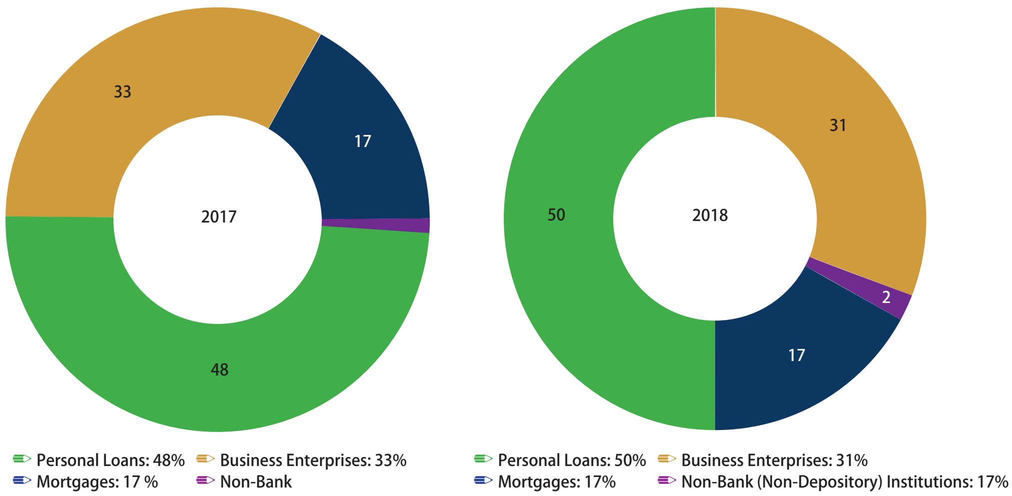
Despite a moderate credit concentration risk, loans to transport, mining, con-struction and real estate sub-sectors remained elevated

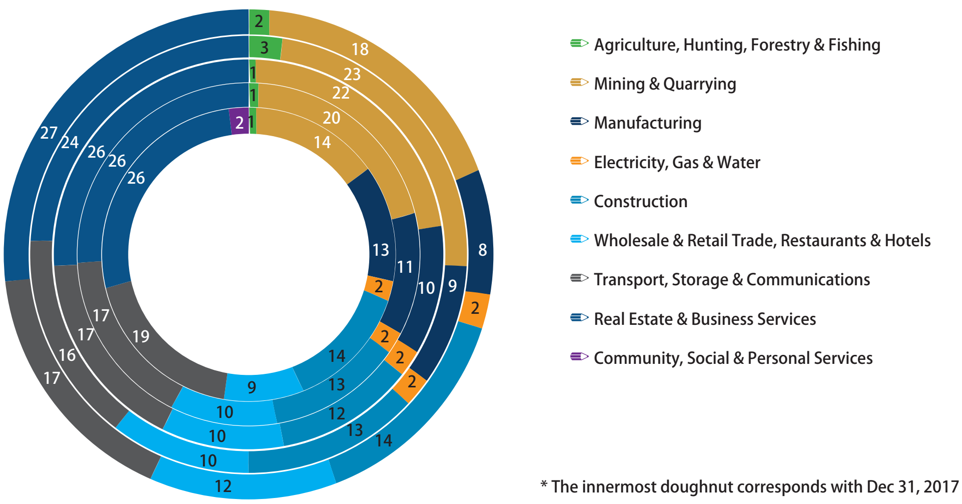
Figure 1 Distribution of Loans by Type (%)



Source: Central Bank of Lesotho

Despite a moderate credit concentration risk, loans to transport, mining, construction and real estate sub-sectors remained elevated (see Figure 2). In addition, trend analysis reflected exponential growth recently on construction sub-sector. The increase in loans in this sub-sector is boosted mostly by vehicles and asset finance. In addition, there is a need for the banking system to contain a contagion risk or systemic risk due to the fact that on average 6 top borrowers in the banking system have loan facilities across all the banks. Some of which are struggling to service their facilities.

Figure 2 Distribution of Business Loans: Dec 2017 – Dec 2018 (%)



* The innermost doughnut corresponds with Dec 31, 2017

Source: Central Bank of Lesotho

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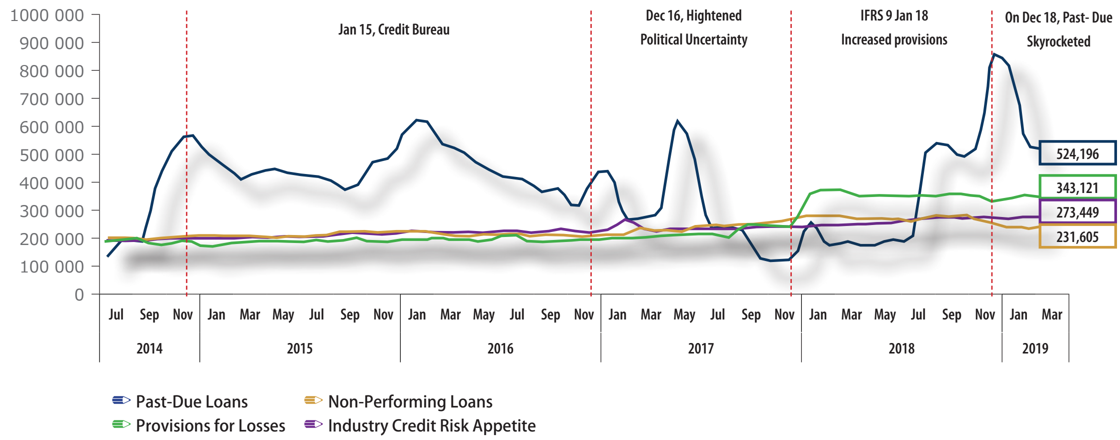
Figure 3 highlights credit risk in the banking system. NPLs revealed a decrease of 8.1 percent, from M272.6 million in 2017 to M250.4 million in 2018. A decrease does not necessarily reflect better performance in asset quality, as bad debts write-offs amounting to M38.5 million were reported in 2018. The households, mortgages and business enterprises were prominent sectors struggling to service loan facilities in the midst of challenging macro-economic conditions. In an attempt to contain credit risk and to a bigger extend to implement IFRS 9, provisions revealed double-digit growth of 33.5 percent, from M250.6 million in 2017 to M334.5 million in 2018. A trend on past-due loans somehow suggested the worsening outlook on NPLs due to a sharp spike of 233.0 percent, from M254.7 million in 2017 to M848.1 million in 2018.

Figure 3 Credit Risk (M`000)



Source: Central Bank of Lesotho

The outlook on credit quality was clouded by uncertainty surrounding loans extended to transport sub-sector. The impact maybe aggravated by risks facing the domestic economy. At the time, tax was likely to increase as well due to pressure on fiscal accounts; fiscal deficits had been observed over a period of 2 years and SACU revenue was declining, putting more pressure on NPLs. However, on credit growth, a positive outlook was envisioned on the back of expected boost from construction and mining sub-sectors.

ii) Total Liabilities

Total liabilities increased significantly by 9.0 percent, from M14.0 billion in 2017 to M15.3 billion in 2018 (see Table 2). Total deposits increased by 5.9 percent, from M11.1 billion in 2017 to M11.7 billion in 2018. In addition, balances due to local banks increased by 32.9 percent, from M2.0 billion in 2017 to M2.7 billion in 2018. However, balances due to foreign banks declined significantly by 60.1 percent, from M355.4 million in 2017 to M142.0 million in 2018. This explains the risk aversion behavior of banks as they continued to restructure their balance sheets to invest in government bonds, thus reducing the placements in the interbank market in pursuance for a better return in the capital markets.

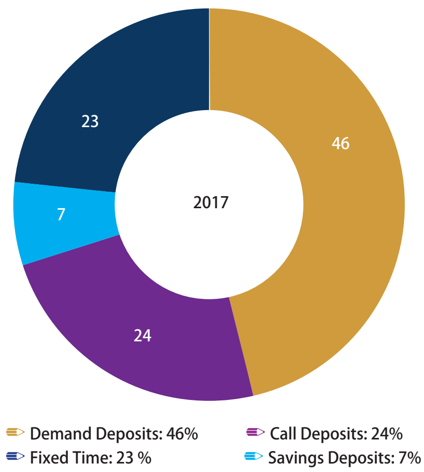
The outlook on credit quality was clouded by uncertainty surrounding loans extended to transport sub-sector.

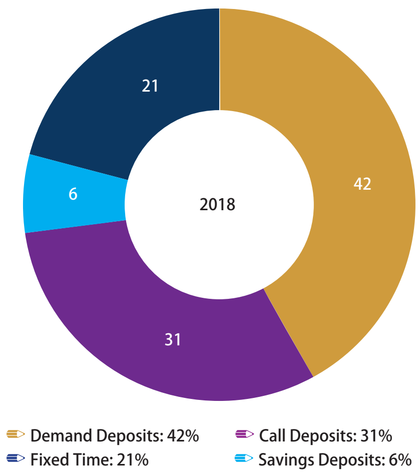
Table 2 The Growth Rates of Total Liabilities (%)	2012	2013	2014	2015	2016	2017	2018
TOTAL LIABILITIES	**-0.4**	**37.3**	**6.2**	**13.4**	**-7.6**	**21.7**	**9.0**
Deposits	5.4	28.5	5.0	13.9	-5.9	25.7	5.9
Due to Local Banks	-9.6	87.9	15.6	7.8	-13.6	-0.3	32.8
Due to Foreign Banks	-72.1	530.8	-36.9	26.1	-9.7	57.9	-60.1
Other Borrowings				1.1	0.0	0.1	22.9
Other Liabilities	-20.7	-14.7	20.6	16.1	-10.3	25.3	29.5

Source: Central Bank of Lesotho

The structure continued to be dominated by short-term deposits (see figure 4) and this indicated that financial intermediation is mostly financed by short-term deposits and a large proportion of such deposits continued to be wholesale rather than retail (see Figure 5). Therefore, the asset and liabilities mismatch remained on upward trajectory and is envisaged to gain momentum on the back of increasing mortgages. In addition, Figure 5 revealed that 76.0 percent of total deposits in 2018 were wholesale. Therefore, the system also remains vulnerable to liquidity risk as large wholesale withdrawals may bring liquidity shocks.

Figure 4 The Structure of Deposits (%)





Source: Central Bank of Lesotho

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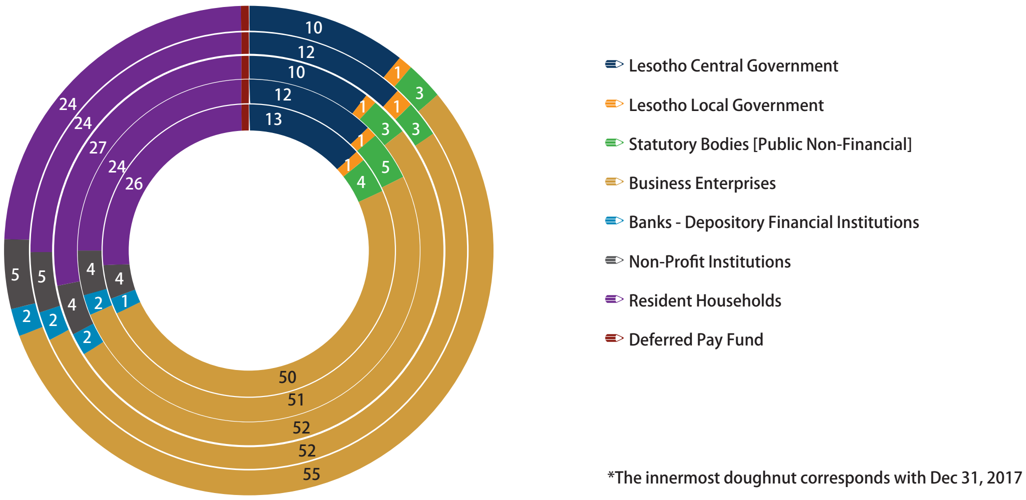
Figure 5 Total Deposits by Holder: Dec 2017 – Dec 2018 (%)



Source: Central Bank of Lesotho

iii) Shareholders' Equity

The banking industry's total capital observed an increase of 4.0 percent, from M2.1 billion in 2017 to M2.1 billion in 2018 (see Table 3). The increase in total capital was mostly backed-up by increasing profitability in 2018. For example, net income reflected double-digit growth of 33.3 percent, from M348.0 million in 2017 to M478.8 million in 2018. Statutory reserves and retained earnings appeared to have contributed on the growth momentum of total capital. The statutory reserve account increased by 1.7 percent, from M185.9 million in 2017 to M189.1 million in 2018. Retained earnings increased by 26.3 percent, from M1.3 billion in 2017 to M1.7 billion in 2018.

Table 3 The Growth Rates of Total Capital (%)

	2012	2013	2014	2015	2016	2017	2018
TOTAL CAPITAL	16.0	16.8	19.7	11.9	15.1	22.2	4.0
Paid-up Capital	11.3	10.1	0.0	13.3	2.0	0.0	0.0
Statutory Reserve	-4.2	3.6	-0.7	6.2	47.5	-4.4	1.7
Revaluation Reserves	0.0	0.0	16.4	52.1	-6.2	12.7	-22.1
Other Reserves	128.6	-54.9	64.9	-39.3	12.9	346.2	-96.3
Retained Earnings	19.9	21.1	25.8	13.2	12.5	4.9	26.3
Profit/ loss for the year	12.1	31.0	11.5	6.6	8.8	-26.1	33.3

Source: Central Bank of Lesotho

The resilience of the banking system continued to firm-up and the outlook remained positive on the back of expected implementation of Basel 2.5 compounded by a rebound in financial performance of some banks that registered some losses in the previous year. Therefore, 2018 marked a better performance and stability as all banks registered good profits.

Total income improved by 11.7 percent, from M1.7 billion in 2017 to M1.9 billion in 2018

1.2.2 Income Statement Analysis

i) Total Income

Total income improved by 11.7 percent, from M1.7 billion in 2017 to M1.9 billion in 2018 (see Table 4). A pick-up in performance was mainly driven by interest income from loans, commission income and interest income from placements. Interest income from loans exhibited growth of 5.19 percent, from M952.8 million in 2017 to M1.0 billion in 2018. Interest income on placements observed growth of 46.1 percent, from M409.3 million in 2017 to M598.0 million in 2018. Income from domestic placements observed growth of 36.9 percent, from M210.8 million in 2017 to M288.6 million in 2018. However, income from foreign placements observed strong decrease of 24.3 percent, from M198.6 million in 2017 to M150.3 million in 2018. In addition, interest income on government securities observed growth of 31.0 percent, from M62.7 million in 2017 to M82.1 million in 2018. Commission income observed a slight increase of 2.0 percent, from M601.3 million in 2017 to M613.4 million in 2018. A slim growth could be explained by regulatory intervention through pricing directive issued in December 2017. In addition, pressure on commission income is expected to take a toll on the back of Financial Consumer Protection initiatives.

Table 4 The Growth Rates in Total Income (%)

	2012	2013	2014	2015	2016	2017	2018
TOTAL INCOME	**20.4**	**27.5**	**8.7**	**10.7**	**10.9**	**5.7**	**11.7**
Interest Income-Loans	64.2	46.3	8.0	27.1	14.9	16.5	5.2
Interest Income-Placements	-19.5	3.2	55.8	10.9	21.9	-15.6	46.1
i) Foreign Placements	19.0	-14.6	43.6	2.2	17.1	-20.1	-24.3
ii) Domestic Placements	-42.9	-23.7	76.3	22.8	27.4	-10.9	36.9
Interest Income - Securities	0.0	10.2	28.6	-63.1	6.5	1.7	31.0
Total Interest Income	14.0	26.5	23.5	8.5	16.9	4.4	18.1
Interest Expense	-6.1	21.0	59.4	4.6	25.3	-3.9	25.0
Net Interest Income	22.7	28.3	12.3	10.2	13.3	8.3	15.2
Fees and Commission Income	20.0	30.5	5.4	9.4	10.4	4.6	2.0
Forex Gains/Losses	17.1	-2.7	11.3	21.0	-23.6	-15.3	35.3
Income on Equity Investment						-61.0	220.6
Other Income	-34.0	101.3	1.0	49.5	78.5	-23.8	40.7
Grants	-8.9	30.8	-70.0	-10.0	2.8	106.4	66.3
Non-interest Income	17.6	26.6	4.3	11.4	7.7	2.2	6.4

Source: Central Bank of Lesotho

ii) Total Expenses

Total expenses accumulated by 2.2 percent, from M1.2 billion in 2017 to M1.2 billion in 2018 (see Table 5). Interest expenses, operating expenses and staff salaries continued to account for the lion's share of total expenses. Interest expenses exhibited strong growth of 25.0 percent, from M417.1 million in 2017 to M521.5 million in 2018. Interest expenses on domestic liabilities exhibited growth of 24.0 percent, from M403.3 million in 2017 to M500.3 million in 2018. The increase could be explained to a larger extent by the pricing directive which

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requested banks to offer fixed time deposits an annual interest rate not less that the prevailing inflation rate. Interest expenses on foreign liabilities increased by 64.2 percent, from M12.9 million in 2017 to M21.2 million in 2018. Staff salaries increased by 7.0 percent, from M433.0 million in 2017 to M463.3 million in 2018. Management and directors' fees observed a decrease of 3.3 percent, from M163.6 million in 2017 to M158.2 million in 2018. Provision for bad debts decreased by 18.4 percent, from M103.8 million in 2017 to M84.7 million in 2018. Bad debts write-offs decreased by 100.0 percent, from M51.6 million in 2018. Operating expenses accumulated by 8.3 percent, from M380.6 million in 2017 to M412.8 million in 2018.

Table 5 The Growth Rates in Total Expenses (%)

	2012	2013	2014	2015	2016	2017	2018
TOTAL EXPENSES	**26.2**	**24.0**	**7.9**	**13.5**	**11.5**	**24.6**	**2.2**
Staff Salaries and Benefits	1.5	23.9	11.3	14.3	13.9	8.6	7.0
Management/Directors Fees	141.8	-26.1	9.1	17.1	4.2	39.6	-3.3
Auditors/Consultants Fees	8.2	33.3	11.2	12.4	7.3	14.1	119.2
Provision for Bad Debts	188.8	31.3	24.5	19.7	-2.1	8.2	-18.4
Bad-Debts Write-offs						420.5	-100.0
Depreciation	7.4	28.7	1.0	0.3	15.7	13.0	60.0
Other operating expenses	6.8	62.8	-0.5	11.1	12.1	35.1	8.3
Operating income/loss	12.5	33.0	9.9	6.8	10.0	-22.6	29.2
Income/Loss before Taxation	12.5	33.0	9.9	6.8	10.0	-22.6	29.2
Taxation	13.9	38.4	5.9	7.4	13.2	-13.4	22.2
Net income after Taxation	12.1	31.0	11.5	6.6	8.8	-26.1	32.4

Source: Central Bank of Lesotho

Net income reflected double-digit growth of 32.4 percent, from M340.8 million in 2017 to M451.1 million in 2018. A stronger performance was mainly explained by elevated interest income particularly from loans and a decline in provisions. However, implementation of IFRS 9 and Basel II.5 compounded by the costs of managing credit life cycle inflated by high levels of past-due loans might increase some pressure on net income, especially given the recent fiscal difficulties.

1.2.3 Market Share Analysis

TThe summary of market shares and measures of concentration used to assess the level of the banking sector competitiveness are illustrated in Table 6. Table 7 depicts market outreach and a number of employees in categories of both the Top 2 banks and other banks.

