2019 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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Foreword by the Governor

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FOREWORD BY THE GOVERNOR

As one of its mandate, the Central Bank of Lesotho continued to monitor developments in the financial sector to ensure safety and soundness. The banking industry remained sound and stable as reflected by good profits and strong capital positions. However, the industry continued to be challenged by credit risk, liquidity funding risk and compliance risk. Compliance risk, in particular remained elevated due to increased regulatory requirements, following the post 2007-2009 crisis reforms on one hand and financial innovation on the other hand. The result has seen increase in measures aimed to strengthen the regulation, supervision and risk management of financial institutions. In 2019, the amendment of the Financial Institutions (Liquidity Requirements) Regulations 2016 commenced in order to address the gaps and inconsistencies noted in the same Regulations.

The use of block chain technology in finance, such as cryptocurrencies for example, poses pertinent and emerging risks in the financial system that require particular attention. This calls for continuous investment, by financial institutions, in resources to contain cyber risk and climate change risk. In 2019, technological advancement continued to improve in the banking sector through digitalisation of financial services that offers convenience and efficiency.

In order to ensure integrity of the financial systems, the Bank enhanced the Anti-Money Laundering and Combating of Terrorist Financing (AML/CFT) supervisory frameworks. In particular, the Bank utilised supervisory tools that were developed in 2018 through assistance of the International Monetary Fund (IMF). Efforts were also made to enhance re-verification of Know Your Customer (KYC) documents by connecting banks' systems to the National Identity and Civil Registry (NICR). In 2019, one bank finalised the Memorandum of Understanding (MOU) with the Ministry of Home Affairs, while the other three banks were in the process of finalising their MOUs.

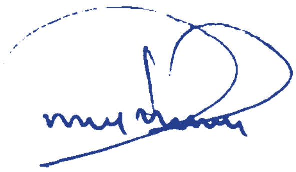
On the Financial Consumer Protection (FCP) front, the Bank continued to handle and mediate complaints lodged against banks and insurance companies by consumers. Cross cutting issues consumers complained about related to breaches of product agreements, overcharge of fees, insurance premium and interest, and consumers who are over-indebted. For insurance companies, consumers claimed that the benefits received were much lower than what they had expected. Such complaints were mainly due to limited transparency. The Bank also undertook on-site examinations. Inadequate disclosure of fees and charges were some of the findings. On Consumer Protection and Market Conduct Regulation and Supervision, a Draft FCP Bill was developed with the World Bank's assistance and validated with key stakeholders.

Financial sector regulations continued to enable financial inclusion in the banking industry. This was demonstrated by implementation of financial inclusion strategies, rapid growth of deposit account ownership across the board, rising digitalisation of banking services, offering of Low Income earner Saving Accounts (LISA) by all banks, surging number of bank agents, and narrow but slightly increasing gender disparity in deposit account ownership.

The insurance industry also remained resilient and financially sound through 2019, although fluctuations were felt in the short-term insurance sector. However, the sector aggregate performance was positive despite the business cycles in this industry. The short-term insurance sector realis significantly on the capital projects, whose performance was not to normal levels given the challenges from the fiscus. This call for innovation by the sector in order to diversify its business portfolio away from government activities.

FOREWORD BY THE GOVERNOR

One of the main activities in 2019 was to start the process to amend or repeal the Insurance Act of 2014, which was found to have gaps during its implementation. The process is expected to modernise the insurance law to respond adequately to the current dynamic environment where innovation outpaces the law. Another key milestone was the enactment of the Pension Funds Act 2019, which is revolutionising the pension industry from once unregulated industry to an industry with a robust regulation, which will offer more transparency and protection to pension funds beneficiaries. The coming years will put the published laws to the test and challenge the industry to perform to the required standards ❑



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

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The Lesotho banking sector comprises of four banks, made up of three subsidiaries of South African banks and one Government bank.

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BANKING SECTOR REVIEW

1.1 BANKING SECTOR DEVELOPMENTS

The Lesotho banking sector comprises of four banks, made up of three subsidiaries of South African banks and one Government bank. As at 31 December 2019, the number of banks remained the same. The banking sector continues to play a crucial role in the economy, as reflected by its balance sheet size to GDP, which remains elevated and recorded 83.4 percent in 2019. The banking sector remains the primary provider of financial services and products, financing several large projects through bank loans. Likewise, the banks' role is essential for the import and export of goods from and to other countries, facilitating the incoming and outflow of foreign currency in the country.

In 2019, technological advancement continued to improve in the banking sector and banks increased their national outreach. Digitalisation of financial services offers convenience and efficiency; there was a remarkable increase in the digitalisation of access to banking services and products as reflected by the rising number of users and transaction volumes of internet and mobile banking channels. Therefore, customers were enabled to transact though digital wallets, internet, and mobile banking services in performing financial transactions. Furthermore, three (3) banking branches were opened and eight (8) new ATMs were approved and commenced live operations.

1.1.1 Regulatory and Supervisory Developments

The legislation regulating banks include the Financial Institutions Act 2012 and its implementing regulations, the Exchange Control Regulations 1989 as well as Currency and Exchanges Manual 2019. The Central Bank of Lesotho (the Bank) continually monitors and ensures that banks have sufficient safety margins including liquidity levels. Liquidity is a measure of banks' ability to readily meet clients' cash demands should the need arise.

In 2019, the amendment of the Financial Institutions (Liquidity Requirements) Regulations 2016 commenced in order to address the gaps and inconsistencies noted in the same Regulations. Consultative processes with the banking sector included submission of banks' suggested changes to the Commissioner, which comments will be considered when other revisions are undertaken.

1.1.2 Rollout of the version 3 of the Cross-Border Transactions Reporting System (C-BTRS)

In order to improve financial system integrity, the Bank rolled out version 3 of the C-BTRS to the reporting entities, which will be implemented in October 2020. The current version was no longer informative as it does not provide data in a granular manner. Furthermore, it was not in line with the Balance of Payments (BOP) reporting standards

In 2019, technological advancement continued to improve in the banking sector and banks increased their national outreach.

as per the IMF's recommendations since the BOP categories are not aligned with those of BPM6 manual. The system was also outdated, posing risks to other systems of the banks.

1.1.3 Financial Inclusion Developments

Regulatory frameworks, in particular, Financial Institutions (Agent Banking) Regulations 2016 and the Directive on Banking Charges and Fees issued in 2017, continued to enable financial inclusion in the banking industry in Lesotho. All banks formulated and implemented strategies on financial inclusion in line with FSDS 2013 and recommendations of a Diagnostic study on financial inclusion initiatives for small, micro and medium enterprises (SMMEs) by commercial banks in Lesotho. This study was conducted by Banking Supervision Division and was presented to key stakeholders in 2017.

Improved financial inclusion indicators were noted for individuals, general businesses and Micro, Small and Medium Enterprises (MSMEs) across products such as deposit accounts and loans and digital channels like mobile banking and internet banking and an increase in bank agents.

Trends in financial inclusion data indicated that deposit account ownership grew rapidly between 2018 and 2019. The number of deposit accounts held at banks stood at 680,830 in 2019, rising by 15 percent from 592,750 observed in the previous year. With regard to the gender dimension, the number of females with deposit accounts decreased by 2 percent from 299,798 in 2018 to 293,572 in 2019, culminating to a reduction of the percentage of female account holders by 0.6 percentage points from 49.4 percent to 48.8 percent. This slightly increased the gender gap, but it was still narrow.

i) Low Income Earners' Savings Account (LISA)

The Directive on banking fees and charges issued in 2017 became operational in 2018. All four banks offered the low income earners' saving accounts (LISA). However, the uptake was only recorded in three banks in 2019 compared to one in 2018.

Following the directive by the Commissioner for banks to design and facilitate opening of a Low Income Earners' Savings Account (LISA), the number of active LISA accounts surged from 358 to 56,462 between 2018 and 2019. The performance of LISA varied widely across banks due to different customer acquisition strategies adopted. The account performed poorly against its substitute accounts when comparing the number of accounts held by customers. The primary reasons for poor performance of LISA were enumerated by banks as: substitute accounts offer more and better benefits; fierce competition posed by MNO mobile money services with less stringent KYC requirements; and no incentive to promote it aggressively, as it was perceived to undermine profitability.

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ii) Access to Credit

Access to credit was identified as one of the key initiatives in the Financial Sector Developments Strategy 2013. Even though the period of implementation ended in 2018, efforts to improve access to credit continued to be on the agenda of the Commissioner. In 2019, the number of outstanding loan accounts reached 56,242, moderately growing by 8 percent from 52,041 reported in 2018, with roughly 3 percent of the loan accounts belonging to business borrowers in 2019. As for MSMEs, the number of businesses with outstanding loan amounts was 1,031 in 2019, increasing by 5 percent from 978 reported in the previous year.

From a gender perspective, the number of females with outstanding loan accounts declined by 8 percent from 29,569 in the third quarter of 2019 to 27, 231 in the fourth quarter of 2019. This decline was much lower than that experienced by male borrowers. As a result, the percentage of female loan account holders rose by 2 percentage points from 45 percent to 47 percent. This suggested that unlike on deposit account ownership, on access to credit, the disparity was prominent, although shrinking.

iii) Agency Banking and Digitisation

Banks continued to expand services and outreach with a potential to bring financial services at a close proximity to the underserved population in the remote rural areas in a cost-effective manner. In 2019, only two banks offered banking services and products through agents. The number of agents rose from three (3) to 205 between 2018 and 2019. These agents are spread across the ten districts of the country.

Two banks continued to take advantage of opportunities presented by Financial Institutions (Agency Banking) Regulations 2016, by expanding their network of agents cross the country. The agents were mainly used for cash deposits, cash withdrawals, and airtime and electricity purchases.

In as far as digitalisation efforts are concerned, the number of internet banking users stood at 220 741 in 2019, growing by 68 percent from 131 623 seen in 2018. The number of mobile banking users declined by 14 percent from 158 600 in 2018 to 136 737 in 2019. When looking at MSME users, the number of users of internet banking rose by 27 percent from 3 552 in 2018 to 4 496 in 2019, while for mobile banking, the number of users declined by 30 percent from 2 153 to 1 506.

iv) Financial inclusion initiatives

The second Financial Inclusion Day, which was organised by the Central Bank of Lesotho in collaboration with the World Bank and the Ministry of Finance, was held at Lehakoe Recreational and Cultural Centre in Maseru on 31st October, 2019. The theme was “Engineering Financial Inclusion for Basotho”. The event, which was very successful, was attended by various key stakeholders in financial inclusion. The presenters included local and international industry champions, government officials, regulators and experts. The presentations and discussions spanned promoting access to credit for MSMEs, FinTech and Regulation, Financial inclusion and gender equality, and Rising Household Over-indebtedness: risks and options.

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Access to credit was identified as one of the key initiatives in the Financial Sector Developments Strategy 2013.

Obstacles inhibiting access to credit for MSMEs which were highlighted included:

- banks' focus on profitability;
- small loan size demanded by MSMEs with higher unit cost;
- lack of collateral;
- non-viable business plans;
- lack of entrepreneurial skills;
- inadequately trained bank employees for responding to MSMEs' needs;
- high MSMEs' failure risk;
- character deficiency of MSME owners and managers especially during turbulent business times;
- unstable political and economic environment which dampen interest in MSME lending; lack of steady income by MSMEs; and
- lack of credit history, and poor debt repayment history.

However, there were virtually no customised women-focused financial inclusion initiatives implemented by banks. Only one bank had a few initiatives. It had a networking forum for Basotho female entrepreneurs that links to the other entrepreneurs and opportunities across the African continent. Exclusion of women is not only experienced in access to financial services, but also manifests in their under-representation in senior management positions of banks. In light of this, this bank also ran an internal bank-wide programme that seeks to empower women in the work place and groom female future leaders.

1.2 ON-SITE AND OFF-SITE SUPERVISION

The Department of Bank Supervision and Financial Stability has been entrusted with regulation and supervision of banks. There is adequate legislative provision in place to perform such duties. Regular supervision provides important insights and information on the banking system that feeds into the decision-making process such as formulation of monetary policy, updates on regulations, and for the timely corrective measures of issues that may arise. Continuous monitoring of the indicators related to financial soundness and stability as well as watching for the early warning signals and conducting onsite inspections to ensure that the banks are managing their material risks adequately along with the compliance of regulatory norms are the major supervisory functions performed by the Department.

The Department collaborates with other functions within the Bank in undertaking on-site examinations and offsite surveillance of banks. This is done to reduce the regulatory burden on the regulated entities. In 2019, Banking Supervision, Financial Surveillance and Financial Consumer Protection Divisions undertook joint examinations of banks. Examination findings have been outlined in different sections of the report.

1.2.1 On-Site Examination

The Central Bank of Lesotho through its Banking Supervision Division conducts risk-based on-site examinations at regular intervals in accordance with its mandate. This approach places strong emphasis on understanding and assessing the adequacy of bank's risk management systems. The approach is used together with the CAMELS rating, which helps to determine bank's financial condition at one point in time.

In 2019, the Division conducted two on-site examinations. Both examinations were conducted on a limited scope (focused on moderate to high-risk areas). The scope of the examinations was informed by an extensive preliminary assessment, which helps to identify significant risks, issues of supervisory concerns and supervisory activities to be conducted

1.2.1.1 Main Risks

Below is a summary of the risks that the banks faced in 2019.

i) Strategic Risk

Strategic risk is defined as the risk associated with strategy selection, execution, or modification over time, resulting in a lack of achievement of overall objectives. Key factors crucial for mitigating this type of risk include adequate communication of strategy, periodic monitoring and establishment of reasonable timelines.

In 2019, the inherent strategic risk for the banks examined was moderate and the risk management systems were considered to be acceptable leading to moderate composite risk. The direction was considered to be increasing, owing to the fact that some strategic objectives were not achieved, and had passed their implementation dates. Nevertheless, the banks had performed well and realized profits during the period under review.

ii) Credit Risk

Credit risk is the potential that a borrower, financial instrument issuer or counterparty will fail to meet its obligations in accordance with agreed terms resulting in economic loss to the financial institution. Common sources of credit risk include weaknesses in the credit granting and monitoring processes which may arise due to financial institutions failure to carry out thorough credit assessment or due diligence.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

In 2019, the inherent credit risk for banks that were examined was moderate and the risk management systems were acceptable leading, to moderate composite risk. The direction was considered to be increasing. The credit risk management policies at the banks were adequate; however, there were instances where banks were not adherent to the policies. On credit performance, there were still delays in government payments to Small Medium Enterprises (SMEs), which negatively affected the businesses' loan repayments to the banks. Penalties were imposed on these accounts and the banks had put in place adequate provisions to cater for these and other loans.

iii) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Important factors for effective management of operational risk include adequate resources (budget, tools & staff), clear roles and responsibilities, continued adequate training and promotion of a risk management culture across the organization, among other things.

In 2019, the inherent operational risk for banks that were examined was rated high and the risk management systems in place were rated weak, leading to high composite risk. Direction of risk was increasing. The operational risk was adequately managed with some limitations, which exposed the banks to some level of operational risks. Banks which are subsidiaries of SA banks received some technical support from their head offices in South Africa; as a result, there are delays in the turnaround times in resolving some issues. The banks continued to introduce more products and services in the FinTech space, therefore posing operational and cyber risks. The banks also experienced a few teething problems with these enhancements to the system, which included system downtime and network connection challenges in some cases.

iv) Compliance Risk

Compliance risk is the risk arising from a financial institution's failure to comply with laws, regulations, rules, or failure to comply with code of conduct applicable to its activities or to comply with its own policies and procedures. Compliance means conforming to laws and regulations that have been clearly defined. It is a key component of a successful business and an important part of good business conduct.

In 2019, the inherent strategic risk for banks that were examined was moderate, with the risk management systems acceptable, leading to moderate composite risk. The direction was considered to be increasing. Instances of non-compliance were noted with respect to banks' own policies, and also with some of the regulatory legislation. In the main, the banks had breached the exchange control regulations. Consequently, there were penal measures imposed by Commissioner on certain breaches.

1.2.1.2 CAMELS

i) Capital Adequacy

Banks are required to maintain adequate capital to protect depositors and promote the stability and efficiency of the financial system. Central Bank of Lesotho has set the minimum capital adequacy ratios at 8 percent and minimum tier I to Risk Weighted Assets at 4 percent. The higher the ratios, the greater the ability of the bank to absorb probable losses.

In 2019, the banks remained adequately capitalized, capital adequacy ratios and minimum tier I to Risk Weighted Assets were above the required minimum holdings of 4 percent and 8 percent at 20.5 percent and 22.7 percent, respectively.

ii) Assets Quality

Banks are required to maintain adequate capital to protect depositors and promote the stability and efficiency of the financial system. Central Bank of Lesotho has set the minimum capital adequacy ratios at 8 percent and minimum tier I to Risk Weighted Assets at 4 percent. The higher the ratios, the greater the ability of the bank to absorb probable losses.

In 2019, the banks remained adequately capitalized, capital adequacy ratios and minimum tier I to Risk Weighted Assets were above the required minimum holdings of 4 percent and 8 percent at 20.5 percent and 22.7 percent, respectively.

iii) Earnings

The earnings of the banks remained robust to support capital, demonstrating effective management of costs and the implementation of revenue-generating strategies. In 2019, the average return on assets and return on equity was 2.6 percent and 18.2 percent, respectively and were slightly higher than those reported in 2018.

iv) Liquidity and Funds Management

Liquidity is a measure of banks' ability to readily meet clients' cash demands should the need arise. Banks are required to maintain a reserve ratio of 3 percent and liquidity ratio of 25 percent.

The banks continued to comply with the set regulatory requirements; the cash reserve and liquid assets ratios were slightly within the regulatory benchmarks of 3 percent and 25 percent respectively. The average industry ratios were 3.5 and 25 percent, respectively. However, the banks' funding base was considered relatively volatile as the deposits comprise mainly of wholesale deposits.

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Asset Quality helps to determine the soundness of the banks.

v) Sensitivity to Market Risk

Sensitivity to market risk is described as the degree to which changes in interest rates, foreign exchange, commodity prices or equity prices can adversely affect earnings and/or capital.

In 2019, the GAP position was within acceptable limits, the banks had adequate room to absorb any minor losses that might have occurred due to interest rate fluctuations and the inherent repricing risk. The GAP ratio to assets was at an average of 5.2 percent. The repricing risk was well contained during the review period; the assets repriced at a higher rate and faster pace than liabilities and this may lead to a decline in Net Interest Income (NII) if interest rates decline.

iv) Management

Management includes all persons who have controlling influence on the management of the bank such as the members of the board of directors, Senior Management officers and others, to mention a few.

In 2019, Management of the banks was found to be less than satisfactory; there were several instances where they failed to enforce controls, which led to incidents of non-compliance.

1.3 OFF-SITE SURVEILLANCE 2019

1.3.1 Main Balance Sheet Items

i) Total Assets

The banking system balance sheet size declined slightly by 1.3 percent, from M17.4 billion in 2018 to M17.2 billion in 2019 (see Table 1). A loss in growth momentum was mainly driven by placements. Balances with banks abroad declined significantly by 49.5 percent, from M4.8 billion in 2018 to M2.4 billion in 2019. In addition, balances with local banks decreased by 46.8 percent, from M1.7 billion in 2018 to M902.1 million in 2019. A decline in placements reflects the increasing risk aversion behaviour of the banks as they restructure their balance sheets to invest in domestic money and capital markets. Hence, government securities continued on the expansionary path and built-up by 35.4 percent, from M1.7 billion in 2018 to M2.3 billion in 2019. The increase was mainly driven by the government paper,. underscoring the need to monitor increasing sovereign risks[1]. Despite the challenging business environment in 2019, the credit portfolio reflected growth of 8.1 percent, from M6.5 billion in 2018 to M7.1 billion in 2019, setting yet another milestone by crossing the M7.0 billion-mark.

