2021 SUPERVISION ANNUAL REPORT

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

CENTRAL BANK OF LESOTHO

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GOVERNANCE, MISSION & OBJECTIVES

Ownership and Governance

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

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

Mission Statement

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

Objectives

The principal objective of the Central Bank of Lesotho, as stipulated in the Central Bank of Lesotho Act of 2000, is to achieve and maintain price stability. Other related objectives which are supportive to this mission are:

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

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Foreword by the Governor

FOREWORD BY THE GOVERNOR

THE CENTRAL BANK OF LESOTHO continued to monitor developments in the financial sector to ensure safety, soundness and integrity during the review period. The banking industry remained sound and stable as reflected by good profits and strong capital positions. However, the industry continued to be challenged by strategic risk, credit risk, liquidity funding risk and compliance risk. Credit risk in particular remained high due to weaknesses in the credit granting and monitoring processes as a result of financial institutions' failure to carry out thorough credit assessment or due diligence.

On national financial inclusion data, in 2021, the Ministry of Finance and the Central Bank of Lesotho successfully implemented the second Lesotho Finscope Survey (Consumer) following the first Finscope Consumer Survey carried out in 2011. Bureau of Statistics (BOS) and Finmark Trust, as key partners, also provided support. 2999 face-to-face interviews based on a nationally representative individual –based sample of the adult population aged 18 and above were conducted by BOS between November 2020 and April 2021. Selected staff members from CBL, BOS and Ministry of Finance were engaged in all the processes of the survey from training, to questionnaire development and validation, data collection and cleaning, report writing and validation and report launch. The main objectives of the survey were to describe the levels of financial inclusion and identify drivers of, and barriers to financial access, among others. The survey report covered: financial inclusion overview (access strands, total product uptake, landscape of access); transactional account (banking and mobile money); savings and credit; insurance and risk management; remittances; and financial health. The report was officially launched on the 28th October, 2021 at Lehakoe Recreational and Cultural Centre, Central Bank of Lesotho ❑

E. M. Letete (PhD)
Governor • Mookameli oa Banka

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The Central Bank of Lesotho (CBL), in accordance with the provisions of Financial Institutions Act, 2012, licenses, regulates and supervises banks.

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BANKING SECTOR REVIEW

1.1 BANKING SECTOR DEVELOPMENTS

THE CENTRAL BANK OF LESOTHO (CBL), in accordance with the provisions of Financial Institutions Act, 2012, licenses, regulates and supervises banks. During the time under review, the number of licensed commercial banks remained at four (4), comprising three (3) South African subsidiaries and one (1) State-owned bank. The banking sector continued to be dominated by subsidiary banks, which accounted for 90.6 percent of the banking sector's total assets. The banking sector branch network and other delivery channels accounted for fifty - one (51) branches country-wide, there has not been any change from the previous year. The number of ATMs increased by six (6) to a total of two hundred and eight (208) in the period under review. The banking agents increased from three hundred and forty-six (346) to four hundred and seven (407) while POS terminals rose by three hundred and fifty- eight (358) to two thousand, three hundred and fifty -three (2353). On the contrary, the number of employees declined from one thousand, five hundred and ninety - seven (1597) to one thousand, five hundred and forty-one (1541) industry-wide.

The banking sector continued to play its financial intermediation role by taking deposits and extending credit to viable ventures for personal, business and corporate clients. In addition, banks continued to diversify, develop and improve their products and services to meet evolving customer needs and to accommodate and harness industry and technical innovation in areas of potential business growth. Easy access to banking services is enabled through different platforms to customers; either through banking hall walk through or digital platforms: internet banking and mobile banking services. Year on year, the industry realized a growth of total assets of 8.1 percent from M20.4 billion in December 2020 to M21.7 billion in December 2021 and growth of liabilities of 8.9 percent from M17.2 billion in December 2020 to M18.8 billion in December 2021.

In comparison to the previous year, the industry has experienced a slight growth. The economy is in recovery phase following series of non-business activities in 2020 due to lockdown measures to combat the spread of COVID-19. Due to notable vaccination progress in the country and globally, most lockdown restrictions have been relaxed and all economic sectors are fully operational.

Deferred Basel II.5 implementation to January 2022. The deference gave banks an opportunity and incentive to boost credit extension by utilising those funds reserved for Basel II.5 due to more risk sensitive and resultant expected higher Basel II.5 capital requirements compared to the prevailing Basel 1 accord.

As the economy was slowly recovering, some policy measures were relaxed but continued to be monitored. Declaration of dividends was allowed subject to the Commissioner's assessment and approval. This approval was primarily based on the level of capital base for absorbing the potential unexpected losses. In addition, the adequate liquidity position for banks to continue with credit extension was also a key factor.

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The banking sector continued to play its financial intermediation role by taking deposits and extending credit to viable ventures for personal, business and corporate clients.

1.1.1 Regulatory and Supervisory Developments

The Department of Banking Supervision and Financial Stability continued with the process of developing new regulations, reviewing and amending the existing regulations in order to support stability, efficiency and access to financial services. Below regulatory frameworks were still in progress for the period under review and are expected to reach finality in 2022:

- Development of Banking Act Policy.
- Amendment of Financial Institutions (Liquidity Requirements) Regulations, 2016.
- Financial Institutions (Computation of capital charges for credit, market, operational risks) Regulations
- Physical Security Guidelines for Banks.
- Amendment of Financial Institutions (Agent Banking) Regulations, 2016.

The development of Financial Institutions (Processing and Licensing Fees) Regulations, 2020 and Cyber Security Guidelines were successfully completed and issued to the industry.

1.1.2 Financial Technology (FinTech)

Fintech is transforming how banks operate. The recent expansion of fintech activities, particularly cloud computing, is a result of greater connectivity, cheaper computer processing power, and consumer demand for convenient, customized, and low-cost financial services. These activities come with risks, which require close monitoring. The most dominant risk is cyber risk. As with any new activity, banks are expected to ensure appropriate controls are established to support new fintech products and services. As banks engage in these activities, they should develop and implement risk-management practices and controls at a pace that aligns with their growth. The CBL is working closely with the banking industry to ensure that the appropriate risks are well managed.

1.1.3 Cyber Risk Management Guidelines for Banks

The CBL issued Guidelines on Cyber Risk Management for Banks in Lesotho to enhance and improve the governance of cyber risk and implementation of cybersecurity strategies within the banking sector. The key objectives of these guidelines are as follows:

- To provide guidance on governance and management of cyber risks in the banking sector in Lesotho.

- To ensure that banks have put in place adequate risk management policies, procedures and systems in line with international standards and best practice, appropriate operational guidelines and internal controls to identify, measure, monitor and control cyber risk.

The guidelines were successfully distributed to the industry and are already being implemented by the banks.

1.1.4 Financial Inclusion Development

Financial Sector regulatory frameworks, in particular, Financial Institutions (Agency Banking) Regulations 2016 and Directive on Banking Charges and Fees continued to enable financial inclusion in the banking industry in Lesotho as demonstrated by improving indicators 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 , internet banking, POS devices, and bank agents as well.

1.1.4.1 Trends in Financial Inclusion Data

As at December 2021, the number of Commercial banks remained at 4, with 51 branches countrywide. About 75 percent of these branches were located in the low lands while the remaining 25 percent were in the highlands.

Deposit account ownership had an inverse direction from 2020 to 2021. The stock of deposit accounts held at banks stood at 567,789 in 2021, reflecting a decrease of 19.8 percent from 707,629 observed in the previous year. This significant change may be one of the Covid-19 effects. On the other hand, the account dormancy decreased by 5 percent from 60,424 accounts in 2020 to 57,356 accounts in 2021.

Concerning Low Income Earners' Savings Account (LISA), the number of active LISA accounts increased by 22 percent from 22,287 to 27,248 between 2020 and 2021. The performance of LISA varied widely across banks due to different customer acquisition strategies adopted since the account was implemented in 2018. The account performed poorly against its substitute accounts when comparing the number of accounts held by customers. All the banks had active LISA for the period under review.

On access to credit, the number of outstanding loan accounts reached 73,018 in 2021, growing by 14 percent from 63,919 in 2020, with roughly 3 percent of the loan accounts belonging to business borrowers in 2021, just like in the previous year. As for MSMEs, the number of businesses with outstanding loan amounts was 1,938 in 2021 increasing by 34.6 percent from 1,440 reported in the previous year.

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Concerning Low Income Earners' Savings Account (LISA), the number of active LISA accounts increased by 22 percent from 22,287 to 27,248 between 2020 and 2021.

Agency banking continued to play a critical role in bring financial services at a close proximity to the underserved population in the remote rural areas in a cost-effective manner. During the period under review, two banks were still offering agency banking services, however, one bank has got approval for agency banking services. In the next year, the number of agents is expected to significantly increase. The number of agents rose from 346 to 407 between 2020 and 2021. These agents are spread across the ten districts of the country, providing cash in and out services. The usage of agents jumped from 115, 504 to 138,660 transactions between 2020 and 2021.

There is continuing digitalisation of financial services as reflected by the rising number of users and transaction volumes of internet and mobile banking and POS channels. The number of mobile banking users and POS devices increased by 40 percent and 18 percent from 169,155 and 1,995 in 2020 to 237,248 and 2,353 in 2021, respectively. However, the number of internet banking users declined by 62 percent from 199,361 to 76,550. When looking at usage, mobile and internet banking transaction volume rose by 8 percent and 76 percent from 1,183,660 and 579,542 in 2020 to 1,277,053 and 1,020,459 in 2021, respectively. POS payments increased by 18 percent from 1,126,401 in 2020 to 1,327,654 in 2021.

1.1.4.2 Financial Inclusion Initiatives

All four banks are still complying with the Directive on banking fees and charges, which became operational in 2018, in which banks were required to offer the low income earners' saving accounts (LISA). During the period under review, the directive was reviewed. The main objective of this pricing directive is to enhance financial inclusion through competitive pricing of banking products and services. The directive was scheduled to be implemented in December 2021 but has since been postponed to April 2022 to allow for further industry consultations and engagement.

The amendment process of Financial Institutions (Agency Banking) Regulations 2016 is expected to enhance banks' outreach to their clients through agency banking services. The amended Regulations is expected to easy the on boarding processes of the agents by the banks. Currently three banks are now offering agency banking services mainly for cash deposits, cash withdrawals and utilities purchases.

1.2 ON-SITE AND OFF-SITE SUPERVISION

1.2.1 On-Site Examination

In an effort to execute its mandate of ensuring financial stability and viability of the financial industry, the Central Bank of Lesotho undertook the risk assessment of three banks in order to profile the riskiness of each institution so that supervisory resources could be channeled to areas within the banks that threaten the viability and stability of the institution as well as the banking industry.

Assessment of one institution was not undertaken given that the examination of such was concluded in the early months of 2021 and the bank was under close monitoring to ensure that the examination findings were remediated within the set time. Observation was that, the implementation of the findings was satisfactorily done with some few findings that were still open during the period under review. These were in relation to liquidity, credit, operational and compliance risks. The bank was working tirelessly to close these findings.

The next section reviews the main risks that emanated from the risk assessment undertaken during 2021 review period.

1.2.1.1 Main Risks

i) Strategic Risk

Strategic risk is defined as the risk associated with business model 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.

During the period under review, note was made with one bank that some departments did not have departmental strategies and strategy monitoring tracking tools had not been developed. With another bank, there were no specific timelines on the annual strategic plan and targets were not specified on the strategy. Finally with the last bank, the coverage of Treasury issues in the strategy was considered limited given the importance of treasury in the monitoring of liquidity risk and methodologies used to monitor the implementation of the strategies were not clear. The stated facts would hinder the implementation of the institutions 'strategies and thereby heighten strategic risk. For these facts, the inherent strategic risk was considered moderate, and the quality of risk management systems was acceptable. This resulted in a moderate composite strategic risk and the direction was increasing.

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> Assessment results of one bank pointed to some limitations in the calibration of ECL model, which might bring doubt on the calculation of provisioning the bank made.

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 a financial institution's failure to carry out thorough credit assessment or due diligence.

Assessment results of one bank pointed to some limitations in the calibration of ECL model, which might bring doubt on the calculation of provisioning the bank made. Also of concern was a huge write-off of M9 million in the financials which has a bearing on the asset quality of the bank. With another bank, the prospective successor for the Head of Credit was not identified and this could also heighten the business continuity risk within the Credit Department. Another observation was with regard to lapses on oversight role whereby the Board and Senior Management could not adequately perform their fiduciary role in the management of credit risk and this was the case with other bank. For instance:"

- Some management committees reviewed and approved the facilities during their sittings in the review period with no specific Delegation of Authority approved by Board sub-committee.

- Some credit documents such as policies and mandate were not customized while watch list accounts were not reviewed every month and charters as well as Credit risk appetite statement were not reviewed on annual basis.

- There was inadequate management of expired limits and access controls in credit system while one committee failed to observe quorum on two instances.

iii) Liquidity Risk

Liquidity risk is the risk of incurring losses resulting from the inability to meet payment obligations in a timely manner when they become due or from being unable to do so at a sustainable cost. The importance of sound management of liquidity risk in the banks cannot be overemphasized. This is because inadequate management of liquidity risk can have far reaching repercussions on the industry.