The market shares of top 2 banks by assets declined by 0.8 percentage points from 79.6 percent in 2017 to 79.8 percent in 2018. In addition, the share of loans dipped slightly by 0.4 percentage points from 77.2 percent in 2017 to 76.8 in 2018. The share of net income also declined considerably by 16.8 percentage points from 95.0 percent in 2017 to 78.2 percent in 2018. This significant decline could be explained by a rebound in financial performance

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The market shares of top 2 banks by assets declined by 0.8 percentage points from 79.6 percent in 2017 to 79.8 percent in 2018

of some banks as they observed some losses in 2017. In addition, a decline in net income could also be explained by increased costs due to deterioration of asset quality as reflected by market share by past-due loans and NPLs. The shares of past due loans increased by 34.4 percent from 58.2 percent in 2017 to 92.6 percent in 2018. In addition, the market share by NPLs increased by 6.9 percent from 69.7 percent in 2017 to 76.6 percent in 2018. The HHI[2] decreased marginally by 1.8 percent, from 3,780 in 2017 to 3,712 in 2018, thus slightly diluting the market concentration of the top 2 banks on the financial system.

Table 6 Market Shares for Top 2 Banks (%)

	2016	2017				2018			
	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Share of Assets	80.5	80.5	80.0	79.4	79.6	79.8	81.1	78.7	78.8
Share of Loans	81.4	81.2	81.2	78.1	77.2	76.5	77.3	76.4	76.8
Share of Deposits	78.0	77.5	77.0	76.7	77.8	77.9	78.1	77.3	77.2
Share of net income	94.0	97.4	106.3	99.4	95.0	82.4	80.4	80.8	78.2
NPLs	75.1	75.1	68.0	66.5	69.7	73.3	79.0	77.4	76.6
Past Due loans	85.3	81.0	86.3	75.9	58.2	57.5	57.6	85.4	92.6
HHI[3]	3,726	3,813	3,760	3,757	3,780	3,799	3,830	3,733	3,712

Source: Central Bank of Lesotho

Table 7 reveals that, the branch network remained identical compared to the previous year. This could be explained by the rapid developments in computer and telecommunication technologies transforming the traditional way of banking. Banks invest more in technologies that cut the cost of setting-up a branch but continued to increase their footprint. These include, mobile banking, internet banking, e-wallets, mobile ATMs, ADTs, account remote opening and agency banking. These technologies and strategies continued to improve trends on financial inclusion by making it easy to transact and enable banks to offer services conveniently. Most importantly, customers perform banking transactions in hassle-free, time-convenient, reliable and safe environment. POS devices rose marginally by 1.3 percent, from 1,507 in 2017 to 1,526 in 2018 and the ATMs increased by 0.5 percent, from 198 in 2017 to 204 in 2018. During the period under review, total workforce increased slightly by 1.1 percent from 1,671 in 2017 to 1,690 in 2019.

[2] 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.

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Table 7	Market Outreach											
	Top 2 banks				Other banks				Industry			
	2018				2018				2018			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Branches	26	26	27	27	23	23	23	23	49	49	49	49
ATMs	122	122	122	123	81	82	82	73	203	204	203	204
POS	925	968	1024	1023	684	578	502	611	1524	1609	1546	1526
Employees	1,143	1,114	1,114	1,111	578	587	579	579	1,721	1,701	1,681	1,690

Source: Central Bank of Lesotho

In the context of emerging vulnerabilities from technologies, banks are encouraged to continue to strengthen security measures to mitigate cyber risk. It is appreciated though, that most of banks continued to hold campaigns on cyber-security both to clients and staff and continue to perform some stress testing on cyber-security. These stress tests remain the most remarkable innovation and strategy in containing the cyber-security risk.

1.3 COMPLIANCE ISSUES

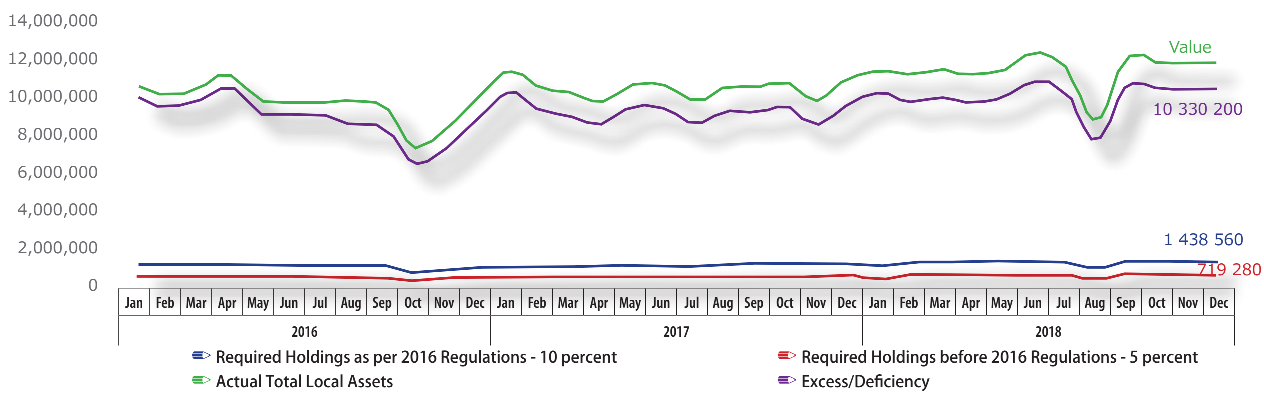
During the period under, the regulated banks were tested for the following requirements minimum local asset, liquidity requirements, minimum liquid asset, regulatory capital adequacy ratios and foreign currency exposure. The banks were found compliant with the statutory requirements issued by the Commissioner.

1.3.1 Minimum Local Assets Requirements

The Financial Institutions (Minimum Local Assets Requirements), 2016 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 regulations define local assets as advances and credit facilities to persons doing business or residents in Lesotho, properties and assets situated in Lesotho. 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 6 illustrates the banking industry's compliance with the regulation, before and after implementation of the regulation.

Financial Institutions (Liquidity Requirements), Regulations 2016 stipulate the commercial banks' liquidity requirements.

Figure 6 Minimum Local Assets Requirement



Source: Central Bank of Lesotho

1.3.2 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 7 illustrates compliance with the liquidity requirements regulations.

Figure 7 shows that, the liquidity risk remained low during the period under review. The banks continued to honour the set regulatory requirements, the liquid cash and assets positions were significantly above the regulatory benchmarks of 3 percent and 25 percent respectively. In addition, the cash reserve complied with 3 percent and the liquid assets ratios hovered above 25 per cent. The liquidity funding structure of the local banks is driven mostly by wholesale funding and long term loans are financed by short term deposit liabilities. Therefore, this structure is vulnerable to interest rate fluctuations because top depositors may invest where rates are favourable hence the possible imbalance in the market on account of the possible Asset and liability mismatch and liquidity risk.

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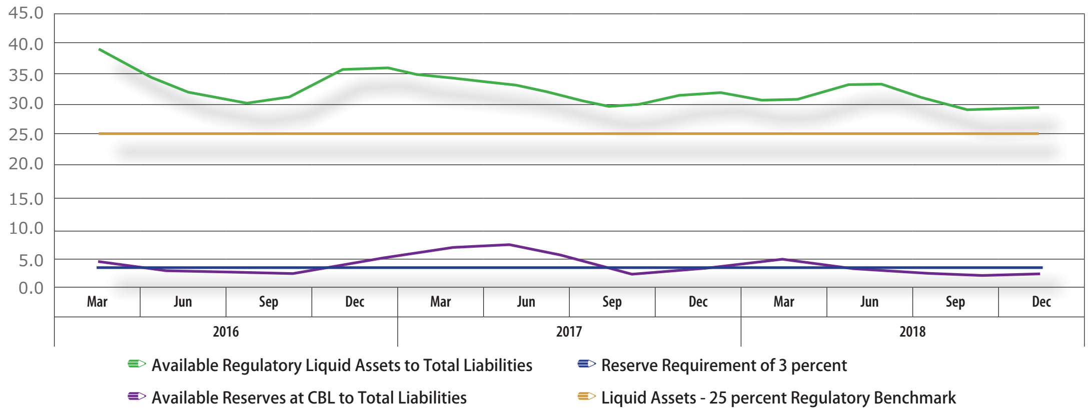
Figure 7 Liquidity Requirement (%)



Source: Central Bank of Lesotho

1.3.3 Capital Adequacy

Regulatory capital Adequacy Ratio (CAR) is the ratio of a bank's capital to its risk. The CBL tracks the banks' CAR to ensure that they can absorb reasonable amount of losses and complies with statutory capital requirements, hence the higher the CAR, the greater the ability of the banks' to absorb probable losses. In particular, it determines the banks' 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 the banks' 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 8, the banking sector in Lesotho remained sufficiently capitalized. The ratio of CAR averaged 17.9 per cent while the ratio of Tier 1 capital to risk weighted assets averaged 22.2 per cent in 2018. The overall picture depicts comfortable levels of core capital to "cushion" for potential losses, and protect the bank's depositors and other lenders.

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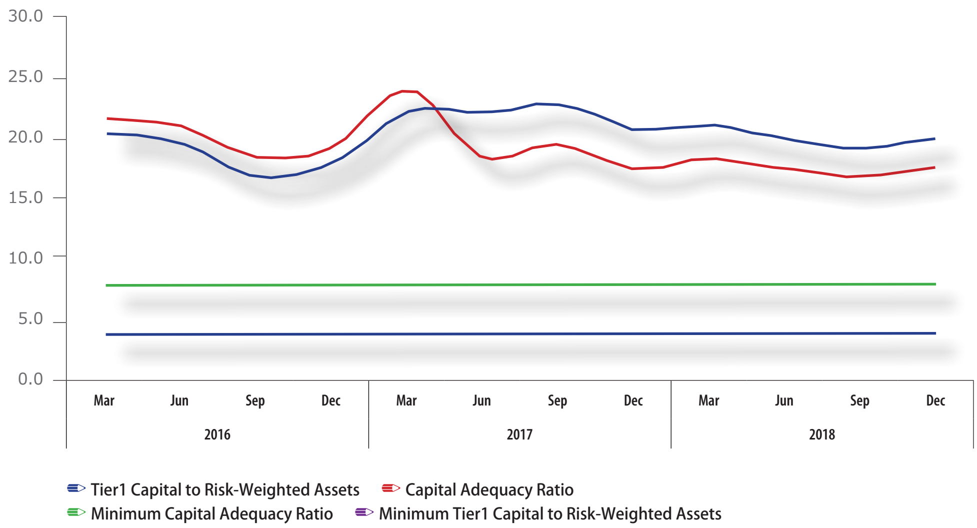
The ratio of CAR averaged 17.9 per cent while the ratio of Tier 1 capital to risk weighted assets averaged 22.2 per cent in 2018.

Figure 8 Capital Adequacy Ratios (%)



Source: Central Bank of Lesotho

1.3.4 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 currency[4] 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 the relevant laws on risk management. Figure 9 illustrates that during 2018, both the industry's single currency exposure and the overall foreign currency exposure requirements were within the regulatory requirements.

[4] The US Dollar ($) dominated the single currency exposure of the banks during the period under review.

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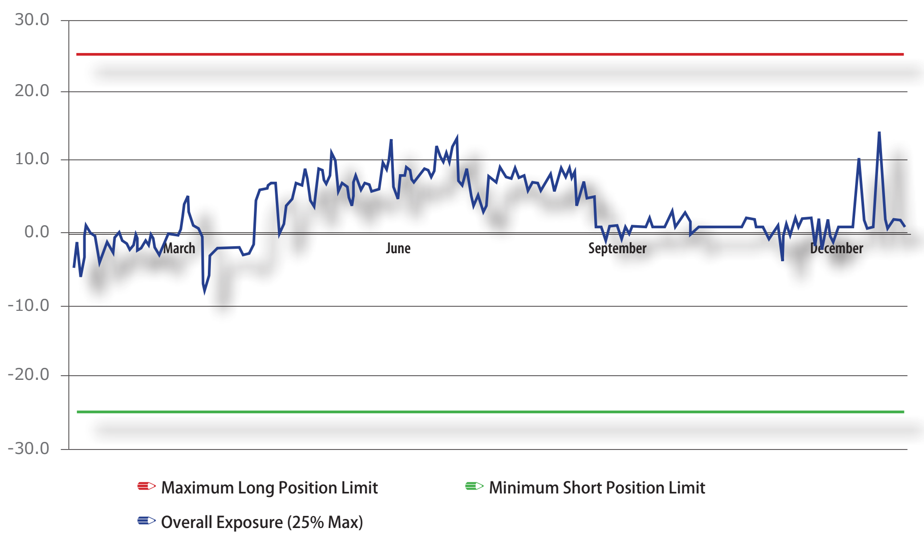
Figure 9 Foreign Currency Exposure (%)



Source: Central Bank of Lesotho

1.4 FINANCIAL SOUNDNESS INDICATORS

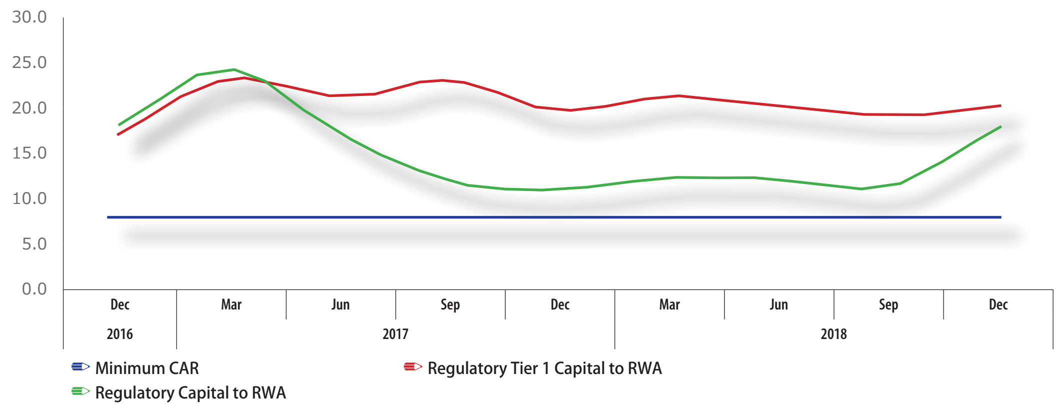
Financial Soundness Indicators (FSIs) are statistical measures designed to monitor the financial health and soundness of a country's financial sector, and its corporate and household counterparts. Analysis of FSIs covered in this report only focused on the banking sector and were compiled according to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

1.4.1 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 before depositors' funds are lost. The higher the capital adequacy ratios a bank has, the greater the level of unexpected losses it can absorb before it becomes 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.

The banking sector in Lesotho remained well capitalised for the period ending in December 2018 with capital levels above the minimum regulatory capital re-quirements.

Figure 10 Capital Adequacy ratios (%)



Source: Central Bank of Lesotho

The banking sector in Lesotho remained well capitalised for the period ending in December 2018 with capital levels above the minimum regulatory capital requirements[5] (see Figure 10). The ratio of total regulatory capital to risk-weighted assets stood at 17.9 percent, and had increased by 6.9 percentage points (pps) on an annual basis. The increase was attributed to a reduction in intangible assets, which form part of the regulatory deductions from total regulatory capital. Tier-1 capital (core capital) to risk-weighted assets ratio increased marginally by 0.4 pps from 19.8 percent in December 2017 to 20.2 percent in December 2018. This is evidence that the banking industry continued to maintain high core capital levels.

1.4.2 Profitability

The industry remained profitable during 2018, implying efficient utilisation of the industry resources (assets and capital) to generate income and less risk of insolvency. The return on assets (ROA) as at December 2018 was 2.8 percent, 0.5 pps lower relative to December 2017 (see Figure 11 (a). Return on equity (ROE) increased marginally during the review period. The ratio increased by 0.5 pps on an annual basis to 25.5 percent in December 2018.

[5] Regulatory minimum CARs are 8 percent for total regulatory capital to risk weighted assets(RWA) and 4 percent for tier-1 to RWA.

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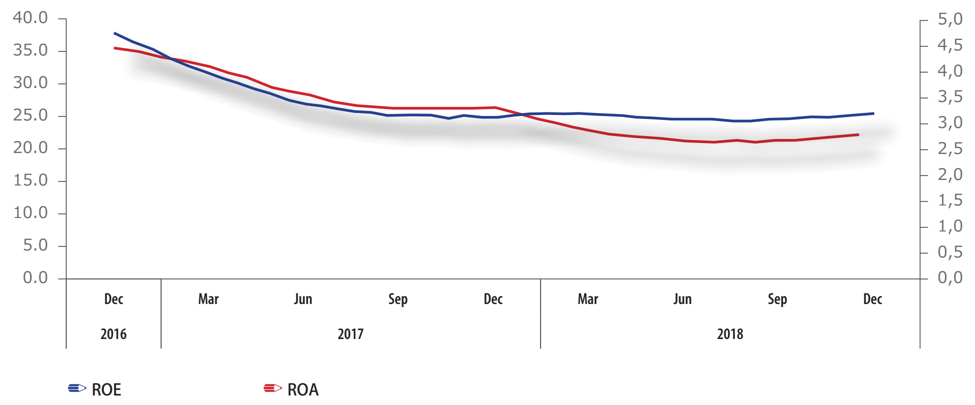
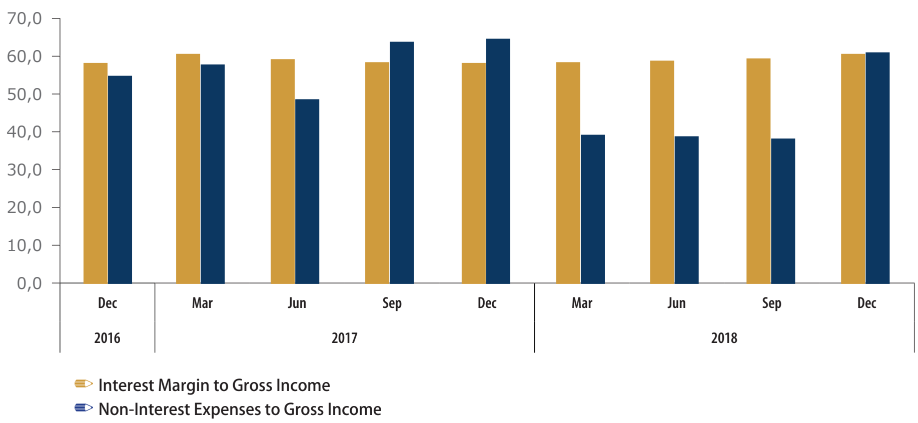
Figure 11 (a) Profitability Ratios (%)



Source: Central Bank of Lesotho

The ratio of interest margin to gross income stood at 60.4 percent in December 2018 and increased by 2.4 pp relative to the same period in the previous year (see Figure 11(b)). 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, decreased from 62.2 percent in December 2017 to 60.7 percent in December 2018. The decrease was triggered by a rise in gross income which grew by 9.4 pp.

Figure 11 (b) Profitability Ratios (%)



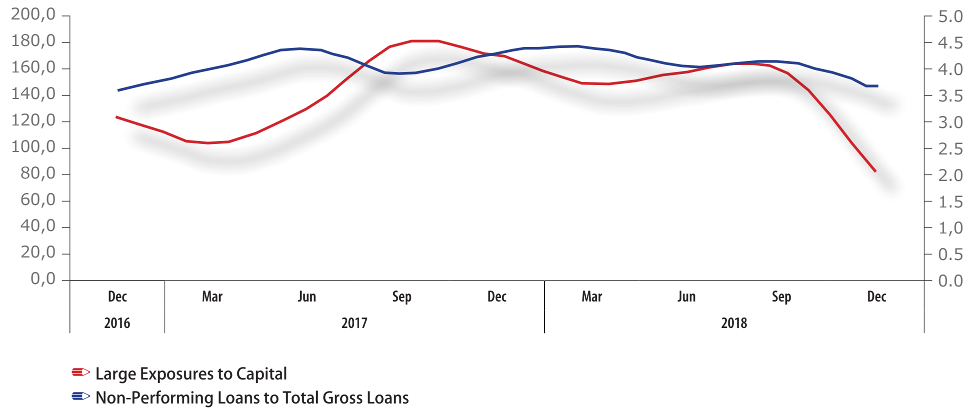
Source: Central Bank of Lesotho

The banking industry maintain good quality of assets and was satisfactorily profitable during 2018.