[1] https://www.imf.org/en/News/Articles/2020/02/11/pr2046-lesotho-imf-staff-completes-2020-article-iv-visit.

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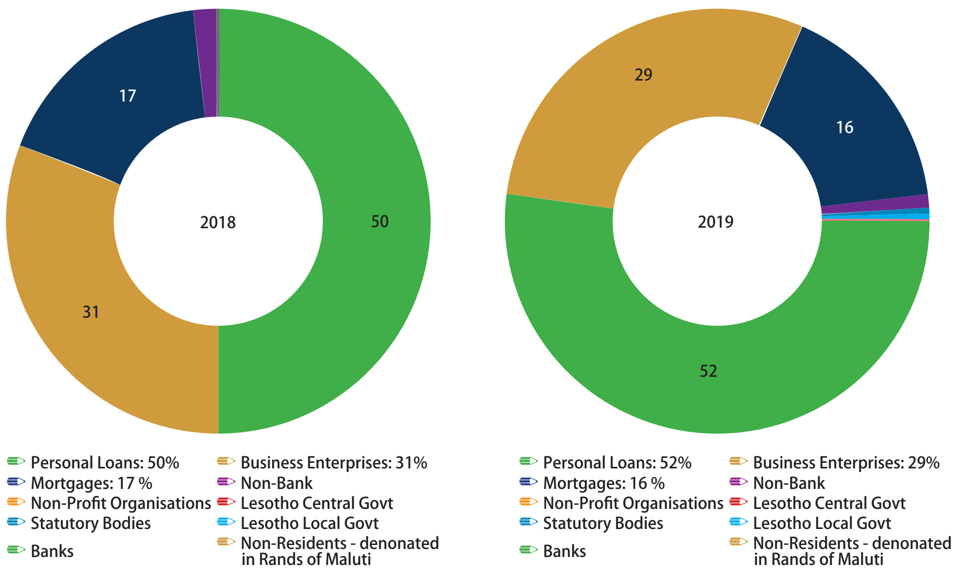
BANKING SECTOR REVIEW

Table 1	The growth rates of total assets (%)							
	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL ASSETS	1.2	35.0	7.5	13.3	-5.2	21.8	8.3	-1.3
Cash and cash items	34.1	21.5	-9.2	45.6	8.7	21.7	2.0	25.6
Balances with CBL	7.6	157.0	22.7	-31.9	19.0	-10.8	-15.2	59.0
Balances with local banks	-6.4	97.0	21.5	6.7	-7.3	2.7	-22.8	-46.8
Balances with banks abroad	-21.9	27.4	11.0	36.2	-15.4	30.3	22.9	-49.5
Marketable securities	16.7	-20.6	-8.1	22.5	0.9	32.5	68.6	35.4
Other investments	-52.2	99.8	-41.0	4.3	-63.1	284.8	-39.5	241.1
Loans and advances	40.2	21.9	12.2	7.3	2.6	7.4	12.4	8.1
Fixed assets	-1.2	21.3	20.5	25.7	22.3	114.7	-6.8	-33.1
Other assets	4.0	59.5	42.1	-12.1	34.9	39.9	0.2	65.9

Source: Central Bank of Lesotho

Figure 1 shows the distribution of loans by type over a one-year horizon. Personal loans continued to trend on the expansion path and reflected a double-digit growth of 12.7 percent, from M3.4 billion in 2018 to M3.9 billion in 2019. Business loans increased slightly by 3.6 percent, from M2.1 billion in 2018 to M2.2 billion in 2019. In addition, mortgages also reflected a single-digit growth of 3.5 percent, from M1.20 billion in 2018 to M1.21 billion in 2019.

Figure 1 Distribution of Loans by Type (%)



Source: Central Bank of Lesotho

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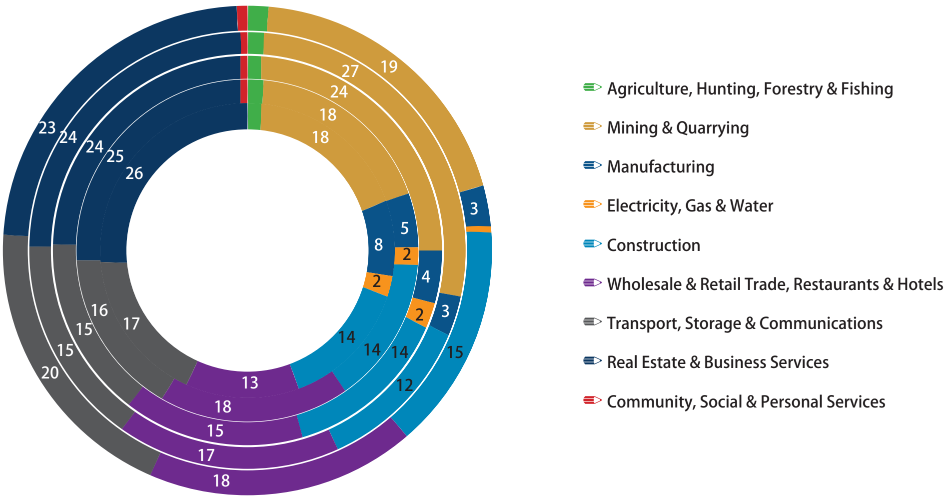
Business loans increased slightly by 3.6 percent, from M2.1 billion in 2018 to M2.2 billion in 2019.

Despite a moderate credit concentration risk observed on the entire loan portfolio, continued vigilance on business loans extended to real estate, transport, mining and construction sub-sectors remains necessary given a notable credit concentration risk (see Figure 2). On average 5 top borrowers in the banking system have loan facilities across all the banks, some of which are struggling to service their facilities. This persuaded the need for banking system to contain systemic risk . Even though, most of those facilities were collateralized, however, a threat somehow remains due to inherent risk in collateral specifically during episode of financial distress, which turns to lower the value of collateral.

Figure 2 Distribution of Business Loans: 2018 – 2019 (%)



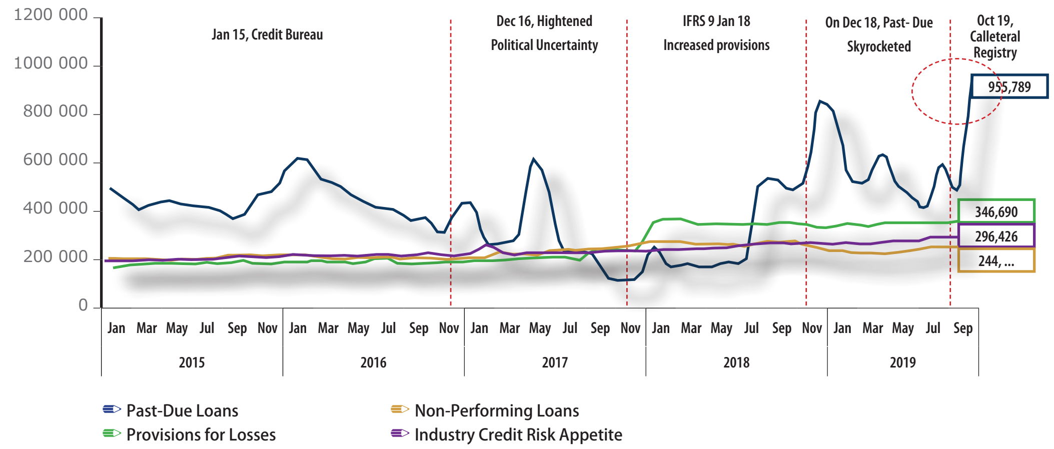
*The innermost doughnut corresponds with Dec 31, 2018

Source: Central Bank of Lesotho

Figure 3 highlights the quality of the loan book at a glance. A trend on NPLs revealed a decline of 2.4 percent, from M250.4 million in 2018 to M244.5 million in 2019. In addition, the NPL ratio continued to fluctuate below the industry credit risk appetite of 4.0 percent. It declined slightly by 0.4 percentage points, from 3.7 percent in 2018 to 3.3 percent in 2019. Despite a decline observed, credit risk remained somehow recalcitrant as reflected by the increase in bad debts written-off. Bad debts write-offs built-up to M43.5 million in 2019. Mortgages, business enterprises and households, were prominent sectors struggling to service their loan facilities in the midst of the challenging business environment.

A trend analysis on past-due loans remained elevated and somehow suggested the worsened asset quality outlook on account of 12.7 percent growth, from M848.0 million in 2018 to M955.8 million in 2019. A built-up was mostly explained by the December effect, a moral hazard phenomenon, where most of the borrowers miss their December loan instalments intentionally. They withdraw their salaries before loan instalments could be deducted. Unfortunately, the repercussions turn to be costly and sizable in January as the banks have to deduct December instalments, coupled with interest on those arrears and January instalments. Therefore, to finance expenditure in January, most of the borrowers have to borrow additional from non-bank financial institutions where lending interest rates are relatively high, hence unnecessary costs and over-indebtedness, which ultimately aggravate default risk in the banking system. In an attempt to contain the anticipated increase in credit risk, provisions increased slightly by 3.6 percent, from M334.5 million in 2018 to M346.7 million in 2019.

Figure 3 Credit Risk (M`000)



Source: Central Bank of Lesotho

ii) Total Liabilities

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Total liabilities decreased slightly by 3.1 percent, from M15.3 billion in 2018 to M14.8 billion in 2019.

in January, most of the borrowers have to borrow additional from non-bank financial institutions where lending interest rates are relatively high, hence unnecessary costs and over-indebtedness, which ultimately aggravate default risk in the banking system. In an attempt to contain the anticipated increase in credit risk, provisions increased slightly by 3.6 percent, from M334.5 million in 2018 to M346.7 million in 2019.

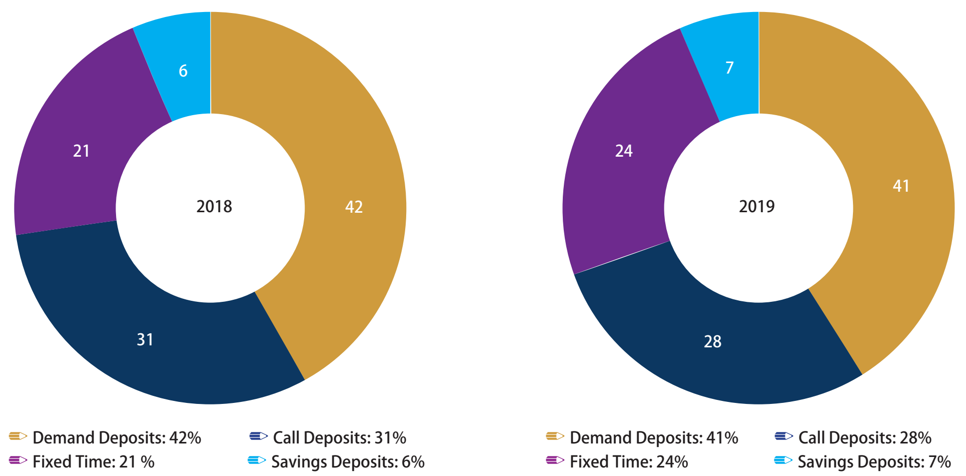
Table 2 The growth rates of total liabilities (%)

	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL LIABILITIES	**-0.4**	**37.3**	**6.2**	**13.4**	**-7.6**	**21.7**	**9.0**	**-3.1**
Deposits	5.4	28.5	5.0	13.9	-5.9	25.7	5.9	9.9
Due to local banks	-9.6	87.9	15.6	7.8	-13.6	-0.3	27.1	-62.1
Due to foreign banks	-72.1	530.8	-36.9	26.1	-9.7	57.9	-27.6	13.3
Other borrowings					40.7	-0.1	1.0	-0.8
Other liabilities	-20.7	-14.7	20.6	16.1	-14.5	26.5	30.5	-12.7

Source: Central Bank of Lesotho

The structure continued to be dominated by short-term deposits, indicating that financial intermediation is mostly financed by short-term deposits. A large proportion of such deposits continued to be wholesale rather than retail (see Figure 4 and 5). Therefore, the asset and liabilities mismatch remained on the upward trajectory and is envisaged to gain momentum on the back of elevated trend and a continuous built-up on mortgages. Figure 5 revealed that 79.0 percent of total deposits in 2019 were wholesale. Therefore, the system also remained vulnerable to liquidity risk as large wholesale withdrawals could bring liquidity shocks. In 2020, the shock is even more anticipated to emanate from the government deposits and business deposits which are projected to decline on account of COVID-19 repercussions. Government expenditure is expected to increase and businesses might use their demand and call deposits which financed their daily operations to invest in short-term financial instruments elsewhere where they might earn some return in the mist of the crises.

Figure 4 The Structure of Deposits (%)



Source: Central Bank of Lesotho

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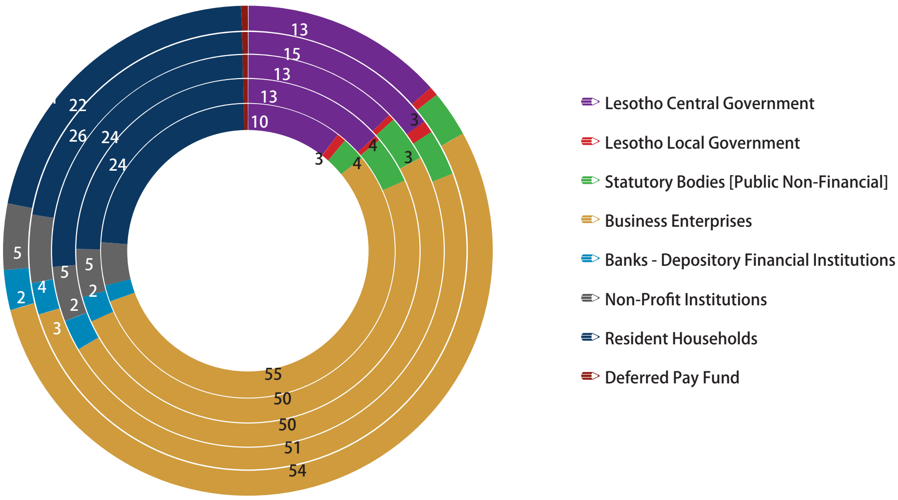
Figure 5 Total Deposits by Holder: Dec 2017 – Dec 2018 (%)



*The innermost doughnut corresponds with Dec 31, 2018

Source: Central Bank of Lesotho

iii) Shareholders' Equity

The banking industry's total capital observed an increase of 11.4 percent, from M2.1 billion in 2018 to M2.4 billion in 2019 (see Table 3). The key factors that appeared to strengthen the capital base and which contributed a lion's share on the capital base were retained earnings and net income. Retained earnings increased significantly by 8.9 percent, from M1.4 billion in 2018 to M1.5 billion in 2019. In addition, net income increased by 7.8 percent, from M477.3 million in 2018 to M514.7 million in 2019. The statutory reserve account increased by 0.8 percent, from M189.1 million in 2018 to M190.7 million in 2019.

Table 3 The growth rates of total capital (%)

	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL CAPITAL	**16.0**	**16.8**	**19.7**	**11.9**	**15.1**	**22.2**	**4.0**	**11.4**
Paid-up capital	11.3	10.1	0.0	13.3	2.0	0.0	0.0	0.0
Statutory reserve	-4.2	3.6	-0.7	6.2	47.5	-4.4	1.7	0.8
Revaluation reserves	0.0	0.0	16.4	52.1	-6.2	12.7	-22.1	11.6
Other reserves	128.6	-54.9	64.9	-39.3	12.9	346.2	-96.3	2701.2
Retained earnings	24.7	13.2	34.0	14.7	14.3	45.2	2.3	8.9
Profit/loss for the year	12.1	31.0	11.5	6.6	8.8	-26.1	33.3	13.3

Source: Central Bank of Lesotho

The banking industry's total capital observed an increase of 11.4 percent, from M2.1 billion in 2018 to M2.4 billion in 2019.

1.3.2 Main Income Statement Items

i) Total Income

Over a one-year horizon, total income improved by 7.1 percent, from M1.9 billion in 2018 to M2.1 billion in 2019 (see Table 4). The performance was mainly driven by interest income from loans, commission income and government securities. Interest income from loans exhibited growth of 13.2 percent, from M1.0 billion in 2018 to M1.1 billion in 2019. A boost came at the back of increased credit portfolio. Commission income observed a slight increase of 4.3 percent, from M613.4 million in 2018 to M639.7 million in 2019. Interest income on government securities rose by 92.4 percent, from M82.1 million in 2018 to M158.0 million in 2019 due to increasing risk aversion behavior of banks as seen by increasing investments in government securities. As banks continued to restructure their balance sheets to invest in domestic money and capital markets, income on placements remained on the contraction path driven mostly by income from domestic placements which observed a decline of 11.1 percent, from M288.6 million in 2018 to M256.7 million in 2019. However, income from foreign placements increased by 8.3 percent, from M150.3 million in 2018 to M162.8 million in 2019.

Table 4 The growth rates in total income (%)

	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL INCOME	**20.4**	**27.5**	**8.7**	**10.7**	**10.9**	**5.7**	**11.7**	**7.1**
Interest Income-Loans	64.2	46.3	8.0	27.1	14.9	16.5	5.2	13.2
Interest Income-Placements	-19.5	3.2	55.8	10.9	21.9	-15.6	46.1	-29.9
Foreign Payments	19.0	-14.6	43.6	2.2	17.1	-20.1	-24.3	8.3
Domestic Payments	-42.9	-23.7	76.3	22.8	27.4	-10.9	36.9	-11.1
Interest Income-Securities	0.0	10.2	28.6	-63.1	6.5	1.6	30.9	92.4
Total Interest Income	14.0	26.5	23.5	8.5	16.8	4.4	18.1	1.7
Interest Expense	-6.1	21.0	59.4	4.6	25.3	-3.9	25.0	1.4
Net Interest Income	22.7	28.3	12.3	10.2	13.3	8.3	15.2	1.9
Fees and Commission Income	20.0	30.5	5.4	9.4	10.4	4.6	2.0	4.3
Forex Gains/Losses	17.1	-2.6	11.3	21.0	-23.6	-15.2	35.3	12.0
Income on Equity Investment	-	-	-	-	-	-61.0	220.6	-100.0
Other Income	-34.0	101.3	1.0	49.5	78.5	-23.8	40.7	266.7
Grants	-8.9	30.8	-70.0	-10.0	2.8	106.4	66.3	15.7
Non-interest income	17.6	26.6	4.3	11.4	7.7	2.2	6.4	15.4

Source: Central Bank of Lesotho

ii) Total Expenses

The analysis of expenses revealed that, total expenses increased by 7.6 percent, from M1.2 billion in 2018 to M1.3 billion in 2019 (see Table 5). Interest expenses, operating expenses and staff salaries continued to account for the lion's share of total expenses. Interest expenses exhibited slight growth of 1.4 percent, from M521.5 million in 2018 to M528.6 million in 2019. Provisions for bad debts recorded a decline of 9.9 percent, from M84.7 million in 2018 to M76.3 million in 2019. Bad debts write-offs had built-up to M43.5 million in 2019. Operating expenses increased by 19.3 percent, from M412.1 million in 2018 to M491.7 million in 2019. Management and directors' fees declined by 50 percent, from M158.2 million in 2018 to M78.7 million in 2019.