There was delay to credit clients whose investments had matured due to huge withdrawal by Government in one bank. For another bank, liquidity reports had limited coverage of information that could be quite informative to the Board of Directors to make sound decision and the Liquidity Contingency Funding Plan was not explicit on the testing of the plan and contained stale information. Concerns with the last bank were with regard to the prudential limits that were breached, while Liquidity Contingency Plan was not reviewed. The inherent liquidity risk was therefore considered moderate, and the quality of risk management systems was acceptable. This resulted in a moderate composite liquidity risk and the direction was increasing.

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iv) Operational Risk

Operational risk is the potential 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.

Major gaps that were identified on operational risk with one bank were in relation to suspense accounts whereby some transactions were outside their clearing period and there were some gaps on succession plan whereby prospective successors for Executive Management officers that were ready immediately were not identified. Also, the information systems had reporting challenges and the problem seemed to be persisting. Gaps on succession plan were also identified with another bank, and attrition risk was another challenge at Executive and Managerial levels. It was also noted that the bank operated under expired Service Level Agreements (SLAs) while the policies were found to be inadequate in terms of review and coverage, to mention a few. Finally, with another bank, there were lapses on Board and Senior Management oversight whereby risk tolerance limits in 2020 were not set, risk exposure limits and tolerance levels were not recommended for Board approval in 2020, the Audit Committee of the Board did not prepare a report to be included in the annual financial statements for 2020 financial year, amongst others. In addition, the bank had related party transaction but there was no transfer pricing policy guiding how the arm's length principle should be applied. The identified issues exacerbate the operational risk within the banks and strong monitoring should be ascertained. Given the foregoing, the inherent operational risk was considered high, and the quality of risk management systems was acceptable. This resulted in a high composite risk and the direction was increasing.

v) Compliance Risk

Compliance risk is the potential loss 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.

There was a wide common instances of non-compliance across the industry with own policies, regulations, legislations, mandates, directives and standards during the review period. Banks are, therefore, cautioned to ensure compliance at all times as this could result into penal measures. The inherent compliance risk was therefore considered high, and the quality of risk management systems was acceptable. This resulted in a high composite risk and the direction was increasing.

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

1.2.1.2 CAMELS Rating

i) Capital Adequacy

Banks are required to maintain adequate capital to protect depositors and promote the stability and efficiency of the financial system. CBL has set the minimum capital adequacy ratios (CAR) at 8 percent and minimum Tier I –to- Risk Weighted Assets (RWA) ratio at 4 percent. The higher the ratios, the greater the ability of the banks to absorb probable losses.

CAR and Tier I ratio exceeded the regulatory limits with comfortable margins at 22.4 percent and 24.4 percent, respectively. The capital adequacy ratio was rated **'2' i.e. satisfactory**.

ii) Assets Quality

Asset Quality helps to determine the soundness of the banks. The main factor affecting the overall asset quality is the constitution of the loan portfolio and credit administration programs. As the economy emerged from the advent of COVID-19 impact, the banking industry saw a slight improvement of 0.1 percentage point decline on NPL to total gross loans from 31 December 2020 to 4.1 percent in 31 December 2021. During the same period, total loans to total assets recorded a 0.3 percentage point decline from 34.9 percent to 34.6 percent. Concerns on the calibration of ECL model, huge write-off and in adequate policies and procedures deteriorated the quality of assets. Asset quality was rated **"3" i.e. less than satisfactory**.

iii) Earnings

The earnings of the banks should remain robust to support capital, demonstrating effective management of costs and the implementation of revenue-generating strategies. During the period under review, the banking industry's earnings were sound and have improved from the previous period as measured by profit after tax. For instance, profit after tax has increased by 9.2 percent to M347. 97 million in December 2021 from M318.65 million in December 2020. The same improvement was notable on Return on Assets as well as Return on Equity measures which recorded 1.6 percent and 12.0 percent, respectively in December 2021 from 1.6 percent and 11.3 percent in December 2020. Similarly, cost to income and net interest margin measures improved as well with cost to income declining from 81.2 percent in December 2020 to 78.2 percent in December 2021 while net interest margin improved by 0.7 percentage points to 4.2 percent. Earnings was rated **'2' i.e. satisfactory**.

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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.

Minimum liquidity regulatory requirements were observed most of the times during the period under review. There were a few breaches of cash reserves and contingency funding plans were not explicit on testing, and that made it complex to ascertain its testing and compliance thereof. The liquidity and funds management was rated **"3", i.e., less than Satisfactory**.

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.

Foreign exchange rate risk was considered low due to the fact that trading activities were not undertaken for the bank but on behalf of clients, amongst other reasons. The net open positions were within the limits for period under review.

Interest rate sensitive assets were more than interest sensitive liabilities, whereby interest rate sensitive assets and liabilities recorded M18.8 billion and M17.7 billion, respectively, thereby resulting into a positive GAP of M1.14 billion. This implied that assets repriced faster than the liabilities. Sensitivity to market risk was rated **'2' i.e. satisfactory**.

vi) 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, to mention a few.

The assessment revealed lapses on Board and Senior Management whereby tolerances and limits were not set, some policies and procedures were inadequate in terms of review and coverage and there were some instances of non-compliance with policies, regulations, standards, to mention a few. Management was rated **"3" i.e. less than satisfactory**.

The banking system balance sheet size continued on the expansion path and increased by 7.5 percent, from M20.0 billion in 2020 to M21.7 billion in 2021.

1.3 OFF-SITE SURVEILLANCE 2021

1.3.1 Main Balance Sheet Items

i) Total Assets

The banking system balance sheet size continued on the expansion path and increased by 7.5 percent, from M20.0 billion in 2020 to M21.7 billion in 2021, (see Table 1). A gain in growth momentum came at the back of increase in credit portfolio, government securities, cash and cash items. In the credit markets, the analysis revealed a rebound in credit portfolio to pre-pandemic levels, credit portfolio increased by 7.1 percent, from M7.0 billion in 2020 to M7.5 billion in 2021. In December 2019, credit portfolio stood at M7.0 billion. Perhaps vaccine rollout, low average coronavirus mortality rates across the year and less severe national lockdowns raised some hopes and played a key role to boost business confidence, as a result, thus improving demand for credit. This phase perhaps might be marked as the banking industry precarious climb from a deep economic downturn. Cash and cash items increased by 321.1 percent, from M773.3 million in 2020 to M3.3 billion in 2021.

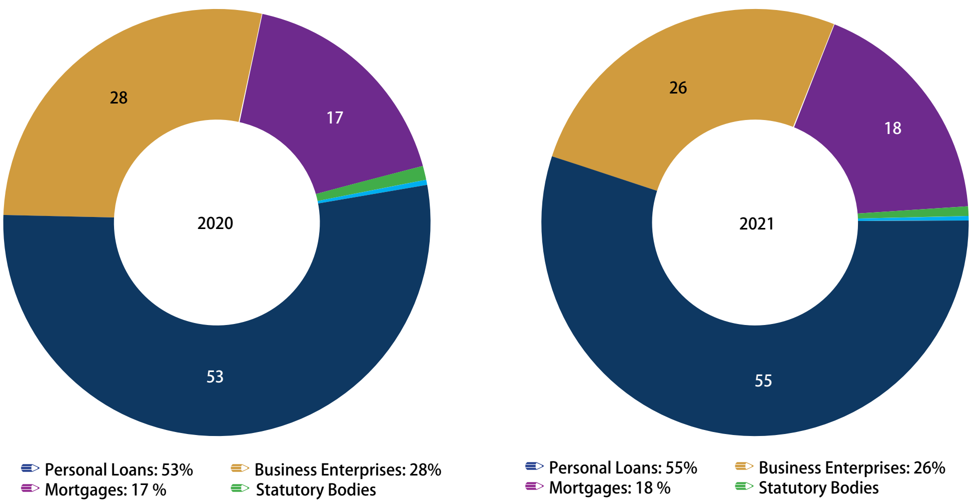
Table 1 The Growth Rates of Total Assets (%)

	2016	2017	2018	2019	2020	2021
TOTAL ASSETS	**-5.2**	**21.8**	**8.3**	**-1.3**	**16.6**	**7.5**
Cash and cash items	8.7	21.7	2.0	25.6	-19.2	321.1
Balances with CBL	19.0	-10.8	-15.2	59.0	25.9	-17.0
Balances with local banks	-7.3	2.7	-22.8	-46.8	52.7	-43.0
Balances with banks abroad	-15.4	30.3	22.9	-49.5	59.9	-39.9
Marketable securities	0.9	32.5	68.6	102.9	19.3	11.2
Other investments	-63.1	284.8	-39.5	38.1	31.9	42.0
Loans and advances	2.6	7.4	12.4	8.1	-0.8	7.1
Fixed assets	22.3	114.7	-6.8	-33.1	51.1	-8.1
Other assets	34.9	39.9	0.2	65.9	-14.2	-8.6

Source Central Bank of Lesotho

To optimize investment portfolio and diversify income stream, especially during the episodes of the pandemic which weakened returns from credit portfolios, banks continued to invest in government securities especially in capital markets which offered a better return. Therefore, banks' exposure to government securities increased by 15.9 percent, from M2.1 billion in 2020 to M2.4 billion in 2021. Increasing exposure in capital markets somehow needs a closer monitoring. Perhaps, this underscores a need to develop the secondary market to trade exposures from the capital markets. This also remains key for financial system to manage liquidity risk. Figure 1 shows distribution of loans by type. Personal loans built-up by 9.6 percent, from M4.0 billion in 2020 to M4.4 billion in 2021. Mortgages increased by 8.0 percent, from M1.3 billion in 2020 to M1.4 billion in 2021. Business loans inched slightly by 2.8 percent, from M2.0 billion in 2020 to M2.1 billion in 2021.

Figure 1 Distribution of Loans by Yype (%)

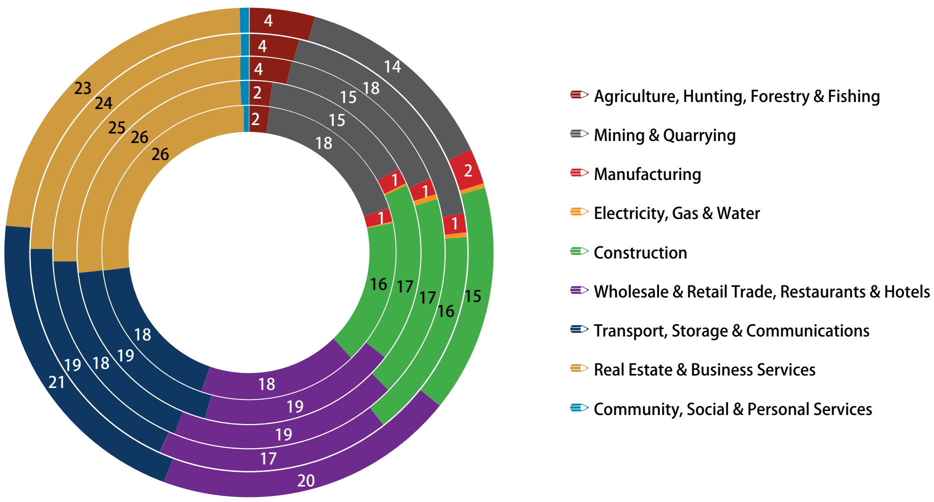


Source: Central Bank of Lesotho

Figure 1 depicts distribution of business loans by economic sub-sectors. Credit concentration risk on business loans remains elevated. Continued vigilance on loans to mining, transport, construction, hotels, restaurants, wholesales and retails remains necessary. These subsectors continued to be most vulnerable due to pandemic uncertainty, thus, worsening credit concentration risk on business loan portfolio. In addition, systemic risk remained heightened due to some big borrowers in the banking system with loan facilities across all the banks, some of which are struggling to service their facilities. Even though, most of these facilities are collateralized, however, a threat somehow remains due to inherent risk in collateral specifically during these episodes of distress which turns to lower the value of collateral.

The level of NPLs built-up slightly by 2.9 percent, from M313.5 million in 2020 to M322.5 million in 2021.

Figure 2 Distribution of Business Loans: Dec 2020-Dec 2021 (%)



**The innermost doughnut corresponds with Dec 31, 2020*

Source: Central Bank of Lesotho

Figure 2 highlights credit risk at a glance. The level of NPLs built-up slightly by 2.9 percent, from M313.5 million in 2020 to M322.5 million in 2021. In 2021, NPL ratio slightly breached industry credit risk appetite of 4.0 percent by 0.1 percentage points. However, a trend on NPL ratio is converging towards 3.5 percent, the pre-pandemic level. Perhaps, signs of recovery in credit portfolio are beginning to resurface, although, to some extent, bad debts written-off continued to strain credit quality. Past-due loans reflected a double-digit decline of 11.1 percent, from M1.0 billion in 2020 to M890.5 million in 2021. As a result, provisions for bad debts declined by 2.8 percent, from M469.1 million in 2020 to M456.1 million in 2021. Vaccine rollout, low average coronavirus mortality rate and less severe national lockdowns compared to previous year might have played a key role to improve business landscape. Thus, cooling the forecasts on default risk to lower levels, hence declining provisions for bad-debts.