1.4.3 Asset Quality

Asset quality indicators supplement capital adequacy ratios and are critical in assessing the overall soundness of the financial institutions. The primary factor affecting overall asset quality is the quality 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 capital[6]. It is, therefore, important to monitor non-performing loans (NPLs) prudently. The ratio of NPLs to total loans decreased from 4.4 percent in 2017 to 3.7 percent in 2018 (see Figure 12). This ratio is below the industry appetite of 4.0 percent, therefore, a good sign that the industry is keeping good quality of loans.

Figure 12 Asset Quality Ratios (%)



Source: Central Bank of Lesotho

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 curtail concentration risk. The ratio of large exposures to capital increased from 80.7 percent in December 2017 to 82.1 percent in 2018. The ratio increased due to a proportionately bigger increase in capital, hence increasing the overall ratio[7]. 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 2018, 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

[6] http://www.fdic.gov/regulations/safety/manual/section3-1.pdf.

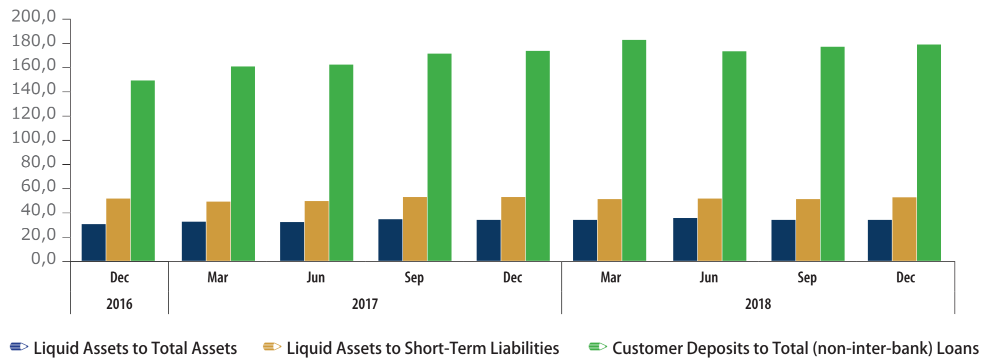
[7] Capital increased by approximately 10.0 percent while exposures to large borrowers declined by approximately 2 percent.

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.

1.4.4 Liquidity

Liquidity is a measure of the ability and ease with which assets can be converted into cash. Liquid assets are those that can be converted into cash quickly if needed to meet financial obligations. Examples of liquid assets generally include cash, central bank reserves, and government debt[8]. To remain viable, financial institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Generally, when liquidity ratio is higher, the margin of safety also increases and higher chance for bank to cover short-term debts.

Figure 13 Liquidity Ratios (%)



Source: Central Bank of Lesotho

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 2018, the ratio was 36.1 percent which was marginally lower than 36.3 percent observed in December 2017 (see Figure 13). 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 marginally from 52.8 percent in 2017 to 52.9 percent in 2018.

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

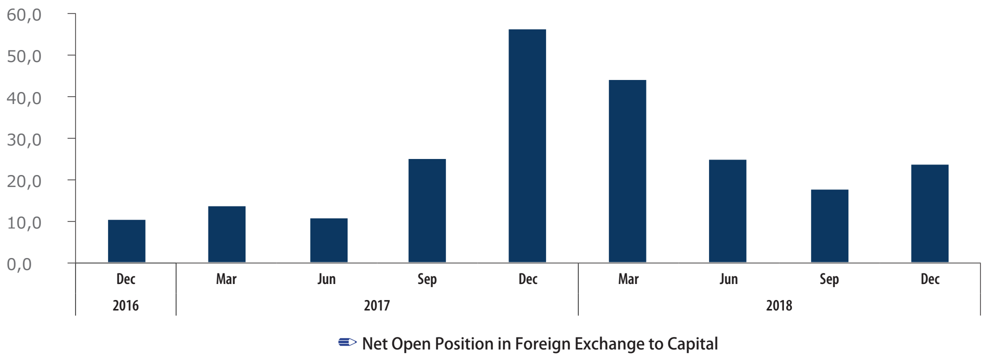
As at December 2018, the level of liquidity within banking sector remained adequate to withstand shocks to bank's balance sheet.

The customer deposits to total (non-interbank) loans is used to detect liquidity problems, whereby a low ratio might indicate potential liquidity stress in the banking sector and a greater probability of loss of depositors' funds together with investor's confidence in the banking sector. As at December 2018, the ratio was 179.8 percent which was lower than 184.6 percent that was observed in December 2017.

1.4.5 Sensitivity to Market Risk

Sensitivity to market risk is generally 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 2018, the ratio of net open position in foreign-exchange to capital was recorded as 23.6 percent, 0.9 pp lower than the value of 24.6 percent which was observed in December 2017 (see Figure 14). In addition, 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.

Figure 14 Sensitivity to Market Risk (%)



Source: Central Bank of Lesotho

The Financial Soundness Indicators discussed above attributes a sound and healthy banking sector in 2018. 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 as at December 2018. In relation to sensitivity to market risk, the bank's exposure to foreign exchange risk remained low, signifying less sensitivity to market risk.

1.5 EXCHANGE CONTROL AND ANTI-MONEY LAUNDERING

1.5.1 Exchange Control Issues

i) Currency and Exchanges Manual for Authorised Dealers

During the year under review, CBL revised the Exchange Control Rulings to eliminate misalignments and gaps across all sections of the Rulings. This included repealing some forms and returns that had become obsolete. The Exchange Control Rulings, 2013 was also renamed the Currency and Exchanges Manual for Authorised Dealers. This was done in order to align the manual with that of South Africa, which also did the same in 2017.

ii) Compliance with Exchange Control Rulings

Both on-site examinations and off-site surveillance were carried out during the review period. From the off-site perspective, the recurring issue was misclassification of BOP categories. Furthermore, Authorised Dealers (ADs) continued to attest for their clients despite outstanding export proceeds. From the on-site perspective, it was established that the banks' risk management systems were not effective enough to ensure compliance with Exchange Control Laws. For instance, with regard to payment for imports, incomplete documentation was furnished for advance payments in contravention with section B.1 (E) of the Exchange Control Rulings, 2013. BOP codes continued to be misclassified. Moreover, some ADs do not have effective systems for recording exports proceeds and this increases the risk of attestation while clients still have outstanding proceeds. This may lead to non-compliance with Sections 7, 11 and 12 of the Exchange Control Regulations, 1989, and Section B.18(B) of the Exchange Control Rulings, 2013.

i*ii) Analysis of Export Proceeds*

The total value of exports amounted to M458.1 million in 2018 relative to M514 million worth of exports in the previous year. Of the total amount exported, 54.3 per cent were the proceeds repatriated. This compares with 97.0 per cent of the export proceeds that were received in 2017. The hike in 2017 was ascribed to issuance of two directives by the Commissioner to ADs to stop attesting for their clients if they had outstanding proceeds. In 2018, the situation normalised. Figure 15 depicts the share of repatriated export proceeds for the years 2017 and 2018.

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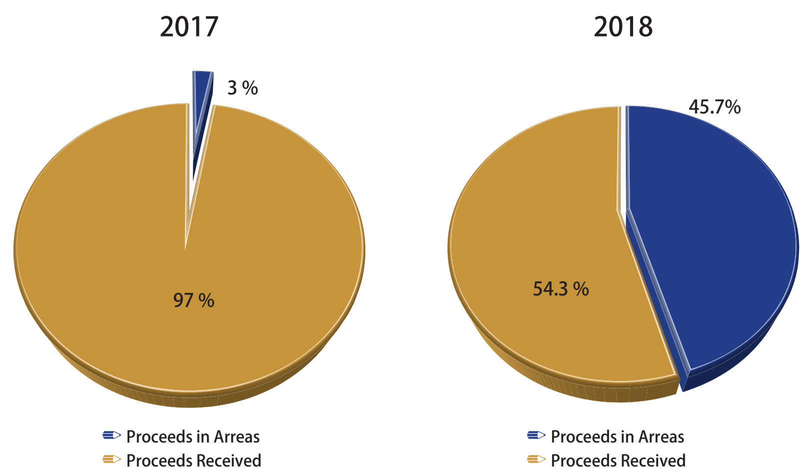
During the year under review, CBL revised the Exchange Control Rulings to eliminate misalignments and gaps across all sections of the Rulings.

Figure 15 Share of Repatriation of Export Proceed



Source: Central Bank of Lesotho

iv) Applications to Sell Foreign Currencies

During the review period, 224 applications were submitted by the ADs to the Financial Surveillance Division for approval (see Table 8). Following internal assessment and verification of documents furnished, all applications were approved. Compared with 2017, the number of applications increased by 17. Furthermore, the value of the total applications submitted surged to M1.02 billion. This was attributable to payments of dividends, which accounted for 60 per cent of the total amount. Those were followed by payment of management and professional fees. Companies that requested foreign currency for payment of dividends include Lets'eng Diamonds, Turnkey Civils Lesotho and LNIG. For payment of management fees, Vodacom, Avani and Lets'eng Diamonds were the main companies who tendered their applications while WASCO, Medigrow and One Power Lesotho requested for approval for payment of professional fees.

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Table 8	Application to Sell Foreign Currency						
Item	2017			2018			% Change
	No. of Applications	Value	% Share	No. of Applications	Value	% Share	
Dividends	16	87.36	25	12	608.98	60	597
Professional fees	69	54.09	16	74	48.38	5	-11
Management fees	17	34.04	10	41	230.20	22	576
Loans	10	15.98	5	8	37.54	4	135
Premium	20	14.85	4	19	22.83	2	54
Royalties	19	11.53	3	10	2.15	0	-81
Franchise fees	17	4.59	1	12	0.01	0	-100
Investments	2	51.74	15	0	-	0	-100
Miscellaneous	37	71.73	21	48	73.04	7	2
Total	207	345.90	100	224	1,023.13	100	

Source: Central Bank of Lesotho

1.5.2 AML/CFT Issues

i) Regulatory Framework

In the year under review, the Bank received technical assistance (TA) in a form of in-house workshop from the International Monetary Fund (IMF). The objective of the training was to equip staff with necessary skills to develop their own Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) supervisory framework. Following the TA both on-site and off-site tools were developed. The banks were engaged in the development process to ensure that the tool is well understood since data would have to be furnished by the banks. Furthermore, the off-site tools were tested in a form of a pilot study.

ii) Compliance with the Law

The deficiencies that were identified in the previous year continued to recur. Non-compliance was mainly recognised in areas including Customer Due Diligence (CDD), Record keeping, reporting of suspicious transactions (STRs) and policies and procedures of the banks.

iii) Customer Due Diligence (CDD)/ Enhanced Due Diligence (EDD)

Screening of clients during the on-boarding process was still not done by some of the banks. Moreover, clients' files contained CDD deficiencies. For high risk customers, enhanced due diligence was still not performed for most of the clients. It was also established that some clients' accounts were not blocked despite not being KYC re-verified. This was despite the directive which was issued by Regulator to all banks to complete the KYC re-verification for all their clients by 31st March 2018, beyond which soft freeze should be applied to all clients' accounts that are non-compliant. Incomplete clients' records may pose the risk of illicit funds being moved due to lack of knowing the customer profile.

In the year under review, the Bank received technical assistance (TA) in a form of in-house workshop from the International Monetary Fund (IMF).

iv) Record Keeping

Not all records were kept for a period of 10 years as stipulated in the Financial Institutions (Anti-Money Laundering and Combating of Financing of Terrorism) Regulations, 2015. This was due to lack of a centralised place to store all clients' files. For banks that do have a centralised place, files were not stored in a manner that makes retrieval easy.

v) Suspicious Transactions Reporting

Not all suspicious transactions had been reported to the Financial Intelligence Unit (FIU) as per the requirement to report them within 7 days after a determination was made that transaction was suspicious. In some banks, lack of systems that generate alerts was established as the main cause of lack of detection of transactions that are suspicious.

vi) Policies and Processes

Some of the banks' AML/CFT policies were not reviewed as per the indicated review periods. This leads to the risk of recent developments not to be incorporated in the banks' internal processes thereby leading to less effective policies.

1.6 FINANCIAL CONSUMER PROTECTION AND MARKET CONDUCT

1.6.1 Overview

Financial Consumer Protection (FCP) has been identified as one of the top priorities in the National Strategic Development Plan (NSDP) and the Financial Sector Development Strategy (FSDS) of 2013. As more individuals are continuously being included in the financial system via several financial inclusion initiatives, it is prudent to minimize the risk of financial loss and exploitation by financial services providers (FSPs), hence there is a need to protect the financial consumers and also ensure that the FSPs act in an appropriate manner towards customers. It is in this regard, that financial consumers have to be protected from unfair, deceptive or abusive practices by FSPs, as the benefits of financial inclusion can be lost without adequate FCP. The FCP Unit[9] was established within the CBL in 2018 with the main objective of protecting the financial consumers from unfair, deceptive or abusive practices and taking action against FSPs that break the financial sector provisions. Financial consumers in Lesotho are currently facing, inter alia, notable issues such as:

- Over indebtedness
- Complex, unclear and high banking fees and charges
- Financial fraud e.g. Ponzi or Pyramid schemes
- Lack of awareness of their rights and responsibilities
- Financial illiteracy
- Unclear avenues for consumer recourse in financial institutions;

[9] Please note that the Unit is used interchangeably with the Division.

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- Illegal or abusive lending and debt collection practices and intimidation of consumers;
- Limited diversity and outreach of the financial sector

Attributable to inherent limited resources, capacity constraints and institutional arrangements, the FCP Unit is currently responsible for supervising market conduct via on-site and off-site examinations (transparency and disclosure), complaints handling and redress, developing policy and legal framework, and engaging in financial education and literacy campaigns. At the initial stages of operations, the Unit supervises the commercial banks only and the plan is to include Other Financial Institutions (OFIs) such as insurance companies, financial intermediaries, pension funds, Micro-Finance Institutions (MFIs), Money lenders (even though they are being faced out), Savings and Credit Cooperatives (SACCOs), Mobile Network Operators going forward.

1.6.2 Policy Development and Legal Framework

During the course of 2018 a Draft Policy document for FCP was developed with the assistance of the World Bank. The Draft Policy was presented to the Ministry of Finance for tabling before Cabinet. This was intended to pave the way for the development of the drafting of the legal framework for FCP.

The rationale for the policy is to have an over-arching structure that adequately protects consumers with clear enforcement mechanisms. Presently there are fragmented provisions in different sectoral financial laws to protect financial consumers, and further, there is no explicit government authority mandated to regulate and supervise the conduct of financial market participants. This has made it very difficult to address financial consumers' issues.

After careful consideration, the Ministry of Finance and the CBL recommended the establishment of an overarching FCP Act. This framework is intended to help ensure consistency, clarity and confidence in financial services by consumers.

1.6.3 Transparency and Disclosure

On-site examination and off-site monitoring of financial consumer protection and market conduct issues in the banking industry were undertaken in 2018. For on-site examination, two banks were examined and the following issues emerged from such examinations:

- Inadequate disclosure of banking fees, charges and interest rates;
- Instances of delays in resolving complaints;
- Non-adherence to loan agreements demonstrated by incidents where loan instalments paid by consumers exceeded the ones stated in the loan agreements
- Loan repayments which continued despite the loans having been fully repaid due to banking systems' issues;

During the course of 2018 a Draft Policy document for FCP was developed with the assistance of the World Bank.

- Product suitability issues demonstrated by high accounts dormancy for new accounts partly reflecting inadequate understanding of customers' needs by banks.

Financial consumer protection risks posed by these issues were deemed low due to the fact that they occurred on a less frequent basis and banks largely have effective complaints handling mechanisms and redress policies. Where there had been undue deductions or payments, consumers were reimbursed their funds or loan instalments normalised.

During the on-site examinations, compliance of banks with the Directive on Banking Fees and Charges, which became effective in 2018, was evaluated. It was noted that banks were not yet fully compliant especially in terms of disclosure of fees, charges and interest rates. With regard to Low Income Saving Account (LISA) required by the Directive, three banks had introduced the account, although the uptake has been slow.

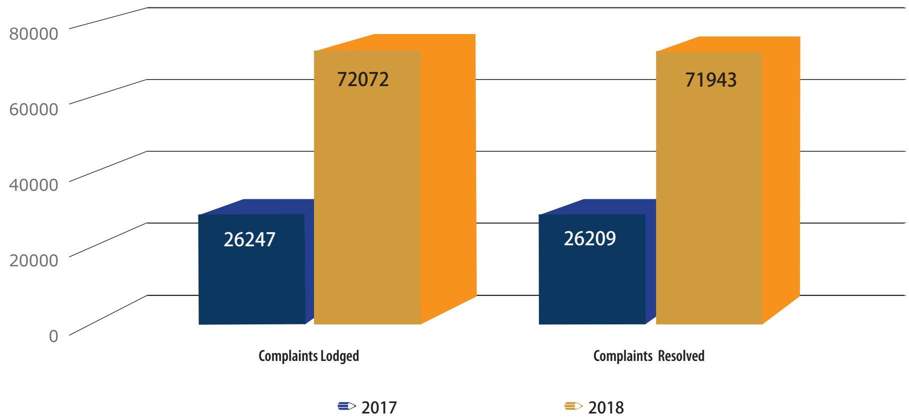
1.6.4 Complaints Handling and Redress

The CBL through the FCP Division currently monitors financial consumer complaints handled by the banking industry for identification of FCP risk factors, and investigates and facilitates the resolution of complaints lodged to it when internal mechanisms of banks had been exhausted. As indicated earlier, the aim is that in the medium run, the Division will also handle the financial complaints relating to OFIs such as, inter alia; insurance companies, financial intermediaries, pension funds, MFIs and SACCOs.

i) Complaints Handled by Commercial Banks

The total annual number of financial consumer complaints reported by the banking industry stood at 72,072 in 2018, remarkably increasing by 175 percent from 26, 247 observed in 2017 (see Figure 16).

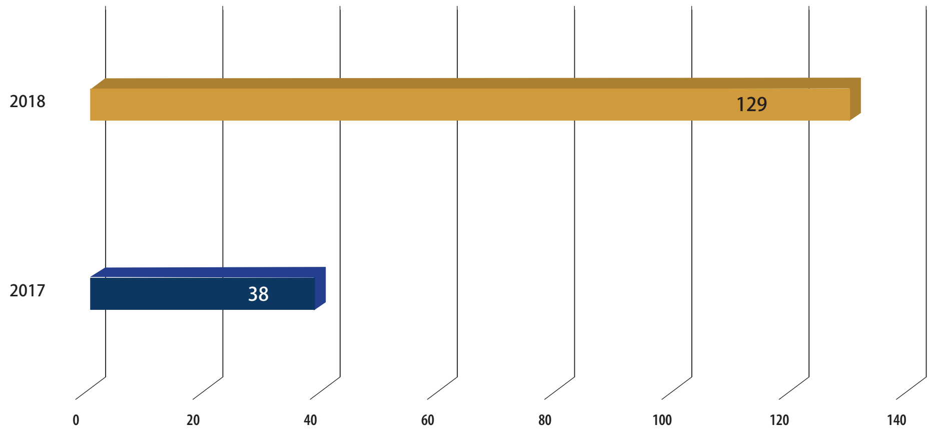
Figure 16 The Number of Complaints Handled by Commercial Banks



Source: Central Bank of Lesotho

In 2018, out of the total number of consumer complaints lodged against banks, 0.18 per cent was unresolved and still under investigation, increasing from 0.14 per cent observed in 2017 (see Figure 17 for a summary of unresolved complaints). This demonstrates that the complaints handling mechanisms of banks have been largely effective, although slightly deteriorating. In some instances, complaints resolutions made by banks involved reimbursement of funds. In 2018, an amount to a tune of M597,255.52 was reported to have been reimbursed to customers by the banking industry.