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Table 5	The growth rates in total expenses (%)							
	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL EXPENSES	**26.1**	**24.0**	**7.9**	**13.5**	**11.5**	**24.6**	**2.2**	**7.6**
Staff salaries and benefits	1.5	23.9	11.3	14.3	13.9	8.5	7.0	9.5
Management/Directors fees	141.8	-26.1	9.1	17.0	4.2	39.6	-3.3	-50.2
Auditors/Consultants fees	8.2	33.3	11.2	12.4	7.3	14.1	119.2	98.0
Provision for bad debts	188.8	31.3	24.5	19.7	-2.1	8.2	-18.4	-9.9
Bad-debts write-offs/Irrevocable losses	-	-	-	-	-	420.4	-100.0	-
Depreciation	7.4	28.7	1.0	0.3	15.7	13.0	60.0	-2.2
Other operating expenses	6.8	62.8	-0.5	11.1	12.1	35.0	8.3	19.3
Operating income/loss	12.5	33.0	9.9	6.8	10.0	-22.6	34.5	6.2
Income/loss before taxation	12.5	33.0	9.9	6.8	10.0	-22.6	34.5	6.2
Taxation	13.9	38.4	5.9	7.4	13.2	-13.4	22.2	2.2
Net Income/loss after taxation	12.1	31.0	11.5	6.6	8.8	-26.1	40.1	7.8
Dividend	-18.9	43.2	35.4	-0.2	-100.0	-	10.0	-100.0
Retained income	83.0	18.6	-12.9	22.0	171.1	-75.6	96.1	132.9

Source: Central Bank of Lesotho

During the period under review, net income increased by 7.8 percent, from M477.3 million in 2018 to M514.7 million in 2019. A stronger performance was mainly attributed to high interest income from loans and government securities. In addition, the boosted performance came at the back of a decline in operating expenses, which continued to remain on the contraction path, even though net income took some strains from increasing provisions.

1.3.3 Market Share Analysis

The banking sector continued to play a major role in the economy as seen by investments in low-cost service channels, employment and increasing market activity. The summary of market share and measures of concentration used to assess the level of the banking sector competitiveness are illustrated in Table 6 below, while Table 7 depicts additional information on market outreach and the total number of employees in the banking system.

A year-on-year analysis revealed a decline of 2.3 percentage points in the market share of top-2 banks, from 78.8 percent in 2018 to 76.5 percent in 2019. The HHI decreased by 7.9 percent, from 3 712 in 2018 to 3 559 in 2019. A decrease is purely attributed to a decline in deposits in a category of top-2 banks. Despite a decline, the market continued to be oligopolistic in nature.

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During the period under review, net income increased by 7.8 percent, from M477.3 million in 2018 to M514.7 million in 2019.

Table 6	Market shares for the top 2 banks in 2019 (%)							
	2018				2019			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Share of assets	79.8	81.1	78.7	78.8	76.6	76.2	77.4	76.5
Share of loans	76.5	77.3	76.4	76.8	77.2	78.3	79.7	79.2
Share of deposits	77.9	78.1	77.3	77.2	74.8	74.8	75.0	74.0
Share of net income	82.4	80.4	80.8	78.2	76	81.5	80.8	78.8
NPLs	73.3	79	77.4	76.6	74.1	74.1	73.9	77.5
Past Due loans	57.5	57.6	85.4	92.6	82.4	82.4	82.0	93.7
HHI	3 799	3 830	3 733	3 712	3 839	3 733	3 330	3 559

Source: Central Bank of Lesotho

Table 7 shows that POS devices over a one-year horizon grew by 21.4 percent, from 1 526 in 2018 to in 1 853 in 2019. The ATMs declined slightly by 1.5 percent, from 204 in 2018 to 201 in 2019. The number of branches remained constant at 50 in 2019 compared to previous year. Trends on employment reflected a slight deceleration of 3.7 percent from 1 690 in 2018 to 1 627 in 2019.

Table 7	Market outreach in 2019							
	2018				2019			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Branches	49	49	49	50	50	50	50	50
ATMs	203	204	203	204	195	200	204	201
POS	1 524	1 609	1 546	1 526	1 773	1 761	1 526	1 853
Employees	1 721	1 701	1 681	1 690	1 647	1 691	1 681	1 627

Source: Central Bank of Lesotho

On the global front, digital technology continued to transform the world of business, exposing organisations to both opportunities and threats. However, risks associated with digital technology remained elevated with cybercrime continuing to escalate.

1.4 COMPLIANCE ISSUES

During the period under review, banks were assessed for the following requirements: Minimum Local Asset, Liquidity, Regulatory Capital Adequacy Ratios and Foreign Currency Exposure Requirements. The banks were found compliant with the statutory requirements issued by the Commissioner.

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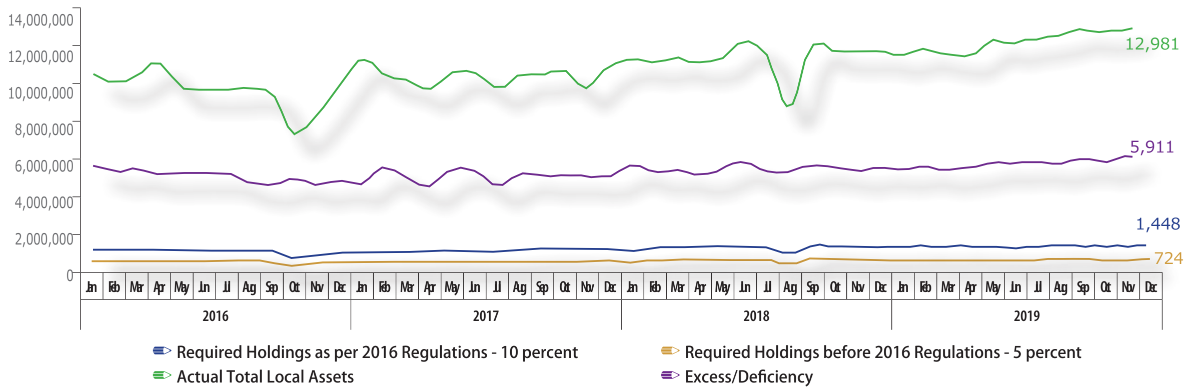
1.4.1 Minimum Local Assets Requirements

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. 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 it's 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. Figure 6 illustrates the banking industry's compliance with the regulation, before and after implementation of the regulation.

Figure 6 Minimum Local Asset Requirement (M'000)



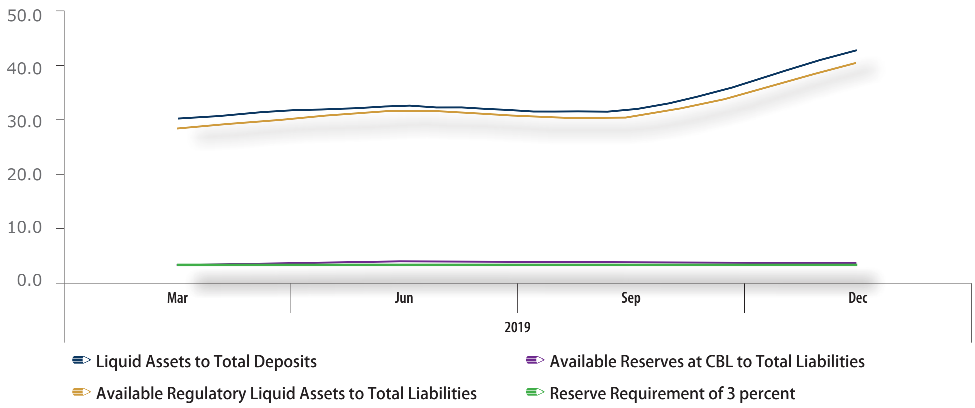
Source: Central Bank of Lesotho

The regulations require banks to, at all times maintain a cash reserve ratio of 3 percent and a liquidity ratio of 25 percent, respectively, of the aggregate of deposit liabilities, balances' due to banks abroad, net balances due to local banks, and other liabilities for borrowed money, excluding CBL and Government borrowings as reserve requirements. Financial Institutions (Liquidity Requirements), Regulations 2016 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. The requisite ratios measure the institution's ability to pay off its short-term debts.

Financial Institutions (Liquidity Requirements), Regulations 2016 aim to ensure that a bank maintains adequate liquidity and require frequent reporting.

Figure 7 illustrates compliance with the liquidity requirements regulations. The figure shows that the liquidity risk remained relatively low during the period under review. However, the cash reserve ratio hovered just a bit over the requirement. The liquidity funding structure was driven mostly by wholesale funding, and long-term loans was financed by short-term deposit liabilities (see Figure 2). The structure is vulnerable to interest rate fluctuations because top depositors may invest where rates are favourable hence the possible imbalance in the market because of the possible asset and liability mismatch and liquidity risk.

Figure 7 Liquidity Requirement (%)



Source: Central Bank of Lesotho

1.4.2 Capital Adequacy

The 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. 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 winding-up and so provides a lesser degree of protection to depositors. Figure 8 shows that the banking sector in Lesotho remained sufficiently capitalized. 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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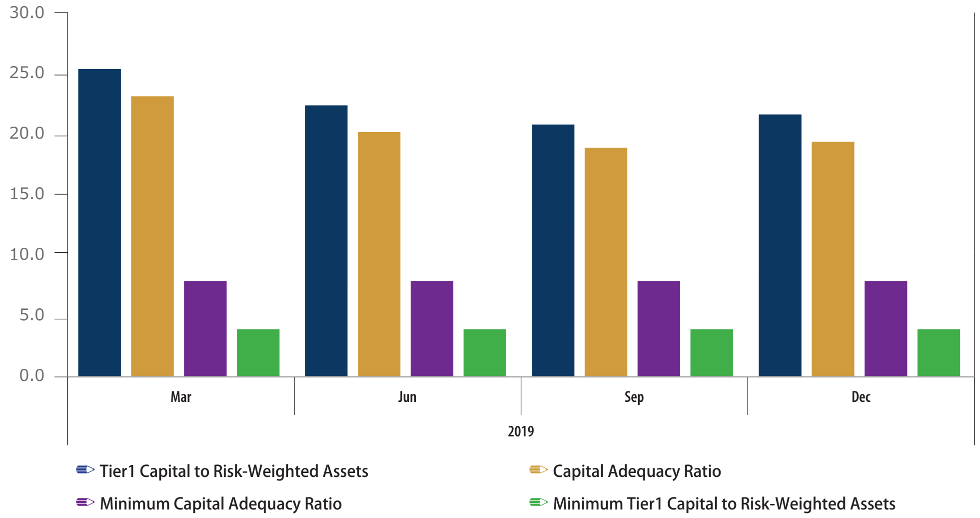
Figure 8 Capital Adequacy Ratios (%)



Source: Central Bank of Lesotho

1.4.3 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[2] 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 the 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 2019, both the industry's single currency exposure and the overall foreign currency exposure requirements were within the regulatory requirements.

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

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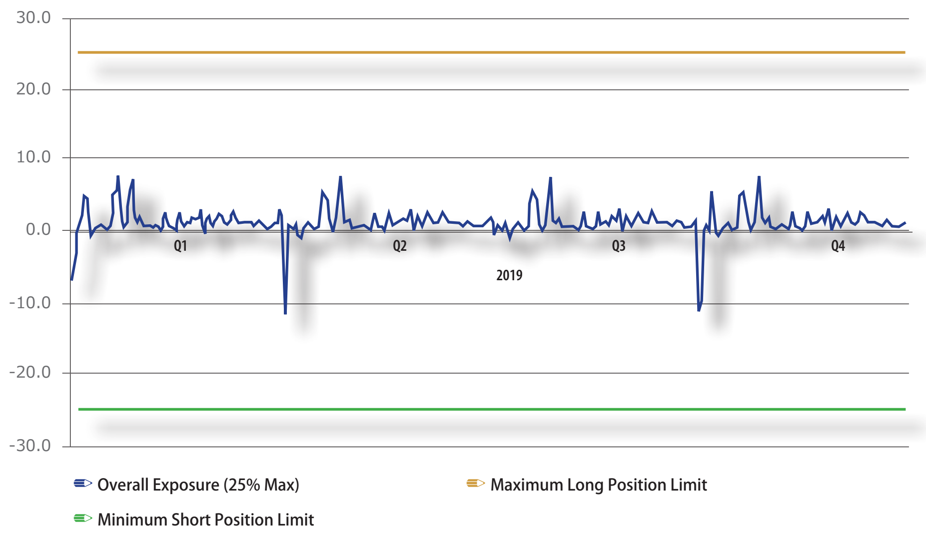
In 2019, several non-compliance issues emerged from authorised dealers (ADs).

Figure 9 Foreign Currency Exposure (%)



Source: Central Bank of Lesotho

1.5 EXCHANGE CONTROL AND ANTI-MONEY LAUNDERING

1.5.1 Exchange Control Issues

i) Compliance with the Authorised Dealers (AD) Manual

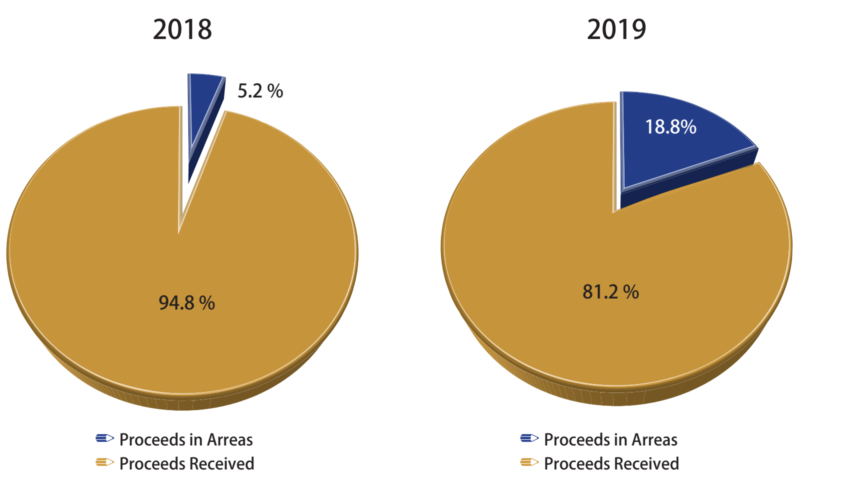
In 2019, several non-compliance issues emerged from authorised dealers (ADs). These were discovered during both off-site and on-site examinations. Through off-site surveillance, it was discovered that some of the ADs were effecting Rand payments beyond the Common Monetary Area (CMA) without the necessary prior approval from the CBL. This is in direct violation of the Multi-Lateral Monetary Agreement (MMA). It was also observed that some applications to sell foreign currency were still tendered in for CBL's approval, yet ADs have been delegated authority to effect such.

During onsite examinations carried out in the review period, non-compliance was observed on transactions that related to advance payments for imports. No follow-ups were being made to obtain documentation relating to imports after the four months had elapsed after effecting transfers abroad, thereby contravening section B1. G (i) of the Currency and Exchanges Manual for Authorised Dealers, 2019. In addition, some ADs knowingly aided their clients in concealing the real reason for transferring funds abroad, and misclassified such transactions as gifts to avoid furnishing the AD with the necessary documentation. Lack of effective export monitoring systems continued to be a problem in 2019, leading to some ADs to continue to attest for their clients which still had outstanding export proceeds. Another trend that emerged was that of loan funds being credited into clients' accounts without seeking prior approval from the CBL. This precipitated numerous requests seeking to regularise such loan transactions.

ii) Analysis of Export Proceeds

In 2019, a total of M595 million was exported by various manufacturing companies, representing a 6.1 percent decline from 2018 total exports of M634 million (revised figure). Figure 10 depicts repatriated export proceeds for both 2018 and 2019.

Figure 10 Share of Repatriation of Export Proceeds for 2018 and 2019 (%)



Source: Central Bank of Lesotho

iii) Application to Sell Foreign Currency

The total value of all applications to sell foreign currency during 2019 was M727 million compared with M1. 02 billion in 2018, representing a 22.0 percent decline. There was also a 29.0 percent decline in the number of applications from 224 in 2018 to 159 in 2019. Material purchases continued to increase and represented 67.1 percent of all applications to sell foreign currency followed by dividends, which accounted for 17.3 percent. Companies that purchased materials included amongst others Hippo Knitting and Tai Yaan Garments. Maluti Mountain Brewery and Constitutional Road Development were companies that requested foreign currency for payment of dividends.

In 2019, CBL started receiving information utilizing the AML/CFT off-site reporting template and Risk Assessment Questionnaire.

1.5.2 AML/CFT

1.5.2.1 Off-site Supervision

In its efforts to monitor inherent money laundering and terrorist financing (ML/TF) risks in the banking sector, the CBL developed the AML/CFT reporting template tool for banks. CBL also developed a AML/CFT Risk Assessment Questionnaire that banks populate on annual basis. The return collects information related to monitoring quantity of (ML/TF) risks in accordance with banks' customers, delivery channels, products and services as well as geographic location of clients. The questionnaire assesses adequacy of risk management systems in banks. It provides information on Board and Senior Management Oversight, policies and procedures, internal controls, staff training and reporting of suspicious activities to the FIU. Adequacy of risk management systems was assessed through the banks' responses to the questionnaire.

In 2019, CBL started receiving information utilizing the AML/CFT off-site reporting template and Risk Assessment Questionnaire. Banks report, on a quarterly basis, data that is used to assess their inherent ML/TF risks they are exposed to. The main indicators that constitute ML/TF risks are the structure of financial institutions, nature of the customers or potential clients, products and services offered by financial institutions, the delivery channels and geographic locations of customers.

i) Risk Assessment

a) Structural Risk

Structural risk is measured through the size of the banking industry against the financial system, the average number of years banks have been in operation as well as ownership structures of banks.

During the review period, the structural risk was high due to the size of the industry in terms of assets, the number of years in operation and the ownership structures of banking institutions. This is because banks play a large part in the financial sector, accounting for more than 70 percent of the total assets of the Lesotho financial sector[3] as at 31 December 2019. The large scale of operations is also reflected in staff complement of over 1600 people employed across the country in the banking sector during the review period.

All banks operating in Lesotho have been in operation for more than 10 years but less than 20 years, which renders the industry susceptible to higher risk of money laundering. The model used assumes that a bank that has fewer years in operation is highly exposed to ML/TF risks. The other reason for high inherent structural risk is the fact that of the four banks licensed in Lesotho, three are subsidiaries of the South African banks. It is perceived that the subsidiaries are members of large financial conglomerates, which may receive international transactions that may be illicit in nature

[3] Source: Central Bank of Lesotho.

b) Business Risk

i) Customer risk

In conducting business transactions, banks are exposed to various types of customers that may pose ML/TF risks. The customer risk assesses different types of customers that banks deal with, including politically exposed persons (PEPs).

The customer risk was rated moderate. The customer base comprised mostly of residents natural persons who are well known to banks. Nonetheless, banks increased their exposure to Politically Exposed Persons (PEPs) during the review period, with the establishment of business relationships of 203 domestic PEPs and 4 foreign PEPs. PEPs are regarded as vulnerable to ML/TF activities due to the prominent positions they hold

ii) Product/services risk

Some products and services offered by banks may be prone to ML/TF risks. A comprehensive ML/TF risk assessment takes into account the potential risk arising from the products and services that banks offer to customers. Banks in Lesotho offer a wide range of products and services. The product/ services risk was rated high because the highest utilized product in 2019 was wire transfers, which are considered to be high risk due to their non-face-to-face nature.

For instance, some banks offer products or services that are based on new technologies that may have an impact on the institutions' overall inherent risks. Various product types are assigned risk ratings based on their general inherent characteristic and the degree of ML/TF present.

iii) Delivery Channel risk

Some delivery channels are susceptible to high ML/TF risk, especially those that do not require face to face appearance in the banking halls. Thus, the channels used for effecting transactions by banks' clients are important factors to be considered in determining the inherent ML/TF risk.

The delivery channels risk was rated moderate because customers in Lesotho mostly use ATMs, which are regarded to be highly cash-intensive. Also, a transaction can be completed without the intervention of the bank's employee, thus making it riskier.

iv) Geographic Risk

It is key to identify geographic locations that pose high risk ML/TF risk. It is therefore important to understand the risks inherent at a place of business in which a bank, its subsidiaries or branches operate. In assessing geographical risk, consideration is made on countries listed under the Financial Action Task Force (FATF), UN-sanctioned countries list and countries/ local regions viewed as high risk by the banks.

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Some delivery channels are susceptible to high ML/TF risk, especially those that do not require face to face appearance in the banking halls.