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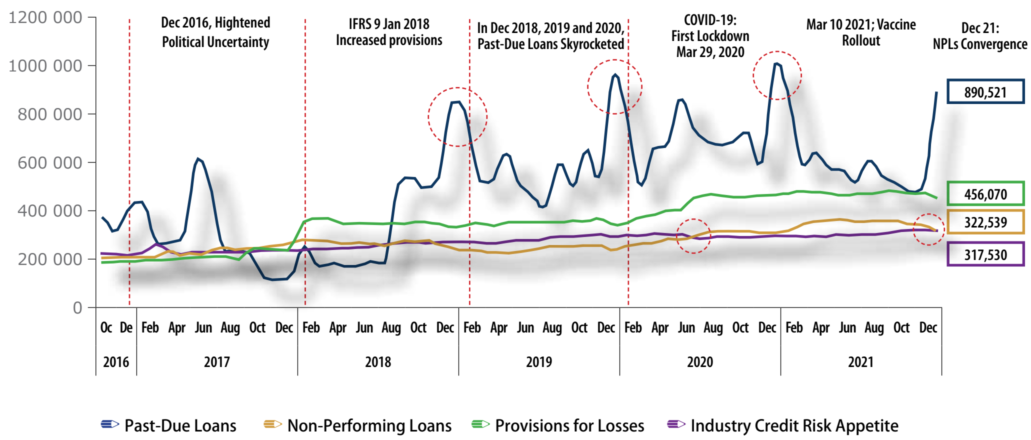
Figure 3 Credit Risk (M`000)



Source: Central Bank of Lesotho

The analysis anticipated a rebound in asset quality and credit growth. The envisioned outlook came at the back of continuous vaccine rollout, low average coronavirus mortality rates across the previous year and less severe national lockdowns compared to 2020. The factors remain fundamentally profound to cool down default risk and boost business confidence for banks to stimulate credit growth. Major projects such as Mafeteng solar power plant, construction work associated with the second phase of Lesotho Lowlands Water Development Project are further expected to enhance demand for credit. However, credit growth to some extent may not accelerate at a pace expected on account of uncertainty as the virus continues to unfold and mutate. Therefore, strategy to navigate through the waves of the pandemic to boost credit remains necessary, especially in mining, transport, construction, hotels, restaurants, wholesales and retails economic sub-sectors where default risk remains recalcitrant. In addition, the current war in Ukraine remained a significant risk to credit quality as the pressure on borrowers continue to firm-up due to interest rates which appear to be on the hiking path to contain inflation.

ii) Total liabilities

Total liabilities increased by 8.0 percent, from M17.3 billion in 2020 to M18.7 billion in 2021, driven mostly by deposits from businesses, households, non-profit making organizations and statutory bodies. Balances due to local banks and banks in SA also played a role. Total deposits increased by 48.0 percent, from M14.7 billion in 2020 to M15.4 billion in 2021. Balances due to local banks increased by 25.6 percent, from M1.7 billion in 2020 to M2.1 billion in 2021.

The structure of deposits continued to be dominated by short-term deposits, indicating that financial intermediation is mostly financed by short-term deposits.

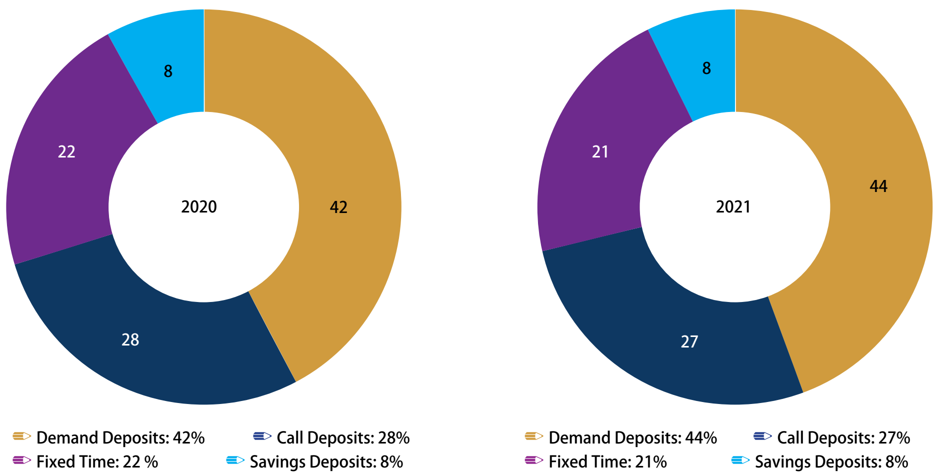
Table 2 The Growth Rates of Total Liabilities (%)

	2016	2017	2018	2019	2020	2021
TOTAL LIABILITIES	**-7.6**	**21.7**	**9.0**	**-3.1**	**17.1**	**8.0**
Deposits	-5.9	25.7	5.9	9.9	14.5	4.8
Due to local banks	-13.6	-0.3	27.1	-62.1	77.3	25.6
Due to foreign banks	-9.7	57.9	-27.6	13.3	-78.9	222.4
Other borrowings	40.7	-0.1	1.0	-0.8	-0.5	-87.9
Other liabilities	-14.5	26.5	30.5	-12.7	25.4	21.9

Source: Central Bank of Lesotho

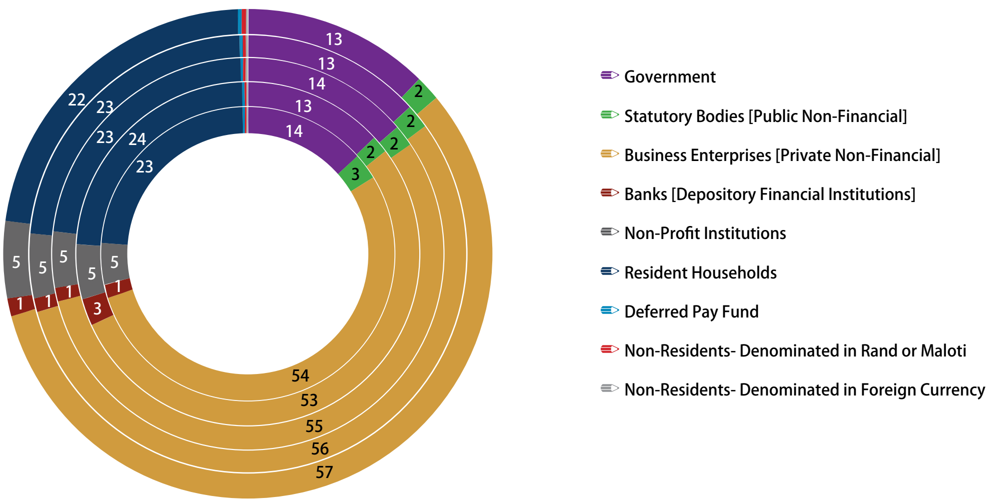
The structure of deposits continued to be dominated by short-term deposits, indicating that financial intermediation is mostly financed by short-term deposits. A large proportion of such deposits continued to be wholesale rather than retail (see Figure 4 and 5). Figure 5 revealed that 78.0 percent of total deposits in 2021 were wholesale. Therefore, the asset and liabilities mismatch remained on the upward trajectory and is envisaged to gain momentum on the back of elevated and upward trend on mortgages. In addition, the system remained vulnerable to liquidity risk as large deposits withdrawals may bring liquidity shocks on account of the volatility on wholesale funding.

Figure 4 The Structure of Deposits (%)



Source: Central Bank of Lesotho

Figure 5 Total Deposits by Holder (%)



The innermost doughnut corresponds with Dec 31, 2021

Source: Central Bank of Lesotho

ii) Shareholders` Equity

Total capital observed an increase of 4.5 percent, from M2.7 billion in 2020 to M2.8 billion in 2021, on account of a rise in retained earnings and net income (see Table 3). Retained earnings increased by 3.4 percent, from M1.98 billion in 2020 to M2.04 billion in 2021. Profit for the year revealed a year-on-year growth of 11.7 percent, from M322.0 million in 2020 to M360.0 million in 2021. During, the review period, all banks managed to registered positive profits. Declining provisions and interest expenses remained paramount to explain observed performance in profitability.

Table 3 The Growth Rates of Total Capital (%)

	2016	2017	2018	2019	2020	2021
TOTAL CAPITAL	15.1	22.2	4.0	11.4	13.9	4.5
Paid-up capital	2.0	0.0	0.0	0.0	0.0	0.0
Statutory reserve	47.5	-4.4	1.7	0.8	3.8	0.0
Revaluation reserves	-6.2	12.7	-22.1	11.6	50.7	-10.5
Other reserves	12.9	346.2	-96.3	2701.2	0.0	0.0
Retained earnings	15.9	52.3	0.5	10.8	34.3	3.4
Profit/ loss after tax	8.8	-26.1	40.1	7.8	-37.4	11.7

Source: Central Bank of Lesotho

The resilience of the banking system continues to firm-up and the outlook remains positive on account of a combination of few factors.

The resilience of the banking system continues to firm-up and the outlook remains positive on account of a combination of few factors. First, all banks are now generating profits. Second, pressure on loan defaults appear to cool down and credit is now back to pre-pandemic level. Third, improved business confidence-perhaps on the back of vaccine rollout, low average coronavirus mortality rates, less severe national lockdowns and increasing interest rates on account of contractionary monetary policy, might incentive the banks to stimulate credit growth. Fourth, the Basel 2.5 and D-SIBs frameworks are expected to boost banking system resilience. However, in the midst of uncertain, unfolding and mutating virus compounded by Ukraine war, the outlook maybe strained.

1.3.2 Main Income Statement Items

i) Total Income

Total income increased slightly by 1.9 percent, from M1.9 billion in 2020 to M2.0 billion in 2021 (see Table 4), mainly driven by a built-up in forex gains and other income. Forex gains increased by 8.8 percent, from M81.7 million in 2020 to M88.9 million in 2021. Other income increased by 129.6 percent, from M103.6 million in 2020 to M237.8 million in 2021. On the other hand, interest income from loans declined by 2.2 percent, from M1.03 billion in 2020 to M1.01 billion in 2021. Interest income from placements observed a decline of 28.0 percent, from M345.8 million in 2020 to M249.0 million in 2021. In addition, interest income from securities observed a decline of 9.1 percent, from M160.7 million in 2020 to M146.1 million in 2021, mainly driven by reduced industry exposure in government securities especially in the first half of the year. Generally, a decline in interest income was mainly on account of reduced interest rates over the year as CBL continued to ease monetary policy to stimulate economy. During the period under review, commission income observed a decline of 11.7 percent, from M644.6 million in 2020 to M569.4 million in 2021. This component is anticipated to continue on the contraction path on account of expected pricing directive.

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Table 4	The Growth Rates in Total Income (%)							
	2014	2015	2016	2017	2018	2019	2020	2021
TOTAL INCOME	**8.7**	**10.7**	**10.9**	**5.7**	**11.7**	**7.1**	**-4.9**	**4.4**
Interest income-loans	8.0	27.1	14.9	16.5	5.2	13.2	-8.8	-2.2
Interest income-placements	55.8	10.9	21.9	-15.6	46.1	-29.9	-17.6	-28.0
I) foreign payments	43.6	2.2	17.1	-20.1	-24.3	8.3	10.3	-30.3
II) domestic payments	76.3	22.8	27.4	-10.9	36.9	-11.1	-35.2	-25.6
Interest income - securities	28.6	-63.1	6.5	1.6	30.9	92.4	1.7	-9.1
Total interest income	23.5	8.5	16.8	4.4	18.1	1.7	-10.0	-8.7
Interest expense	59.4	4.6	25.3	-3.9	25.0	1.4	-11.9	-32.6
Net interest income	12.3	10.2	13.3	8.3	15.2	1.9	-9.1	1.7
Fees and commission income	5.4	9.4	10.4	4.6	2.0	4.3	0.8	-11.7
Forex gains/losses	11.3	21.0	-23.6	-15.2	35.3	12.0	4.7	8.8
Income on equity investment				-61.0	220.6	-100.0		
Other income	1.0	49.5	78.5	-23.8	40.7	266.7	-0.4	129.6
Grants	-70.0	-10.0	2.8	106.4	66.3	15.7	3.3	-0.2
Non-interest income	4.3	11.4	7.7	2.2	6.4	15.4	1.0	7.8

Source: Central Bank of Lesotho

ii) Total Expenses

Total expenses increased by 1.0 percent, from M1.47 billion in 2020 to M1.48 billion in 2021 (see Table 5). A combination of few factors came into play to explain growth momentum in total expenses. Operating expenses built-up by 5.2 percent, from M542.5 million in 2020 to M871.0 million in 2021. Staff salaries increased by 5.6 percent, from M511.8 million in 2020 to M535.6 million in 2021. In addition, management and director's fees reflected a growth of 3.9 percent, from M82.5 million in 2020 to M85.7 million in 2021. Auditors or consultant fees increased by 36.7 percent, from M31.9 million in 2020 to M43.5 million in 2021. On credit risk, bad debts written-off continued on the expansion path, and registered a double-digit growth of 19.8 percent, from M42.2 million in 2020 to M50.6 million in 2021. To a significant extent, a built-up in bad debts written-off is highlights ramifications of strained credit portfolio. On the other hand, interest expenses exhibited a decrease of 32.6 percent, from M465.6 million in 2020 to M312.7 million in 2021, as lower interest rates were observed during the period under review due to CBL expansionary monetary policy. In addition, provision for bad debts decreased by 37.1 percent, from M168.5 million in 2020 to M106.0 million in 2021 due to expected decline in credit risk.