Figure 17 The Number of Unresolved Complaints



Source: Central Bank of Lesotho

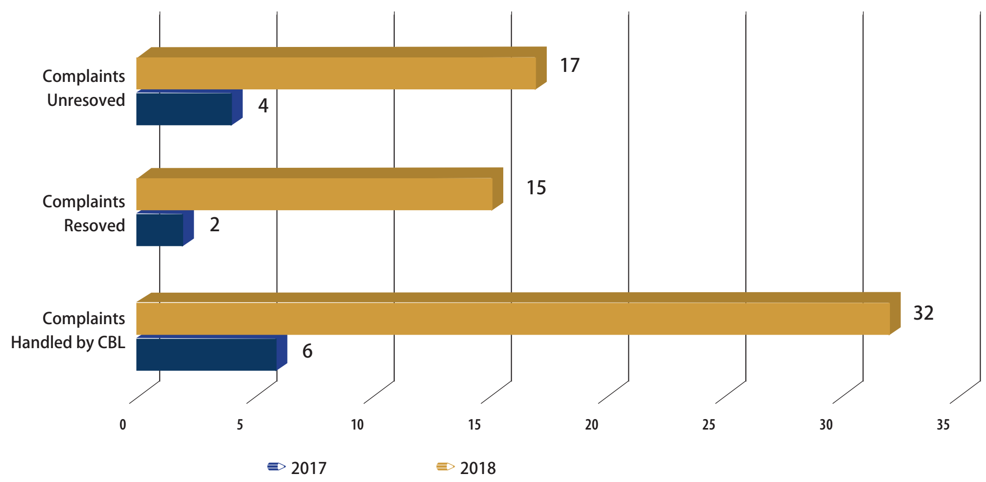
In 2018, an amount to a tune of M597,255.52 was reported to have been reimbursed to customers by the banking industry.

Concerning the nature of complaints, complaints lodged against the banks were in different forms. In 2018, financial consumer complaints received by banks can be categorised under the following themes; failure of ATMs to dispense cash despite debiting customers' accounts, ATM card fraud, stealing of customers' funds by bank employees, unknown transactions, breaches of terms and conditions of products, and services availability disruptions. Some complaints affect a particular bank while others are more cross-cutting, affecting more than one bank. Cross-cutting complaints include failure of ATMs to dispense cash despite debiting customers when they attempted to withdraw fund, Service delivery failure/disruption/unavailability, and unknown transactions.

ii) Complaints Brought by Consumers to CBL for Mediation

During the year under review, 32 complaints were received by CBL from consumers who were dissatisfied with the responses they received from banks compared with 6 complaints received in 2017. Out of the total volume of complaints mediated by CBL in 2018, 47 per cent of the complaints were resolved and closed, compared with 33 per cent that were resolved and closed during the previous year. This demonstrates improvement in effectiveness of complaints handling and mediation mechanisms that have been introduced within the newly-established FCP Division. The remaining and unresolved complaints were still under investigation and will continue to be handled in 2019 (see Figure 18).

Figure 18 The Number of Complaints Handled by CBL



Source: Central Bank of Lesotho

Similar to the nature of the complaints handled by the commercial banks, complaints that were brought to the CBL for mediation by consumers were also in different forms. These are categorised under: provision of a defective product/service; breaches of terms and conditions of products; failure of ATMs to dispense cash despite debiting customers; deposit fraud; ATM-captured cards followed by unauthorised funds withdrawals; stolen cards; transaction delays; banks' calculation errors; missing customers' belongings inside a banking hall;

and non-disbursement of a loan due to absence of spousal consent in the backdrop of a protracted divorce case. Some complaints affect one bank in particular while others affect more than one bank. Cross-cutting complaints mediated by CBL involve breaches of loan and deposit product terms and conditions and bank's calculation errors:

1.6.5 Financial Education and Literacy

i) Money Month Campaign

The financial literacy and education campaign is held every year in Lesotho, and in 2018 the Money Month Campaign was held in October. The theme for the year under review was titled "Money Matters Matter". The campaign was aimed at equipping members of the public with the necessary skills and techniques to assist in managing their personal finances effectively. It was also aimed at inspiring students about money matters and improving their entrepreneurial skills. In particular, the campaign was specifically aimed at the following groups:

- Business Community;
- School Learners;
- Tertiary students;
- Employers' Associations and Trade Unions;
- Public Servants;
- Farmers and;
- General Public especially vulnerable groups in society such as women and the youth.

Key messages for the campaign were *inter alia*:

- Creating awareness on responsible financial practices to individuals;
- Helping the public to make informed financial decisions, improve management of their personal and business finances and;
- Giving the public knowledge of service and products offered by the financial sector through different financial vehicles.

The campaign culminated with the holding of a Money Week Event in the district of Thaba-Tseka. The event was hailed as one of the most successful partnerships by the financial sector. Furthermore, the event has also created awareness among the Basotho people with respect to available products and services being offered by the financial sector, consumer rights and responsibilities and emerging issues within the operating space of the financial sector such as illegal operations like crypto currencies, pyramid schemes and forex trading activities.

ii) Financial Inclusion Day

In November 2018, the Central Bank of Lesotho in collaboration with the Ministry of Finance and the World Bank Group organised the inaugural financial inclusion day under the theme 'broadening the horizons for all', and this was the culmination to annual Money Month Campaign for the year. The event was attended by over

The financial literacy and education campaign is held every year in Lesotho, and in 2018 the Money Month Campaign was held in October.

120 participants representing Government Ministries and departments, development partners, parastatals, Non-Governmental Organisations, civil society groups, financial institutions, mobile network operators and other stakeholders.

Increasing access to finance and expanding financial inclusion has been recognized in NSDP as the bedrock for achieving broad based economic growth. It is in this regard that the Government of Lesotho in 2013 adopted the (FSDS as one of the implementing strategies of the NSDP. The FSDS contains about 197 initiatives covering four pillars:

- Financial inclusion;
- Mobilising financial resources and promoting a saving culture;
- Improving efficiency - Payment Systems and;
- Financial stability and Soundness.

As such, the event was intended to create awareness on the importance of financial inclusion, inform the community about the CBL's regulatory and policy advances and listen to the challenges and successes of the different market participants in the country. The event was also aimed to provide an opportunity for domestic stakeholders to draw some lessons from other countries leading in some of these areas.

The event was structured in three parts. The first section was the official business with messages from the stakeholders in the financial inclusion journey. The Honourable Minister of Finance presented the keynote speech and reiterated the Government of Lesotho commitment towards expanding financial inclusion in an endeavour to address poverty in the country. Other messages were provided by the World Bank Country Director, UNDP Resident Representative and UN Coordinator in Lesotho, Alliance for Financial Inclusion Deputy Director. The second section comprised of panel discussion. Three themes that were discussed were:

- Financial inclusion developments in Lesotho and globally;
- Financial inclusion and digital financial services and;
- Deepening financial inclusion through improved financial consumer protection.

During the panel discussions, it became clear that while significant progress has been achieved more still needs to be done. The last section comprised three breakaway sessions that looked the following topics:

Challenges and growth opportunities for development of mobile money and agent banking in Lesotho;
Growth opportunities for microfinance institutions and SACCOs to rural access and;
Opportunities and challenges reporting consumer credit information.

The breakaway sessions allowed the participants to make soft commitments which will be tracked during the medium run. It is expected that going forward, the event will be held annually ❑

2

Looking at the performance of the short term industry gross premium increased by 11.77 percent to M408.90 million in 2018

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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 general insurance business and includes property, motor, transportation, engineering, liability and guarantee as specified in Part B of Schedule 1.

2.1.1 Underwriting Results

Looking at the performance of the short term industry gross premium increased by 11.77 percent to M408.90 million in 2018. This is a significantly higher increase in performance than the one that was witnessed in 2017 of 3.3 percent. Such a notable rise is in line with domestic economic activity that is expected to have picked up to 1.40 percent growth in 2018 from the previous 0.10 percent growth recorded in 2017.
On a long term basis looking at the fourth quarters of the past 5 years' gross premium has been increasing positively with its highest increase observed in the fourth quarter of 2018 at M408.90. Gross premium started off relatively flat between 2014 year end and 2015-year end and ended with a sharp acceleration between 2017-year end and 2018-year end. During this period growth of financial and insurance services was on average 9.90 percent.

Premium ceded in 2018 increased by 9.64 percent to M 218.53 million this is in contrast with the 5.10 percent increase that was observed in the previous year. The increase in premium ceded is in line with the increase in premium collected during that period since the short term sector has a tendency of ceding more as they acquire new business.

Similar to gross premium, underwriting gains also increased during the review period. The increase was by 156.58 percent from a negative M10.00 million to a positive M5.66 million. This was driven mainly by a drop of 24.63 percent to M95.05 million in claims incurred. The impact of this drop had the impact of increasing underwriting gains albeit increases in commission and management expenses by 8.27 percent to M56.20 million and 23.93 percent to M79.20 million respectively.

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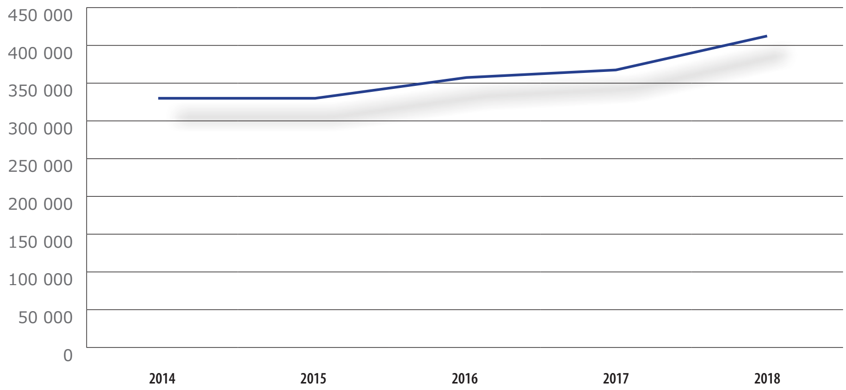
INSURANCE SECTOR REVIEW

Figure 19 Gross Premium, General Insurance



Source: Central Bank of Lesotho

2.1.2 Statement of Financial Position

There was an expansion in the size of the Balance sheet during the review period. The Balance sheet grew by 1.12 percent.

2.1.3 Assets

During the period under review assets increased by 1.12 percent to M427.64 million. This increase is less than the 4.60 percent increase that was registered in the previous year. The driver of this increase is short term investments which grew by 9.13 percent to M229.20 million. Other assets which contributed to the increase in total assets are amounts due from reinsurers which increased by 473.22 percent to M61.52 million. These two drivers are notably the same drivers that drove assets increases in the previous year.

On the downside long term investment declined by 14.96 percent to M47.14 million. This decline could have been as a result of shifts in investment holding from long term investments by general insurers in order to match their short term liabilities.

Looking at the long term trajectory of the assets they have been increasing steadily over the past 5 years from 2014 and the driver of growth is mainly investments.

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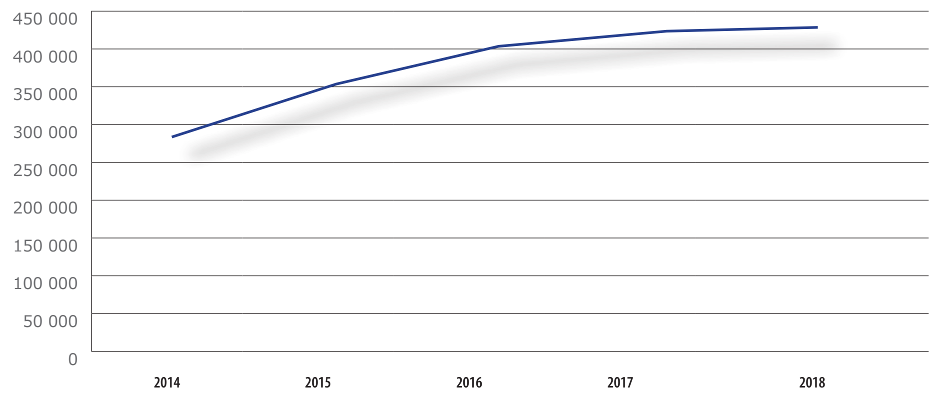
During the period under review assets increased by 1.12 percent to M427.64 million.

Figure 20 Total Assets, General Insurance



Source: Central Bank of Lesotho

2.1.4 Equity and Liabilities

On the financing side, total capital, reserves and liabilities which also increased by 1.12 percent (like assets) was driven by an increase in both shareholder funds and technical provisions. Shareholder funds increased by 8.65 percent to M115.48 million. This increase is greater than the one registered in the previous year which was 7.90 percent. The rise came about due to increases in share capital and accumulated profit. Share capital increased by 49.07 percent to M25.72 million while accumulated profit increased by 13.22 percent to M78.77 million.

Drivers of technical provisions on the other hand were reinsurance premium and unearned premium provision. The growth in both was 123.08 percent to M45.01 million and 23.42 percent to M101.56 million respectively. Increases in unearned premium provision is increase in reserving as a result of increases in new business acquired and the reinsurance premium is a reserve that is formed as a result of ceding of the acquired business.

Contrary to other items total current liabilities declined even though the decline was not enough to offset the increase in total shareholder funds and technical provisions. Total current liabilities declined by 51.98 percent to M17.75 million. A 47.23 percent fall in creditors to M15.10 million was the main driver of these decline. This is an indication that the sector is paying off its short term obligations.

2.1.5 Financial Soundness Indicators

Financial soundness indicators (FSIs) provide an insight into the financial health of insurance companies. Below are FSIs for the short term industry.

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Table 9	Financial Soundness Indicators (Short-term Insurance)		
	Dec 2018	Dec 2017	Change
Operational Ratios			
Combined Ratio	121.1%	129.8%	-8.8%
Change in Written Premium	11.8%	-11.8%	23.5%
Investment Yield	6.8%	8.0%	-1.2%
Return on Equity	7.0%	2.0%	5.0%
Financial Position			
Proportion of Investments Assets	64.6%	62.8%	1.8%
Technical Reserves to Total Liabilities	94.3%	88.3%	6.0%
Technical Reserves Cover	79.2%	76.6%	2.5%

Source: Central Bank of Lesotho

The Financial Soundness indicators are viewed both from an operational and a financial perspective. No major risks are viewed from both perspectives as most of the ratios are positive and increasing.

With regard to operational ratios the combined ratio decreased by 8.80 percentage points to 121.10 percent. Ideally an efficient combined ratio is less than 100 percent. A combined ratio that is above 100 percent implies the need for further management of expenses by the insurer o reduce it to levels at or below 100 percent. Change in written premium on the other hand is favourable as it has increased by 23.50 percentage points following an increase in new business acquired. Similarly return on equity has increased by 5 percentage points and this is favourable as driven by increased profits in the sector. On the downside the investment yield has declined insignificantly by 1.20 percentage points. The main driver of this is the decline in investment income which could be in line with a shift from long term investments to short term investments.

Financial ratios on the other hand are all positive and have increased. Proportion to investment assets increased by 1.80 percentage points as driven by increase in total short term investment assets. Technical reserves to total liabilities has also increased by 6.0 percentage points as driven by increase in technical reserves as more business is acquired.

2.2 LONG-TERM INSURANCE BUSINESS

In terms of 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” this are listed as life, health, assistance, disability, fund and sinking fund.

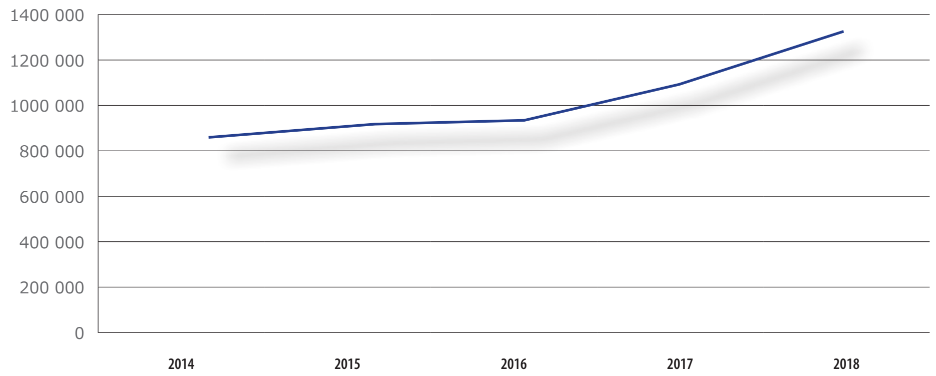
In terms of performance gross premium collected during the period under review by the long term insurance sector increased by 20.97 percent to M1,324.86 million.

2.2.1 Underwriting Results

In terms of performance gross premium collected during the period under review by the long term insurance sector increased by 20.97 percent to M1,324.86 million. This increase is much larger than the one that was recorded in the previous year of 9.90 percent. Similar to the short term section this increase can be attributed to improved domestic economic activity that is expected to have picked up slightly to 1.40 percent growth in 2018 from the previous 0.10 percent growth recorded in 2017.

Looking at a longer period, the gross premium in the sector is increasing steadily although it started off rather flat.

Figure 21 Gross Premium, Life Insurance



Source: Central Bank of Lesotho

Premium ceded for the period under review increased by 26.96 percent to M56.54 million. This is comparatively lower than the premium that was ceded in the previous period which was 43.80 percent. The implication of reduced ceding means the sector is willing to take over more risks as can be seen by their increase in reserving and capital accumulation of 1.62 percent and 5.59 percent respectively.

The increase in gross premiums led to an increase in underwriting gains. During the period under review the increase in underwriting gains was a massive 208.85 percent to M194.89 million. This increase came about albeit an increase in claims incurred of 12.63 percent to M638.16 million and an increase in commission expenditure of 4.21 percent to M154.41. The increased gross premium was therefore able to cover the underwriting expenses of the sector which is an indication of efficiency in operation. The combined ratio of 81.20 percent reaffirms this efficiency as it is below 100 percent which is a threshold for efficiency.

INSURANCE SECTOR REVIEW

2.2.2 Statement of Financial Position

During the period under review there was an expansion in the balance sheet by 5.61 percent.

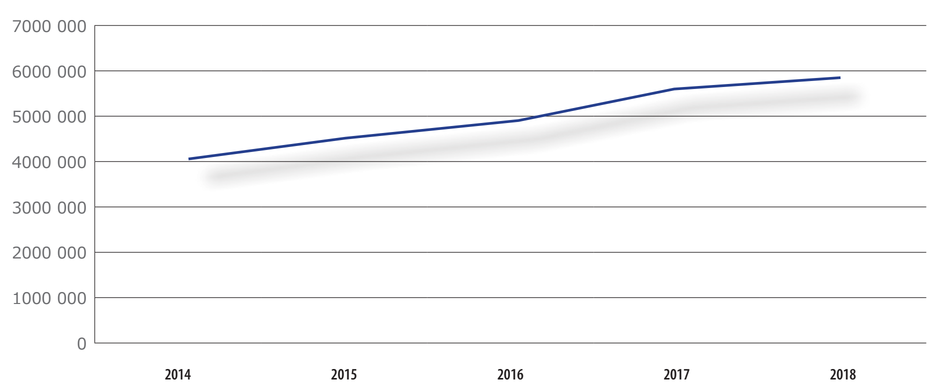
2.2.3 Assets

Total assets increased by 5.61 percent to M5,891.02 million. This increase was lower than that experienced in the previous year which was 8.30 percent. The current period increase was as a result of increased short term investments which increased by 97.26 percent to M 2,348.47 million.

During the period under review long term investments declined significantly by 76.89 percent to M441.54. Expectation is that the long term sector will invest more in long term investments however the opposite was observed during this period. This in turn is reflected by the reduced investment income which declined by 41.61 percent to M257.18 as high yielding long term investments are replaced with lower yielding short term investments. This could be as a result of insurers complying with local investment regulation requirements which require holding of 30 percent of assets in the country. This they are expected to do despite the current shortage of longer term maturing instruments.

On a longer term outlook assets are increasing steadily in figure 22 as the sector is acquiring new business.