The National Risk Assessment (NRA), which was undertaken in 2018, identified domestic regions that are considered to pose high ML/TF risks. Those include branches which are operating in the major cities and border towns, where money laundering and fraud activities are mainly practiced. During the review period, geographic location risk was rated low because banks did not provide services to residents of high risk jurisdictions.

c) Reporting of suspicious transactions

Regulation 19 of the Money Laundering and Proceeds of Crime, Regulations 2019 requires banks to file a suspicious transaction report (STR) to the FIU if they have reasonable grounds to believe that a transaction is related to criminal activity. A suspicious transaction is a transaction that is unusual and not aligned to the profile of a client. A large number of STRs is an indicator of potential ML/TF activities.

In 2019, banks reported one hundred and forty-two (142) suspicious transaction to the Financial Intelligence Unit (FIU). This was an improvement from the previous year. The improved change was attributable to the automation of systems that detect unusual transactions.

Quality of Risk Management Systems

The risk management systems were generally found to be acceptable during the review period. This is because banks had adequate policies and procedures including strict customer due diligence (CDD) rules to prevent them from being used intentionally or unintentionally for criminal activities. Banks also undertaken comprehensive risk assessments for their customers as well as ongoing transaction monitoring. Most of the banks have also adopted automatic screening systems to screen all customers irrespective of the risk profile. Another effort that was undertaken to prove on KYC verification was to connect banks' systems to the National Identity and Civil Registry (NICR). At the end of 2019, one bank had already finalised a Memorandum of Understanding (MOU) with the Ministry of Home Affairs to facilitate full KYC verification. The other three banks were in the process of finalising MOUs as well.

1.5.2.2 On-site Examinations

The CBL, as the sector supervisory authority of financial institutions, is mandated by Section 18B(1)(a) of the Money Laundering and Proceeds of Crime Act, 2008 as (amended) and Regulation 16 of the Money Laundering and Proceeds of Crime Regulations, 2019, to conduct on-site inspections in order to ensure that financial institutions comply with AML/CFT laws and regulations. Financial Surveillance Division follows an AML/CFT risk-based approach to determine which banks to examine for a particular year.

In 2019, two AML/CFT examinations were conducted. The scope of examinations was informed by exhaustive off-site preliminary assessment. The on-site examinations noted several deficiencies in the areas of customer due diligence, enhanced due diligence for high risk customers including PEPs, reporting of suspicious transactions and correspondent banking relationships. The examinations recommended actions to be taken to rectify the identified deficiencies. Furthermore, during the on-site examinations, banks were instructed to revise their policies and procedures to align them with the Money Laundering and Proceeds of Crime Act and its implementing regulations as well as FATF recommendations.

1.6 FINANCIAL CONSUMER PROTECTION AND MARKET CONDUCT

Market Conduct Supervision of banks and insurance companies focuses on protection of consumers from unfair treatment. This is undertaken in pursuit of promoting and maintaining trust and confidence on the financial system. This activity was carried through complaints handling and off-and on-site examinations in 2019.

1.6.1 Complaints Handling and Redress

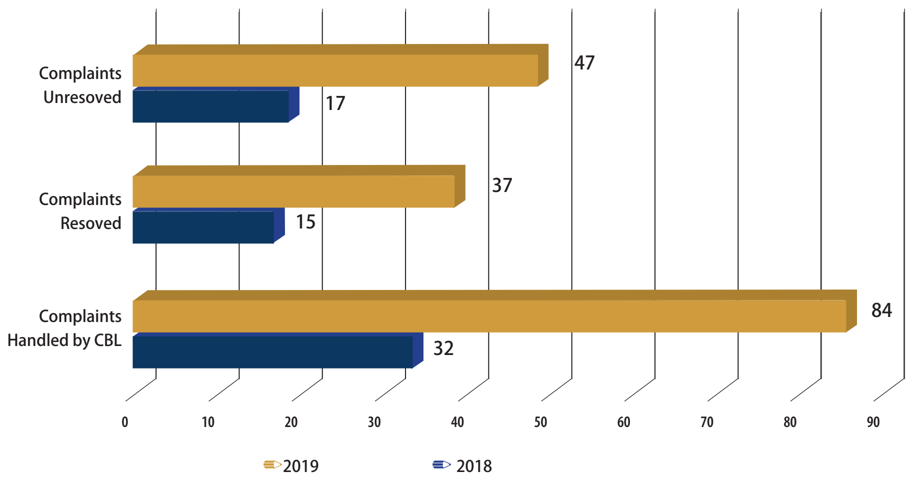
The CBL through the FCP Division monitors financial consumer complaints handled by the banks and insurance companies for identification of FCP risk factors. The Bank also investigates and facilitates the resolution of complaints lodged to it when internal mechanisms of banks and insurance companies have been exhausted.

1.6.2 Complaints Brought by Consumers to CBL for Mediation Banks

During the year under review, 84 complaints were handled by CBL compared with 32 complaints received in 2018. These are complaints received from consumers who were dissatisfied with the responses they received from banks. Out of the total volume of complaints mediated by CBL in 2019, 44 percent of the complaints was resolved and closed, compared with 47 percent that was resolved and closed during the previous year. This demonstrates a decline in the effectiveness of complaints handling and mediation mechanisms. The remaining and unresolved complaints were still under investigation and will continue to be handled in 2020 (see Figure 11).

Market Conduct Supervision of banks and insurance companies focuses on protection of consumers from unfair treatment.

Figure 11 The Number of Complaints Handled in 2018-2019



Source: Central Bank of Lesotho

Complaints that were brought to the CBL for mediation by consumers were in different forms. They are categorised under: breach of terms and conditions of products including extending loan terms without seeking customer's consent; failure of ATMs to dispense cash despite debiting customers' accounts; deposit fraud; ATM-captured cards followed by unauthorised funds withdrawals; ADT's failure to credit accepted deposits into a customer's account, banks' calculation errors in which consumers were overcharged interest and insurance premium; over-indebtedness in which consumers under financial distress due to adverse household income shocks requested loan restructuring. 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, banks' calculation errors and over-indebtedness.

Insurance companies

FCP Division began receiving and mediating on consumer complaints against insurance companies from the 3rd Quarter, 2019. In 2019, the Division handled a total of seven (7) complaints. All of them were unresolved due to delays in providing requested information by insurance companies. The majority of complainants claimed that insurance companies did not honour their contractual promises as the benefits they received were much lower than what they had expected. These kinds of complaints were attributed to inadequate transparency and disclosure of insurance product information to consumers.

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1.6.3 On-Site Examinations and Off-Site Surveillance

On-site examination and off-site monitoring of financial consumer protection and market conduct issues in the banking industry were undertaken in 2019. 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;
- Incidents in which consumers were overcharged fees, interest rates and insurance premium;
- 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;
- Incidents in which CCTV camera surveillance exhibited some weaknesses; and
- Complaints handling mechanisms of banks exhibited some weaknesses.

Financial consumer protection risks posed by these issues were deemed moderate due to the fact that they occurred on a fairly 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 fully compliant on disclosure of fees, charges and interest rates. With regard to Low Income Saving Account (LISA) required by the Directive, four banks had introduced the account, although the uptake was slow and not satisfactory due to the availability of better alternative accounts ❑

BANKING SECTOR REVIEW

2

The Insurance Sector experienced some challenges in 2019; however, overall the industry remained resilient and managed to remain profitable and stable

INSURANCE SECTOR REVIEW

2.0 INTRODUCTION

The Insurance Sector experienced some challenges in 2019; however, overall the industry remained resilient and managed to remain profitable and stable. Figures indicate that the insurance industry collected slightly in excess of M2 billion in gross written premiums with the profits of about M416 million. The long-term sector contributed the largest portion of premiums collected at 77.5 percent, given its dominance in the sector. The sector further realised positive profits through the year and this boosted the overall performance of the insurance industry at the end of the year.

On the other hand, during the review period, the short-term sector remained under pressure due to high levels of management expenses as indicated by the expense ratio that averaged 123.95 against the bench mark level of 105. With fluctuations in premium collections by this sector and high expenses, the sector registered some losses although for the duration of the year, it registered positive underwriting performance due to improved investment income.

Despite the slight pull down by the short-term sub-sector, the sector and the general industry remained well capitalised with high levels of liquidity. Most of the financial soundness indicators remained favourable as it will be observed in the respective sections of the report.

2.1 INDUSTRY DEVELOPMENTS

The industry currently consists of 10 insurance companies, of which 6 are in the life insurance business and the rest in the general insurance business. One insurance license was issued to Trans-Africa Insurance Company Ltd, in 2018, and it began its operations in 2019. In 2019, no license was cancelled or revoked, while one company, Alliance Insurance Company Ltd, which was doing composite insurance, was split into two companies -Alliance Life Insurance Company and Alliance General Insurance Company.

The CBL continued to rollout the risk-based supervision that was adopted in prior years. This has led to the efficient use of limited resources in supervising the insurance industry. The processes began with large insurance companies and it has yielded positive results already in terms of resource utilisation.

During the year, the Bank further initiated the process to repeal the Insurance Act of 2014, which was beginning to show some gaps during its implementation. The purpose of the repeal is further to align with best international practices and for convergence within the SADC. In an effort to improve the current regulatory environment, the Bank collaborated with the Government to develop draft regulations. These included the Licensing of Insurance Regulations, Qualifications Notice for Intermediaries and Micro Insurance Regulations. These pieces of legislation are expected to improve on the prevailing gaps of the Insurance Act 2014 while the process to repeal is ongoing.

The CBL continued to rollout the risk-based supervision that was adopted in prior years.

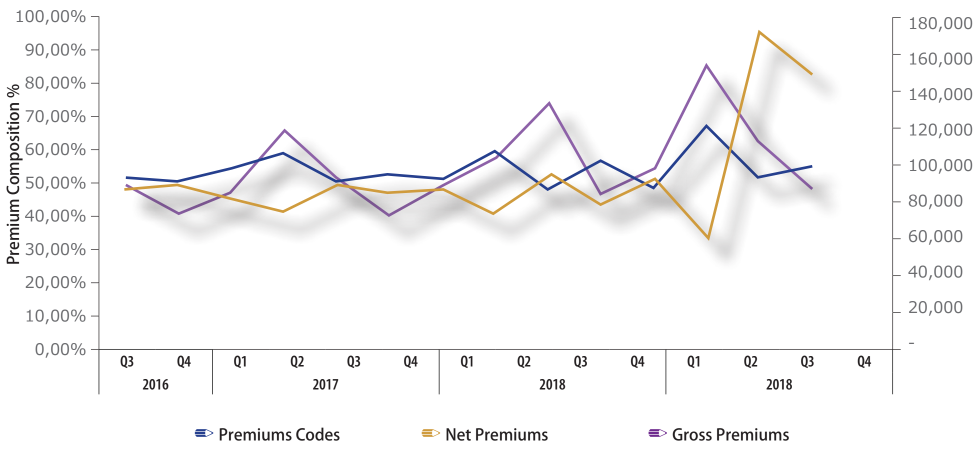
2.2 SHORT-TERM INSURANCE BUSINESS REVIEW

2.2.1 Short-Term Underwriting Performance

During the past year, the short-term insurance sectors collected premiums amounting to M451 million, of which 56.6 percent was ceded to reinsurers. Cession of premium is the requirement of the law that makes it possible for insurers to further insure the risks that they take. However, there must be a balance to this as higher rates of premium ceded indicate that local insurers only act as front runners to foreign insurers while excessively low rates may raise the question on capacity of local insurers to shoulder high risk.

The collected premium for the short term sector reflected an increase of 10.4 percent compared to the previous year. From Figure 12, it can be observed how volatile the short term sector's business was in terms of premium collections. This is due to the seasonality in the sector, with major businesses paying their premiums in the second and fourth quarters of the year. The fluctuations in the business of the short term insurance sector put pressure on the sector, especially amid high operating expenses.

Figure 12 Short - Term Gross Premium Trend and Composition



Source: Central Bank of Lesotho

Figure 13 depicts different sources of the collected premiums, and motor insurance business contributed the largest portion of the premium at an average of 31.2 percent for the year 2019 and this was followed by property at an average contribution of 27.0 percent. Transportation contributes the least at an average of 3.7 percent.

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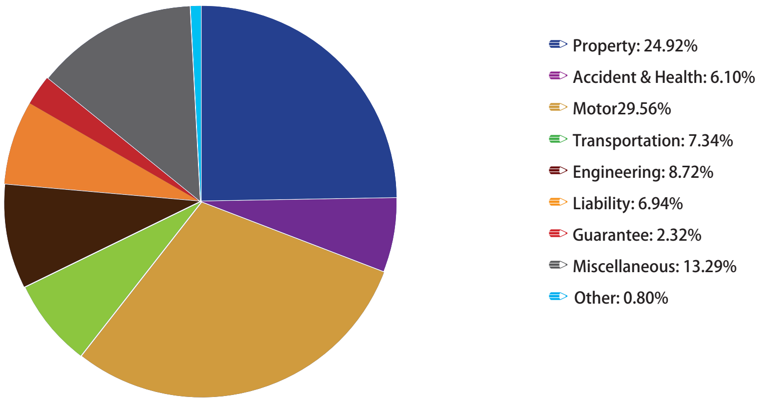
Figure 13 Short Term Sector Gross Premium By Business Class



Source: Central Bank of Lesotho

Although the short term sector registered an underwriting loss to the tune of M10.36 million during the year, the registered investment income worth M16.44 million improved its profitability, leading to the profit of M7.89 million. This compares to the profit of M31.2 million from the previous year, a decrease of 74.6 percent. The sector's underwriting loss was driven by high net claims of M91.22 million and high management expenses amounting to M90.83 million. The loss in underwriting performance reflects low levels of operating efficiency and the impact of fluctuating premium collections by the sector. Management expenses were financed by 20.1 percent of collected premiums, compared to the previous year's 19.4 percent.

Over a longer period, it can be observed that management expenses continue to take a larger portion of collected premiums. This is one issue that the short term industry has to be mindful of and the Commissioner has raised the issue in multiple industry fora. Although there has been a positive reaction to this, the results have not been significant. Some important income statement variables are depicted on Table 18, which shows how the sector's performance compares to the previous year based on these key variables.

Over a longer period, it can be observed that management expenses continue to take a larger portion of collected premiums.

Table 8	The growth rates of other important income statement variables (%)		
Item	2019	2018	% change
	M'000.00	M'000.00	
Gross Premium	451 508.57	408 899.00	10.4
Premium Ceded	256 655.11	218 531.00	17.4
Net Premium	178 517.43	189 143.00	-5.6
Underwriting Revenue	214 855.16	236 957.00	-9.3
Claims Incurred	91 220.00	95 900.00	-4.9
Commission Expenses	43 162.84	56 203.00	-23.2
Management Expenses	90 830.30	79 195.00	14.7
Underwriting Expenses			

Source: Central Bank of Lesotho

2.2.2 Short-Term Insurance Balance Sheet Performance

2.2.2.1 Assets

As at the end of the year, assets for the short-term insurance sector were recorded at M526.17 million, an increase of 23.0 percent from the previous year. The increase was as a result of increased cash and cash equivalents and outstanding amounts from reinsurers. Although there was a fluctuation in assets accumulation in the 3rd quarter of 2019, there was a recovery to close the year at the record level of assets (M526.17 million).

The distribution of the sector's assets are shown in Table 9; investment funds contributed 53.1 percent to the sector's total financial assets, followed by deposits with financial institutions and government securities at 32.0 percent and 13.1 percent, respectively. The rest of the asset classes contributed to the remaining 1.8 percent. In terms of the geographical split, 82.8 percent of the investments was placed in Lesotho as deposits held with financial institutions and government securities, while 17.2 percent was held in foreign countries.

Table 9	Short Term Insurance Sector Investments by Asset Class	
Asset Class	Dec-19	Percent of Total
	M'000	
Government Securities	39 595	13.1
Non-Governmental Securities	462	0.2
Investment Funds	160 913	53.1
Deposits at Financial Institutions	96 793	32.0
Investment Property	1 099	0.4
Investment in Subsidiaries and Affiliates	4 087	1.3
Total	**302 949**	**100.0**

Source: Central Bank of Lesotho

2.2.2.2 Equity and Liabilities

As at 31 December 2019 the sector's total equity expanded by 12.2 percent reaching M116.3 million from M115.5 million for the same period in 2018; a marginal improvement in capitalisation for the sector. Furthermore, technical provisions increased by 31.7 percent to M328.6 million as the sector set aside more funds in light of increasing outstanding claims. Lastly, current liabilities witnessed an increase of 31.7 percent at the back of increasing provision for tax obligations and other provisions.

2.2.2.3 Financial Soundness Indicators

Table 10 shows the selected Financial Soundness Indicators (FSIs) for the short-term insurance sector, from their different categories. The operational performance category indicates that the sector registered a huge loss in the underwriting activity as earlier discussed. This is evidenced by the combined ratio of 134.6 percent measured at the end of the year, which was significantly above the benchmark level of a "maximum of 105 percent". Furthermore, this ratio deteriorated by 20.6 percentage points from the previous year in line with deteriorated management expenses.

For the year, the sector registered a favourable investment yield at 5.2 percent. Although there was a marginal decrease in the yield (from 6.8 percent in 2018), it was above the benchmark level of "> 3 percent. The favourable yield is in line with the significant investment income received by the sector, which led to positive profits in order to offset the effect of underwriting loss.

Table 10 Selected Key Financial Soundness Indicators for Short-Term Sector (%)

	2019	2018	Benchmark
Operational Performance			
Claims Ratio	51.1	50.7	[50-70]
Expense Ratio	75.1	71.6	[33-38]
Combined Ratio	134.6	114	<105
Change Written Premium	10.4	11.8	[-10-25]
Investment Yield	5.2	6.8	>3
Return on Average Equity	6.8	28.0	>5
Financial Position			
Net Premium to Equity	167.6	164.8	<300
Investments to Total Assets	57.6	64.6	>50
Premium Receivable Cover	57.4	36.5	<50
Liquid Reserve Cover	96.2	112.3	>20

Source: Central Bank of Lesotho

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For the year, the sector registered a favourable investment yield at 5.2 percent.

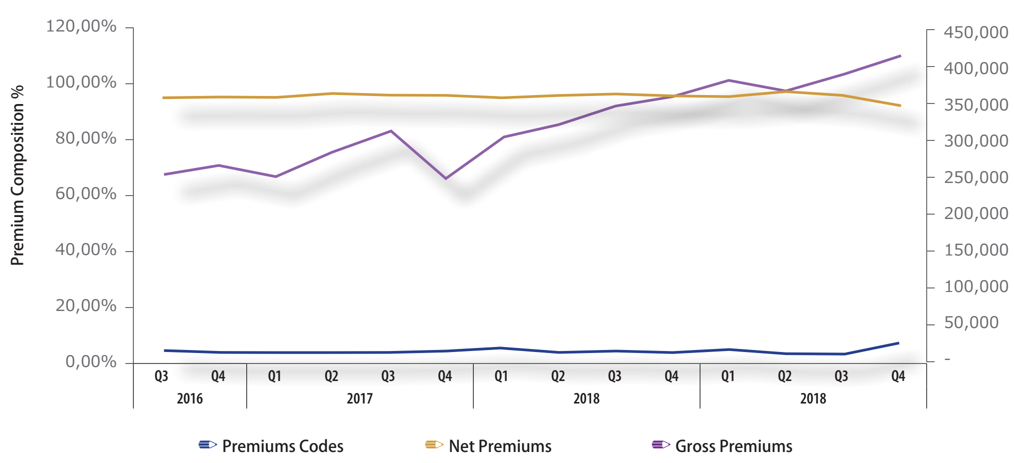
Despite the gloomy picture in the operational category by the sector, it remained adequately capitalized as reflected by the ratio of net premium to equity of 167.6 percent, which compares favourably with the benchmark. From the perspective of the Financial Soundness Indicators, lower risk taken (lower premium) given a particular level of equity is favourable. In addition, the sector's liquid reserve cover stood at 96.2 percent. On the contrary, although this does not affect the solvency position of the sector significantly, the sector's premium receivable cover increased from 36.5 percent in the 2018 to unfavourable level of 57.4 percent. This was despite a decline in outstanding premiums.