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Net income after tax is set on the recovery path and built-up by 11.7 percent, from M322.0 million in 2020 to M359.7 million in 2021.

Table 5 The Growth Rates in Total Expenses (%)	2014	2015	2016	2017	2018	2019	2020	2021
TOTAL EXPENSES	**7.9**	**13.5**	**11.5**	**24.6**	**2.2**	**7.6**	**11.8**	**1.0**
Staff salaries and benefits	11.3	14.3	13.9	8.5	7.0	9.5	0.9	4.6
Management/directors fees	9.1	17.0	4.2	39.6	-3.3	-50.2	4.8	3.9
Auditors/consultants fees	11.2	12.4	7.3	14.1	119.2	98.0	7.1	36.7
Provision for bad debts	24.5	19.7	-2.1	8.2	-18.4	-9.9	120.9	-37.1
Bad-debts write-offs/irrevocable losses			420.4	-100.0		-3.0	19.8	-11.9
Depreciation	1.0	0.3	15.7	13.0	60.0	-2.2	3.4	2.6
Other operating expenses	-0.5	11.1	12.1	35.0	8.3	19.3	10.3	5.2
Operating income/loss	9.9	6.8	10.0	-22.6	34.5	6.2	-36.0	15.3
Income/loss before tax	9.9	6.8	10.0	-22.6	34.5	6.2	-36.0	15.3
Taxation	5.9	7.4	13.2	-13.4	22.2	2.2	-32.2	24.2
Net income after tax	11.5	6.6	8.8	-26.1	40.1	7.8	-37.4	11.7

Source: Central Bank of Lesotho

Net income after tax is set on the recovery path and built-up by 11.7 percent, from M322.0 million in 2020 to M359.7 million in 2021. Improved performance came mainly at the back of declining provisions and interest expenses. In addition, during the year under review, unlike the previous year, all banks managed to record some profits. To optimize profit margins in the face of uncertain, unfolding and mutating pandemic, banks continue to keep expenses at bay-Their revenue increased at a faster pace than expenses. However, recovery path in profitability appears to be steep and slippery, it's a long and difficult ascent, as net income continued to fluctuate significantly below pre-pandemic mark. In 2019, just before the pandemic, net income registered M514.7 million. Based on credit growth and asset quality outlook, net income is expected to increase, however, the pandemic continued to be recalcitrant, aggravated by Russia and Ukraine conflict.

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 shares and measures of concentration used to assess the level of the banking sector competitiveness are illustrated in Table 6, while Table 7 provides additional information on the market outreach and total number of employees in the banking system. Over a one-year horizon, the market-share of top-2 banks by assets inched-up slightly by 0.1 percentage points, from 76.3 percent in 2020 to 76.4 percent in 2021. HHI increased by 1.0 percent, from 3,728 percent in 2020 to 3,767 in 2021. The market continued to be monopolistic in nature as HHI continued on the elevated level. Table 8 shows that the number of POS devices increased by 30.7 percent, from 1,526 in 2019 to 1,995 in 2020. The number of ATMs declined by 1.0 percent, from 204 in 2019 to 202 in 2020. The number of branches remained constant at 51 in 2020 as banks continued to invest in low-cost service channels, mostly driven by digital transformation and agency banking. The number of employees declined by 6.2 percent, from 1,681 in 2019 to 1,576 in 2020.

Table 6	Market Shares for Top 2 banks (%)							
	2020				2021			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Share of assets	78.66	77.52	76.64	76.28	76.48	76.17	74.58	76.38
Share of loans	80.47	79.95	79.55	78.51	77.62	77.26	76.98	76.33
Share of deposits	76.54	75.36	74.73	74.16	74.34	74.69	73.38	74.09
Share of post-tax profits	90.22	106.80	96.54	90.08	78.72	83.13	80.09	76.22
Non-performing loans	73.82	73.26	74.38	80.32	82.47	83.11	82.16	82.74
Past due loans	88.63	83.10	89.25	89.67	82.49	81.55	78.55	94.09
HHI	3,761	3,681	3,849	3,728	3,774	3,728	3,728	3,767

Source: Central Bank of Lesotho

Table 7 shows that POS devices increased by 6.7 percent, from 1,995 in 2020 to 2,129 in 2021. ATMs remained virtually identical and increased slightly by 0.5 percent, from 202 in 2020 to 203 in 2021. The number of branches revealed a decline of 2.0 percent, from 51 in 2020 to 50 in 2021. This component is envisioned to remain relatively constant as banks continued to invest in low-cost service channels, mostly driven by digital transformation and agency banking. During the year under review, the number of employees declined by 2.3 percent, from 1,616 in 2020 to 1,576 in 2021.

Table 7	Market Outreach											
	2019				2020				2021			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Branches	50	50	50	50	50	50	51	51	51	50	50	50
ATMs	204	195	200	204	201	201	202	202	198	201	202	203
POS	1526	1773	1,761	1526	1,853	1,905	1,955	1,995	2,117	2,028	2,039	2,129
Employees	1,690	1,647	1,691	1,681	1,627	1,616	1,623	1,576	1,575	1,579	1,566	1,560

Source: Central Bank of Lesotho

Digital transformation and working from home arrangements, as a result of the virus, turn to aggravate the cybersecurity risk. Therefore, banks should continue to assess in detail, the security features of the technologies they adopt. These innovations offer banks many business opportunities. However, risks associated with digital transformation especially cyber risk and data protection need a closer monitoring.

The year 2021 realized better repatriation efforts than 2020, with only 3.8 per cent in arrears, while 2020 had 5.8 per cent at this time last year.

1.4 EXCHANGE CONTROL AND ANTI-MONEY LAUNDERING

1.4.1 Exchange Control Developments

i) Compliance with the Authorised Dealer (AD) Manual

The Financial Surveillance and Integrity Division undertook a study on the mining industry in 2021. This was at the back of an unusual pattern of some Authorised Dealers (ADs) reporting export proceeds despite the relevant associated F 178 values having been fully cleared. While fluctuations in the export proceeds of the mining industry are common due to the products/diamonds being auctioned (i.e. no set price), they usually border around 5 per cent of the declared value on the F 178. However, in 2021, Financial Surveillance team received requests from ADs to accept export proceeds for amounts that were upwards of 50 per cent of the declared value on the F 178. The team then embarked on a study of the diamond and/or mining industry by reaching out to the relevant stakeholders to understand fully how the whole process unfolds; from the time the diamonds are exported from Lesotho up until the culmination of the auction process in Antwerp.

Following the study, it was discovered that oftentimes when the raw diamonds do not fetch the desired price at the auction process, they are taken for polishing or boiling, with the resultant refined product attracting a better price than before. This is what fuels a bigger difference from the declared value on the F 178 and the actual received value for the diamond exports. The Financial Surveillance team then issued a directive to the ADs to report all documentation surrounding each export consignment from Lesotho to aid in full reconciliation of the export proceeds by the Financial Surveillance Team.

ii) Analysis of Export Proceeds

The year 2021 realized better repatriation efforts than 2020, with only 3.8 per cent in arrears, while 2020 had 5.8 per cent at this time last year. In terms of value, there was yet another decline of 3.7 per cent from 2020 (M470 million to M452 million), compared with another decline from 2019 to 2020 of 21.3. per cent (M597 million to M470 million).

iii) Application to Sell Foreign Currency

A significant decline in the value of applications to sell foreign currency was realized in 2021. There was a 29.2 per cent decrease from the value in 2020 to that of 2021 (M1.12 billion to M789.8 million). Material Purchase continued to form the biggest applications in 2021, accounting for 68.3 per cent of all total applications. This is consistent with the previous years, albeit at a declining rate, where in 2020 the same category accounted for 73.5 per cent, and 67.1 per cent in 2019. Dividends also followed at 13.9 per cent, and professional fees at 7.0 per cent, which is yet the same pattern witnessed in previous years.

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1.4.2 Anti-Money Laundering and Combating of Terrorist Financing (AML/CFT)

1.4.2.1 Off-site Supervision

a) Structural risk

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

i) Size

The inherent structural risk in terms of size was rated high during the review period. This is because banks constitute a significant part in the financial sector. For instance, as at 31 December 2021, finance and insurance contributed 11 per cent to GDP and in terms of the National Account, banks contribute 84 per cent of the 11 per cent contributed by finance and insurance sector. Bank also accounted for more than 69 per cent of market share in assets in the Lesotho financial sector.

ii) Average number of years in operations

Two of the big banks in the Lesotho banking industry have been in operation for more than 20 years and the other two have been in operation for less than 20 years. This implies that the Lesotho banking industry is more mature on AML/CFT issues rendering it less susceptible to money laundering and terrorist financing risks.

iii) Ownership Structure

There are four commercial banks in Lesotho, three of which are subsidiaries of the South African banks and one is a state-owned bank. The parent banks are members of large financial conglomerates and have corresponded relationships with subsidiaries in other foreign countries, which can greatly facilitate international transfers some of which may be ill-gotten if strong controls are not in place. Based on this assessment, the inherent structural risk from ownership structure was rated high during the review period.

b) Business risk

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

i) Customer risk

The inherent customer risk was rated low during the review period mainly due to on-boarding of high risk client, which was moderated by on-boarding of low risk customers. Banks continue to onboard residents' natural persons and resident legal entities during this period. Residents natural persons are regarded as low risk because they are easily known as all KYC documents are easily accessible

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> There are four commercial banks in Lesotho, three of which are subsidiaries of the South African banks and one is a state-owned bank.

ii) Products and Services Risk

The inherent products and services risk was rated moderate due to utilization of international wire transfers by clients. This is indicative of the fact that more funds were transferred in and out of the country.

iii) Delivery Channels

The level of inherent risk was rated low during the review period. Customers continue to utilize traditional face-to-face banking channels. These channels are regarded as low risk as clients are seen and known when conducting their banking activities. Nevertheless, Covid-19 has accelerated the trend for utilization of non-face-to-face products and services. As such, use of internet banking was on the increasing trajectory. The moratorium for banks to reduce fees on digital platforms in order to encourage use of digitalized channels also contributed to a rise in usage of digital products. The direction of risk is likely to increase as customers engage into digital products.

iv) Geographic Location

During the review period, geographical location risk was rated low as no transactions took place between UN sanctioned countries and high-risk jurisdictions identified by banks. Domestically, a large proportion of transactions was performed in branches located in Maseru, which have been identified as one of the high-risk locations under the National Risk Assessment. The inherent risk was low because the weight granted to the domestic risk is lower than that given other higher risk jurisdictions.

Adequacy of risk management systems

The risk management systems were rated acceptable because banks have adequate policies and procedures, including strict customer due diligence (CDD), to prevent them from being used intentionally or unintentionally for criminal activities. Banks also have adequate risk assessment systems to assess the risk profile of customers as well as ongoing transaction monitoring. Most of the banks have also adopted automatic screening systems to screen all customers irrespective of their risk profile. They also have adequate management information systems to monitor accounts behavior and raise alerts where transactions are not in line with customers' risk profiles. There is also proper storage of customers' files.

Data of suspicious transactions in the Banking Sector

The banking industry filed with Financial Intelligence Unit (FIU) 548 suspicious transactions reports (STR) during the period under review. Above 90 percent of STRs involved individuals, some of which were high-risk customers including PEPs. The banks analysis of suspicious transactions revealed a trend of suspected financing of pyramid schemes, funds sourced from illegal mining and money mules.

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1.4.2.2 On-site Examinations

AML/CFT on-site examinations of two Authorized Dealers with Limited Authority (ADLA) were undertaken in 2021. The examination noted several deficiencies in the areas of application of risk-based approach, on-going customer due diligence, investigation and reporting of suspicious transactions and proper categorization of transactions. The examination recommended actions to be taken in order to rectify the identified deficiencies.

1.5 FINANCIAL CONSUMER PROTECTION AND MARKET CONDUCT

Market Conduct Supervision of regulated financial service providers, such as commercial banks, insurance companies, microfinance institutions (MFIs), pensions, payments services providers, Credit Bureau, and CBL-Maseru Securities Market (MSM) 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 function was carried out through complaints handling, off-site analysis, on-site examinations and financial education campaigns in 2021.

1.5.1 Complaints Handling and Redress

CBL through FCP Division monitors financial consumer complaints handled by the regulated financial service providers for identification of FCP risk factors to inform scope of examinations and regulatory interventions. The Bank also investigates, mediates and facilitates the resolution of complaints lodged to it when internal mechanisms of regulated financial service providers have been exhausted.