Figure 22 Total Assets, Life Insurance



Source: Central Bank of Lesotho

During the period under review there was an expansion in the balance sheet by 5.61 percent.

2.2.4 Equity and Liabilities

Looking at the financing side, total equity, reserves and liabilities like the assets increased by 5.61 percent. The main drivers of this increase were total shareholders' funds by 8.80 percent to M1,23.49 million and total policyholder's funds by 5.59 percent to M3,990.84 million.

Accumulated profit and retained earning contributed most to the upswing of shareholders' funds as they increased by 8.84 percent to M1,062.75 million. Policyholder's funds on the other hand were increased mainly by long term insurance products which increased by 7.65 percent to M 2,286.40.

2.2.5 Financial Soundness Indicators

Below is an analysis of Financial Soundness Indicators for the Long-term sector.

Table 10 Financial Soundness Indicators (Long-term Insurance)

	Dec 2018	Dec 2017	Change
Combined Ratio	81.2%	92.0%	-10.9%
Capital adequacy	26.6%	25.7%	1.0%
Investment Yield	8.2%	13.2%	-4.9%
Return on Equity	15.4%	17.0%	-1.6%
Shareholders' Funds to Total Assets	21.0%	20.4%	0.6%

Source: Central Bank of Lesotho

Most long term sector Financial Soundness Indicators are favourable and increasing thus no major risks are seen even though precaution should be taken on some issues. With regard to profitability and efficiency the sector is efficient as it has a combined ratio of 81.2 percent which is less than 100 percent. A combined ratio above 100 percent implies failure by the industry to earn sufficient premiums to cover expected claims and overhead expenses. This however is not the case with the long term sector. Capital adequacy is also favourable as it is positive and increasing this shows the sector's ability to cushion reasonable amount of losses in stringent times and thus protect policyholders.

The investment yield on the other hand declined by 4.9 percentage points. This was driven by reductions in investment income as investments were shifted from high yield long term investments to low yield short term investments assets. Caution should however be taken here as a balance should be maintained between satisfying the country's local investment regulations and investing in assets that match the industry's liabilities, which in this case are long term. Similarly return in equity has declined minimally by 1.60 percentage points.

Performance of shareholders' funds on the other hand was favourable as when assessed in proportion to total assets it increased by 0.60 percentage.

2.3 PENSION AND SECURITIES

2.3.1 Collective Investment Schemes

i) Licensing

The number of formally registered asset managers increased from one to 2. Mergence Investment Managers was registered during the period under review. STANLIB Lesotho (Pty) Ltd remained the only active collective investment scheme as Mergence Investment Managers had not started its operations after 2018 registration.

Until 2018, oversight and regulation of collective investment schemes in Lesotho was guided by the Central Bank of Lesotho (Collective Investment Schemes) Regulations 2001. The review of the Central Bank of Lesotho (Collective Investment Schemes), Regulations 2001 was completed during the review period and the new Central Bank of Lesotho (Collective Investment Schemes) Regulations, 2018 were published.

ii) Market Share

STANLIB Lesotho (Pty) Ltd controlled 100% market share in terms of total assets under management, number of funds being managed and monetary values. The level of market share therefore rendered STANLIB Lesotho (Pty) Ltd with a considerable degree of systemic significance.

iii) Compliance

There were no non-compliance issues recorded during the period under review except house-keeping issues raised as on-going monitoring.

iv) Sector Performance

The overall performance of the collective investment schemes industry showed a stable and sound financial position. As at 31st December 2018 STANLIB Lesotho had total assets amounting to M29.9 million and the total assets under management by STANLIB Lesotho pooled for four of its funds amounted to M2.3 billion in December 2018.

2.3.2 Pension Funds

Oversight and regulation of occupational pension funds in Lesotho remains a challenge as there is no legislation that supports their direct regulation. They continue to be supervised under the auspices of the Insurance Act of 2014. During the review period, the Central Bank of Lesotho working together with relevant stakeholders continued the process of putting in place legal framework meant to guide the activities of pension funds in Lesotho. These efforts resulted in the draft Pensions Bill and implementing Regulations, which are both expected to be published in 2019.

Oversight and regulation of occupational pension funds in Lesotho remains a challenge as there is no legislation that supports their direct regulation.

2.3.3 Securities

The Capital Markets in Lesotho are regulated under the Central Bank (Capital Markets) Regulations, 2014. The Regulations are meant to promote, regulate and facilitate the development of orderly, fair and efficient capital markets in Lesotho. The market comprises of the Maseru Securities Market and the licenced market players which include stock brokers, broker-dealers and investment advisors.

There were three licenced broker/dealer/advisors and three investment advisors at the end of the review period. There was no activity on the securities market during the period as no securities were listed. The Registrar however received two applications for initial public offer and a medium term note listing. Both applications were still under assessment at the end of the review period ❑

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3

The Central Bank of Lesotho, up to this end, has licensed two stand-alone money transfer institutions.

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NON-BANKS FINANCIAL SECTOR REVIEW

3.1 INTRODUCTION

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 as amended. Microfinance as a product is also offered by traditional Money Lenders under the Money Lenders (Amendment) Act of 1993. This industry is currently being overhauled and as part of the World Bank Technical Assistance under the First Initiative Financial Institutions (Deposit Taking and Credit-Only Microfinance) (Amendment) Regulations 2018 were published in May 2018. These 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

Following the publication of the Financial Institutions (Deposit Taking and Credit-Only Microfinance) (Amendment) Regulations 2018, a lot of work went into the relicensing of existing MFIs and migration of Money Lenders to MFIs. These new amendments provide for three tiers of MFIs. Tier 1 is mainly for Deposit Taking MFIs, tier 2 is for Credit-Only MFIs with assets above the M10 million threshold and tier 3 is for Credit-Only MFIs with assets below M10 million. The rationale behind this categorization is to apply a proportionate supervision or risk based approach. This entails strengthening regulatory requirements to big and high risk MFIs and relaxing requirements to small and low risk MFIs.

MFIs 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 MSMEs financing as a result of both market forces and regulatory efforts.

During the year ended December 2018, there were still no deposit taking MFI licensed and there were 16 licensed credit-only MFIs as compared to the 11 licensed in 2018. In terms of assets the MFIs industry is dominated by foreign owned companies and the market share is highly concentrated towards two largest credit-only MFIs.
In terms of growth, the MFIs sub-sector continued to grow, recovering from lacklustre growth recorded in the previous year. The subsector grew by 8.4 per cent in the review period up from slower growth of 1.8 per cent registered in the previous year. In value terms, the asset base closed 2018 at 797.0 million compared to the 735.4 million registered in 2017. The acceleration in the size of the sector is mainly in line with the recovery in credit extension.

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.

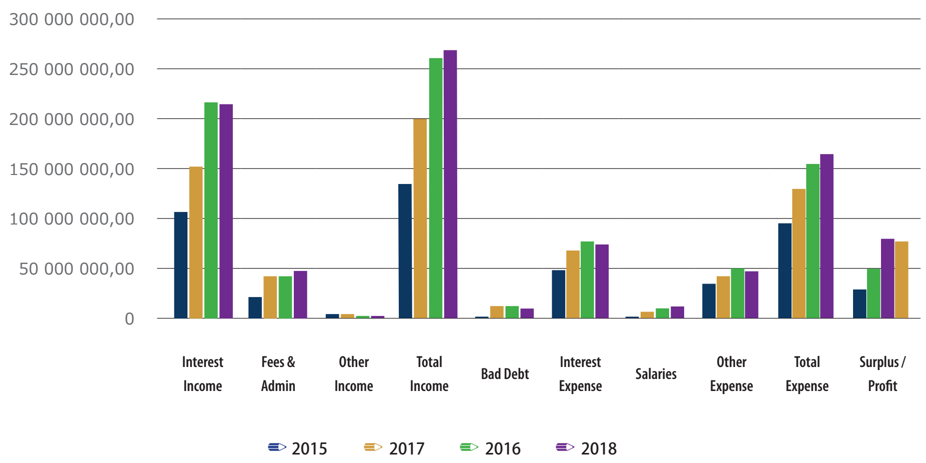
In the review period, Credit–Only MFIs were still unable to raise funds from the banking sector to finance their credit extension operations and as such remained dependant on loan funding from parent companies and shareholders' equity.

3.2.3 Financial Performance of the Sector

The MFIs subsector's financial performance continued to remain profitable despite a slight decline in profit recorded in the year under review. Profit after tax declined by 2.3 per cent in 2018 as compared to a massive 59.3 per cent recorded in 2017, amounting to M79.0 and M80.9 respectively. The decline in profitability is mainly on account of a 3.0 per cent increase in expenses which outweighed the 2.3 per cent in income.

The MFIs subsector's financial performance continued to remain profitable despite a slight decline in profit recorded in the year under review.

Figure 23 Income and Expenses for MFIs



Source: Central Bank of Lesotho

3.2.4 Conclusion

Overall, the microfinance sub-sector on the one hand continued to depict an upward trend in terms of growth in financial position and on the other hand declined in terms of financial performance. 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 indebtedness from the demand side.

3.3 MONEY-TRANSFER INSTITUTIONS

3.3.1 Introduction

Overall, the microfinance sub-sector on the one hand continued to depict an upward trend in terms of growth in financial position and on the other hand declined in terms of financial performance. 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 indebtedness from the demand side

3.3.2 Developments in 2018

The Central Bank of Lesotho, up to this end, has licensed two stand-alone money transfer institutions. 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 34 % per cent in the review period down from a massive 127 per cent recorded in the previous year. from last quarter of 2017 to the last quarter of 2018. This strong continued increase is mainly as a result of the continued expansion of the industry's operations and branch network. Profitability of the sub-sector in the year under review2018 has was sluggish a little as compared to the performance in the year 2017. Return on assets in 2018 was 13% per cent compared to 27 % per cent declared in 2017 and return on equity in 2018 was 31% as compared to 50% reported in 2017.

The main factor that has contributed to this drop in profitability is the 107 % per cent increase in expenses compared to 70 % per cent decline in income. Decline The decline in income versus significant increase in expenses reflects the reduced 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 67.0 % per cent of the income while foreign exchange activities account for 30.0 % per cent of the business. Commission accounted for 3.0 per cent of total income.

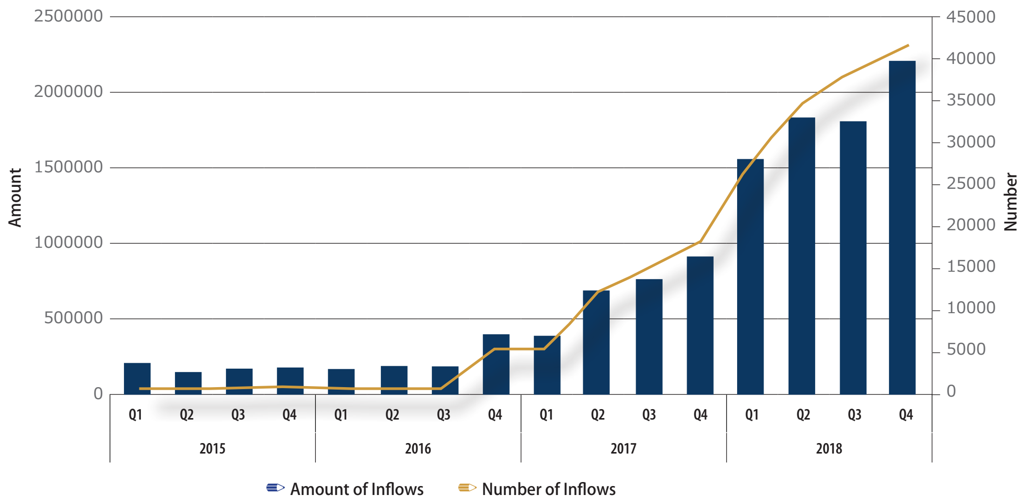
3.3.3 Inflow Transactions

The inflow transactions for the year 2018 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 3,642 inflow transactions from the rest of the world excluding South Africa amounting to US$ 929,432.65 while there were 139,457 inflow transactions from South African amounting to US$ 6,495,451.84. In the year under review, the amount of inflow transactions increased by 188 per cent annually. The aggregate inflow transactions in 2018 amounted to US$ 7,424,884.49.

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 2018.

The Central Bank of Lesotho, up to this end, has licensed two stand-alone money transfer institutions.

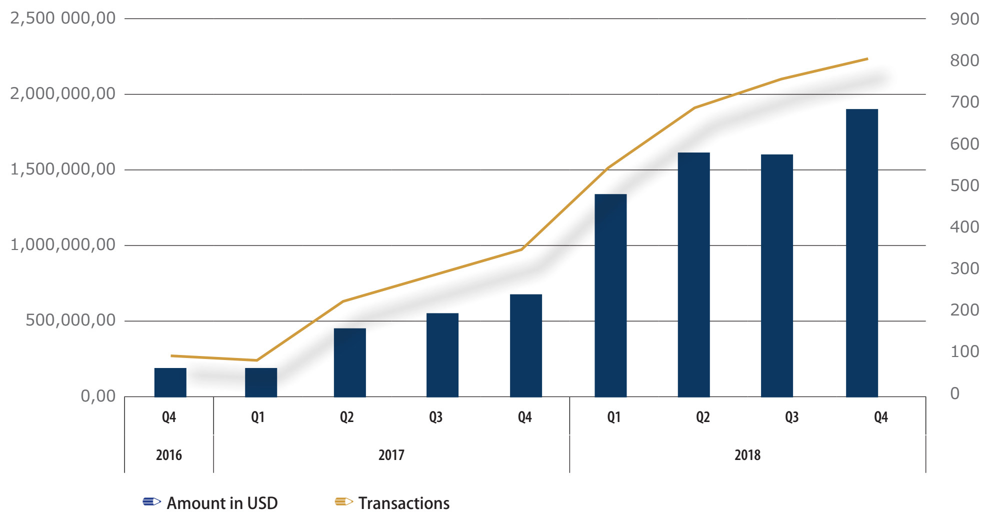
Figure 24 Aggregate Inflow Transactions in Number and Amount



Source: Central Bank of Lesotho

This increase is also 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 transfers to be accessibility through mobile money.

Figure 25 Amount and Number of Inflow Transactions from South Africa



Source: Central Bank of Lesotho

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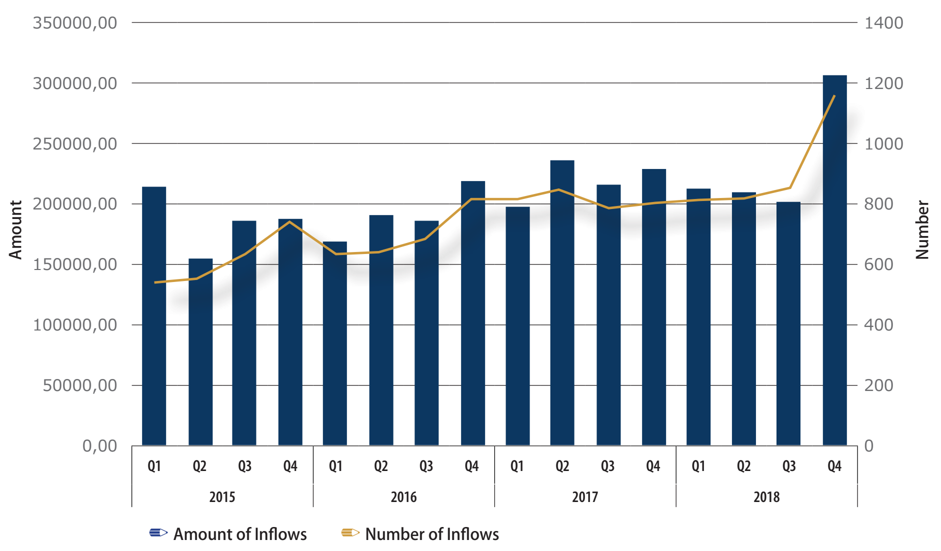
Inflows from the rest of the world have also grown steadily in both amounts and number of transactions, albeit at a lower rate compared to those from South Africa. The figure below depicts inflow trends from the rest of the world excluding South Africa. In 2018, the average growth of the transactions in amount and number was respectively 13 per cent and 6 per cent.

Figure 26 Amount and Number of Inflows from the Rest of the World Excluding SA

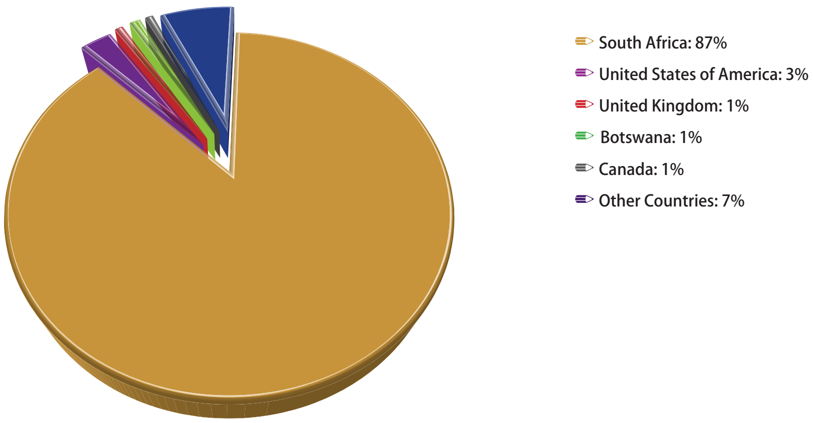


Source: Central Bank of Lesotho

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 2018 percentage share of inflow by each country. The depiction shows that the highest percentage share, 87% of inflow transactions came from South Africa, followed by United States of America which accounted for 3%, next was United Kingdom, Botswana and Canada accounted for 1% each. Other countries combined accounted for 7%. 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.

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

Figure 27 Inflows by Countries of Origin in 2017

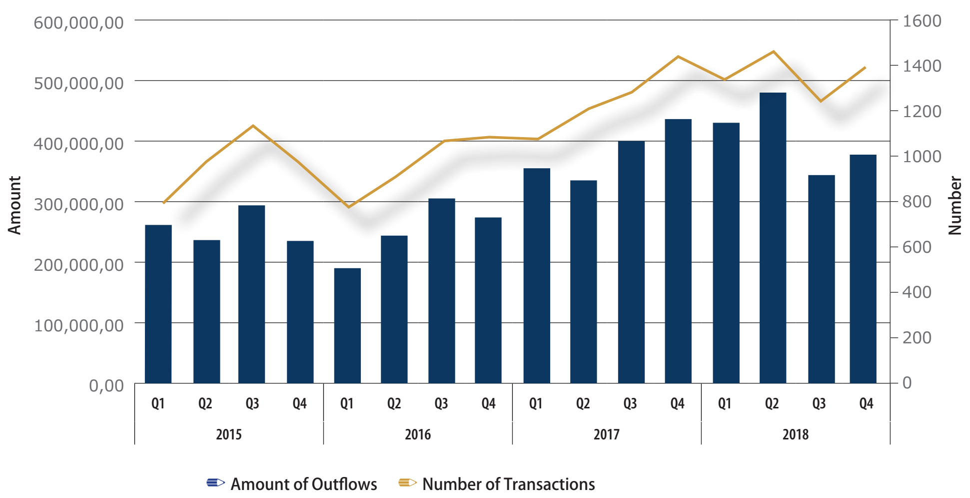


Source: Central Bank of Lesotho

3.3.4 Outflow Transactions

In the first half of 2018, the amount and number of outflows remitted through the money transfer platform has been on the increase, respectively growing on average at 9% and 12%. The second half saw a significant fall which slightly bounded back in the last quarter. Looking at the quarterly trend from first quarter of 2015 to end 2018, the average growth of both amount and number of transactions was 5% and 4% respectively. In the year under review, the number and amount of transfers aboard excluding South Africa stood at 5440 and US$ 1,632,201.49 respectively.