2.3 LONG-TERM INSURANCE BUSINESS

2.3.1 Long-Term Insurance Underwriting Results

In 2019, the long-term insurance sector recorded gross written premium amounting to M1.,5 billion, which was an increase of 17.2 percent compared to the collections of 2018. The sector continued to boast high risk absorption capacity with a high premium retention rate of 95.3 percent. The high retention rate is backed by huge capital amounts and excessive levels of liquidity held by the sector, as it will be observed in the subsequent sections of the report. The trends in premium collection by the sector is depicted in Figure 14.

Figure 14 Short - Term Gross Premium Trend and Composition



Source: Central Bank of Lesotho

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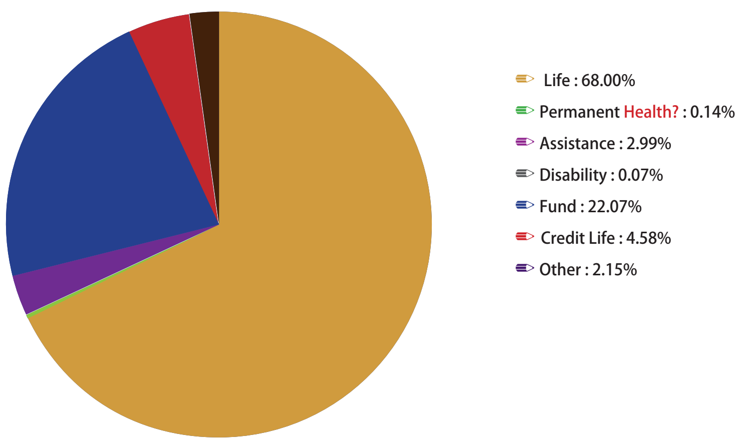
Drivers for premium collections for the sector are depicted in Figure 15, which indicates that life cover business class contributes a larger share of premiums collected at 65.6 percent and this is followed by fund management business at 20.9 percent. Fund management business contributes a large portion as major players have investments or funds management linked to their products such as funeral insurance or they manage provident funds for multiple corporates.

Figure 15 Long Term Sector Gross Premium by Business Class



Source: Central Bank of Lesotho

In terms of underwriting performance, the long-term sector registered an underwriting profit of M318.0 million during 2019; an increase of 63.1 percent compared to the previous year. From the net underwriting revenue generated by the sector, claims amounting to M778.9 million were paid, accounted for 22.0 percent more than the previous year. The long-term sector's performance was also pressurised by high management expenses as it will be observed under the financial soundness section, but since the Commissioner raised this as a concern, there has been significant positive reaction to this by the sector. From the year 2018, management expenses dropped by 4.4 percent, a longer trend would show that this has been on a downward trend. The key income statement variables are indicated on Table 11, to summarise the underwriting performance of the sector between the two recent years.

In terms of underwriting performance, the long-term sector registered an underwriting profit of M318.0 million during 2019.

Table 11	The growth rates of other important income statement variables (%)		
Item	2019	2018	Percent change
	M'000.00	M'000.00	
Gross Premium	1 552 711.00	1 324 860.00	17.2
Premium Ceded	72 918.00	56 544.00	29.0
Net Premium	1 479 793.00	1 268 316.00	16.7
Underwriting Revenue	1 488 306.00	1 268 867.00	17.3
Claims Incurred	778 863.00	638 449	22.0
Commission Expenses	164 845.00	154 414.00	6.8
Management Expenses	226 633.00	237 072.00	-4.4
Underwriting Expenses	1 170 341.00	1 073 972.00	9.0

Source: Central Bank of Lesotho

2.3.2 Statement of Financial Position

2.3.2.1 Assets

The momentum by the long-term sector to expand its balance sheet continued into the year 2019. Total assets of the sector increased from M5.9 billion to M6.7 billion, as at the end of the year; an increase of 14.1 percent. Despite the strong growth in the sector's balance sheet over years, the insurance sector's penetration ratio is still low. The estimated ratio stands at 4.2 percent. The penetration measures the relative size of the insurance sector to the general economy. Although this is low by absolute standards, Lesotho ranks higher relative to its peers in the region, which range from as low as 1.7 percent in some cases[4].

Distribution of the sector's assets is shown in Table 12. Investible assets contributed the largest proportion of the sector's total assets at 69.3 percent, of which 64.1 percent was invested in investment funds, followed by deposits with financial institutions and non-government securities at 13.7 percent and 10.8 percent respectively.

[4] This is according to the PWC report of 2018 on African Insurance.

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Table 12	Long Term Insurance Sector Investments by Asset Class	
Item	Dec-19	percent of Total
	M'000.00	
Government Securities	245 149	5.8
Non-Governmental Securities	457 731	10.8
Investment Funds	2 711 080	64.1
Deposits at Financial Institutions	578 587	13.7
Investment Property	118 860	2.8
Investment in Subsidiaries and Affiliates	107 343	2.5
Total	4 226 940	100.0

Source: Central Bank of Lesotho

In terms of geographical placement of investable assets, the sector held 63.6 percent in Lesotho while 36.4 percent was invested in foreign countries. This is consistent with the requirements of the Insurance Act of 2014, which requires that at least 30 percent should be invested in Lesotho.

2.3.2.2 Equity and Liabilities

The net-worth for the long-term insurance sector improved as shareholders' funds increased by 1.2 percent to M1.3 billion, reflecting higher capacity to retain more risk as it was discussed earlier. This was in the back of accumulated profits and more reserves by the sector. Furthermore, the sector's technical provisions increased significantly by 16.3 percent to M4.7 billion. The sector further recorded a rise in non-current liabilities as more obligations were created in provident funds..

2.3.2.3 Financial Soundness Indicators

The selected Financial Soundness Indicators for the long-term sector are depicted in Table 13 in their two major categories of operational and financial position. Although the two-year comparison is made, the indicators are analysed over a longer period to identify a possible trend.

The net-worth for the long-term insurance sector improved as shareholders' funds increased by 1.2 percent to M1.3 billion.

Table 13 Selected Key Financial Soundness Indicators for Long Term Sector (%)	Dec 2018	Dec 2019	Benchmark
Operational Performance			
Claims Ratio	40.8	52.8	[50-70]
Expense Ratio	34.8	28.5	[33-38]
Combined Ratio	75.6	81.3	<105
Investment Yield	1.6	2.5	>3
Financial Position			
Net Premium to Equity	27.6	30.7	<300
Investments to Total Assets	47.2	67.0	>50
Policyholders Benefit Cover	1 424.5	95.7	>100
Change in capital and surplus	2.4	12.1	[-10 - 50]

Source: Central Bank of Lesotho

The operational performance for the sector remained positive as reflected by the combined ratio of 81.3 percent, which remained significantly better than the benchmark performance of "less than 105". Growth in the combined ratio was driven by an increase in claims and expenses ratios. For the year, the sector experienced an improvement in investment income with a recorded yield of 2.5 percent. However, this fell short of the benchmark performance of "greater than 3 percent".

The long-term insurance sector was adequately capitalized as indicated by the ratio of net premium to equity of 30.7 percent, amongst others, significantly below the benchmark of "less than 300 percent". On the other hand, the sector experienced a shortfall in assets backing technical reserves (insurance liabilities) as its policyholder's benefit cover stood at 95.7 percent against the benchmark of "more than 100 percent". This is an indication that the sector's investments may not be adequate to cover the insurance liabilities, or that the sector overly provided for the insurance obligations ❑

3

2019 has been the year of transitioning for the MFIs industry following the publication of the Financial Institutions (Deposit Taking and Credit-Only Microfinance) (Amendment) Regulations in May 2018.

NON-BANKS FINANCIAL SECTOR REVIEW

3.0 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.

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.

3.1 MICROFINANCE INSTITUTIONS (MFIs)

3.1.1 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 has also been offered by traditional Money Lenders under the Money Lenders (Amendment) Act of 1993. Given historical challenges brought about by the outdated and obsolete provisions of this Act, the industry had to be overhauled and this was done as part of the World Bank Technical Assistance under the First Initiative.

2019 has been the year of transitioning for the MFIs industry following the publication of the Financial Institutions (Deposit Taking and Credit-Only Microfinance) (Amendment) Regulations 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 have also created space for the small lenders to be formal and regulated under the FIA. The publication of the amendments paved way for the repeal of the Money Lenders Act of 1993 and this was still in progress by the end of the review year.

3.1.2 Overview of MFIs

Following the publication of the Financial Institutions (Deposit Taking and Credit-Only Microfinance) (Amendment) Regulations 2018, relicensing of existing MFIs and migration of Money Lenders to MFIs continued in the year under review. 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 MFIs with high systemic risk and relaxing regulatory 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 2019, there were still no deposit taking MFI licensed and there were 43 licensed credit-only MFIs as compared to the 16 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 register strong growth in the year under review. The sub-sector grew by 23.3 percent in the review period up from lower growth of 8.4 percent registered in the previous year. In value terms, the asset base closed 2019 at M982.8 million compared to the M797.0 million registered in 2018. The acceleration in the size of the sector is mainly in line with the recovery in credit extension coupled with the inclusion of new MFIs following the relicensing efforts.

Despite greater improvement in market conduct and professionalism by MFIs, issues of borrowers' indebtedness and reckless lending are still 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 order to limit the impact of these challenges, credit information reporting and the use of the Credit Information Bureau is of utmost importance.

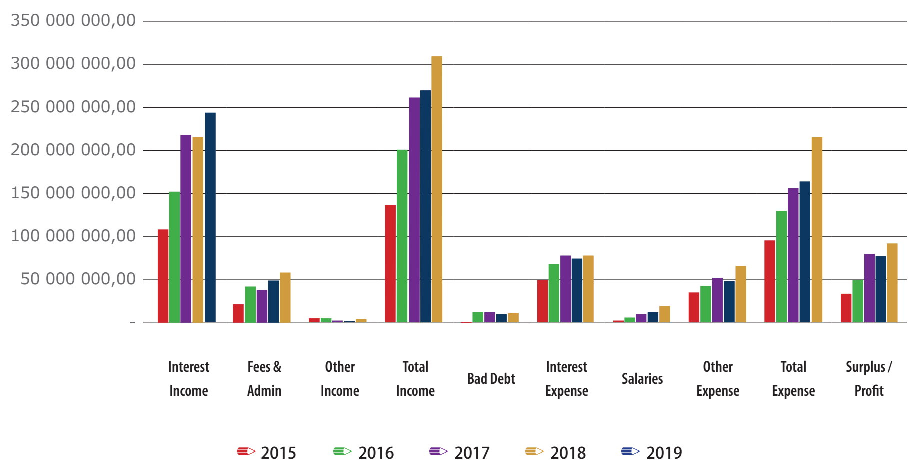
From a market risk perspective, Credit–Only MFIs were still unable to raise funds from the banking sector to finance their credit extension operations and as such remained dependant on loan funding from parent companies, shareholders' equity and other strategic investors. The cost of funding from these sources is therefore high, in turn leading to high interest rates for the consumers.

In terms of growth, the MFIs sub-sector continued to register strong growth in the year under review.

3.1.3 Financial Performance of the Sector

The MFIs subsector's financial performance 2019 continued to remain profitable albeit at a lower rate as compared with 2018. Return on equity slowed to 28.2 percent from 30.2 percent while return on assets slowed to 9.5 percent from 9.9 percent. The slowdown in profitability was at the back of a larger increase of 31.4 percent in total expenses, which overshadowed the 14.9 percent in total income. Despite lower profit margins, the level of profitability remains high by all standards and should be maintained by containing costs through the use of technology and alternative sources of funds amongst others.

Figure 16 Income and Expenses for MFIs



Source: Central Bank of Lesotho

3.1.4 Conclusion

Overall, the microfinance sub-sector on the one hand continued to depict an upward trend and accelerate in terms of growth in financial position and on the other hand slowed or decelerated 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.

3.2 MONEY-TRANSFER INSTITUTIONS

3.2.1 Introduction

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

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

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

3.3.2 Industry Performance in 2019

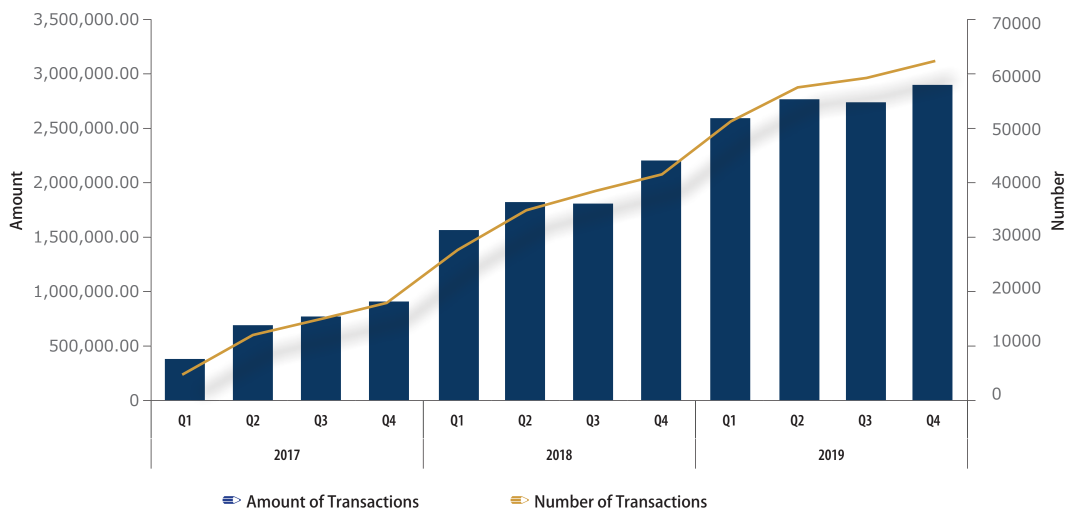
The Central Bank of Lesotho, up to this end, has licensed two stand-alone money transfer institutions, namely: Interchange Lesotho and Mukuru Bureau de Change. Their main service is transfer of funds from Lesotho to the rest of the world and vice versa. These companies are also licensed to operate as exchange bureaus. Despite the slowdown, the money transfer sub-sector continued to register strong double digit growth in terms of size and profitability. The total assets of the sub-sector have increased at a slower rate of 17 percent in 2019 compared to 34 percent recorded in 2018. The increase in the industry is at the back of continued expansion of new corridors, branch expansion or pay point outlets. In terms of profitability, the industry declared return on assets of 11 percent compared to 13 percent recorded in 2018 and return on equity of 25 percent compared to 31 percent in 2018. The main revenue contributor to the sub-sector was money transfer operations at 87 percent compared to 13 percent of foreign exchange activities.

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

3.2.3 Inflow Transactions

The aggregate inflow transactions made through the money transfer institutions continued to register strong growth in terms of volumes and value as depicted on the figure below. From the last quarter of 2018 to the closing quarter of 2019, number and amount of inbound transactions increased by 50 percent and 31 percent respectively. On aggregate, there were 231 290 transactions amounting to US$ 11 051 196.74 in the year 2019. These inbound transactions originated from the 84 countries internationally including South Africa. The South Africa corridor has been opened only on an inbound basis. This increase is attributed to the demand for money transfer services resulting from the efficiency and accessibility of money transfer operators. The introduction of an integration of the money transfers systems with mobile money platforms also played a significant role in the growth of transactions made through these platforms.

Figure 17 Aggregate Inflow transactions in number and amount



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 percentage share of inflow by each country in 2019. The depiction shows that the highest percentage share, 85 percent of inflow transactions came from South Africa, followed by United States of America, which accounted for 5 percent. Botswana accounted for 2 percent of the inflows followed by United Kingdom and Canada accounted for 1 percent each. Other countries combined accounted for 6 percent. This picture is in line with the demographics of Lesotho migrant workers living abroad. The highest recipients of Lesotho immigrants are South Africa, United State of America, United Kingdom and Botswana.

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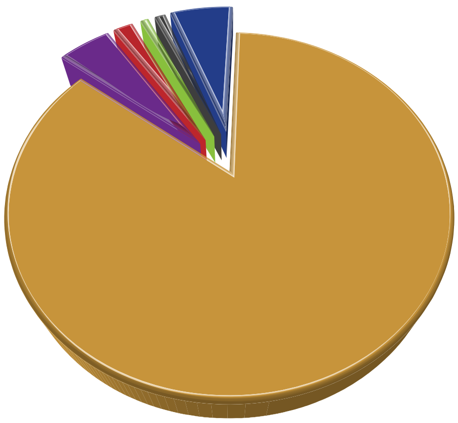
Figure 18 Inflows by Countries of Origin

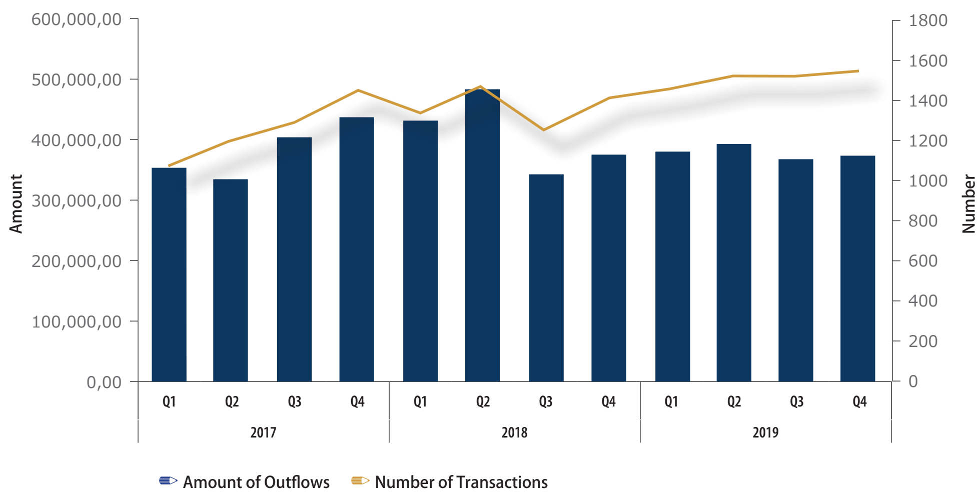


Source: Central Bank of Lesotho

3.2.4 Outflow Transactions

Outflow transactions remitted through the money transfer platforms increased by 10.5 percent in the year under review as compared to the 8.8 percent increase in the previous year. However, the amount of outbound transactions declined by 7.1 percent in the year under review in terms of value.

Figure 19 Number and Amount of outflow Transactions in US$

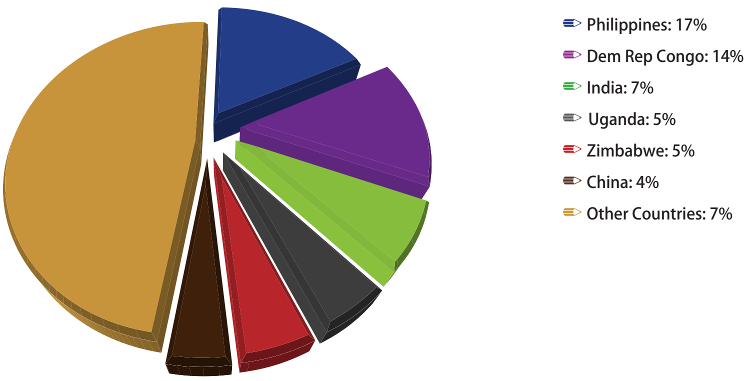


Source: Central Bank of Lesotho

The money transfer sub-sector in Lesotho is also able to remit funds to many countries globally.

The money transfer sub-sector in Lesotho is also able to remit funds to many countries globally. In 2019, outbound transactions by country of destination mostly went to Philippines with a share of 17 percent, followed by Democratic Republic of Congo with 14 percent, India 7 percent, Zimbabwe and Uganda 5 percent each. This is in line with the number of migrants of these countries in Lesotho. South Africa is not included in this distribution. The transfer of funds to South Africa is largely made through the banking sector and other channels given the level of integration and the linkage between Lesotho and South African banking system.