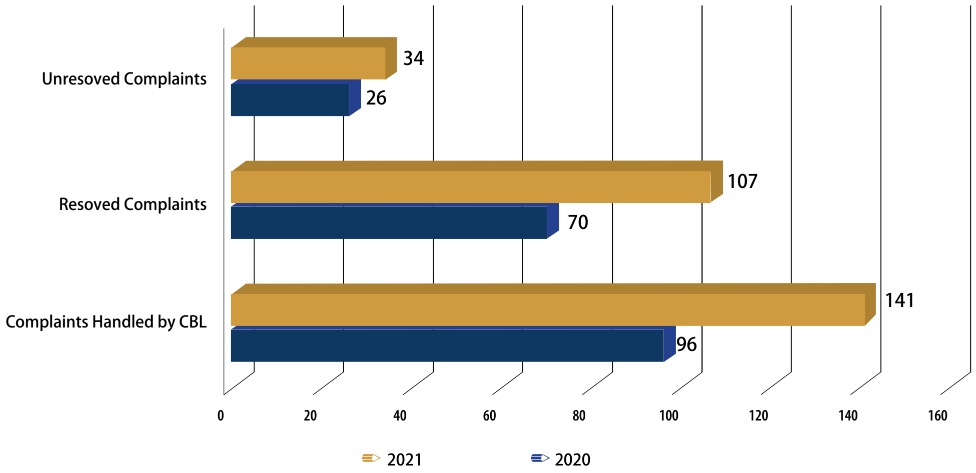
1.5.2 Complaints Brought by Consumers to CBL for Mediation

During the year under review, 141 complaints were handled by CBL compared with 96 complaints handled in 2020. These were complaints received from consumers who were dissatisfied with the responses they had received from commercial banks, insurance companies, microfinance institutions and others. Out of the total volume of complaints mediated by CBL in 2021, 76 per cent of the complaints were resolved and closed, compared with 73 per cent in the previous year. This demonstrates improvement in the effectiveness of complaints handling and mediation mechanisms. The remaining and unresolved complaints were still under investigation for the period under review (see Figure 7).

During the year under review, 141 complaints were handled by CBL compared with 96 complaints handled in 2020.

Complaints against the commercial banks continued to lead, constituting 53 per cent of the mediated complaints. This is followed by complaints against insurance companies and MFIs with an equal share of 21 percent of the total complaints. The remainder were complaints against other financial service providers, which contributed 5 percent.

Figure 6 The Number of Complaints Handled in 2020-2021



Source: Central Bank of Lesotho

1.5.3 Main Financial Consumer Protection Issues

Main financial consumer protection issues and risks emanating from the analysis of CBL-mediated complaints and complaints reported by banks and insurance companies are identified and described below:

i) Over-indebtedness

Complaints from banking and microfinance industry datasets demonstrate that over-indebtedness of consumers is still an issue of great concern. Financial Consumer Protection Division mediated complaints of consumers who were highly over-indebted, in financial difficulty and in need of debt relief. The root causes of over-indebtedness were identified as financial imprudence and impulsive borrowing which manifest through acquisition of multiple loans from the same or different financial institutions; reduced loan repayment capacity due to income loss or reduction as a result of COVID-19 shock, financial losses sustained from investments of loan proceeds in pyramid schemes and retirement while still having huge outstanding debt; being a single parent with many dependents; unexpected increase in house building material costs, underestimation of house construction costs and home loan shortfall; high debt-to-income ratios; large unexpected medical expenses; improper loan affordability assessments owing to outdated credit record of some borrowers in the Credit Bureau and false and incomplete disclosure of expenses and obligations by borrowers; diversion of loan funds intended to settle loan balance to funding personal matters; and lack of understanding of instant digital loans in which borrowers accept many loan offers until they become overloaded with debt. Welfare implications of over-indebtedness were self-disclosed as zero or little take-home salary, deprivation of basic needs, stress and other health issues, additional loans (debt cycle trap), and cancellation of insurance policies (insurance financial exclusion risk).

ii) Inadequate transparency and product marketing and promotional issues

Incidents of inadequate product transparency and marketing and promotional issues identified from complaints data were noted. Such incidents included product agreements or contracts written only in English; copies of loan contracts not issued to some borrowers; notice of payment and insurance premium deduction transactions not issued; deposit and loan account statements not provided; credit card statement SMS not sent to the customer's contact numbers; unilateral account closure/freeze, withholding of customer funds and expulsion from a bank owing to AML/CFT compliance breaches; wrong account statement and advice provided and inconsistent loan offers made to customers; investment account early redemption and loan early repayment and student account management fees not disclosed; interest on overdraft not disclosed; investment and insurance policy benefits lower than minimum projections and the policy holder's expectations; and whole salary deducted to service the loan without prior notification and explanation.

iii) Service quality and reliability issues

Frequent service quality failures and issues which may harm consumers were noted. Such issues include: long queues and slow service in branches; bias and prioritizing certain customers when there are long queues; a security officer soliciting gifts in exchange for helping a customer skip a line; slow digital inter-bank account transfers; lack of ATMs, ADTs and branches and agents' liquidity problems in some areas; service unavailability; slow processing of loan applications, issuance of debit cards and cancellation of a product sold; payments failures and errors; OTPs not received for digital payments; lack of bank-to –mobile account interoperability; lack of courtesy, phone etiquette, and professionalism by staff members of financial service providers; bank staff dissatisfied with coin deposits; ATM/ADT deposit failure, yet cash retained; ATM withdrawal failure, but customer account debited; branches without proper heating and cooling systems in the banking halls; unsuitable products (deposits and agriculture loans which are not in line with seasonality and nature agriculture business cashflow) sold; delays in recovery of funds transferred to wrong accounts in RSA; and customer payment instructions not complied with.

Consumer conduct which may be ascribed to low financial literacy was noted when dealing with complaints.

iv) Pricing issues

Frequent incidents of fee overcharges and pricing disputes were noted from complaints data. The fee overcharges and disputes entailed: high account management, deposit and withdrawal fees; monthly fees charged on inactive accounts; unpaid fee of M150.00 for dishonoured debit orders; high interest rates on loans even for business loans fully backed by investment funds in custody of the lending institution; high early redemption/withdrawal fees on notice and fixed deposit accounts; high loan early repayment/settlement fees; low interest rates on notice and fixed deposit accounts; undue card replacement fee for ATM-captured cards and occurrence of fraud incident involving the card and password reset; high agent withdrawal fee charged to make up for low commission earned; and fee, interest and insurance premium overcharges on loans due to system issues.

v) Fraud

Several incidents of financial fraud were reported in the year under review. Fraud incidents comprised bank deposit and insurance fraud; unknown and unauthorised debits; debit card fraud in which customers' funds were reserved or debited for purchases while the cards were in their possession and unknown and unauthorised transactions were made; ATM fraud in which cards were captured by ATMs in Republic of South Africa (RSA) and followed by unauthorised debits; online commerce scams in which there were unauthorised payments on e-commerce platforms; customers paid funds into accounts of scammers in RSA's bank for vehicle purchases and other products; and sellers from social media platforms who disappear and could not pick up calls after digital payments were made by the customers; missing deposit account funds; cyber fraud in which customers' funds were stolen after their credentials were compromised and cyber security vulnerabilities were successfully exploited by the criminals; agency banking fraud in which unknown and unauthorised debits were made at one agent; and e-wallet fraud in which unauthorised ATM withdrawals were made while cell- phones were in possession of the customers.

vi) Low financial literacy

Consumer conduct which may be ascribed to low financial literacy was noted when dealing with complaints. There were instances where: customers were over-indebted due to financial imprudence as demonstrated by acquisition of multiple loans and self-disclosed impulsive borrowing tendencies; customers became victims of ATM fraud especially when transacting in ATMs located in South Africa; customers defrauded by online e-commerce scams; customers whose accounts made unknown and unauthorised debits in which their credentials had been compromised; customers who demonstrated lack of product knowledge, such as using ATMs (incidents in which customers leave ATMs before funds could be dispensed), making digital inter-account transfers, instant digital personal loans and ID requirements for depositing funds; customers who could not understand bank fees, deposit and loan account statements, difference between actual and available balance and pension and insurance contracts; customers who could not appreciate the need to provide required documents when submitting a funeral insurance claim and business loan requirements; limited cyber risks and precautions awareness; and limited understanding of AML CFT requirements, leading to account freeze and withholding of funds, and termination of banking relationships with a customer.

1.5.4 On-site Examinations and Off-site Surveillance

The preliminary assessment phase of the examination cycle on financial consumer protection and market conduct issues in the banking industry was undertaken in 2021. Three banks were assessed. The level of inherent financial consumer protection risk was considered moderate, the quality of risk management systems rated acceptable, resulting in moderate composite financial consumer protection risk and increasing direction of the risk.

The following issues emerged from the assessments:

- Disclosure of product information with respect to investment early redemption fees and loan early settlement fees was inadequate;
- Product information, including contracts, was not written in Sesotho, rather only in English;
- The complaints handling mechanisms of the banks with respect to CBL-mediated complaints were less efficient as demonstrated by a very long time taken to address complaints information requests. There were also several incidents in which the banks did not submit weekly updates on unresolved complaints mediated by CBL;
- Frequent incidents in which CCTV cameras installed in branches had unclear and less visible pictures, not displaying images and recording were noted; and
- There were instances where controls on fraud and cyber risk were considered inadequate as demonstrated by fraud incidents perpetrated by internal staff and external criminals.

Financial consumer protection risks posed by these issues were deemed moderate due to the fact that they occurred less frequently and banks largely had effective complaints handling mechanisms and redress policies. Where there had been undue deductions or payments, consumers were reimbursed their funds or loan instalments normalised, and over-indebted consumers were afforded debt relief remedies such as loan restructuring, loan consolidation and loan payment holiday.

1.5.5 Consumer Financial Empowerment

Financial Consumer Protection Division actively participated in the design and implementation of financial consumer education and awareness programme of the Central Bank of Lesotho, namely Money Month Campaigns. The Money Month Campaign activities officially commenced from the 19th April and were wrapped up with an exciting, insightful Virtual Roundtable held on the 27th May, 2021. The theme of the 2021 Money Month Campaign was " Take care of yourself , Take care of your money". This virtual webinar, with wider attendance of local and international participants, was broadcasted via Zoom, Social media platforms such as Facebook,

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> Financial service providers were encouraged to prioritize social goals in their pursuit of profits and to price loans based on the risk profile of clients and the nature of their businesses.

and local radio stations. In her 40-minute opening speech, the Governor of the Central Bank of Lesotho reviewed and shared with the participants the activities that had been carried out as part of 2021 Money Month Campaign, highlighted developmental objectives of the Money Month Campaigns, identified financial inclusion, integrity and protection issues the financial system was grappling with in the backdrop of COVID-19 pandemic and accelerating digitalisation of financial services access and consumption, and her perspectives on the right direction all stakeholders in the financial ecosystem should embark upon.

On the activities undertaken, the Governor indicated the thematic areas covered, which included services, such as banking, collective investment schemes, insurance, pensions, microfinance, mobile money, and financial consumer protection; basic financial education concepts, such as personal financial management skills, budgeting, prioritizing, savings, and interest rates; responsible lending and borrowing; available products and services in the market; contractual obligations and rights of financial service providers and consumers; and emerging financial risks , such as fraud and cyber risks and precautions to be taken as well.

On developmental objectives, the Money Month Campaign was intended to contribute towards improving financial inclusion by enhancing the financial literacy of consumers and increasing access to finance in order to achieve accelerated, sustainable economic transformation in Lesotho.

On risks, fraud including cyber fraud and financial scams promoted on digital platforms promising unrealistic, quick returns and financial consumer protection risks were enumerated and expounded. To help instil habits which may lessen the vulnerability of consumers to fraud risks, they were made aware of financial scams, fraud types and mechanisms and preventive measures as well;

Lastly, on the way forward, first, investment on development and adoption of financial technologies which can make access to financial services safe, affordable, and more convenient was encouraged; Second, all stakeholders were urged to invest time, efforts and resources in improving their financial skills; third, financial service providers were encouraged to understand their clients and their business models and invest in staff training; fourth, financial service providers were encouraged to prioritize social goals in their pursuit of profits and to price loans based on the risk profile of clients and the nature of their businesses; fifth, financial service providers should develop products based on the understanding of customers' needs and the nature of their businesses; Sixth, financial service providers should ensure product contracts are written in a clear and visible manner and in Sesotho; lastly, financial service providers should continually review the pricing of their products to make them affordable to consumers.

FCP Division also participated in Financial Education and Financial Consumer Protection Campaigns aired on Radio Lesotho Oreng Molao Programme on the 25th February, 2021.

INSURANCE SECTOR REVIEW

2

The insurance industry remained under pressure in 2020 in line with the overall economic performance as a result of the effects of COVID-19-19 pandemic.

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INSURANCE SECTOR REVIEW

2.0 INTRODUCTION

THE INSURANCE INDUSTRY currently consists of ten (10) insurance companies, six (6) of which are in the life insurance business and the rest in the general insurance business. No new licenses were issued nor cancelled during the year 2021. However there were cases of some technical insolvency occurrences and non-compliance observed. All cases were however dealt with bilaterally with affected parties and corrective measures were enforced. Technical insolvency occurs when the allowable (admissible) assets of an insurer are less than the total liabilities of that insurer. Regulators exclude some assets in the calculation of total assets as a way of ensuring that insurers attain high quality assets to safeguard policyholders' claims.