Figure 28 Number and Amount of Outflow Transactions in US$



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 2018, outflow transactions by country of destination mostly went to China 19 per cent, followed by Philippines with 14 per cent, Zimbabwe 10 per cent and Zambia 8 per cent. This is in line with the number of migrants of these countries in Lesotho. Compared to previous year 2017, the distribution has slightly shifted, with exception of Philippines with a constant share. Some countries saw a fall while others had an increase in the funds remitted through money transfer platform. 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.

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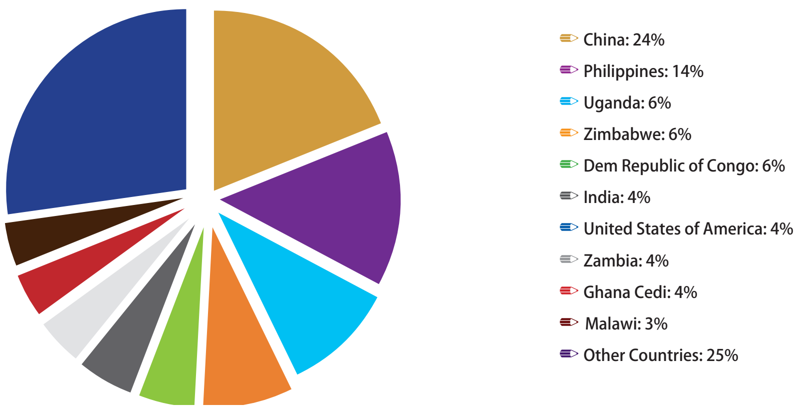
In the year under review, the number and amount of transfers aboard excluding South Africa stood at 5440 and US$ 1,632,201.49 respectively.

Figure 29 Outflow by Country of Destination in 2017



Source: Central Bank of Lesotho

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

Credit information sharing in the financial sector comes as a panacea to market failure which results from asymmetric information between borrowers and lenders. Lenders become reluctant to extend credit to their potential when they do not have full information about prospective borrowers in the credit market, thus hampering growth.

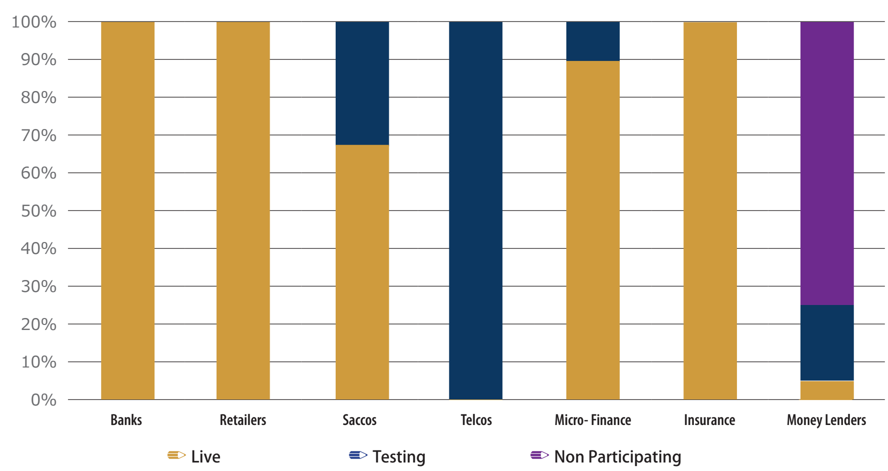
The establishment of credit information sharing mechanism in Lesotho was welcome as a tool through which lenders will share borrower credit information to enhance their credit decision making. This system comprises of credit providers, the credit bureau and the Central Bank of Lesotho as a regulator and administrator of credit information sharing laws in the country.

Following the promulgation of credit information laws in Lesotho, a credit bureau was licensed to gather borrower credit information across financial and non-financial credit providers in the country. To date, commercial banks, microfinance institutions, retailers, insurance companies, savings and credit cooperatives (saccos), money lenders and telecommunication companies provide credit information of their clients with the credit bureau. In exchange, the credit bureau consolidates consumer credit data and makes it available to credit providers and other legal entities in form of borrower credit reports. In addition, reports from credit bureau are used to draw insights on credit market trends with the purpose of strengthening credit extension and curbing over borrowing by undeserving consumers

3.4.2 Credit Providers with Live Data

In the year ended December 2018, borrower credit information from all commercial banks, retailers and insurance companies in Lesotho was live in the credit bureau. The benefit of having live data is to facilitate seamless exchange of borrower credit information during credit underwriting. Microfinance institutions and SACCOs followed with 90 percent and 67 percent of live data respectively. Moreover, telecommunication companies and money lenders were testing at 100 percent and 20 percent respectively. Table 1 above portrays a clear picture of the credit providers' status in the year under review.

Figure 30 Share of Credit Providers Live on the Credit Bureau



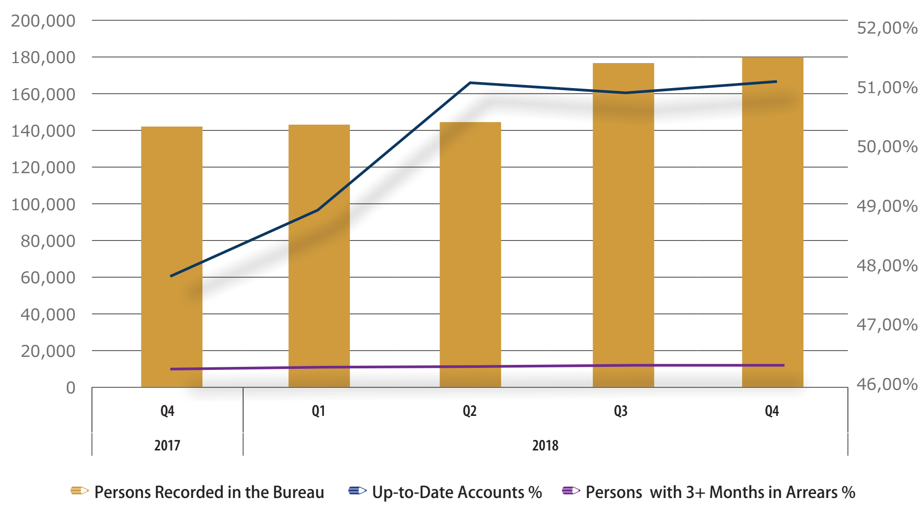
Source: Central Bank of Lesotho

By the end of 2018, there were 181, 673 individuals whose credit information was live in the bureau.

3.4.3 Number of Natural Persons at the Bureau

In the year under review, the persons whose credit records were made available in the bureau continued to grow yet at a fairly lower rate. By the end of 2018, there were 181, 673 individuals whose credit information was live in the bureau. The said increase comes as a result of continued efforts of enrolling more credit providers in the credit bureau system together with increase in the number of borrowers accessing credit across different credit providers in the country.

Figure 31 Consumer's Credit Standing at the Bureau



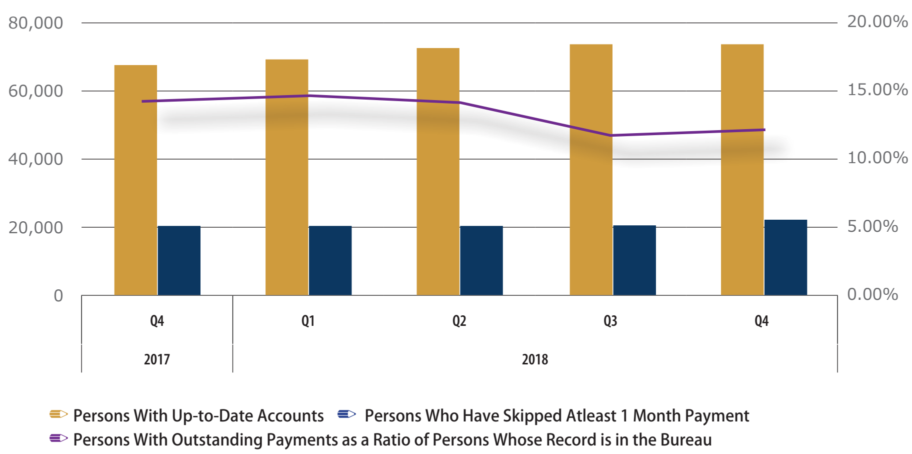
Source: Central Bank of Lesotho

The table above gives a graphical presentation of borrowers' credit standings in the year under review. It can be noted that a ratio of up-to-date accounts to total number of credit accounts recorded in the bureau grew from 47.78 percent to 51.02 percent year-on-year. A growing trend of up-to-date accounts comes as a positive indicator of credit information sharing initiative in the country when borrowers strive to maintain a good credit record. Moreover, persons whose credit records were classified as in worst position increased marginally from 11,108 to 11,869 year-on-year, further emphasising the benefit of credit information sharing as lenders tend to lend more to deserving borrowers while minimizing risk of lending to delinquent ones.

3.4.4 Consumer Indebtedness

Borrowers can be said to be indebted if they continuously struggle to service their debts[10]. Such measures as the number of months that borrowers are in arrears and the number of loan accounts per household are employed in assessing borrower indebtedness in the market. This report uses these measures to draw insights on the levels of borrower indebtedness as portrayed in the credit bureau reports.

Figure 32 Indicators of Indebtedness



Source: Central Bank of Lesotho

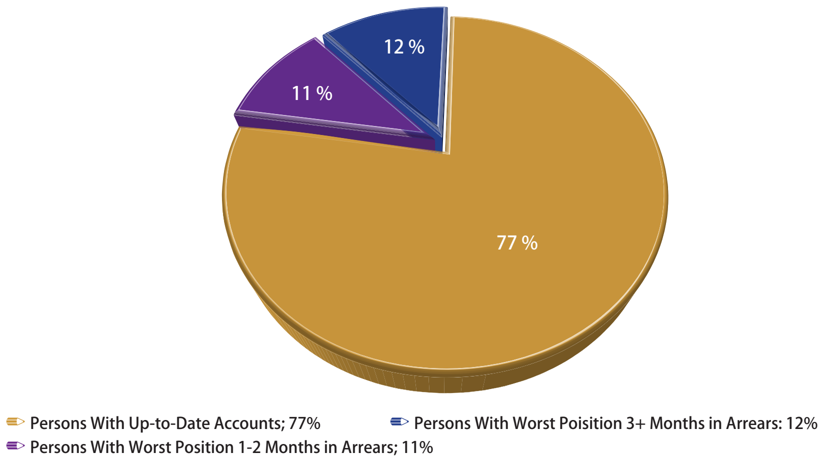
In the year under review, the number of borrowers who maintained up-to-date credit accounts grew 9.22 percent from 67,237 to 73,436 year-on-year. As an emphasis to the significance of employing credit bureau reports in loan underwriting by credit providers, the number of persons who skipped at least one payment on their loans in the same period remained rather flat, moderating the levels of credit risk across the lenders. Moreover, persons with outstanding payments as a ratio of all persons in the bureau fell by 2.05 percentage points from 14.18 percent to 12.13 percent year-on-year. This highlights the improvement in credit risk management as more lenders enhance their lending decision through the use of borrower credit reports. Notably, by the end of 2018, the number of credit accounts per person had fallen 19 percent from 1.62 to 1.31 accounts per person, indicating lesser loan entanglement per borrower as depicted in figure 1 below.

[10] Jessica Schicks "Over-indebtedness in Microfinance-an Empirical Analysis of Related Factors on the Borrower Level".

In the year under review, the number of borrowers who maintained up-to-date credit accounts grew 9.22 percent from 67,237 to 73,436 year-on-year.

As it can be observed from the figure below, 77.0 percent of the persons whose credit information was made available in the credit bureau serviced their loans satisfactorily while 11 percent of them were behind with their payments for 1 to 2 months. Finally, 12 percent of the borrowers were reported to have skipped their payments for 3 months and above.

Figure 33 Borrower Accounts Standing



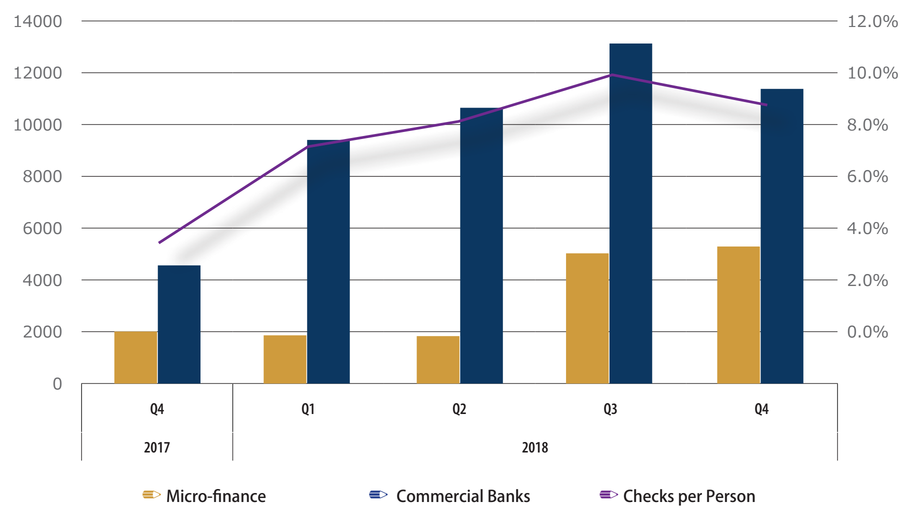
Source: Central Bank of Lesotho

3.4.5 Credit Market Activity

The other use of credit bureau is borrower credit report inquiry. Lenders are required by the law to conduct robust assessment of borrowers' risk and affordability prior to lending. This assessment facilitates informed lending decision by lenders, thereby reducing the risk of borrower delinquency.

In the year under review, credit providers conducted 58,936 inquiries on their borrowers. Notably, commercial banks remained top users of borrower credit reports followed by microfinance institutions. Table 4 below shows credit providers' inquiry activity across the four quarters of the year under review;

Figure 34 Credit Providers' Inquiry Hits



Source: Central Bank of Lesotho

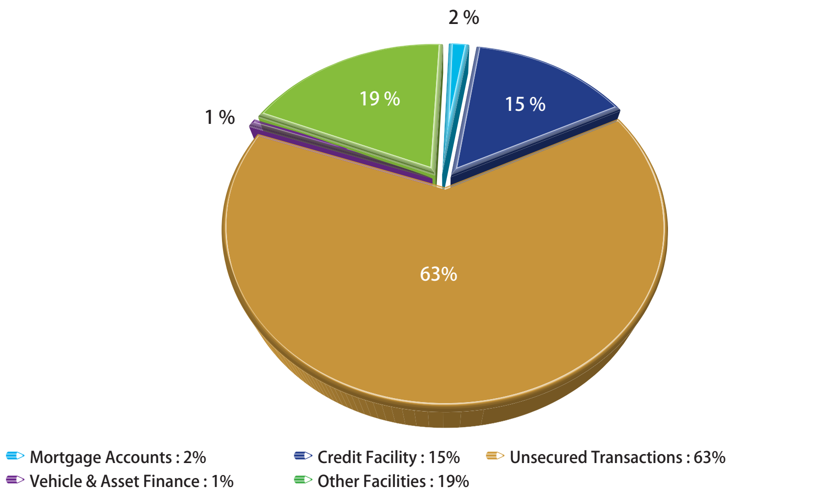
Banks' and MFIs' credit inquiry hits grew by 148 percent and 163 percent in the year under review, indicating increasing appreciation of incorporating borrower credit history in lending decisions. Moreover, inquiries per person grew from 4.6 percent to 9.2 percent in the same period further highlighting the usability of borrower credit reports.

3.4.6 Credit Market Breakdown by Product Type

A wide spectrum of credit products allows borrowers to choose those that suit their needs while diversifying lenders' books at the same time. Credit providers reported 237,402 credit accounts to the credit bureau by the end of 2018. Of this, unsecured lending accounted for 61 percent followed by other loan facilities at 19 percent. Mortgage accounts and vehicle and asset accounts were the least sourced accounts at 2 percent and 1 percent respectively. Figure 2 below outlines the credit product weights as discussed.

Credit providers reported 237,402 credit accounts to the credit bureau by the end of 2018.

Figure 35 Share of Credit Accounts by Type



Source: Central Bank of Lesotho

3.4.7 Conclusion

Given the indication of prominence of high levels of indebtedness, there is need for the Central Bank and other stakeholders and partners to intensify the education and awareness campaigns in order address the demand side deficiencies.

On the supply side, enforcement should be carried in order to make sure that reckless lending without proper assessment of credit worthiness is curbed. As a result, more credit providers should use the credit information on the bureau as part of the assessment.

While credit providers use credit information on the one hand, on the other hand, the Bank and the credit bureau will expedite increasing coverage to include all credit providers and credit information for juristic persons.

The credit market was notably dominated by unsecured personal loans with higher costs than secured credit and this may present some credit risk on the market and indebtedness on consumers. As thus, increased diversification in the credit market is encouraged among lenders

3.5 FINANCIAL INCLUSION TECHNICAL ASSISTANCE PROGRAM IN LESOTHO

In July 2015 the Central Bank of Lesotho and the Government of Lesotho received a three years World Bank Technical Assistance on Financial Inclusion under the First Initiative Program. The objective of the program is to support the Lesotho Government and Central Bank of Lesotho (CBL) in expanding financial inclusion in Lesotho by strengthening and deepening the supply of financial services and establishing a consumer protection framework. The Program focuses on five main components:

- creating an appropriate legal, regulatory, and supervisory framework for microfinance institutions (MFIs) and Financial Cooperatives;
- strengthening legal, regulatory and supervisory capacity for cooperatives, and other non-bank financial institutions;
- creating a conducive environment for mobile money and agency banking;
- creating an adequate framework for financial consumer protection and improving financial capability/education; and
- strengthening partial credit guarantee schemes.

As at the end of 2017, considerable progress had been made on components i), ii) and iv). Under components i) and ii), a full assessment of the legal, regulatory and supervisory framework for MFIs and Financial Cooperatives was concluded through a Technical Note that was adopted. As a result of this assessment, the Financial Institutions (Deposit Taking and Credit Only MFIs) Regulations were amended and the draft amendments were presented to stakeholders and send to the Office of the Parliamentary Counsel. Under component iv), a diagnostics study on financial consumer protection was carried out and this also led to several legislations to be amended in order to beef them up with best international principles for financial consumer protection. The diagnostics study paved the way for development of the financial consumer protection framework which entails policy, robust supervisory instruments and tools, a standalone financial consumer protection law and a more effective institutional set-up ❑

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4

Lesotho Wire (LSW) is the only large value payment system that provides real time and intraday settlement of financial transactions on a continuous and gross basis.

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DEVELOPMENTS RELATED TO SUPERVISION

4.1 PERFORMANCE OF PAYMENT SYSTEMS

4.1.1 Lesotho Wire

Lesotho Wire (LSW), is the only large value payment system that provides real time and intraday settlement of financial transactions on a continuous and gross basis. This system has five participants comprising of the four commercial banks in Lesotho and the Banking Division of the Central Bank of Lesotho (CBL). Since its launch in 2006, LSW system remained the backbone of the payment and settlement system in Lesotho. In 2018, LSW settled a total of 25,880 transactions valued at M51.46 billion compared to a total of 29,968 transactions worth M43.05 billion settled in 2017. This represents growth rates of 15.08 per cent and 16.4 per cent in terms of transaction volumes and values, respectively from the preceding year. The growth in LSW transaction volumes and values in 2018 was among others driven by huge interbank transfers and operational challenges related to issuing of cheques by the government, which led to payment of transactions through LSW.

As part of its transactions, LSW system also settles transactions related to the purchase and sale of trading of Treasury bills and Treasury bonds. The trading of these government securities is usually initiated from the Central Securities Depository (CSD) system at the Central Bank of Lesotho. In 2018, LSW system settled a total of 9,213 government securities' transactions valued at M3.59 billion compared to 8,243 transactions worth M2.50 billion settled in the preceding year. This represents growth rates of 12 per cent and 44 per cent in terms of transaction volumes and values, respectively, from 2017. The growth in transaction volumes and values related to the sale of government securities in 2018 was largely on account of huge treasury bills auctions (in terms of the value of the auctioned amount) that took place during the year and the growing number of bids received in the year.