Figure 20 Outflow by Country of Destination



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.

3.2.5 Conclusion

Given the historical dynamics of migrant workers in South Africa, safe and efficient platforms for remittances play a critical role in poverty alleviation by ensuring that families of the migrants receive the much-needed income. While the amounts may appear to be small, it is often the main source of migrants' family income. As such, the importance of Money Transfer Institutions cannot be overemphasised.

3.3 CREDIT INFORMATION SHARING

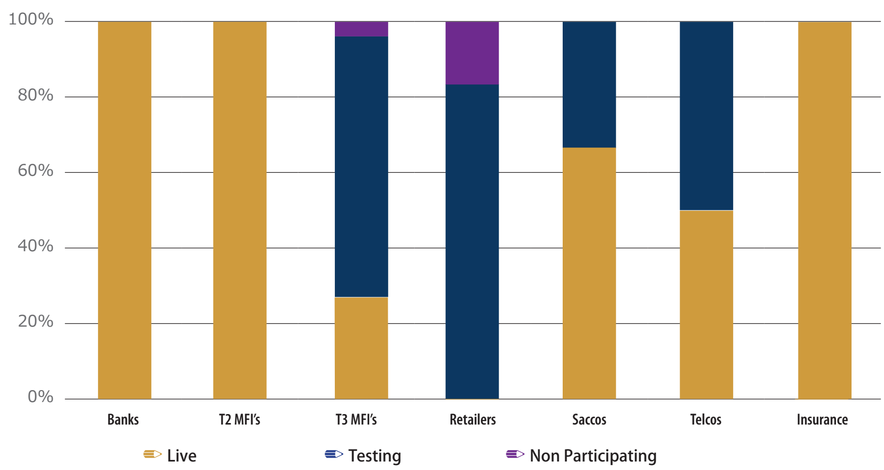
3.3.1 Introduction

The Credit Information Sharing in Lesotho came to light following the promulgation of the Credit Reporting Act of 2011 and the publication of the Credit Reporting Regulations of 2013. As a result, the first credit bureau in Lesotho was licensed in 2013 and since then significant work went into increasing coverage and usage of credit information in the Bureau. As at the end of 2019, commendable milestones had been achieved as data for more than 200 000 consumers across a wide range of credit providers was live on the bureau.

3.3.2 Credit Information Coverage and Usage

Consumers' credit information becomes increasingly reliable for credit underwriting and other purposes when a wide pool of data providers periodically report data to the credit bureau. In the period under review all commercial banks, insurance companies and tier II MFIs in the market continued to provide consumer credit information to the bureau. 83 percent of the retailers were live while only 67 percent of SACCOs were live by the end of the year. Tier III MFIs that are live accounted for only 27 percent; however, this is expected to increase significantly, as those that are testing go live. As compared to the level of participation in the previous year, MFIs have improved significantly in the year under review following the decision to include participation in the bureau as a requirement for licensing.

Figure 21 Share of credit providers live on the Credit Bureau

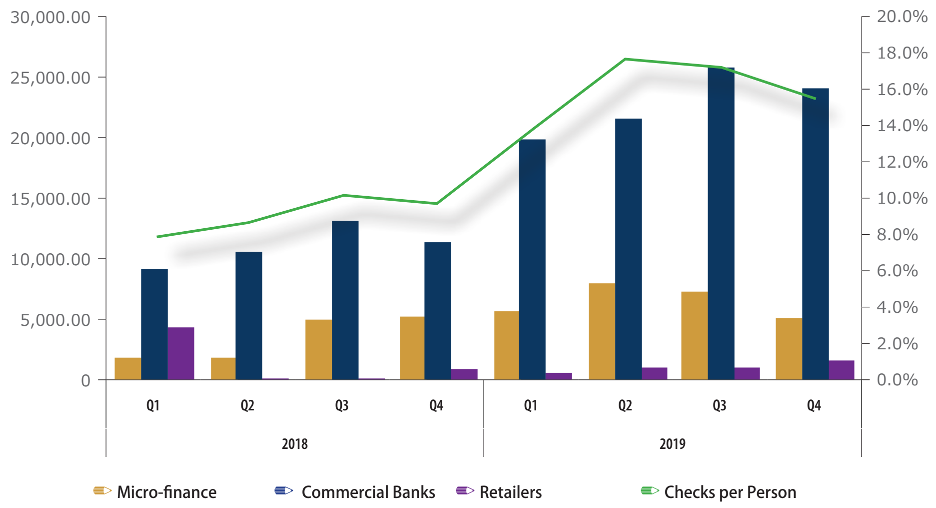


Source: Central Bank of Lesotho

Commercial banks were the most dominant in terms of credit history inquiries and this is in line with market share dynamics.

In order to assess the credit market activity or credit information usage, the figure below graphically depicts the number of credit checks or inquiries as part of credit worthiness assessment. The number of credit checks made in 2019 increased significantly as compared to 2018 and this trend is discernible for Banks, MFIs and Retailers. The strong and widespread growth was on account of greater participation from more credit providers coupled with strong demand for credit in the review year.

Figure 22 Credit Checks or Information Usage



Source: Central Bank of Lesotho

Commercial banks were the most dominant in terms of credit history inquiries and this is in line with market share dynamics. In the year under review, commercial banks alone conducted over 92 thousand checks, up from 45 thousand in the previous year. Microfinance firms conducted over 26 thousand checks, up 86 percent from the previous year. Greater usage from retailers has also been observed since the last quarter of 2018.

3.3.3 Number of Natural Persons and Accounts on the Bureau

The total number of borrowers on the bureau increased by 11.1 percent in 2019 and closed the year at 201 766 as compared to 181 673 recorded in 2018. This continued growth is as a result more and more credit providers coming on board to uploading data on the bureau coupled with the increase in demand for credit.

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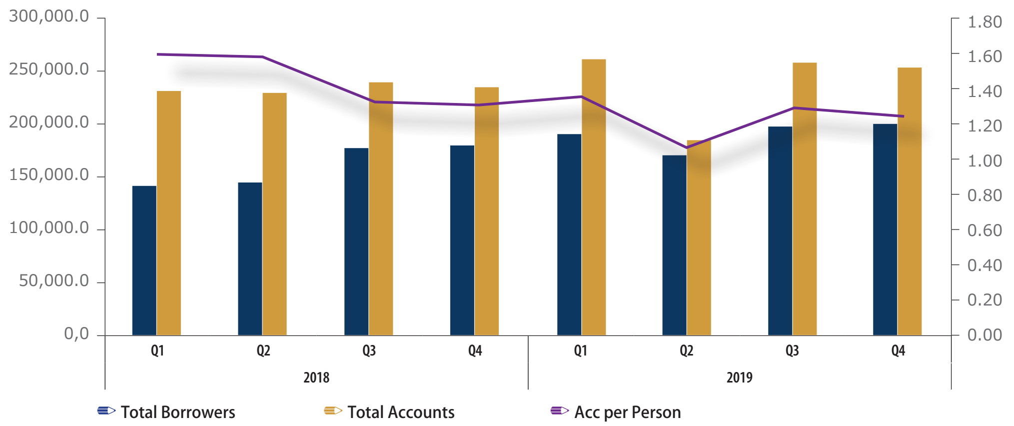
Figure 23 Consumers and Accounts on the Bureau



Source: Central Bank of Lesotho

The number of credit accounts also increased albeit at a lower rate of 6.9 percent as compared to the number of consumers. Consequently, the number of accounts per person has been on a downward trajectory over time, declining from 1.6 to 1.3 accounts year-on-year. This decline implies that credit consumers were increasing paying off existing credit accounts and not opening new ones upon completion.

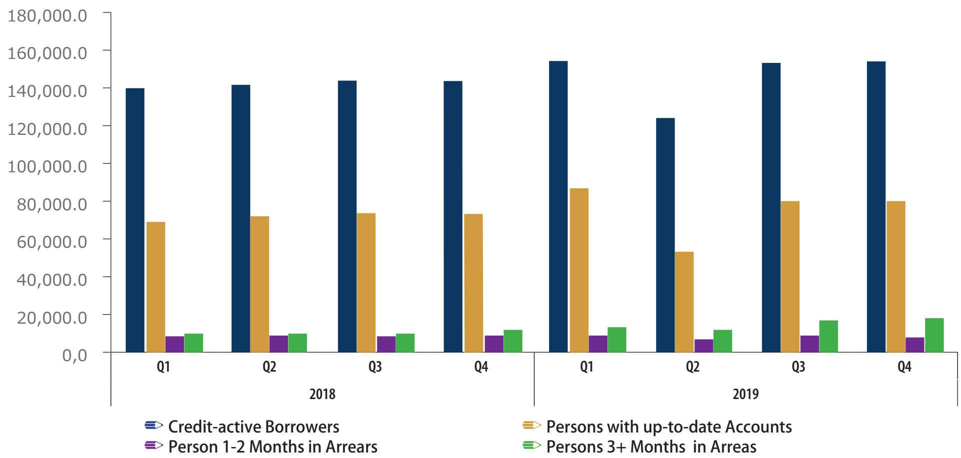
3.3.4 Consumer indebtedness

One of the greatest consequences in the credit market is the prevalence of consumer indebtedness. Borrowers are defined as over-indebted if they recurrently fail to meet their periodic repayments, which may lead them to seek unconventional recourse to their debt situation[5].

[5] Jessica Schicks (2012) Over-Indebtedness in Microfinance –An Empirical Analysis of Related Factors on the Borrower Level.

The number of credit accounts also increased albeit at a lower rate of 6.9 percent as compared to the number of consumers.

Figure 24 Indicators of Indebtedness



Source: Central Bank of Lesotho

From the figure above, it can be clearly noted that the number of borrowers whose accounts remained well maintained in terms of making payments as they felt due remained fairly flat throughout the year under review. As compared to the previous year, borrowers who had skipped at least one month but less than three months of their loan accounts closed the year lower at 9 057 down from 10 175 in the previous year. In contrast, persons with three or more months in arrears have been steadily increasing and closed the year 59.1 percent higher. This indicates a strong prevalence of indebtedness in the credit market of Lesotho.

3.3.4.1 Credit market Breakdown by Product Type

The figure below provides a breakdown of loan account by type as demanded in the market. In the year under review, it is noted that unsecured loans were the most prevalent, averaging 64.5 percent of all accounts in the market. Such loans as revolving non-store cards, student loans and one month personal loans, classified as “other facilities” were also notably popular among borrowers in the same period. This category of loans ranked second in demand at over 20 percent on average. The least demanded loan products were vehicle and asset finance and mortgage accounts at 1.3 and 1.6 percent respectively. Despite the low share for VAF and mortgage accounts in terms of volumes, the opposite is the case in terms of values.

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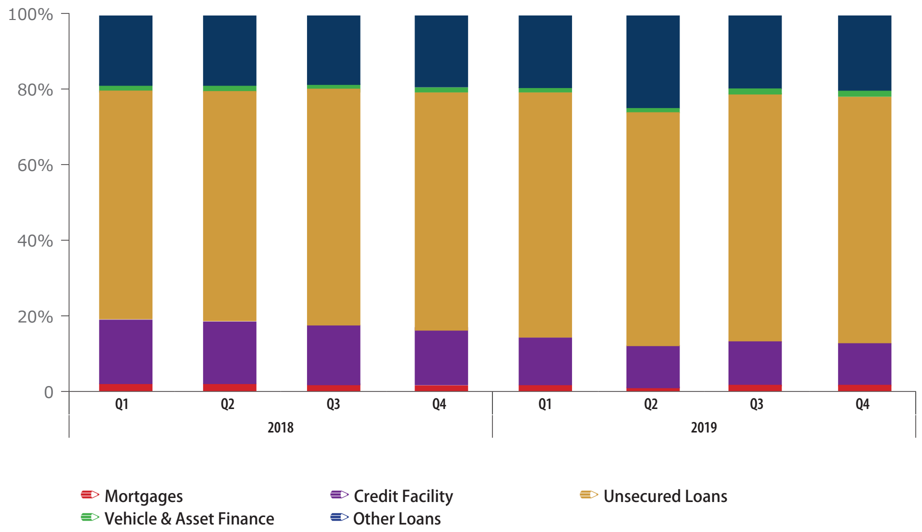
Figure 25 Share of Credit Accounts by type



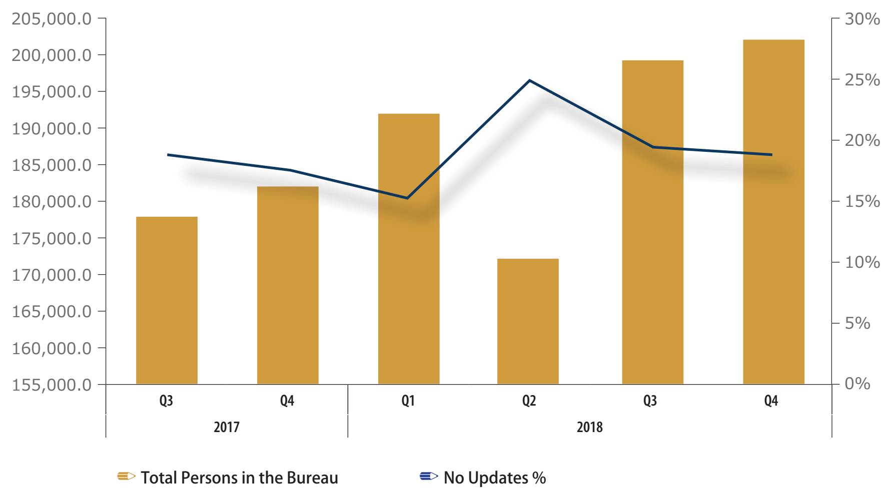
Source: Central Bank of Lesotho

3.3.5 Data Quality

In terms of credit reporting principles by the World Bank, credit reports must be accurate, complete and up-to-date. As seen on the figure below, up to 81 percent of the borrowers' information was reported and updated, while the remaining 19 percent of borrowers' information was lacking up-dates. Borrowers' information that is not periodically up dated renders such information incomplete and this could lead to lenders making wrong and costly decisions.

In terms of credit reporting principles by the World Bank, credit reports must be accurate, complete and up-to-date.

Figure 26 Borrower Report Updates



Source: Central Bank of Lesotho

3.3.6 Conclusion

While a lot of progress has been made and commendable milestones have been achieved since inception of the bureau, a lot still needs to be done. These include, but are not limited to: increasing coverage and usage; improving data quality; enhancing financial education and literacy; and adding value added services like credit scoring ❑

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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.

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. It has five participants consisting of Lesotho's four commercial banks and the Banking Division of the CBL. The system has remained the backbone of the payment and settlement system in Lesotho since its launch in 2006.

In 2019, LSW processed and settled a total of 33 047 transactions valued at M66.90 billion compared to a total of 25 880 transactions to the tune of M51. 47 billion settled in 2018. This represents 28 percent and 30 percent growth in terms of transaction volumes and values, respectively, between 2018 and 2019. The growth in LSW transaction volumes and values was largely on account of a huge number of government and interbank payments processed during year. In terms of system availability, LSW generally maintained an uptime of 99.5 percent in 2019. Therefore, the system generally operated smoothly and remained available to settle all large value and time-critical payments during the year. This provided a conducive environment for efficient circulation of funds and conduct of monetary policy. It also supported monetary and financial stability as well as overall economic activity in the country.

During the year, the Department of Payments and Settlements working together with Montran, the Real Time Gross Settlement system (RTGS) system vendor, initiated an upgrade of LSW. The objective of the system upgrade is to enhance existing business features with a view to improve the efficiency of the system and to automate net settlement positions emanating from the cheque and electronic funds transfer (EFT) clearing systems. The system upgrade is anticipated to be completed by the end of the first quarter of 2020.

4.1.2 Licensing of three Mobile Money Issuers

In 2019, the CB Llicensed three mobile money issuers namely; Smartel Money (Pty) Ltd, Lesotho Post Bank and Chaperone Limited, under the Payment Systems (Issuers of Electronic Payments Instruments) Regulations 2017. Smartel Money (Pty) Ltd has been licensed to use an internet-based system and unstructured supplementary service data (USSD) to allow registered customers possessing either internet-capable mobile phones (smartphones) or basic mobile phones (those without internet) to access and use Smartel Money services. The services that the company intends to provide through its agent network are person-to-person (P2P) money transfers, cash-in and cash-out (CICO) services, airtime purchases and bill payments (e.g electricity and water). The company has opened atrust account with Standard Lesotho Bank (SLB) to ensure one-to-one backing of issued e-money with the real cash. However, the company has not yet launched the system and the associated services to date.

Lesotho PostBank (LPB) was licensed to launch its e-money platform, Khetsi, to offer mobile money services in addition to its product offerings provided under its banking licence. This e-money platform is interoperable with LPB's bank accounts and allows registered mobile money users (including those without bank accounts) to access and use mobile money services. These services are cash-in and cash-out (CICO) services, P2P transfers, bill payments, airtime purchases, nano loans and group savings facilities. The interoperability between Khetsi and bank accounts enables transfers from e-money accounts to bank accounts and cash-out at LPB's automatic teller machines (ATMs). Khetsi and its associated mobile money services were launched on the 17th May 2019.

The third mobile money issuer, Chaperone Limited, was licensed to provide mobile money services through the internet (its website), a mobile smart device application and later on through USSD. The mobile money services to be offered through Chaperone Limited's e-money platform include cash-in and cash-out services, P2P money transfers, merchant point of sales (POS), bulk payments and scheduled payments. The company has opened the trust account with SLB to ensure one-to-one backing of issued e-money with the real cash. The company has not yet launched the system and the associated services. The company is expected to launch its e-money platform and the associated services during the first half of 2020.

4.1.3 Digital Financial Identity

Following the completion of the study, which assessed the feasibility of using national identity (ID) for online electronic know your customer (e-KYC) verification in the financial sector, the digital ID project was finally launched in July 2019. The launch of this project marked the big achievement for the financial sector in Lesotho because the digital financial ID will, among others, reduce the cost associated with customer due diligence (CDD) in the financial sector. Since the launch of the project, some banks and non-banks e-money issuers have moved ahead to test the solution and prepared a memorandum of understanding (MoU) with the Ministry of Home Affairs through the National Identity and Civil Registry (NICR) Department with a view to use the national ID for online e-KYC verification. In addition, the discussions have also been held with the financial sector regulator, the CBL, to allow the use of national ID for or online e-KYC verification. This matter currently being considered by the CBL.

4.1.4 National Payment Switch Implementation

In 2019, the Payments Association of Lesotho (PAL) initiated the project to further modernise the current payment clearing and settlement ecosystem and infrastructure by embarking on the implementation of the national payment switch. The national payment switch is meant to, among others, facilitate interoperability between the commercial banks, the non-bank e-money issuers and the financial technology (FinTech) companies operating in Lesotho, to enable the creation of a cashlite society and to improve the operational capacity of the existing domestic payment and settlement systems. In addition, the switch has the potential to consolidate all activities

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As at 31 December 2019, all guidelines, templates and reporting manuals were shared with the banks in anticipation of the parallel run in 2020.

under a common platform for easy monitoring, oversight and management and improve access to finance by low-income stakeholders, a key national strategic objective.

However, the project is currently at its early stage. PAL has just engaged a consultant to review the national switch requirements considering the current ecosystem and underlying infrastructure landscape and identify the most appropriate, efficient and effective national payment switch solution for the clearing of card, mobile and other transactions within Lesotho whilst ensuring interoperability between different payment streams ("fit-for-purpose"). In addition, the consultant is engaged to develop the national switch blueprint that encompasses different implementation options taking the priorities identified in the requirements into consideration. The actual implementation of the switch is expected to start immediately after this initial scoping and it is anticipated to be completed tentatively by the end of 2021.