With regard to conduct, during the period under review, there was an occasion where a tip-off was received, alerting the Commissioner that one of the insurers was failing to honour its claim obligations. Following the tip-off, the issue was probed further through a special inspection only to discover that the insurer was not only failing to pay its obligations but was also offering a product which it was not licensed to offer. Remedial measures were imposed on the insurer and the Commissioner continues to monitor adherence to the remedial measures to date in order to ensure correction of the issue.

2.1 SHORT TERM INSURANCE SECTOR PERFORMANCE

2.1.1 Short Term Underwriting Performance

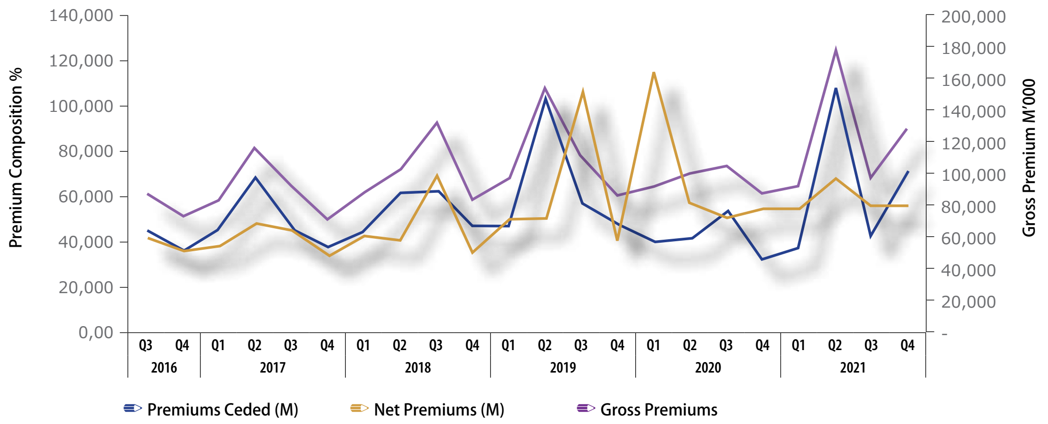
During the year 2021, the short term insurance sector collected premiums amounting to M499.96 million, of which 52.47 percent was ceded to reinsurers. Cession of premiums in the insurance business is a requirement of the law that makes it possible for insurers to manage the risks they undertake. However, 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 premium ceded may raise the question on capacity of local insurers to shoulder higher risk.

The collected premiums for the short term sector during the year under review, was an increase of 29.14 per cent compared to the previous year. In terms of contributions by different classes, property insurance contributed the largest portion of premiums, followed by motor insurance.

The increase in premiums collected however did not filter to bottom line figures of the sector, as an underwriting loss to the tune of M29.57 million was recorded. This loss compares to M3.61million in the previous year indicating increased underwriting loss. The sector's underwriting loss was driven by high net claims that were incurred. The claims incurred increased by 21.55 percent to M110.88 million from M91.22 million in the period. Although the short term sector registered an underwriting loss, the investment income worth M30.96 million improved its profitability, leading to the overall profit of M13.94 million for the year compared to profit of M23.21 million in the previous year. This was a decrease of 66.34 percent.

Figure 8 below provides a longer term view of the sector's premiums collections. From Figure 1, it can be observed that the short term sector's business, in terms of premiums collections, is volatile. This is due to the seasonality in the sector, with major businesses paying their premiums in the second and fourth quarters of the year. Volatility in this case, is however not a cause for concern for the Commissioner since there are no fundamental drivers to it (only seasonality).

Figure 7 Short Term Sector's Gross Premium Trend and Composition



Source: Central Bank of Lesotho

Some important income statement variables are depicted on Table 8 which shows how the sector's performance compares to the previous year based on the selected key variables.

Table 8 Selected Income Statement Variables for the Short term Insurance Sector

Item	2021	2020	% change
	M'000.00	M'000.00	
Gross Premium	499,960	451,000	10.86
Premium Ceded	262,330	255,266	2.77
Net Premium	237,630	195,734	21.40
Claims Incurred	110,880	91,220	21.55
Management Expenses	51,040	90,830	-77.96

Source: Central Bank of Lesotho

At the end of December 2021, the sector's equity increased by 2.49 percent, reaching M141.06 million from M137.63 million recorded at the end of the previous year.

2.1.2 Short Term Underwriting Performance

2.1.2.1 Assets

The asset base for the short term insurance sector increased by 15.90 percent in 2021 from the previous year's closing level of M579.37 million, to the current level of M671.50 million. The increase in assets was mainly driven by premium receivables which rose by 47.13 per cent from M193.40 million in 2020 to M284.54 million in 2021. This however signals poor premium collection methods by short-term insurers industry and requires close monitoring as it has potential to lead to technical insolvency.

It should, however, be noted that investment assets form the largest component of the sector's assets. The investment assets break down is depicted on Table 9. From Table 9, investment funds contributed 59.73 percent to the sector's total investable assets, followed by deposits with financial institutions and government securities at 23.22 percent and 14.85 percent respectively. The rest of the investment asset classes contributed the remaining 1.96 per cent as indicated on Table 9.

Table 9 Investments by Asset Class for the Short Term Insurance Sector

Investments by Class	2021	2020
Government Securities	14.85%	14.30%
Non-government Securities	0.89%	0.72%
Deposits at Financial Institutions	23.22%	20.70%
Investment Property	0.00%	0.00%
Investment and Subsidiaries and Affiliates	1.31%	1.24%
Investment funds	59.73%	63.04%
Total Investments	**100.00%**	**100.00%**

Source: Central Bank of Lesotho

2.1.2.2 Equity and Liabilities

At the end of December 2021, the sector's equity increased by 2.49 percent, reaching M141.06 million from M137.63 million recorded at the end of the previous year. This was boosted by an increase in share premiums. With regard to the insurers' reserving and underwriting provisions, this increased by 12.92 percent compared to the previous year, as insurers put aside additional funds against the then anticipated losses as a result of Covid-19 pandemic.

2.1.2.3 Financial Stability

The performance of the sector deteriorated slightly, but was supported by increases in investment income as economic performance in emerging and developing economies improved. The combined ratio deteriorated during the year under review. This ratio indicates the ability of the sector's net premium to shoulder underwriting expenses namely; claims and management expenses. The benchmark set is "below 105 percent".

From 2020 to 2021 the ratio rose from 87.51 per cent to 105.10 per cent, which was slightly above the bench mark, and was therefore unfavourable. The situation therefore calls for close monitoring as it directly impacts on underwriting results of the sector . The investment yield also shot up to 8.90 per cent in the year under review from 1.98 percent in 2020. This was above the bench mark of "above 3 percent", indicating improvements in financial markets between 2020 and 2021, as emerging and developing economies recovered from the effects of the prevalence of COVID-19 pandemic. Lastly, the sector remained adequately capitalized during the review period, as reflected by the ratio of capital to liabilities of 26.59 percent which compares favourably with the bench mark of "greater than 25 percent".

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

	Benchmark	Average	Dec-21	Dec-20
Operational results				
Claims Ratio	[50 -70]	47.08	45.46	31.23
Expense Ratio	[33 - 38]	77.56	42.05	73.86
Combined Ratio	< 105	124.64	87.51	105.10
Investment Yield	> 3	1.52	8.90	1.98
Return on Average Equity	> 5	3.05	9.94	15.38
Financial Position				
Proportion of Investment Assets	> 50	58.27	51.18	59.11
Technical Reserves to Total Liabilities	[60 - 70]	73.98	80.30	79.23
Technical Provisions to Equity	< 250	261.97	301.96	254.31
Premium Receivables cover	< 50	133.23	212.14	176.44
Liquid Reserves Cover	> 20	34.64	19.68	21.88
Net Premium to Equity	<300	41.91	168.47	157.11
Technical Reserves Cover	> 100	77.71	84.07	75.08
Capital to Liabilities	>25	29.89	26.59	31.16

Source: Central Bank of Lesotho

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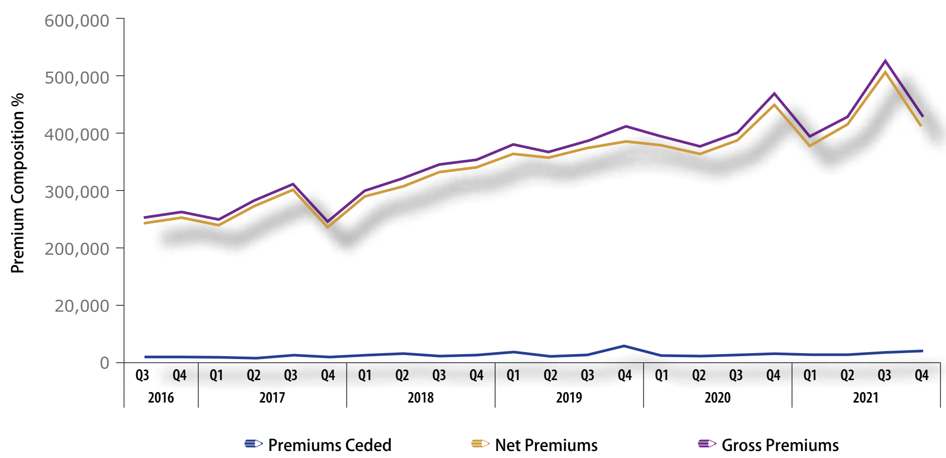
The long term sector registered an underwriting profit of M200.64 million during 2021, a decrease of 40.69 percent compared to the previous year.

2.2 SHORT-TERM INSURANCE SECTOR PERFORMANCE

2.2.1 Short-Term Underwriting Performance

For the year 2021, the long term insurance sector recorded gross written premiums amounting to M1.78 billion, which was an increase of 9.05 percent compared to the collections in 2020. The sector continued to boast high risk absorption capacity, with a high premium retention rate of 95.81%. The high retention rate is backed by huge capital amounts as seen by the net premium to equity ratio of 167. 87 percent. This ratio was however below the bench mark of “less than 300 percent”, which shows that the equity available was more than sufficient to support writing of new insurance business. The trend and composition of premiums are depicted in Figure 11 below. From figure 2, it is clear that the premium collections for the long term sector is less volatile compared to the short term sector.

Figure 8 Long-Term Gross Premium Trend and Composition



Source: Central Bank of Lesotho

The long term sector registered an underwriting profit of M200.64 million during 2021; a decrease of 40.69 percent compared to the previous year. This decrease in profit was due to an increase in claims incurred, by 19.52 percent to M1.09 billion of claims incurred in 2021.

The selected key income statement variables are shown on Table 11 below, to summarize the underwriting performance of the sector between 2021 and 2020.

Table 11	The Growth Rates of Other Important Income Statement Variables (%)		
Item	2021	2020	% change
	M'000.00	M'000.00	
Gross Premium	1 784 121	1 636 701	9.05
Premium Ceded	74 801	74 754	0.06
Net Premium	1 709 320	1 709 367	-0.002
Claims Incurred	1 087 993	910 314	19.52
Commission Expenses	153 909	160 433	-4.24
Management Expenses	169 869	148 131	14.67

Source: Central Bank of Lesotho

2.2.2 Balance Sheet Performance

2.2.2.1 Assets

Total assets of the sector increased from M7.4 billion in 2020 to M8.2 billion, as at the end of the year 2021; an increase of 11.60 percent. Investible assets contributed the largest proportion of the sector's total assets and were consequently their main driver in the year under review. Table 5 below shows the different types of investible assets. Investment funds is the largest category of investment assets at 63 percent, followed by non-government securities and government securities at 13 percent and 12 percent respectively.

In terms of geographical placement of investable assets, the sector held 28.3 percent in Lesotho while 71.7 percent was invested in foreign countries. This is not consistent with the Capital Solvency and Reserves Requirements for Insures regulations of 2016 which requires that an insurer shall hold assets in Lesotho in total aggregate value of not less than 30 percent. To address this issue concerned insurers have been contacted to remedy the situation and will be monitored going forward.

Table 12	Long Term Insurance Sector Investments by Asset Class	
Asset Class	Dec 2021 % of Total Investments	Dec 2020 % of Total Investments
Government Securities	11.93	11.60
Non-government Securities	12.92	11.01
Deposits at Financial Institutions	7.67	16.84
Investment Property	2.07	2.26
Investments in Subsidiaries and Affiliates	2.09	2.50
Investment Funds	63.17	55.62
Total Investments	100	100

Source: Central Bank of Lesotho

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In terms of geographical placement of investable assets, the sector held 28.3 percent in Lesotho while 71.7 percent was invested in foreign countries.

2.2.2.2 Equity and Liabilities

The net-worth of the long term insurance sector reduced as shareholders' funds decreased by 2.75 percent to M1.02 billion. This was at the back of reduced retained earnings as profits decreased in 2021 compared to 2020.

2.2.2.3 Financial Stability

The selected Financial Soundness Indicators for the long term sector are depicted on Table 13 in their two major categories of operational and financial position.