In terms of system availability, LSW maintained an average system uptime of 99.64 per cent in 2018, a similar system uptime was achieved in the 2017. Therefore, the system operated smoothly and remained available to settle all large value and time-critical payments in 2018. This provided a conducive environment for efficient circulation of funds, conduct of monetary policy, supported monetary and financial stability and consequently supported overall economic activities in the country.

4.1.2 Lesotho Automated Clearing House (LACH

The LACH hosts both cheques and Electronic Funds Transfers (EFTs) clearing systems, and it is operated by the Payment Association of Lesotho (PAL). It also has five participants consisting of the four commercial banks and the Banking Division of the Central Bank of Lesotho. In 2018, the cheque clearing system processed a total of 56,901 transactions valued at M826.17 million compared to 60,355 transaction valued at M881.53 million cleared in 2017. This represents the rates of decline of 5.72 per cent and 6.28 per cent in terms of transaction volumes and values, respectively, from 2017.On the other hand, EFT system cleared a total of about 666,541

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In 2018, LSW settled a total of 25,880 transactions valued at M51.46 billion compared to a total of 29,968 transactions worth M43.05 billion settled in 2017.

transactions valued at M5.32 billion compared to 557,916 transactions to the tune of M4.42 billion cleared in 2017. This represents growth rates of 19.47 per cent and 20.26 per cent in terms of transaction volumes and values, respectively, from 2017. The decline in cheque usage and the growth in EFT usage over time is in line with the shift by consumers towards electronic payments methods (such as EFT), which are efficient and safe in processing of payments.

4.1.3 South African Development Community Real Time Gross Settlement (SADC- RTGS)

In the year 2018, the regional transaction volumes and values settled by SADC-RTGS system marginally increased. In particular, the SADC-RTGS system settled a total of 348,600 regional transactions worth M1.27 Trillion in 2018 compared to a total of 314,705 regional transactions valued at M1.24 Trillion settled in 2017. This constitutes growth rates of 10.77 per cent and 2.47 per cent in terms of transaction volumes and values, respectively, between 2017 and 2018. The observed growth in transaction volumes and values was driven by economic activities in the region owing to growing trade among the countries in the region.

In line with an observed upward trends in SADC-RTGS system transactions, the domestic transactions volumes and values settled by the SADC-RTGS system also grew between 2017 and 2018. The system settled a total of 50,977 local transactions valued at M122.71 billion in 2018 compared to 45,075 domestic transactions to the tune of M104.25 billion settled in the previous year. On the one hand, this represents a growth rate of 13.09 per cent in terms of transaction volumes from 2017. On the other hand, it constitutes a rate of decline of 17.71 per cent from the same year. The volume and values of domestic transactions settled by SADC-RTGS system were mainly driven by Standard Lesotho Bank (SLB) as the largest bank in Lesotho in terms of market share.

4.2 DEPOSIT PROTECTION

During the year under review the Bank continued with efforts for establishing a Deposit Insurance System (DIS) that will protect the depositors in the event of a bank failure. The main focus was on the review of both the proposed Blueprint for the establishment of the system and the proposed Legal Framework following the assessment for compliance with International Association of Deposit Insurers (IADI) Core Principles for Effective Deposit Insurance Systems. Following the compliance assessment, several areas appear not to be in line with the international best practice and, therefore, required reviewing both the proposed Blueprint and the proposed Legal Framework. While most of the areas such as the envisaged funding for the system, depositor reimbursement, depositor coverage level etc, were reviewed, others would be considered over time since they affect various relevant structures, some of which are outside the control of the Bank.

DEVELOPMENTS RELATED TO SUPERVISION

4.3 BASEL II.5 MIGRATION

In 2018, the CBL continued with migration process. Two pillar 1 guidelines, namely credit, and operational risks were drafted and shared with the industry for comments. This was in addition to Pillar 2 and 3 guidelines that were shared with the market for validation in 2017 and subsequently finalised. The other pillar 1 guideline regarding market risk would be finalized by June 2019 and shared with the industry as part of the consultative process in preparation for full migration. Furthermore, aspects of pilot implementation, comprising submission of ICAAP, Stress testing and Basic disclosure requirements were received from the four banks licensed in Lesotho. The submissions were analysed and feedback was provided to the banks with recommendations on areas of improvement for each bank.

Upon completion of the development of guidelines, the CBL shall embark on development of legal and regulatory framework that comprises solicitation of industry comments on new legislation that support the Basel II.5 standards. In the meantime, a review of the current reporting templates and identification of areas of adjustments is on-going and the process shall culminate in development of new reporting templates. The parallel run approach adopted by the CBL was intended to ensure smooth transition to Basel II.5 standards and to enable banks to streamline systems and strategies. To this end, a strategy of an adjustment path for each bank towards full compliance through bilateral consultations was developed. The adjustment path also calibrates risk weights to the local environment and the phase will mark final implementation of the Basel II.5 standards and subsequent closure of the migration project.

4.4 STRATEGY MANAGEMENT

Supervision of the financial sector remains instrumental towards attainment of the Bank's mission to achieve and maintain monetary and financial system stability to support balanced macroeconomic development in Lesotho. The Banks strives to align its supervision regime with best practice and keeps itself abreast with regional and international developments.

In the Revised Strategic Plan 2019-2021, supervision of the financial sector will directly impact the following Corporate Strategic Objectives:

1) Strategic Objective 1: Improve Financial and Price Stability
2) Strategic Objective 2: Improve Financial System Integrity
3) Strategic Objective 3: Improve Financial Inclusion & Financial Growth
4) Strategic Objective 4: Improve Stakeholder Confidence

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Appendices

APPENDICES

Appendix I	Audited Industry Balance Sheet as at the Dates Indicated (M`000)							
BALANCE SHEET	2011	2012	2013	2014	2015	2016	2017	2018
TOTAL ASSETS	**8,373,136**	**8,472,376**	**11,441,254**	**12,295,054**	**13,926,566**	**13,201,813**	**16,074,849**	**17,411,287**
Cash and Cash Items	261,996	351,431	426,976	387,871	564,886	613,960	747,067	762,106
Balances with CBL	162,043	174,311	447,963	549,673	374,398	445,400	397,372	337,114
Balances with local banks	965,562	903,599	1,780,323	2,163,450	2,307,861	2,138,905	2,196,629	1,695,041
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	4,782,533
Marketable securities	718,913	839,216	666,030	612,183	750,200	756,951	1,003,304	1,691,100
Other investments	1,112,531	532,188	1,063,519	627,325	654,354	241,703	930,077	562,492
Loans and advances	2,559,526	3,588,483	4,375,961	4,907,856	5,265,522	5,403,718	5,804,732	6,523,182
Fixed Assets	146,361	144,577	175,394	211,284	265,665	324,867	697,537	650,350
Other Assets	104,101	108,245	172,605	245,223	215,474	290,753	406,736	407,369
TOTAL LIABILITIES	**7,565,468**	**7,535,848**	**10,347,048**	**10,985,499**	**12,461,502**	**11,515,455**	**14,013,566**	**15,267,829**
Deposits	5,777,309	6,087,825	7,822,771	8,213,781	9,352,181	8,796,049	11,060,237	11,710,064
Due to Local Banks	1,097,954	992,324	1,864,779	2,156,610	2,325,171	2,009,065	2,002,976	2,660,231
Due to Foreign Banks	178,138	49,674	313,361	197,786	249,352	225,095	355,442	141,962
Other Borrowings	0	0	0	0	50,417	50,981	50,965	50,998
Other Liabilities	512,067	406,025	346,137	417,322	484,381	434,266	543,946	704,574
TOTAL CAPITAL	**807,671**	**936,527**	**1,094,205**	**1,309,555**	**1,465,063**	**1,686,361**	**2,061,281**	**2,143,452**
Paid-up Capital	88,858	98,858	108,858	108,858	123,358	125,858	125,858	125,858
Statutory Reserve	125,909	120,625	124,919	124,059	131,777	194,331	185,876	189,106
Revaluation Reserves	13,975	13,975	13,975	16,261	24,740	23,211	26,162	20,374
Other Reserves	11,711	26,775	12,070	19,903	12,074	13,628	60,803	2,240
Retained Earnings	558,649	669,740	810,813	1,019,916	1,155,039	1,299,873	1,362,992	1,721,756
Profit/ loss for the year to date	243,054	272,382	356,919	397,870	423,949	461,415	340,795	454,209

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APPENDICES

Appendix 2	Audited Industry Income Statement (M`000)							
	2011	2012	2013	2014	2015	2016	2017	2018
TOTAL INCOME	**779,079**	**937,818**	**1,196,139**	**1,300,320**	**1,439,500**	**1,596,248**	**1,687,750**	**1,884,563**
Interest Income-Loans	216,056	354,706	519,024	560,308	711,899	817,655	952,771	1,002,221
Interest Income-Placements	277,283	223,323	230,404	358,880	397,896	485,133	409,325	598,016
i) Foreign Placements	**142,323**	**169,348**	**144,646**	**207,677**	**212,271**	**248,609**	**198,571**	**150,349**
ii) Domestic Placements	**196,741**	**112,410**	**85,759**	**151,203**	**185,626**	**236,524**	**210,755**	**288,612**
Interest Income - Securities	110,940	110,905	122,176	157,164	57,934	61,674	62,690	82,091
Total Interest Income	604,279	688,934	871,604	1,076,352	1,167,729	1,364,462	1,424,786	1,682,328
Interest Expense	182,689	171,576	207,659	330,943	346,249	433,950	417,099	521,483
Net Interest Income	421,590	517,358	663,945	745,409	821,480	930,512	1,007,687	1,160,845
Fees and Commission Income	288,043	345,598	451,125	475,642	520,386	574,645	601,250	613,444
Forex Gains/Losses	51,810	60,655	59,049	65,699	79,523	60,737	51,477	69,662
Income on Equity Investment	0	0	0	0	0	510	199	638
Other Income	7,394	4,879	9,822	9,916	14,822	26,463	20,158	28,365
Grants	10,242	9,328	12,198	3,654	3,289	3,381	6,979	11,609
Non-interest Income	357,489	420,460	532,194	554,911	618,020	665,736	680,063	723,718
TOTAL EXPENSES	**448,684**	**565,995**	**701,571**	**756,673**	**858,974**	**957,596**	**1,193,497**	**1,219,679**
Staff Salaries and Benefits	218,733	222,110	275,201	306,336	350,179	398,896	432,995	463,283
Management/Directors Fees	49,294	119,209	88,122	96,164	112,558	117,250	163,647	158,200
Auditors/Consultants Fees	3,105	3,359	4,478	4,979	5,596	6,006	6,855	15,025
Provision for Bad Debts	17,318	50,011	65,685	81,805	97,947	95,919	103,802	84,706
Bad-Debts Write-offs/ Irrevocable losses	0	0	0	0	0	9,917	51,613	0
Depreciation	29,514	31,693	40,787	41,200	41,307	47,795	53,998	86,379
Other operating expenses	130,720	139,613	227,298	226,189	251,387	281,813	380,587	412,086
Operating income/loss	330,395	371,823	494,568	543,647	580,526	638,652	494,253	638,703
Income/Loss before Taxation	330,395	371,823	494,568	543,647	580,526	638,652	494,253	638,703
Taxation	87,341	99,441	137,649	145,777	156,578	177,236	153,458	187,594
Net income after Taxation	243,054	272,382	356,919	397,870	423,948	461,416	340,795	451,109

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Appendix 3 (a)	Short Term Insurance Sector Balance Sheet (Assets)		
Particulars	2018	2017	Change
	M' 000	M' 000	
ASSETS			
Fixed Assets	5,309	3,976	33.52%
Long-Term Investments	47,143	55,439	-14.96%
Loans to related parties	21,662	20,140	7.56%
Deferred tax	4,245	306	1287.39%
Deferred finance charges			
Net Earned Income			
Goodwill			
Current Assets			
Bank and Cash	3,843	4,282	-10.25%
Short-term investments	229,204	210,031	9.13%
Debtors	(2,156)	4,008	-153.80%
Outstanding premiums	42,208	40,701	3.70%
Inter-company borrowings	180	0	
Amounts due from Reinsurers	61,517	10,732	473.22%
Reinsurers' share of unearned premium	14,484	63,213	-77.09%
Prepaid Expenses		10,084	
Total Current Assets	349,280	343,051	1.82%
Total Assets	**427,639**	**422,912**	**1.12%**

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Appendix 3 (b)	Short Term Insurance Sector Balance Sheet (Liabilities)		
Particulars	2018	2017	Change
	M' 000	M' 000	
EQUITY AND LIABILITIES			
Share Capital	25,714	17,250	49.07%
Share Premium	11,000	19,464	-43.49%
Accumulated Profit	78,769	69,571	13.22%
Total shareholders' Funds	115,483	106,285	8.65%
Non-current Liabilities			
Borrowings	-	-	
Amounts due to related parties	-	-	
Total non-Current Liabilities	-	-	
Technical Provisions			
Insurance Fund		7,140	
Outstanding claims Provision	141,904	147,066	-3.51%
Unearned Premium Provision	101,554	82,283	23.42%
Other underwriting Provisions (Reinsurance Premiums)	45,009	20,177	123.08%
IBNR	-	21,706	
Unexpired risk reserve	-	1,290	
Cash Collaterals on Bonds	5,939	0	
Total Technical Provisions	**294,406**	**279,662**	**5.27%**
Provisions for Taxation	2,330	681	242.14%
Provision for Doubtful Debts	-	4,765	
Creditors	15,101	28,617	-47.23%
Government Stamp duty	-	179	
Employees Tax & Salaries Control	319	1	28900.00%
Total Current Assets	349,280	343,051	1.82%
Inter-Divisional Current Account	-	2,565	
Contingent liabilities	-	158	
Total Current Liabilities	17,750	36,966	-51.98%
Total Capital, Reserves and Liabilities	**427,639**	**422,913**	**1.12%**

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Appendix 4	Short Term Insurance Sector Underwriting Statement		
Particulars	2018	2017	Change
	M' 000	M' 000	
Gross Premium	408,899	365,855	11.77%
Reinsurance Premium	218,531	199,318	9.64%
Net Premium	**190,368**	**166,537**	**14.31%**
Commission Income	47,814	42,415	12.73%
Other underwriting income	-	55	
Net Earned Income	**238,182**	**209,007**	**13.96%**
Claims Incurred	95,048	126,107	-24.63%
Less Reinsurance share	-	25,715	
Net claims incurred	**95,048**	**100,392**	**-5.32%**
Commissions Expenses	56,203	51,912	8.27%
Management Expenses	79,195	63,902	23.93%
Change in IBNR	852	473	80.06%
Change in unearned premiums	1,225	2,329	-47.41%
Underwriting Expenses	**231,298**	**219,008**	**5.61%**
Underwriting Gains/Loss	**5,658**	**(10,001)**	**-156.58%**
Investment Income	19,081	21,649	-11.86%
Other income	5,939	2,804	111.79%
Operating Profit	**30,678**	**14,452**	**112.27%**
Other Expenses	(341)	10,297	-103.31%
Profit Before Taxation	**31,018**	**4,156**	**646.38%**

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Appendix 5	Short Term Insurance Sector Financial Soundness Indicators			
RATIO	CALCULATION	2018	2017	CHANGE %
Operational Results				
Claims Ratio	*Claims Incurred* / *Net Earned Premiums*	49.93%	60.28%	-10.35%
Expense Ratio	*Commission + Management Expenses* / *Net Earned Premiums*	71.12%	69.54%	1.58%
Combined Ratio	*Claims Ratio + Expenses Ratio*	121.05%	129.82%	-8.77%
Commission Ratio	*Commission Expenses* / *Net Earned Premiums*	29.52%	31.17%	-1.65%
Retention Ratio	*Net Written Premiums* / *Gross Written Premiums*	46.56%	45.52%	1.04%
Change in Gross Written Premiums	*Gross Written Prem.{t} - Gross Written Prem.{t-1}* / *Gross written Prem.{t-1}*	11.77%	3.30%	8.47%
Investment Yield	*Investment Income* / *Investment Assets + Cash*	6.81%	8.03%	-1.22%
Return on Average Equity	*Profit Before Taxation{t}* / *½ [Capital+Surplus{t-1} + Capital+Surplus {t}]*	6.99%	0.90%	6.09%
Financial Position				
Proportion of Investments Assets	*Investments Assets* / *Total Assets*	64.62%	62.77%	1.85%
Technical Reserves to Total Liabilities	*Technical Reserves* / *Total Liabilities*	94.31%	88.33%	5.99%
Technical Reserves to Equity	*Technical Reserves* / *Capital + Surplus*	254.93%	263.12%	-8.19%
Premiums Receivable Cover	*Outstanding Premiums* / *Capital + Surplus*	36.55%	38.29%	-1.75%
Technical Reserves Cover	*Liquid Assets* / *Technical Reserves*	79.16%	76.63%	2.53%
Insurance Debt	*Insurance Receivables{Rein.,Interm.,Polyhold.}* / *Capital + Surplus*	89.82%	48.39%	41.43%
Affiliates Ratio	*Receivables{Affiliates} + Invest. in Related Parties* / *Capital + Surplus*	18.91%	18.95%	-0.04%
Net Premiums to Equity	Net Written Premiums / Capital + Surplus	164.84%	156.69%	8.15%

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Appendix 6 (a)	Long Term Insurance Sector Balance Sheet (Assets)		
Particulars	2018	2017	Change (%)
	M' 000	M' 000	
ASSETS			
Fixed Assets	56,761	42,017	35.09%
Long Term Investments	441,537	1,910,979	-76.89%
Loans to policy holders	189,433	176,276	7.46%
Investment in subsidiaries	90,538	68,860	31.48%
Loans to subsidiary companies	115,971	79,479	45.91%
Investment properties	103,705	85,929	20.69%
Other assets	296,394	263,527	12.47%
Total Non-Current Assets	**1,294,337**	**2,627,066**	**-50.73%**
Current Assets			
Bank and Cash	329,473	242,231	36.02%
Short Term Investments	2,348,468	1,190,549	97.26%
Amounts due from reinsurers	7,674	6,345	20.95%
Outstanding Premium	163,869	178,342	-8.12%
Intercompany accounts	16,151	18,314	-11.81%
Amounts due from related parties	16,560	20,925	-20.86%
Prepaid tax	7,709	-	
Debtors	167,397	177,490	-5.69%
Other Current Assets	1,539,378	1,137,779	
Total Current Assets	**4,596,679**	**2,951,050**	**55.76%**
Total Assets	**5,891,017**	**5,578,116**	**5.61%**

Appendix 6 (b)	Long Term Insurance Sector Balance Sheet (Liabilities)		
Particulars	2018	2017	Change (%)
	M' 000	M' 000	
LIABILITIES			
Share Capital and Share Premium	173,722	159,787	8.72%
Accumulated Profit and Retained Income	1,062,748	976,414	8.84%
Other reserves	3,021	3,007	0.47%
Total Shareholders' Funds	**1,239,491**	**1,139,208**	**8.80%**
Non-Current Liabilities			
Borrowings	-	-	
Total Non-Current Liabilities	-	-	
Policy holders funds			
Long-term insurance contracts	2,286,397	2,123,927	7.65%
Financial instrument-Discr participation	1,316,117	1,237,755	6.33%
Designated at fair value through income	-	71,594	
Employee benefits (provident fund)	130,014	117,244	10.89%
Assurance Fund	258,315	229,081	12.76%
Total policy holders funds	**3,990,843**	**3,779,601**	**5.59%**
Technical Provisions			
Outstanding Claims provision	150,738	137,639	9.52%
Unearned Premium provision	33,803	50,486	-33.04%
Other Underwriting and Premium provision	11,324	4,624	144.90%
Total Technical Provisions	**195,865**	**192,749**	**1.62%**
Amount due to related Parties	17,335	17,777	-2.49%
Overdrafts	-	-	
Contingent liabilities	10,228	5,727	78.59%
Creditors	149,262	163,214	-8.55%
Provision for tax	-	2,429	
Other current Liabilities	287,993	257,884	11.68%
Total Current Liabilities	**464,818**	**447,031**	**3.98%**
Total Equity, Reserves and Liabilities	**5,891,017**	**5,578,116**	**5.61%**