4.1.5 The Shoprite Cross-border Money Transfer Service

The Shoprite cross-border money transfer service, launched in 2015 through collaboration among FinMark Trust, Shoprite, the Ministry of Finance Lesotho, the and the South African Reserve Bank (SARB), experienced phenomenal growth in terms of processed transaction volumes and values. The product reached 1.56 million transactions worth M1.68 billion in 2019, after just three years following its implementation between South Africa and Lesotho. The service is regarded as one of the cheapest cross-border products in the world[6]. FinMark Trust estimates that approximately 70 percent of recipients of the money sent through this cash-to-cash offering are women and that the service has saved Basotho people about M80 million in transfer fees over the three-years of its launch. These significant savings can now be used for education, health, consumption, and small, medium, and micro-sized enterprise activity in Lesotho.

4.2 BASEL II.5 MIGRATION

As at 31 December 2019, all guidelines, templates and reporting manuals were shared with the banks in anticipation of the parallel run in 2020. The main objective of the parallel run is to ensure smooth transition to Basel II.5 standards and to enable banks to streamline systems and strategies. During this period, there will be monitoring of compliance on the Guidelines on the computation of capital charges on credit, operational and market risks.

[5] For example, the cost of transferring of M900 is 2 percent.

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The regulatory capital per Basel II.5 adopted covers key risks and ensures that banks hold capital that is commensurate with their risk profiles, ensuring, as a result a stronger financial system. Amongst these risks is a new dimension of operational risk, which was not in Basel I- the first capital accord. It is also not in the primary Basel III accord either but comes as pretty much “state of the art” introduction to the jurisdiction (It comes with “Basel III: post-crisis reforms”, published in 2011). The “flag-bearing” standard measurement approach of the reforms enable banks to identify, and measure operational risk, which was not previously the case, despite generally being regarded as a significant risk. Critically, it allows for better risk management measures, combining the prescriptive standardised approaches with more risk-sensitive internal approaches. The new architecture puts the financial system in a better position in terms of good risk management as well as in terms of development, sophistication, and innovation, through the implementation of international good practises and standards and will get even better in time, because Basel I was generally not sufficiently risk-sensitive compared to the proportionately adopted Basel II.5 Framework.

Also, banks should now be able to come up with more realistic and internally generated capital assessment process, termed “Internal Capital Adequacy Assessment Process“ (ICAAP), that depicts how the bank views its own risk and capital positions; that is, whether there is sufficient capital for the assumed risk. This view completes the four-eyed principle, and provides a 360 angle when taken together with the supervisory review of a bank’s capital adequacy and internal assessment process (SREP) conducted by the Commissioner.

The next phase is to work on the regulations that will implement the guidelines, particularly the Pillar I guideline. The current Risk-Based Capital Requirements Regulations will be replaced with the new Basel II.5 risk-based capital requirements regulation that will ensure enforceability of the accord. During the parallel run, banks will still be expected to comply with the current Basel I accord, while also reporting on Basel II.5, in preparation for full migration in 2022. The Commissioner will continue to keep an eye on the revisions to the standards with a view to implement as applicable.

4.3 CONSUMER PROTECTION AND MARKET CONDUCT REGULATION AND SUPERVISION

After commencing its operation with a focus on commercial banks, in 2019 Financial Consumer Protection Division’s mandate was expanded to cover insurance companies. This was made possible after the reinforcement of its staff complement with one experienced analyst from Insurance Supervision Division. This extension of the scope of consumer protection and market conduct supervision implies improved protection of financial consumers of insurance products from unfair, deceptive or abusive practices.

The regulatory capital per Basel II.5 adopted covers key risks and ensures that banks hold capital that is commensurate with their risk profiles.

For consumer protection and market conduct regulation and supervision to be effective, the powers of the regulatory structure and rights and duties of consumers and financial service providers have to be clearly defined. To this end, in 2019, a Draft Bill (Financial Consumer Protection Bill) was developed with the assistance of the World Bank. The Draft Bill was presented to all stakeholders including the Ministry of Finance for comments before being forwarded to the Office of Parliamentary Counsel.

The rationale for the Bill is to have an over-arching structure that adequately protects financial consumers with clear enforcement mechanisms. Presently, there are fragmented provisions in different sectoral financial laws, which do not adequately protect the rights of financial consumers, and further, there is no explicit authority mandated to regulate and supervise the conduct of financial market participants. This has made it very difficult to address financial consumers' issues.

Going forward, the plan is to include other financial institutions (OFIs) such as pension funds, micro-finance institutions (MFIs), and mobile network operators (MNOs) ❑

Appendices

APPENDICES

Appendix I	Consolidated Balance Sheet for the Banking Industry (figures in M`000)								
BALANCE SHEET	2011	2012	2013	2014	2015	2016	2018	2018	2019
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	17,181,049
Cash and Cash Items	261,996	351,431	426,976	387,871	564,886	613,960	747,067	762,106	957,317
Balances with CBL	162,043	174,311	447,963	549,673	374,398	445,400	397,372	337,114	536,027
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	902,079
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	2,416,680
Marketable securities	718,913	839,216	666,030	612,183	750,200	756,951	1,003,304	1,691,100	2,289,097
Other investments	1,112,531	532,188	1,063,519	627,325	654,354	241,703	930,077	562,492	1,918,688
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	7,049,973
Fixed Assets	146,361	144,577	175,394	211,284	265,665	324,867	697,537	650,350	435,354
Other Assets	104,101	108,245	172,605	245,223	215,474	290,753	406,736	407,369	675,834
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	14,792,652
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	12,869,603
Due to local banks	1,097,954	992,324	1,864,779	2,156,610	2,325,171	2,009,065	2,002,976	2,544,961	963,361
Due to foreign banks	178,138	49,674	313,361	197,786	249,352	225,095	355,442	257,232	291,434
Other borrowings	0	0	0	0	50,417	70,946	70,904	71,596	71,027
Other liabilities	512,067	406,025	346,137	417,322	484,381	414,301	524,007	683,976	597,227
TOTAL CAPITAL	807,669	936,526	1,094,205	1,309,555	1,465,063	1,686,361	2,061,281	2,143,452	2,388,406
Paid-up capital	88,858	98,858	108,858	108,858	123,358	125,858	125,858	125,858	125,858
Statutory reserve	125,909	120,625	124,919	124,059	131,777	194,331	185,876	189,106	190,654
Revaluation reserves	13,975	13,975	13,975	16,261	24,740	23,211	26,162	20,374	22,741
Other reserves	11,711	26,775	12,070	19,903	12,074	13,628	60,803	2,240	62,747
Retained earnings	367,376	458,059	518,371	694,461	796,427	910,087	1,321,787	1,351,665	1,471,693
Profit/ loss for the year	243,054	272,382	356,919	397,870	423,949	461,415	340,795	454,209	514,713

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APPENDICES

Appendix 2	Consolidated Income Statement for the Banking Industry (figures in M`000)								
	2011	2012	2013	2014	2015	2016	2017	2018	2019
TOTAL INCOME	779,079	937,818	1,196,139	1,300,320	1,439,500	1,596,248	1,687,750	1,884,563	2,018,169
Interest income - Loans	216,056	354,706	519,024	560,308	711,899	817,655	952,771	1,002,221	1,134,200
Interest income - Placements	277,283	223,323	230,404	358,880	397,896	485,133	409,325	598,016	419,494
Foreign payments	142,323	169,348	144,646	207,677	212,271	248,609	198,571	150,349	162,835
Domestic payments	196,741	112,410	85,759	151,203	185,626	236,524	210,755	288,612	256,658
Interest income - Securities	110,940	110,905	122,176	157,164	57,934	61,674	62,690	82,091	157,969
Total interest income	604,279	688,934	871,604	1,076,352	1,167,729	1,364,462	1,424,786	1,682,328	1,711,663
Interest expense	182,689	171,576	207,659	330,943	346,249	433,950	417,099	521,483	528,577
Net interest income	421,590	517,358	663,945	745,409	821,480	930,512	1,007,687	1,160,845	1,183,086
Fees and commission income	288,043	345,598	451,125	475,642	520,386	574,645	601,250	613,444	639,627
Forex gains/losses	51,810	60,655	59,049	65,699	79,523	60,737	51,477	69,662	77,999
Income on equity investment	0	0	0	0	0	510	199	638	0
Other income	7,394	4,879	9,822	9,916	14,822	26,463	20,158	28,365	104,022
Grants	10,242	9,328	12,198	3,654	3,289	3,381	6,979	11,609	13,434
Non-interest income	357,489	420,460	532,194	554,911	618,020	665,736	680,063	723,718	835,083
TOTAL EXPENSES	448,684	565,995	701,571	756,673	858,974	957,596	1,193,497	1,219,679	1,311,789
Staff Salaries and benefits	218,733	222,110	275,201	306,336	350,179	398,896	432,995	463,283	507,299
Management/directors fees	49,294	119,209	88,122	96,164	112,558	117,250	163,647	158,200	78,743
Auditors/consultants fees	3,105	3,359	4,478	4,979	5,596	6,006	6,855	15,025	29,752
Provision for bad debts	17,318	50,011	65,685	81,805	97,947	95,919	103,802	84,706	76,296
Bad-Debts Write-offs/ Irrevocable losses	0	0	0	0	0	9,917	51,613	0	43,510
Depreciation	29,514	31,693	40,787	41,200	41,307	47,795	53,998	86,379	84,457
Other operating expenses	130,720	139,613	227,298	226,189	251,387	281,813	380,587	412,086	491,730
Operating Income/Loss	330,395	371,823	494,568	543,647	580,526	638,652	494,253	664,884	706,381
Income/loss before taxation	330,395	371,823	494,568	543,647	580,526	638,652	494,253	664,884	706,381
Taxation	87,341	99,441	137,649	145,777	156,578	177,236	153,458	187,594	191,667
Net income after taxation	243,054	272,382	356,919	397,870	423,948	461,416	340,795	477,290	514,714
Dividend	169,245	137,286	196,659	266,363	265,754	0	250,000	274,924	0
Retained income	73,809	135,096	160,260	139,512	170,185	461,415	112,703	220,963	514,714

Appendix 3	List of Licensed Commercial Banks		
Institution	Chief Executive Officer / Managing Director	Physical & Postal Address	Contacts
Standard Lesotho Bank Ltd	Mr. Thabiso Tsenki	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) 22317842

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Appendix 4 (a)	Short Term Insurance Sector Balance Sheet (Assets)		
Particulars	2019	2018	Change
	M' 000	M' 000	
ASSETS			
Fixed Assets	6 919	5 309	30%
Long-Term Investments	52 345	47 143	11%
Loans to related parties	2 330	21 662	-89%
Deferred tax	5 268	4 245	24%
Deferred finance charges	12 453		
Goodwill			
Total Non-Current Assets	79 315	78 359	1%
Current Assets			
Bank and Cash	3,843	4,282	-10.25%
Short-term investments	13 115	3 843	241%
Debtors	250 604	229 204	9%
Outstanding premiums	1 745	-2 156	-181%
Inter-company borrowings	32 127	42 208	-24%
Amounts due from Reinsurers	457	180	154%
Reinsurers' share of unearned premium		14 484	-100%
Prepaid Expenses	260		
Total Current Assets	446 859	349 280	28%
Total Assets	**526 174**	**427 639**	**23%**

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Appendix 4 (b)	Short Term Insurance Sector Balance Sheet (Liabilities)		
Particulars	2019	2018	Change
	M' 000	M' 000	
EQUITY AND LIABILITIES			
Share Capital	17 250	25 714	-33%
Share Premium	19 464	11 000	77%
Accumulated Profit	79 578	78 769	1%
Total shareholders' Funds	116 292	115 483	1%
Non-current Liabilities			
Borrowings	-	-	
Amounts due to related parties	-	-	
Total non-Current Liabilities	-	-	
Technical Provisions			
Insurance Fund			
Outstanding claims Provision	231 005	141 904	63%
Unearned Premium Provision	97 566	101 554	-4%
Other underwriting Provisions (Reinsurance Premiums)		45 009	
IBNR		-	
Unexpired risk reserve		-	
Cash Collaterals on Bonds		5 939	
Total Technical Provisions	**328 570**	**294 406**	**12%**
Provisions for Taxation		2 330	
Provision for Doubtful Debts	31 571	-	
Creditors	44 375	15 101	194%
Government Stamp duty		-	
Employees Tax & Salaries Control	560	319	76%
Inter-Divisional Current Account		-	
Contingent liabilities	4805	-	
Total Current Liabilities	81 312	17 750	358%
Total Capital, Reserves and Liabilities	**526 174**	**427 639**	**23%**

Appendix 5	Short Term Insurance Sector Underwriting Statement		
Particulars	2019	2018	Change
	M' 000	M' 000	
Gross Premium	45 508	408 899	10%
Reinsurance Premium	256 655	218 531	17%
Net Premium	178 517	190 368	-6%
Commission Income	18 186	47 814	-62%
Other underwriting income		-	
Net Earned Income	196 703	238 182	-17%
Claims Incurred		95 048	
Less Reinsurance share		-	
Net claims incurred	91 220	95 048	-4%
Commissions Expenses	43 162	56 203	-23%
Management Expenses	90 830	79 195	15%
Change in IBNR	931	852	9%
Change in unearned premiums	18 789	1 225	1434%
Underwriting Expenses	244 931	231 298	6%
Underwriting Gains/Loss	(10,36)		
Investment Income	16 440	19 081	-14%
Other income		5 939	
Operating Profit	24 987	30 678	-19%
Other Expenses		-341	
Profit Before Taxation	7 890	31 018	-75%

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Appendix 6 (a)	Long Term Insurance Sector Balance Sheet (Assets)		
Particulars	2019	2018	Change (%)
	M' 000	M' 000	
Fixed Assets			
Long-Term Investments	6 919	5 309	30%
Loans to related parties	52 345	47 143	11%
Deferred tax	2 330	21 662	-89%
Deferred finance charges	5 268	4 245	24%
Goodwill			
Total Non-Current Assets	79 315	78 359	1%
Current Assets			
Bank and Cash	**13 115**	**3 843**	**241%**
Short-term investments	250 604	229 204	9%
Debtors	1 745	-2 156	-181%
Outstanding premiums	32 127	42 208	-24%
Inter-company borrowings	457	180	154%
Amounts due from Reinsurers	148 551	61 517	141%
Reinsurers' share of unearned premium		14 484	-100%
Prepaid Expenses	260		
Total Current Assets	**446 859**	**349 280**	**28%**
Total Assets	**526 174**	**427 639**	**23%**

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Appendix 6 (b)	Long Term Insurance Sector Balance Sheet (Liabilities)		
Particulars	2019	2018	Change (%)
	M' 000	M' 000	
EQUITY AND LIABILITIES			
Share Capital			
Share Premium	17 250	25 714	-33%
Accumulated Profit	19 464	11 000	77%
Total shareholders' Funds	79 578	78 769	1%
Non-Current Liabilities			
Borrowings		-	
Amounts due to related parties		-	
Total non-Current Liabilities		-	
Technical Provisions			
Insurance Fund			
Outstanding claims Provision	231 005	141 904	63%
Unearned Premium Provision	97 566	101 554	-4%
Other underwriting Provisions (Reinsurance Premiums)		45 009	
IBNR		-	
Unexpired risk reserve		-	
Cash Collaterals on Bonds		5 939	
Total Technical Provisions	328 570	294 406	12%
Provisions for Taxation		2 330	
Provision for Doubtful Debts	31 571	-	
Creditors	44 375	15 101	194%
Government Stamp duty		-	
Employees Tax & Salaries Control	560	319	76%
Inter-Divisional Current Account		-	
Contingent liabilities	4805	-	
Total Current Liabilities	81 312	17 750	358%
Total Capital, Reserves and Liabilities	526 174	427 639	23%

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Appendix 7	Long Term Insurance Sector Underwriting Statement		
Particulars	2019	2018	Change (%)
	M' 000	M' 000	
Gross Premium	451 508	408 899	10%
Reinsurance Premium	256 655	218 531	17%
Net Premium	**178 517**	**190 368**	**-6%**
Commission Income	18 186	47 814	-62%
Other underwriting income		-	
Net Earned Income	**196 703**	**238 182**	**-17%**
Claims Incurred		95 048	
Less Reinsurance share		-	
Net claims incurred	**91 220**	**95 048**	**-4%**
Commissions Expenses	43 162	56 203	-23%
Management Expenses	90 830	79 195	15%
Change in IBNR	931	852	9%
Change in unearned premiums	18 789	1 225	1434%
Underwriting Expenses	**244 931**	**231 298**	**6%**
Underwriting Gains/Loss	(10,36)		
Investment Income	16 440	19 081	-14%
Other income		5 939	
Operating Profit	**24 987**	**30 678**	**-19%**
Other Expenses		-341	
Profit Before Taxation	**7 890**	**31 018**	**-75%**

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Appendix 8	List of Licensed Insurance Companies			
No.	INSTITUTION	PRINCIPAL OFFICER	REGISTERED OFFICE ADDRESS	CONTACT
1.	Lesotho National Life Assurance Limited Life Insurance	Mr. Ralitapole J. Letsoela Managing Director	LNGIC House Constitution Road Maseru, Lesotho 100	(+266) 22314144
2.	Alliance Insurance Company Limited Life Insurance	Mr. Angus Yeats Chief Executive Officer	Alliance House 4 Bowker Road Maseru, Lesotho 100	(+266) 22312357
3.	Metropolitan Lesotho Limited Life Insurance	Ms. Mamello Phomane Managing Director	Metropolitan Building Kingsway Road Maseru, Lesotho 100	(+266) 22222300
4.	Zenith Horizon Insurance Company Limited General Insurance	M.s Smangela Molumeli Chief Executive Officer	1st Floor Christie House Orpen Road Maseru, Lesotho, P. O. Box 0293 Maseru West 105	(+266) 50920022/28322625
5.	Lesotho National General Insurance Company Limited General Insurance	Mr. Ralitapole J. Letsoela, Managing Director	LNGIC House Constitution Road, Maseru, Lesotho	(+266) 22313031
6.	NBC Lesotho Insurance Company Limited Life Insurance	Mr. Godfrey Vatsha Managing Director	4 Bowker Road, Ground Floor, Pension Fund House	(+266) 22320633
7.	Specialized Insurance Company Limited General Insurance	Mr. Mokhápheka Lazaro Managing Director	MGC Park, Ground floor, Maseru, Lesotho	(+266) 22320837/8
8.	Liberty Life Lesotho Limited Life Insurance	Mr. Makhakhe Maliehe Managing Director	P.O. Box 115 Maseru, Maseru Mall, Unit 39 Maseru, Lesotho	(+266) 22212719/735
9.	Transafrica Life Insurance Company Limited Life Insurance	Mr. Thabo Kotelo General Manager	Shop 26, Race Course Mall (Maseru Mall) Ha Thetsane	(+266) 22324606
10.	Alliance General Insurance Company Limited General Insurance	Mr. Angus Yeats Chief Executive Officer	Alliance House 4 Bowker Road Maseru, Lesotho 100	(+266) 22312357