Table 13 Selected Key Financial Soundness Indicators for Long Term Sector (%)

	Dec 2021	Dec 2020	Benchmark	Dec-20
Operational Performance				
Claims Ratio	63.77	57.77	[50-70]	31.23
Expense Ratio	18.98	19.58	[33-38]	73.86
Combined Ratio	82.74	77.35	<105	105.10
Investment Yield	4.16	3.60	>3	15.38
Financial Position				
Net Premium to Equity	167.87	72.77	<300	59.11
Investments to Total Assets	75.41	103.02	>50	79.23
Policyholders Benefit Cover	100.05	150.57	>100	254.31
Change in capital and surplus	-2.75	-16.52	[-10 - 50]	31.16

Source: Central Bank of Lesotho

The operational performance for the sector remained positive as reflected by the combined ratio of 82.74 percent which remained significantly above the benchmark performance of "less than 105" and was thus favourable. For the year under review, the sector experienced an improvement in investment income with a recorded yield of 4.16 percent, which is above the benchmark performance of "greater than 3 percent" as emerging and developing markets improved. Lastly the long-term insurance sector was adequately capitalized as indicated by the ratio of net premium to equity of 167.87 percent which is significantly below the benchmark of "less than 300 percent".

2.3 CONCLUSION

In conclusion, it can be mentioned that on a year to year basis, both the underwriting performance and financial position improved. This positive performance is in line with improvements in the emerging and developing economies where most insurers invest. The auditors' assurance from the audited financial statements of insurance companies in 2021 further provide confidence of this positive outlook of insurers. The statements show that the insurance companies maintained accounting solvency and give a true and fair view of the financial position of the companies.

There are however, downside risks to this outlook that should be noted going forward; namely, the potential effects of inflation in the longer run. The ongoing conflict between Russia and Ukraine, is leading to higher food and commodity prices and this will eventually spill over to other sectors of the economy. These risks and the potential resurgence of other pandemics such as monkey pox, remain major threats that could result in disruptions to the economy and ultimately, could affect the performance of the insurance industry.

It is also important to note that the coming into force of the Pension Funds Act of 2019 is another important development that should be monitored. As more insurance companies continue to separate their insurance and the pension businesses, it is likely to impact the assets of the industry, which will be appreciated since the true size of the insurance industry, without the influence of the pension funds, will be known ❑

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NON-BANKS FINANCIAL SECTOR REVIEW

3

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

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NON-BANKS FINANCIAL SECTOR REVIEW

3.0 INTRODUCTION

THE NON-BANKS FINANCIAL INSTITUTIONS comprise a diverse set of institutions as per the following categories and their relevant pieces of legislations:

I. Financial Institutions Act 2012

- Micro-Finance Institutions under the Financial Institutions (Credit-Only and Deposit Taking MFIs) Regulations 2014 as amended.
- Money Transfer Institutions under the Financial Institutions (Money Transfer) Regulations 2014.

II. Credit Information Bureau under the Credit Reporting Act 2011 and Credit Reporting Regulations 2013.

III. Lesotho Electronic Registry in Movable Assets (LERIMA) under the Security Interest in Movable Property Act 2020 and Regulation 2020.

3.1 MICROFINANCE INSTITUTIONS (MFIs)

3.1.1 Introduction

Microfinance Institutions (MFIs) are financial institutions that provide alternative and small scale financial services to those who are excluded from the traditional banking system. These Institutions are regulated by the Central Bank of Lesotho and are licensed under the Financial Institutions Act of 2012 and the Financial Institutions (Credit Only and Deposit Taking Microfinance Institutions) Regulations 2014 as amended 2018. Under these Regulations, MFIs are classified into three tiers depending on their asset base. Tier I MFIs are deposit taking, Tier II are credit only MFIs which have either issued debt instrument in a public exchange or has M10 million or more in assets, while Tier 3 are credit only MFIs below this threshold.

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According to the FinScope Consumer Survey of 2021, 48 percent of the adult population use formal financial products but are not banked.

3.1.2 Overview of MFIs

Following the recent legal and institutional reforms aimed at overhauling the MFIs landscape, the sub-sector has increased tremendously and at the same time the market integrity has improved. As at the end of the review period, there were 123 MFIs licensed by Central Bank of Lesotho, out of which; 8 are Tier II; while 115 are Tier III. This industry is still largely dominated by a few large MFIs from abroad. In the review period, MFIs we still unable to raise funds from the banking sector to finance their credit extension operations and as such remained dependent on loan funding from mother companies, strategic investors and shareholders' capital.
The main target clients for most of these MFIs were government and private employees. In view of the saturation and diminishing market size, particularly for government employees, many MFIs are beginning to slowly widen their scope to include the MSMEs as well as the informally employed individuals. While this diversification is welcome to improve access to finance, it also exposes MFIs to higher credit risk given the risks associated with the informal and MSMEs sectors. The use of the Lesotho Electronic Registry in Movable Assets (LERIMA) and the credit information bureau become critical in averting this risk exposure.

According to the FinScope Consumer Survey of 2021, 48 percent of the adult population use formal financial products but are not banked. This is made possible by the use of mobile money and many MFIs have realised the window of opportunity in this space and have started to collaborate with the mobile money providers in order to offer micro loans to the unbanked on mobile money platforms.

Another major development and improvement in this subindustry relates to compliance and market integrity. MFIs are now formal companies registered in accordance with the Companies Act of 2011 as Amended, as a result they are formal financial institutions which run businesses in line with business principles. Given that all of them were recently licensed post 2018, they were all tested against higher regulatory requirements which they had to fully comply with upon licensing. Many of these requirements sought to strengthen market conduct and the protection of financial consumers.

Lastly, the advent of Covid19 forced them to slowly start digitizing their business process by employing some basic technology suitable for them. Issuance of digital credit was therefore on the rise in 2021. These developments are highly appreciated despite the fact that they pose risks of cyber security, data protection and education and awareness amongst others. Another major challenge in this area is the prominence of over-indebtedness as a result of reckless lending.

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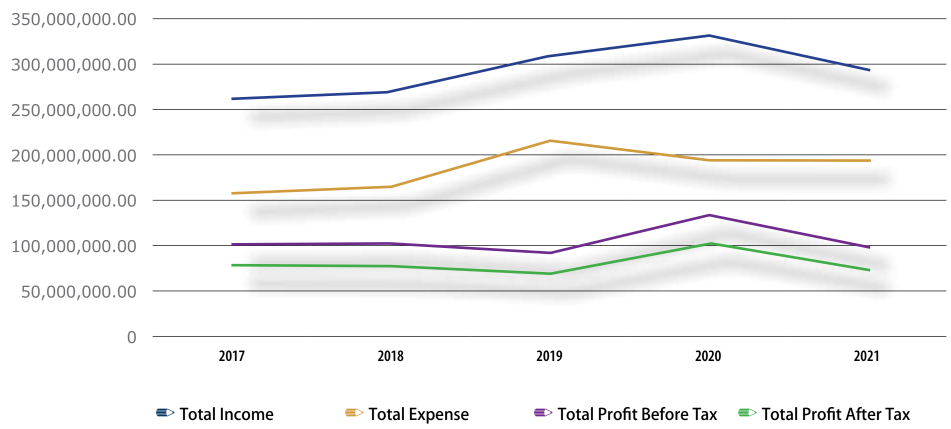
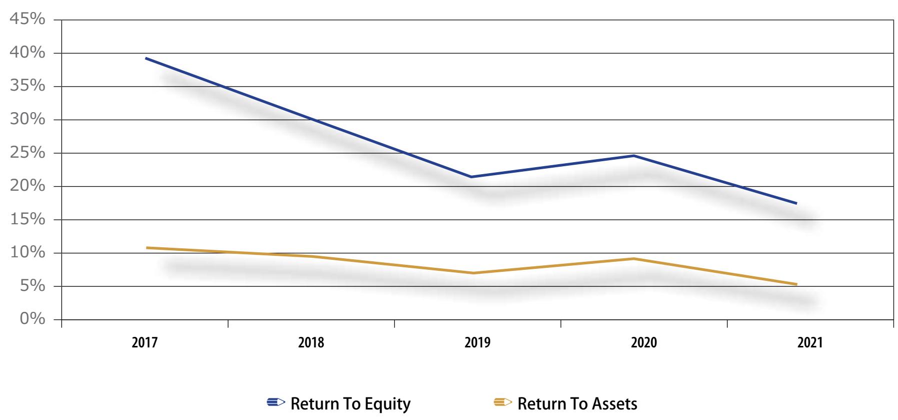
Figure 9 MFIs Performance



Source: Central Bank of Lesotho

Accordingly, the return on assets (ROA) decreased from 9 percent to 6 percent while the return on equity decreased from 25 percent to 18 percent as depicted on the figure below.

Figure 10 MFIs Profitability Ratio



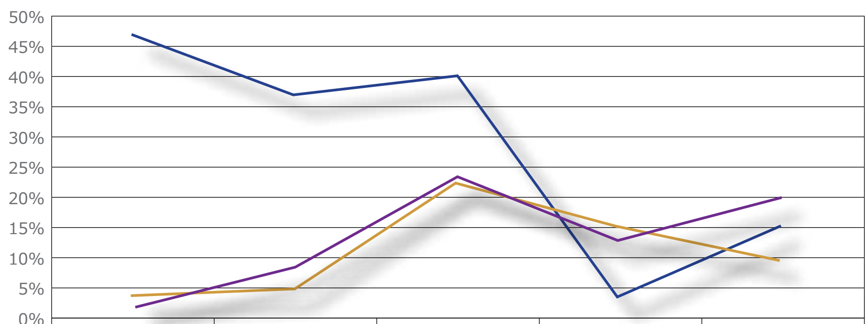
Source: Muela Reports

The resilience of this industry despite unfavourable economic conditions as a result of COVID-19 was bolstered by strong risk mitigation factors.

The resilience of this industry despite unfavourable economic conditions as a result of Covid19 was bolstered by strong risk mitigation factors. These are particularly for government employees where a deduction from source system is employed and were also not largely affected by COVID-19 as compared to private sector employees. The loss of income from private sector employees were therefore cushioned by the steady income from Government employees.

However, many MFIs have had to reduce their long term credit offerings and focus more on short term given that the year under review was still marred with uncertainties on the medium to long term outlook. This was coupled with the fact that many people were not economically active and needed short term loans for basic household and livelihood needs.

Figure 11 Loan Performance

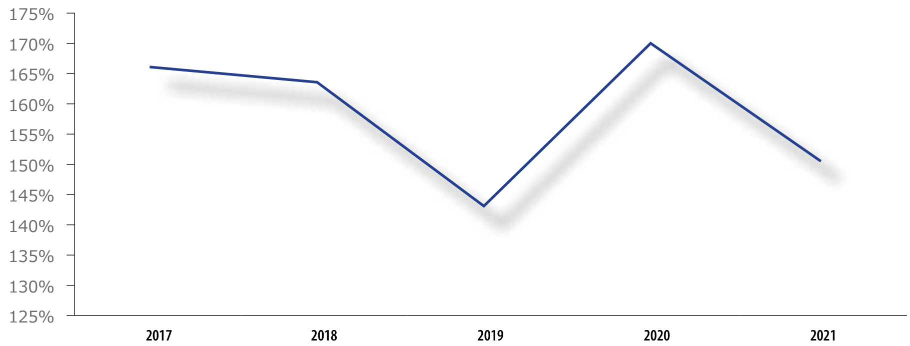


	2017	2018	2019	2020	2021
Short-Term Loans	47%	37%	40%	3%	15%
Long-Term Loans	4%	5%	22%	15%	9%
Aggregate Assets	2%	8%	23%	13%	20%

Source: Central Bank of Lesotho

While there was a decrease in the performance of MFI's in the current reporting period, the MFI's continued to show resilience and were still able to finance their operations with their income, as shown by the Operational self-sufficiency figure below. Although the efficiency declined from 170 percent in 2020 to 151 percent in 2021, it is still above 100 percent, which shows that MFIs were still generating enough Income to cover their expenses.

Figure 12 Operational Self Sufficiency



Source: Central Bank of Lesotho

3.1.3 Financial Performance of MFIs

The below figure shows the MFIs financial positions trend for the past 5 years. Looking at the 5 year trend, the sub sectors finances its assets with more debt than equity, which may result in a very poor financial leverage. Which could lead to MFIs failing to meet their long-term financial obligations when they become due. Although the number of loans offered have also been increasing from the year 2017 to 2021, the Income has not been increasing as rapid as shown by the previous profitability indicators. This is because of the overly indebted population in the sector, which results in non-performing loans.