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Appendix 7	Long Term Insurance Sector Underwriting Statement		
Particulars	2018	2017	Change (%)
	M' 000	M' 000	
Gross Premiums	1,324,860	1,095,211	20.97%
Premiums Ceded	56,544	44,537	26.96%
Net Premiums	**1,268,316**	**1,050,674**	**20.71%**
Reinsurance Commission Income	551	391	40.92%
Net Earned Income	**1,268,867**	**1,051,065**	**20.72%**
Claims Incurred	638,157	566,582	12.63%
Commission Expenses	154,414	148,170	4.21%
Management Expenses	237,072	252,311	-6.04%
Surrender and maturities	292	20,900	-98.60%
Insurance Fund Expenses	44,037	-	
Underwriting Expenses	**1,073,973**	**987,963**	**8.71%**
Underwriting Gains /(Loss)	194,893	63,102	208.85%
Investment Income	257,181	440,478	-41.61%
Other Income (admin fees)	-257,247	34,191	-852.38%
Operating Profit	**194,827**	**537,771**	**-63.77%**
Other Expenses	11,860	282,337	-95.80%
Profit Before Taxation	**182,966**	**255,434**	**-28.37%**

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Appendix 8	Long Term Insurance Sector Financial Soundness Indicators			
Categories	Indicator	2018	2017	Change (%)
Capital Adequacy	*Shareholders' Funds[t]* / *Total Liabilities - Shareholders' Funds[t]*	26.65%	25.66%	0.98%
Capital Technical Provision	*Capital* / *Techical Provision*	632.83%	591.03%	41.80%
Receivables Turnover Ratio	*Receivables* / *Total Assets*	6.31%	7.20%	-0.89%
Receivables to Premiums Ratio	*Receivables* / *Gross Premiums*	28.05%	36.65%	-8.60%
Proportion of Investment Assets	*Total Investments* / *Total Assets*	47.36%	55.60%	-8.24%
Shareholders' Funds to Total Assets	*Shareholders' Funds* / *Total Assets*	21.04%	20.42%	0.62%
Risk Retention Ratio	*Net Premiums* / *Gross Premiums*	95.73%	95.93%	-0.20%
Acturial liability	*Claims Incurred* / *Outstanding Claims Provision*	423.36%	411.64%	11.71%
Management Soundness	*Commission + Management + Other Operating Expenses* / *Gross Premiums*	30.44%	62.35%	-31.90%
Expense Ratio	*Commission Expense + Management Expense* / *Net Premiums*	30.87%	38.12%	-7.25%
Loss Ratio	*Net Claims* / *Net Premiums*	50.32%	53.93%	-3.61%
Combined ratio	*Expense Ratio + Loss Ratio*	81.18%	92.04%	-10.86%
Return on Average Equity	*Profit before Taxation[t]* / *½ (Shareholders Funds[t-1] + Shareholder Funds [t])*	15.38%	17.00%	-1.62%
Investment Yield	*Investment Income* / *Investment Assets + Cash*	8.24%	13.17%	-4.93%
Investment Income Ratio	*Investment Income* / *Net Premium*	20.28%	41.92%	-21.65%
Current Ratio	*Current Assets* / *Current Liabilities*	988.92%	660.14%	328.78%
Loans to related Parties	Loans to related Parties / Total Assets	2.52%	2.13%	0.40%

Appendix 9	List Of Licenced Banks		
Institution	Chief Executive Officer / Managing Director	Physical & Postal Address	Contacts
Standard Lesotho Bank Ltd	Mr. Mpho Vumbukani	Head Office Kingsway Street, P. O. Box 1053, Maseru 100	(+266)22315737
Nedbank (Lesotho) Ltd	Mr. Nkau Matete	Head Office Kingsway Street, P. O. Box 1001, Maseru100	(+266)22312696
First National Bank of Lesotho	Mr. Bradwin Roper	Head Office Kingsway Street, P.O.Box 11902, Maseru 100	(+266)22247100
Lesotho Post Bank	Mr. Molefi Leqhaoe	Post Office Building, P/B A121, Maseru 100	(+266)22317832

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Appendix 10	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.	Transafrica Life Insurance Company Limited	Long-term Insurance(Funeral)
6.	Liberty Life Lesotho Limited	Long-term Insurance (All categories of life insurance products)
7.	Lesotho National General Insurance (LNGIC)	Short-term Insurance (All categories of general insurance products)
8.	Zenith Horizon Insurance Company	Short-term Insurance (All Categories of general insurance products)
9.	Specialised Insurance Company	Short-term Insurance (All Categories of general insurance products)

Appendix 11	List of Licensed Insurance Brokers		
Principal Officer	Physical Address	Company Name	Email & Contacts
Mr. Reentseng Mokotjela	Tradorette Building Room16 Maseru 100	Guardrisk Insurance Brokers (Pty) Ltd	lekunyajane@gmail.com info@guardrisk.co.ls 2832 7989 / 5022 3825
Mrs 'Maelisa Leiee	LNDC Center Room 212 Maseru 100	Active Insurance Brokers (Pty) Ltd	maelisapitso@yahoo.com 6324 8940
Mrs. Doreen Masilo	New Development House Block B Maseru 100	DBM Insurance Brokers (Pty) Ltd	dbrownmasilo@yahoo.com 2878 5265/5978 2760
Mrs. Popi Kaiser	Premium House, 224 Kingsway Road, Opposite American Embassy, Maseru 100	ClientCare Risk Consultants (Pty) Ltd	pkaiser@clientcare.co.ls 2232 1768 / 2832 5432
Mrs. 'Mamariete Khalema	Book Centre Building 1st Floor Kingsway Road Maseru 100	BMM Insurance Brokers (Pty) Ltd	info@bmminsure.co.ls 2232 7940/(1) /5885 4518
Mr. Garth Dixie	307c Cenez Road Maseru West	TIB Insurance Brokers (Pty) Ltd	info@tib.co.ls 2231 6556
Mr. Tšepo Ramaema	Happy Villa House No. 3A Maseru 100	Insurance Hub Brokers (Pty) Ltd	nfo@insurancehub. co.ls57484014/2231 6475
Mr. Michael Mohasi	LNDC Deveop. House Block D, Kingsway Road Maseru 100	Insurecare Brokers (Pty) Ltd	info@insurecare.co.ls 2232 1973/ 5251 0909
Mr. Serei Hlabana	House No. 40, Senqunyane Street. Lower Thetsane, Maseru 100	Exclusive Risk Solutions (Pty) Ltd	serei.h@gmail.com 2553/5858 5614
Mr. Motjope Mokhathi	Maseru Avani Suite 507 12 Orpen Road, Maseru 100	Thari (Pty) Ltd	motjopemokhathi@yahoo.co.uk info@tharimutual.com 2232 4297 / 5732 4425
Mrs. Ilza Venter	LNDC Development House Block B, Room 310 Maseru 100	Elite Insurance Brokers (Pty) Ltd	elite@elite-ls.com 2832 1054 / 5743 0605
Mr. Paseka Moletsane	Sechaba House 4 Bowker Road Maseru 100	Risk Managers (Pty) Ltd	frontoffice@riskmanagers.co.ls 2232 1898 / 5891 5607
Mrs. 'Matokelo Seturumane	1stFloor Options Building Pioneer Road Maseru 100	Thaba Bosiu Risk Solutions (Pty) Ltd	info@thaba-bosiu.co.ls 2231 3018 / 5250 0404(5)

Appendix 11	List of Licensed Insurance Brokers (continued)		
Principal Officer	Physical Address	Company Name	Email & Contacts
Mrs. 'Matokelo Thamae	Mapetla House,Room G4 Kingsway Road Maseru 100	Thamotha Insurance Brokers (Pty) Ltd	thamothainc@gmail.com 5878 9268 / 2832 4655
Mrs. 'Matsoloane Mahlaha	Christie House Ground Floor Maseru 100	Roseland (PTY) Ltd	2232 6156
Mr. Francois Cronje	MGC Office Park,, Ground Floor, Kofi Annan Road, Maseru 100	Kepler Risk (Pty) Ltd	francois@kepler.africa 2232 0837/85916 0643
Mrs. 'Mamohapi Samuel	Christian Council of Lesotho Building, Maseru 100	P & L Insurance Brokers (Pty) Ltd	lfoulo@yahoo.co.uk 5767 4403 / 2700 4403
Mrs. 'Manthatisi Pata	Metcash Building Room 1396, Maseru 100	Equiways (Pty) Ltd	equiwaysins@gmail.com 5908 8372 / 5871 2412
Mrs. 'Maamohelang Letsei	Husteds Building Room 16 Maseru 100	Classic Ledgends Brokers (Pty) Ltd	maamohelangletsei@yahoo.com 5845 0771 / 6300 1064
Mrs. Tebello Motuba	Victoria Hotel Office Block Room 119 Maseru 100	Silverbridge Insurance Brokers (Pty) Ltd	insurancebrokers@silverbridge.co.ls 4957/5791 7525
Mrs. 'Malebohang Lehana	1st Floor ,Thola Tu Complex Maseru 100	Assurance Insurance Brokers (Pty) Ltd	mmlehana@yahoo.com 5857 7728 / 5885 8949
Mrs. 'Mamosa Molapo	Lisemeng 1, Opposite Shoprite Hlotse, Leribe 300	MH Insurance Brokers (Pty) Ltd	2240 0113 / 5812 7918
Mr. Malonga Mokhele	Oblite Building Behind Maseru Book Shop, Maseru 100	Mokhele Insurance Brokers (Pty) Ltd	mokhele.insure@gmail.com 2232 1964 / 5875 3977
Mrs. 'Malineo 'Monahali	Thola Tu Building Kingsway Maseru 100	Explicit Brokers (Pty) Ltd	monahali.explicit@yahoo.com 5885 6438 / 6285 6438
Mr. Tsola Malebanye	Qoaling, Ha Seoli Pela Moreneng, Maseru 100	Green Point Brokers (Pty) Ltd	5899 7215 / 6342 9387
Mr. Serame Sebolai	Oblate Building First Floor Maseru 100	CS Brokers (Pty) Ltd	csbrokers@ecoweb.co.ls 5885 3263
Mr. Lenka Malefane	Carlton Centre, First Floor, Room 110, Kingsway Road Maseru 100	Elarem Insurance Brokers (Pty) Ltd	info@elarem.co.ls 2232 4607/6200 2100/5804 0810
Matholo Setilo	Hospital Area Pela LPPA Mafeteng 900	Setha Insurance Brokers (Pty) Ltd	msetilo@yahoo.com 2270 1203 / 6307 4712
Mrs. Mapotsane Matsoso	Tlelai Building Room 14, Cathedral Area Maseru 100	Mahlaseli Insurance Brokers (Pty) Ltd	2231 4807 / 6304 5581
Mr. Mashape Mosala	Maseru Book Centre Room18 Kingsway Road Maseru 100	Mosala Insurance Brokers (Pty) Ltd	Mcmosala71@gmail.com 6299 7175
Mr. Retšilisitsoe Leboela	MINET House, 4 Bowker Road, Maseru	Minet Lesotho (Pty) Ltd	retsilisitsoe.leboela@minet.co.ls
Mrs. Theresa Mosenye	Husteds Building Room 12 Kingsway, Maseru 100	Ideal Insurance Brokers (Pty) Ltd	idealinsurance@ecoweb.co.ls 2232 2924
Mrs. 'Matumane Semoli	Ha Lekhobanyane Pela Lehae la Maqheku, Mazenod	Bright Point Insurance Brokers (Pty) Ltd	matumanesemoli@gmail.com 5892 9308
Mrs. 'Marorisang Lepheane	Fourth Floor Christie House Orpen Road Maseru 100	Brokersure Insurance Brokers (Pty) Ltd	2232 3689 / 5884 2863
Mrs. 'Mamokete Mokete	3rd Floor, LNDC Office Block Kingsway Road, Maseru 100	Urban Life Insurance Brokers (Pty) Ltd	rosemokete@gmail.com 2835 0959 / 58853270

Appendix 11	List of Licensed Insurance Brokers (continued)		
Principal Officer	Physical Address	Company Name	Email & Contacts
Mrs. 'Masenate Monyaka	Thula Tu Complex 32, 1st Floor, Unit No 11, Maseru, Lesotho	T&S Insurance Brokers (Pty) Ltd	6307 9850 / 5632 7118
Mrs. Pontšo Matumelo Kou	Thula Tu Complex 32, First Floor, Unit No. 11 Maseru 100	Thari-Ea-Tsepe Insurance Brokers (Pty) Ltd	ponino6yahoo.com 2231 3206 / 6312 4604
Mr. Bokang Koro	Monaphathi Building First floor Opp. Oxford Building Maseru 100	Corner Stone Insurance Brokers (Pty) Ltd	2700 7126 / 6215 7126
Mrs Charmaine Heymans	Alliance House First Floor 4 Bowker Road, Maseru 100	Hamilton Solutions Short Term Brokers (Pty) Ltd	5986 8000 / +27 86 203 1329
Mr. Reentseng Thathasela	Bedco Building, Mafoso Street Mohales Hoek 800	Thathy Insurance Brokers (Pty) Ltd	t.thathy@yahoo.com 2701 9877 / 6201 9877
Mrs. 'Mapaseka Mphole	Carlton Center Building Maseru 100	Leseling Insurance Brokers (Pty) Ltd	5886 9333
Mr. Teboho Maqeba	Post Office Building Mafeteng 900	Metromaq Insurance Brokers (Pty) Ltd	2870 2783 / 5872 5297
Mr. Ntopa Chelete	Airport Road, Matekane Building Thaba-Tseka 550	Chelete Brokers (Pty) Ltd	ntopachelete@yahoo.com 5615 8485 / 6302 7551
Mr. Leqhaoe Thabane	Maseru 100	Pula National Insurance Brokers	thabaneleqhaoe@gmail.com 2232 4620 / 6300 7462
Mrs. 'Makhotso Seutloeli	Oblate House Kingsway Road, Maseru 100	Khotso Insurance Brokers (Pty) Ltd	agnesseutloeli@gmail.com 5886 6191
Mrs. Montšeng Phakoana	Kingsway Mall Second Floor Kingsway Road, Maseru 100	Mots Insurance Brokers & CO (Pty) Ltd	mots@tlmail.co.ls 2231 0011 / 5662 1127
Mrs. 'Mabokang Nthatisi Phantši	LNDC Development House, Block C, Third Floor, Maseru 100	Legend Insurance Brokers (Pty) Ltd	nthatisiphantsi@gmail.com 5957 8525
Mr. Vincent Tšosane	Metropolitan Business Suite Industrial Area	Target Insurance Brokers (Pty) Ltd	tsosanev@yahoo.com 6300 3004 / 5888 3004
Mr. Monaheng Mohlabana	Maseru Mall Suite No. 35 Maseru 100	Brothers in Arms Insurance Brokers (Pty) Ltd	brothersinarms@ecoweb.co.ls 2700 3464 / 5885 3464
Mrs. 'Maphomolo Seele	LNDC Block B Level 5, Room 503	JM Insurance Brokers (Pty) Ltd	jminsurance38@gmail.com 6286 0156 / 5886 0156
Mr. Malefane Mphana	Kingsway Complex Kingsway, Road Maseru 100	Maluti Risk Solutions (Pty) Ltd	mphanamalefane@gmail.com 5885 8113 / 6310 5800

APPENDICES

Appendix 12	List of Licensed Micro-Finance Institutions		
Name of Institution	Name of Ceo Or MD	Physical & Postal Address	Contacts
Letshego Financial Services Limited	Lebakeng Tigeli	Old Maseru Toyota Building, P.O. Box 13670, Maseru 100	(+266) 22031017
Unlimited Financial Services Ltd	Mr. Alex Mpharoane	Nthane Estate Building, One way Traffic Road, Teyateyaneng, Berea	(+266) 59021558
Thusano Financial Solutions Ltd	Mr. Moeti Sehloho	Ha Mafafa, P.O. Box 14845, Maseru 100	(+266) 58850056/ 58750056
Blessings Financial Services Limited	Mrs. 'Mamakamane Makamane	Metcash Complex, Room 144, Kingsway, P.O. Box 12045, Maseru 100	(+266) 28330004
MM Financial Loans Ltd	Mr. Nthole Mojapela	Tredoritte, Kingsway, Maseru. P.O. Box 901, Butha-Buthe 400	(+266) 59191336/ 68436336
Myloan Limited	Mr. Tjale Maila	Holy Trinity Anglican Church, Upper Moyeni, P.O. Box 3, Quthing 700	(+266) 53797734
Zecho Financial Services Ltd	Mr. Mobutu Phera	TEBA Building, Moshoeshoe Road, Maseru, P.O. Box 3, Khukhune 452	(+266) 62004599
MEL Finance Ltd	Mr. Mpho Leqela	Tlelai Building, Cathedral Area, P.O. Box 7374, Maseru 100	(+266) 58749425/ 68085972
Mabusane Finance Ltd	Mrs. 'Maselone Mabusane	Mabusane residence, Maoeng, P.O. Box 537, Butha-Buthe 400	(+266) 59490362/ 63276290
Thusong Financial Services Limited	Mr. Montoetsane Nchai	1st Floor Husteds Building Maseru	(+266) 58129479
Mosala Financial Services Ltd	Mr. Mashape Mosala	Sir Seretse Khama Road, Seaba Building, Maputsoe	(+266) 62997175
Loyal Financial Services Ltd	Mrs. Matsepo Linakane	Epic Printer, Industrial Area, P.O. Box 10712, Maseru 100	(+266) 22328961/ 57178289
Isaac Holdings Ltd	Mr. Toporo Molelemgoane	Aboobake Properties, P.O. Box 1565, Maputsoe 350	(+266) 62184763
Trust Financial Services Ltd	Mr. Molete Pheko	Southline Offices, Ha Tikoe, Maseru, P.O. Box 14114, Maseru 100	(+266) 58842444
Roby Financial Services Ltd	Mr. Molahlehi Ntau	Lecoop Next to Clinic, Kubetsoana, Maseru, P.O. Box 10754, Maseru 100	(+266) 58880333/ 58832266
Alimela Thuto Financial Services Limited	Mrs. 'Mamonyake Mokebe	Hopolang Building, Corner Airport & Parliament Roads, P.O. Box 1932, Maseru 100	(+266) 22322403

APPENDICES

Appendix 13	List of Licensed Foreign Exchange & Money Transfer		
Name of Institution	Name of Chief Exeutitve or Managing Director	Physical & Postal Address	Contacts
Mukuru Bureau De Change (Pty) Ltd (Foreign Exchange & Money Transfer)	Andre Willem Ferreira	Room 4, 1st Floor Hopolang Building, Opposite BNP Centre, Maseru 100	(+27)878078310
Interchange (Pty) Ltd (Foreign Exchange & Money Transfer)	Maliponto Ramakatane	Pioneer Mall Shop UG 21, Corner Pioneer & Mpilo Roads, Maseru 100	(+266) 22324296

Appendix 14	List of Licensed Credit Bureaus		
Name of Institution	Name of Chief Exeutitve or Managing Director	Physical & Postal Address	Contacts
Compuscan Lesotho (Pty) Ltd	Mrs. 'Mannete Khotle	Makhoane Building, Moshoeshoe Road, Industrial Area, P.O. Box 1005, Maseru 100	(+266) 58912448

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Corner of Airport and Moshoeshoe Roads, Maseru Central | Phone: (+266) 22 314281 | www.centralbank.org.ls

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Central Bank of Lesotho
Corner Airport and Moshoeshoe Roads
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For quiries, enquiries and comments, please contact:
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Fax: (+266) 2231 0051
E-mail: info@centralbank.org.ls