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Appendix 9	List of Licensed Insurance Brokers		
INSTITUTION	PRINCIPAL OFFICER	CONTACT	REGISTERED OFFICE ADDRESS
MOTS Insurance Brokers	Mrs Makarabelo Phakoana	(+266)2231 0011 (+266)5885 4518	Husteds Building 1st Floor, Room 13 , Maseru 100
Elarem Insurance Brokers (PTY) Ltd	Mr. Lenka Malefane	(+266)2232 4607	Carlton Centre, 2nd Floor, Room 204 Kingsway Road, Maseru 100
The Insurance Hub Brokers (PTY) Ltd	Mr. Tsepo Ramaema	(+266) 57484014 (+266) 2231 6475	Happy Villa, House No.3A, Maseru, Lesotho
Clientcare Risk Consultants (PTY) Ltd	Mrs. Popi Kaiser	(+266) 22321768 (+266) 28325432	Premium House, 224 Kingsway Road Opposite American Embassy, Maseru 100
BMM Insurance Brokers (PTY) Ltd	Mrs. Mamareite Khalema	(+266) 22327940/1 (+266) 58854518	Maseru Book Centre Kingsway Road, Maseru 100
TIB Insurance Brokers	Mr. Garth Dixie	(+266) 22316556	307c Cenez Road Maseru 100
Insurecare Brokers (PTY) Ltd	Mr. Micheal Mohasi	(+266) 22321973 (+266) 5251 0909	LNDC Office Block D Kingsway Road, Maseru 100
Exclusive Risk Solutions (PTY) Ltd	Mr. Serei Hlabana	(+266) 22322553 (+266) 5858 5614	House No. 40 Senqunyane StreetLower Thetsane Maseru 100
DBM Insurance Brokers (PTY) Ltd	Mrs. Doreen Brown-Masilo	(+266) 2878 5265 (+266) 5978 2760	Block B, LNDC Development House Kingsway Road, Maseru 100
Elite Insurance Brokers (Pty) Ltd	Ms. Ilza Venter	(+266) 2832 1054 (+266) 57430605	Block B, LNDC Development House Level 3 Room 310, Maseru 100
Thari (Pty) Ltd	Mr. Motjope Mokhathi	(+266) 2231 3206 (+266) 6312 4604	Thula Tu Complex 32 Unit No.11 First Floor, Maseru 100
Brokersure Insurance Brokers (Pty) Ltd	Mrs. 'Marorisang Lepheane	(+266) 2232 3689 (+266) 58842863	4th Floor, Christie House, Orpen Road, Maseru 100
Risk Managers (Pty) Ltd	Mr. Paseka Moletsane	(+266) 2232 1898 (+266) 5891 5607	Sechaba House, 4 Bowker Road Maseru 100, Lesotho
Thaba Bosiu Risk Solutions (Pty) Ltd	Mrs. 'Matokelo Seturumane	(+266) 2231 3018 (+266) 5250 0404(5)	1st Floor Options Building Pioneer Road, Maseru 100
Thamotha Insurance Brokers (Pty) Ltd	Mrs. Matokelo Thamae	(+266) 58789268 (+266) 2832 4655	Mapetla House, Room G4, Kingsway Road, Maseru 100
Kepler Risk (Pty) Ltd	Mr. Francois Cronje	(+266) 2232 0837/8 (+266) 5916 0643	MGC Office Park, Ground Floor Kofi Annan Road, Maseru 100
P & L Insurance Brokers (Pty) Ltd	Mrs. 'Mamohapi Samuel	(+266) 57674403 (+266) 2700 4403	Christian Council of Lesotho Building, Maseru 100
Equiways (Pty) Ltd	Mrs. 'Manthatisi Pata	(+266) 5908 8372 (+266) 5871 2412	Metcash Building, Room 1396, Maseru, Lesotho
Classic Legends Brokers (Pty) Ltd	Mrs. 'Maamohelang Letsei	(+266) 5845 0771 (+266) 63300 1064	Husteds Building, Room 16, Maseru 100
Silverbridge Insurance Brokers (Pty) Ltd	Ms. Tebello Motuba	(+266) 62454957 (+266) 62454957	Victoria Hotel Office Block, Room 119, Maseru, Lesotho
Assurance Insurance Brokers (Pty) Ltd	Mrs. 'Malebohang Lehana	(+266) 5857 7728 (+266) 2232 4319	Fisrt Floor , Thola Tu Complex, Maseru 100
MH Insurance Brokers (PTY)	Mrs. 'Mamosa Molapo	(+266) 22400113 (+266) 58127918	Lisemeng 1, Opposite Shoprite Hlotse, Leribe 300

Appendix 9	List of Licensed Insurance Brokers (continued)		
INSTITUTION	PRINCIPAL OFFICER	CONTACT	REGISTERED OFFICE ADDRESS
Mokhele Insurance Brokers (PTY) Ltd	Mr. Malonga Mokhele	(+266) 58753977 (+266) 2232 1964	Oblate Building, Behind Maseru Bookshop, Maseru 100
Explicit Brokers (Pty) Ltd	Mrs. 'Malineo 'Monahali	(+266) 58856438 (+266) 62856438	Thola Tu Building Kingsway Maseru 100
Green Point Brokers (Pty) Ltd	Mr. Tšola Malebanye	(+266) 58997215 (+266) 63429387	Qoaling, Ha Seoli, Pela Moreneng Maseru 100
Bright Point Insurance Brokers (Pty) Ltd	Mrs. 'Matumane Semoli	(+266) 58929308 (+266) 56344483	Ha Lekhobanyane, Pela Lehae la Maqheku Mazenod, Maseru 100
CS Brokers (Pty) Ltd	Mr. Sebolai Serame	(+266) 5885 3263	Oblate Building Second Floor Maseru 100
Setha Insurance Brokers (Pty)Ltd	Mrs. 'Matholo Setilo	(+266) 2270 1203 (+266) 6307 4712	Hospital Area, Pela LPPA, Mafeteng 900
Mosala Insurance Brokers (Pty) Ltd	Mr. Mashape Mosala	(+266) 6299 7175	Maseru Book Center, Room 18, Kingsway Road, Maseru 100
Roseland (Pty) Ltd	Mrs. 'Matšoloane Mahlaha	(+266) 2232 6156	Christie House Ground Floor Maseru 100
Minet Lesotho (Pty) Ltd	Mr. John Mawere	(+266) 22313540 (+266) 22310033	MINET House, 4 Bowker Road, Maseru 100
Ideal Insurance Brokers (Pty) Ltd	Mrs Theresa Mosenye	(+266) 2232 2924	Husteds Building Room 12, Kingsway Road, Maseru 100
Urban Life Insurance Brokers (Pty) Ltd	Mrs. 'Mamokete Mokete	(+266) 58853270 (+266) 63248322	3rd Floor, LNDC Office Block Kingsway Road, Maseru 100
T&S Insurance Brokers (Pty) Ltd	Mrs. 'Masenate Monyaka	(+266) 63079850 (+266) 56327118	Tradorret Building Room 12, Maseru 100
Thari - Ea - Tsepe Insurance Brokers (Pty) Ltd	Mrs. Pontso 'Matumelo Kou	(+266) 63124604	Thula Tu Complex 32, First Floor, Unit No 11, Maseru 100
Explicit Brokers (Pty) Ltd	Mrs. 'Malineo 'Monahali	(+266) 58856438 (+266) 62856438	Thula Tu Complex Maseru 100
Corner Stone Insurance Brokers (Pty) Ltd	Mr. Bokang Koro	(+266) 6215 7126 (+266) 2700 7126	Monaphathi Building, First Floor, Opposite Oxford Building, Maseru 100
Hamilton Solutions Short Term Brokers (Pty) Ltd	Mrs. Charmaine Heymans	(+27) 86 203 1329 (+266) 5986 8000	Saleem Properties, Alliance House, 4 Bowker Road, Maseru 100
Classic Ledgends Brokers (Pty) Ltd	Mrs. 'Maamohelang Letsei	(+266) 5845 0771 (+266) 6300 1064	Husteds Building, Room 16 Maseru 100
Thathy Insurance Brokers (Pty) Ltd	Mr. Reentseng Thathasela	(+266) 6201 9877	BEDCO Building, Mafoso Street, Mohales Hoek 800
Leseling Insurance Brokers (Pty) Ltd	Mrs. 'Mapaseka Mphole	(+266) 5886 9333	Calton Center Building Maseru 100
Matromaq Insurance Brokers (Pty) Ltd	Mr. Teboho Maqeba	(+266)5872 5297	Post Office Building, Mafeteng 900
Chelete Brokers (Pty) Ltd	Mr. Ntopa Chelete	(+266) 5615 8485 (+266) 6302 7551	Airport Road, Matekane Building, Thaba-Tseka 550
Pula National Insurance Brokers (Pty) Ltd	Mr. Thabane Leqhaoe	(+266) 6300 7462 (+266) 2232 4620	Oblate House Kingsway Road, Maseru 100
Legend Insurance Brokers (Pty) Ltd	Mrs. 'Mabokang Nthatisi Phantši	(+266) 5957 8525	LNDC Development House, Block C Third Floor, Maseru 100

Appendix 9	List of Licensed Insurance Brokers (continued)		
INSTITUTION	PRINCIPAL OFFICER	CONTACT	REGISTERED OFFICE ADDRESS
Target Insurance Brokers (Pty) Ltd	Mr. Vincent Tšosane	(+266) 6300 3004 (+266) 5888 3004	Metropolitan Business Suite. Industrial Area, Maseru 100
Brothers in Arms Insurance Brokers (Pty) Ltd	Mr. Monaheng Mohlabana	(+266) 2700 3464 (+266) 5885 3464	Maseru Mall Suite, No. 35 Maseru 100
JM Insurance Brokers (Pty) Ltd	Mrs. 'Maphomolo Seele	(+266) 6286 0156 (+266) 5886 0156	LNDC Block B Level 5 Room 503, Maseru 100
Maluti Risk Solutions (Pty) Ltd	Mr. Malefane Mphana	(+266) 5885 8113 (+266) 6310 5800	Makamo Complex Opposite Lerotholi Polytechnic, Maseru 100
Crescent Insurance brokers (Pty) Ltd	Mrs. 'Matebello Ntsoane	(+266) 5872 6996 (+266) 5323 0507	Plot 75, Behind Victoria Hotel Constitution Road, Maseru 100
MN Insurance Brokers (Pty) Ltd	Mrs. 'Majonothane Moeti	(+266) 6932 5425 (+266) 5711 1166	LNDC Block B, Level 5. Room 503, Maseru 100
Cadiant Partners Consultants & Actuaries (Pty) Ltd	Mr. Tšepo Letsoela	(+266) 58701449	Christie House Building 3rd Floor Suite No. 308, Maseru 100
Facile Consultants	Mr. Raymond Tarique	(+266)59453855	Naomi House Bowker Road old Europa, Maseru 100

Appendix 10	List of Licensed Asset Managers		
NAME OF ASSET MANAGER	NAME AND TITLE OF PRINCIPAL OFFICER	TELEPHONE/FAX	POSTAL ADDRESS
Mergence Investment Managers Lesotho (Pty) Ltd	Mr. Semoli Mokhanoi Managing Director	(+266) 52500040/50 (+266) 62200768 (+27) 826723474	Unit 38, Maseru Mall, Maseru 100
STANLIB Lesotho Management Company (Pty) Ltd	Mr. Kelello Rametse General Manager	(+266) 22326821	MGC Office Park, Corner Pope John Paul II & Mpilo Boulevard, P.O. Box 115, Maseru 100

Appendix 11	List of Licensed Stock Brokers/Advisors		
NAME	CONTACT	TELEPHONE	ADDRESS
Motswedi Securities (Lesotho) (Pty) Ltd	Mr. Martin Makgatlhe Chief Executive Officer	(+266) 22317578 (+266) 27002418	Bishop's Place, Unit 2, Block B, 28 Tonakholo Road, P.O. Box 15425, Maseru 100
Katleho Securities (Pty) Ltd	Mr. Leonard Nyambuya Principal Officer	(+266) 53230700 (+266) 22325694 (+266) 68235699	Plot Number 12292-972, Mabelebele Street, Katlehong, Maseru Lesotho
PKF Corporate (Pty) (Ltd)	Mr. Sunday Adache Principal Officer	(+266) 58689662 (+266) 28324750	160 Constitution Road Ecumenical Centre, Maseru 100
NALA Capital Advisors (Pty) Ltd	Mr. Moholo Lekomola Chief Executive Officer	(+266) 58841566 (+266) 62266040	No. 1 Puma House, 12 United Nations Road, Maseru 100
Cadiant Partners Consultants & Actuaries Lesotho (Pty) Ltd	Mr Tšepo Letsoela Public Officer	(+266) 58701449	10 Molepe Str, Hillsview P.O. Box 1120, Maseru, Lesotho
Minet Lesotho (Pty) Ltd	Mr. Retšelisitsoe Leboela Chief Executive Officer	(+266) 22313540 (+266) 22310033	MINET House, 4 Bowker Road, Maseru
Atang Advisors (Pty) Ltd	Khabele Mofelehetsi Chief Executive Officer	(+266) 62222307	Grindnation Building, Moshoeshoe Road Industrial Area, Maseru 100
Strategica (Pty) Ltd	Lerato Sekantsi Principal Officer	(+266) 68261353	Office 3 Basement, Lenyora House Nightingale Road, Maseru 100

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Appendix 12	List of Licensed Financial Leasing		
NAME OF INSTITUTION	NAME OF CHIEF EXEUTITVE OR MANAGING DIRECTOR	CONTACTS	PHYSICAL & POSTAL ADDRESS
Moipone Fleet Leasing Services (Pty) Ltd	Teboho Lebakeng	(+266) 22314778	Block C Level 7, LNDC Development House, Kingsway Road, P.O. Box 11330, Maseru 100

Appendix 13	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
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
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) 28319479
Mosala Financial Services Ltd	Mr. Mashape Mosala	Sir Seretse Khama Road, Seaba Building, Maputsoe	(+266) 62997175
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
MCM Finance Ltd	Mrs. 'Mampho Motloli	Ntlholohetsane, P.O. Box 77, Mokhotlong 500	(+266) 53127926/ 66141400
PS Finance Ltd	Mrs. Pulane Sick	Tredorette, Kingsway, Maseru. P.O. Box 11986, Maseru 100	(+266) 56624840/ 58685618
PAN Finance Limited	Mr. Motebang Leboela	Mandlebe Building, Second Floor, Maseru	22324639
Netloans Limited	Mr. Jafeta Pheko	Naomi House, 286 Bowker Street, Old Europe, P.O. Box 9717, Maseru 100	(+266) 58082223
Wazzah Ltd	Ms. Motena Lishea	Plot No. 13281-038, Leloko Street, Moshoeshoe II, P.O. Box 1437, Maseru 100	(+266) 63419272

Appendix 13	List of Licensed Micro-Finance Institutions (continued)		
NAME OF INSTITUTION	NAME OF CEO OR MD	PHYSICAL & POSTAL ADDRESS	CONTACTS
JFM Financial Services Ltd	Mrs. 'Mathabisang Leseba	Metro, Next to Hippo Transport, Ha Mathata, P.O. Box 766, Maputsoe 350	(+266) 57936489
Kopo Finance Ltd	Mr. Relebohile Kopo	Abdul Cassim Building, Botha-Bothe	56939099/ 59625555
Lereko Financial Services (Pty)Ltd	Mrs. 'Mapali Molula	2nd Floor Platinum Building, Opp. Usave, Bus Stop Area, Maseru, Lesotho	26662201002
M.A.M Financial Services Ltd	Mrs.' Mamankoe Moshesha	Mafeteng Reserve, Ha Seitlheko	58030832
NK Finance (Pty) Ltd	Mr. Ntoa Khelane	Maputsoe next to Maseru Toyota	50798218
Gift Micro Finance Ltd	Mrs. 'Mampho Sehloho	2nd Floor Grandnation, Mokhoaba Building, Industrial Area, Maseru 100	(+266) 58496811/ 58503438
Thebo Finance Ltd	Mr.s 'Maboitumelo Tau	Crocodile Inn, P.O. Box 72, Botha-Bothe 400	50881194 / 57934099
JP Financial Services Ltd	Mr. Teleko Mohloboli	2nd Floor, Moosa's Building P.O. Box 1666, Maseru 100	56097365
SJR Financial Services	Mr. Selikane Rahebe	Kingsway Mall, 2nd Floor, P.O.Box 883,Maseru 100	62607860
TKM Financial Services Ltd	Ms. 'Matokelo Mohale	P.O. Box 602 Motheo Build. Mohale's Hoek	26663015101
MS Financial Services Ltd	Mr. Motlalepula Sepipi	Room 34 Tradorette Building, Kingsway Road, P.O. Box 9808, Maseru 100	(+266) 62810810/ 58102769
Marea Financial Services Ltd	Mrs. 'Matlhokomelo Mathaba	Office 314, LNDC Centre, Kingsway Road, P.O. Box 11659, Maseru 100	(+266) 58882582
SPRTFIN Ltd	Mr. Lehohla Sepiriti	Maputsoe, Next to Maputsoe Border	+266 6317818
Meraka Financial Services Ltd	Mr. Moseki Nthibane	Oxford Building, Level 3, Room 5, Maseru 100	58483814/56054348
Airvantage Lesotho Ltd	Mr. Micheal Roffey	Suite 211-212 Victory Hotel Offices, Private Bag A104, Maseru 100	22317748, (+27)827790943/ (+27)836757708
PSG Cash Loan Ltd	Mr. Molatjoana Mangaile	Matsoatlareng Fokithi Maseru	(+266) 59965494
Juju Financial Services (Pty) Ltd	Mr. Mathulise Mpholle	Tlokoeng, Botha Bothe, P.O. Box 871, Botha Bothe 400	(+266) 62462541
Moses Micro Finance Ltd	Ms Lineo Leshoele	Borokhoaneng, M&A Building, P.O. Box 1866, Maseru 100	(+266) 58144431
Lesana Lesotho Limited	Mr Tsepo Ramoholi	Level 4, Block C LNDC, Private Bag A26, Maseru 100	(+266) 22321180
NECA Financial Services (Pty) Ltd	Ms Nthabiseng Moloantoa	Lepota Building, Lithabaneg, P.O. Box 13683, Maseru 100	(+266)59451188
CHAMP Financial Services Limited	Mr. Moses Cholsu Kopo	Nnelese Construction Building, P.O. Box 12092, Maseru 100	63032085

APPENDICES

Appendix 14	List of Licensed 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

Appendix 15	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

Appendix 16	List of Licensed Stock Brokers/Advisors		
NAME OF MOBILE MONEY ISSUERS	NAME AND TITLE OF PRINCIPAL OFFICER	POSTAL ADDRESS	TELEPHONE/FAX
Vodacom Lesotho (Pty) Ltd	Mr. Philip Amoateng Managing Director	Vodacom Park, 585 Mabile Road P.O. Box 7387, Maseru 100	(+266) 5221 2476/ (+266) 5221 2000
Econet Telecom Lesotho	Mr. Dennis Plaatjies Chief Executive Officer	Kingsway Road, Next to Lancers Inn P.O. Box 1037, Maseru 100	(+266) 2221 1000/ (+266) 2231 0183
Lesotho Postbank	Mr. Molefi Leqhaoe Managing Director	Mafike House, Kingsway Road Private Bag A121, Maseru 100	(+266) 2231 7842/ (+266) 2231 7832
Chaperone Ltd	Mr. Mohau Mochebelele Executive Director	Premium House, 224 Kingsway Maseru West, P.O. Box 11501, Maseru 100	(+266) 5891 1183
Smartel Money Ltd	Mr. Nchai Paul Nchai Managing Director	Room 1, Speedy Complex, Main North Traffic Circle, P.O. Box 15157, Maseru 100	(+266) 5051 1891/ (+266) 5964 0760/ (+266) 5398 1184/ (+266) 2831 5380

APPENDICES

Appendix 17	Selected Financial Inclusion Indicators for the Banking Industry		
Dimension	Financial Inclusion Indicator	2018	2019
Banking Agents	The number of bank agents	3	205
Digitalisation of financial services	Total Number of Internet banking users	131,623	220,741
	Total Number of Mobile Banking users	158,600	136,737
Bank deposit account ownership	Number of deposit accounts	592,750	680,830
Low Income Savings Account (LISA)	Number of active accounts	358	56,462
Access to credit	Number of Outstanding loan accounts	52,041	56,242
	Number of business loan accounts	1,092	1,794
	Number of MSME with outstanding loan accounts	978	1,031
Gender-dimension-Deposit Account ownership	Number of Males with deposit accounts	307,488	305,536
	Number of Females with deposit accounts	299,798	293,572
	Percentage of Males with deposit accounts	50.6%	51.18%
	Percentage of Females with deposit accounts	49.4%	48.82%
	Financial inclusion gender gap	1.3%	2.37%
	Aggregate number of deposit account holders	607,286	601,378

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