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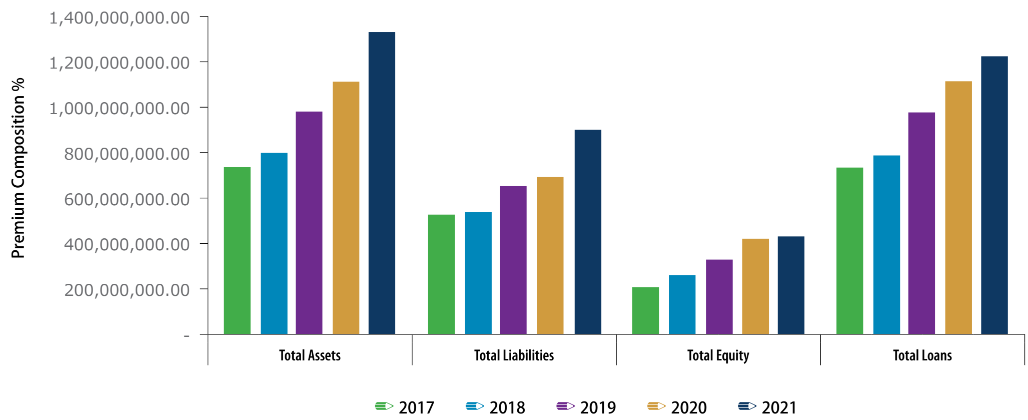
There has been a general decline in the financial indicators in the current reporting period.

Figure 13 MFIs Position



Source: Central Bank of Lesotho

3.1.4 Conclusion

In conclusion, there has been a general decline in the financial indicators in the current reporting period. However, the sub-sector remained strong, resilient and well cushioned from the negative impact of COVID-19. Despite this performance, the prevalence of over-indebtedness as a result of reckless lending continued in the review period. From the regulatory point of view, the Bank should intensify efforts and employ necessary tools to avert reckless lending. From the supply side, MFIs should make use of the already existing financial infrastructure during credit underwriting while financial literacy and awareness programs should be intensified from the demand side.

NON-BANKS FINANCIAL SECTOR REVIEW

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 rational 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. Lesotho is a net-remitter and hence these institutions play a critical role in fostering financial inclusion and access to finance, especially given the dependence on migrant remittances from South Africa and beyond.

3.3.2 Developments in 2021

The Central Bank of Lesotho, as the end of the review period, has licensed two stand-alone money transfer institutions, namely: Interchange Lesotho and Mukuru Bureau de Change. This subsector is one of the few who would have not largely been negatively affected by the Covid19 pandemic. As lockdown restrictions were being imposed due to several waves of Covid19, many people were forced to send money home using digital means including the services of Money Transfer Operators. The total assets of the sub-sector have increased by 6 percent in 2021 down from 9 percent as compared to 2020. In terms of profitability, the sun-sector continued to record strong profits as shown in the picture below. In the year under review, profits continued to increase recording a ROA and ROE of 16 percent and 47 percent respectively. The main revenue contributor to the sub-sector was commission, money transfer and foreign exchange activities, which respectively accounted for 5 percent, 87 percent and 6 percent of the business income.

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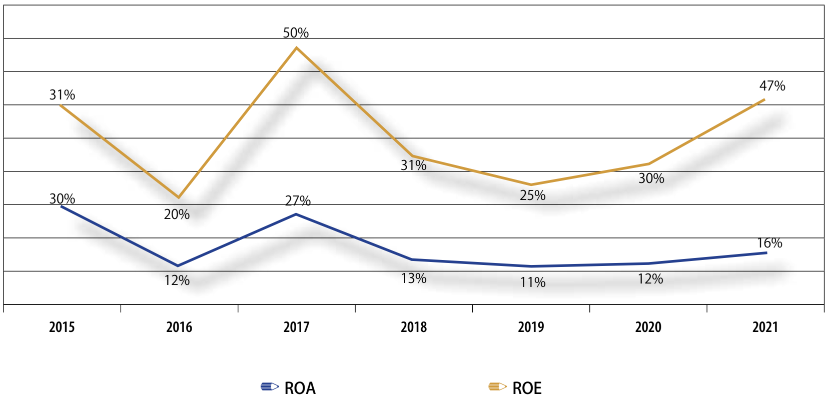
The Central Bank of Lesotho, as the end of the review period, has licensed two stand-alone money transfer institutions, namely: Interchange Lesotho and Mukuru Bureau de Change.

Figure 14 Profitability Assessment



Source: Muela Reports

3.2.3 Inbound Transactions

The inbound transactions trend shown in the figure below portrayed strong growth in both number and amount of transaction entered Lesotho through money transfer channels. From the last quarter of 2020 to the closing quarter of 2021, the number and amount of inbound transactions increased by 10 percent and 18 percent respectively. On aggregate, there were 468,824.00 number of transactions amounting to US$ 23,252,662.51 in the year 2021. These inbound transactions originated from the 113 countries internationally including South Africa which accounted for 90 percent of the remittance. The South Africa corridor has been opened only on an inbound basis. Cross countries restrictions, particularly between South Africa and Lesotho, compelled migrant workers to utilize only formal remittance channels hence the massive growth in both number and amount transaction through money transfer space. Further to that, this increase is attributed to the introduction of an integration of the money transfers systems with mobile money platforms which made it possible for remittances made through the money transfer to be accessible through mobile money.

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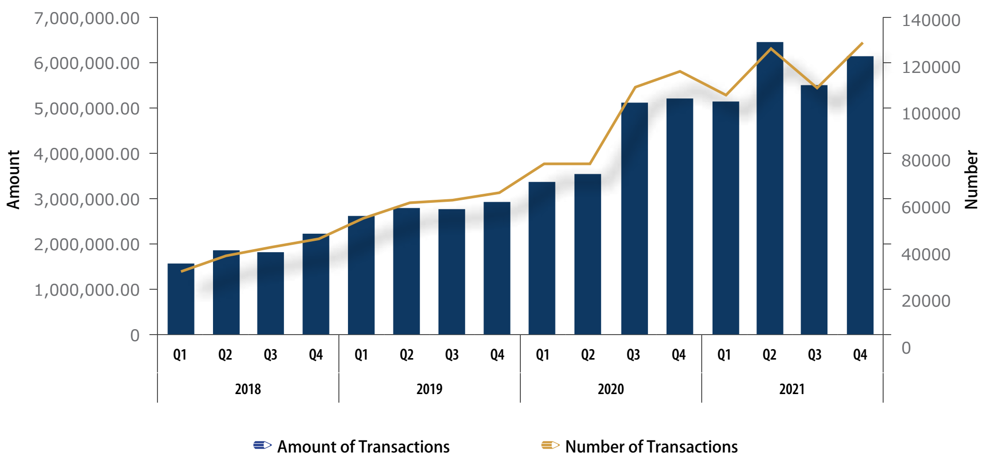
Figure 15 Aggregate Inflow of Transactions in Number and Amount

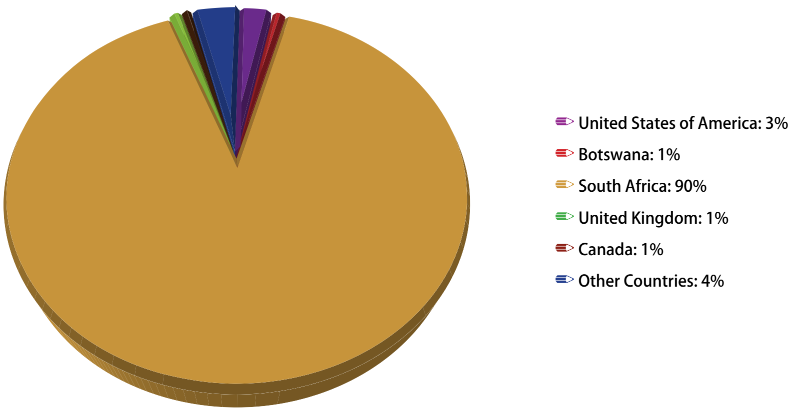


Source: Central Bank of Lesotho

Money transfer platforms in Lesotho were able to receive funds from many countries across the globe. The figure below depicts inflows by country of origin and shows the percentage share of inflow by each country in 2021. The depiction shows that the highest percentage share, 90 percent of inflow transactions came from South Africa, followed by United States of America, which accounted for 3 percent. Botswana, United Kingdom and Canada accounted for 1 percent each. Other countries combined accounted for 4 percent. This picture may relatively be associated with statistics of Lesotho migrant workers living abroad.

Between 2020 and 2021, the number of outbound transactions remitted through the money transfer platform declined by 9 percent.

Figure 16 Inbound Transactions by Countries of Origin in 2021

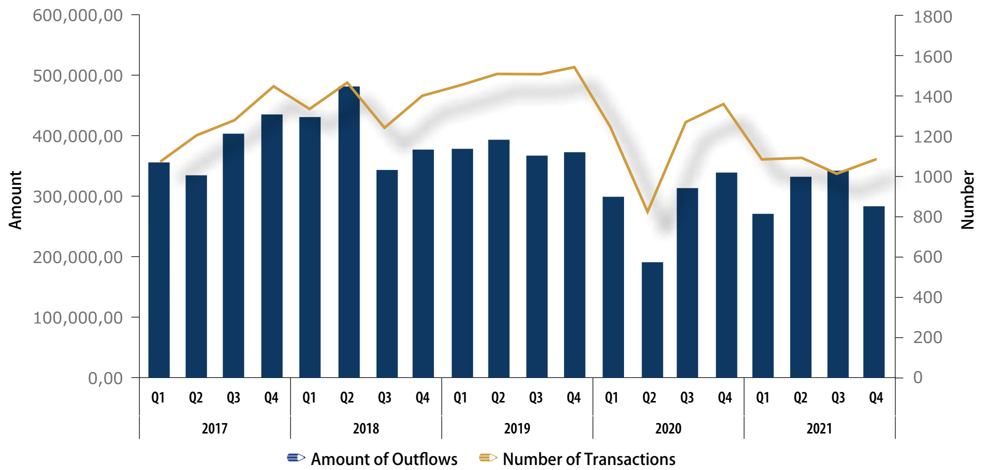


Source: Central Bank of Lesotho

3.2.4 Outflow Transactions

Between 2020 and 2021, the number of outbound transactions remitted through the money transfer platform declined by 9 percent. Nonetheless, the amount of outbound transactions increased by 8 percent. In the year under review, the total number and amount of transfers aboard stood at 4,286 and US$ 1,233,555.28 respectively. In 2020, the total number and amount of transfers aboard were 4,707 and US$ 1,146,676.40 respectively. The continued effect of Covid19 restrictions is discernible in the figure below despite some signs of stabilizing in the year under review. The recovery was however hampered by new Covid19 variants which emerged and necessitated new set of restrictions in early 2021.

Figure 17 Number and Amount of Outbound Transactions in US$



Source: Central Bank of Lesotho

The money transfer sub-sector in Lesotho remitted funds to a number of countries worldwide. In 2021, remittances from Lesotho were destined to about 83 countries. The major recipients were; Philippines with a share of 24 percent, followed by Zimbabwe with 11 percent, China and Democratic Republic of Congo had a share of 8 percent each and Uganda had 7 percent. Other countries accounted for 42 percent of remittances from Lesotho. This share is also in line with the number of migrants of these countries in Lesotho. South Africa was not included in this distribution. Nonetheless, 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.

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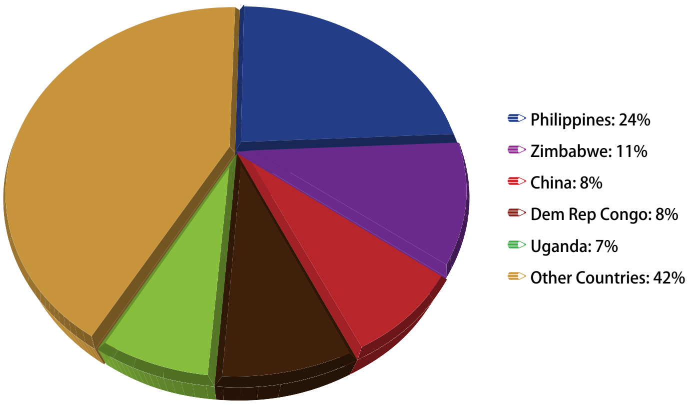
The money transfer sub-sector in Lesotho remitted funds to a number of countries worldwide.

Figure 18 Outbound by Country of Destination in 2021



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

Remittances are defined as cross-border, person-to person payments of relatively low value While these amounts may appear small, it is often the main source of migrants' family income back home and play a critical role in poverty alleviation. Usage of these formal channels have increased rapidly in recent years, especially the inbound transactions from South Africa to Lesotho. Consequently, the risks associated with AML/CFT emerge, as such the Bank needs to put measures in please to ensure that these risks are curbed.

3.3 CREDIT INFORMATION REPORTING

3.3.1 Introduction

The year under review marks exactly ten years since the inception of the credit information initiative in Lesotho. The journey started with the promulgation of the Credit Reporting Act of 2011 followed by the publication of the Credit Reporting Regulations of 2013. These provided the legal basis for the registration of the first credit bureau in Lesotho in 2014 and the uploading and sharing of credit information from 2016. Since then a lot of progress has been made in bringing on board a wide range of credit providers across all industries. Despite the progress made, the advent of Covid19 delayed progress and as a result challenges remain particularly in the uploading and sharing of information for businesses and the development and argumentation of value added service. In terms of the credit market developments in the year under review, the aftermath of covid-19 pandemic continued to dominate trends particularly rising non-performing loans, low count of reported borrowers in the credit bureau system and lower tally of borrower credit checks. This report brings insights on the analysis of credit market and extension in Lesotho for the year ended 31 December 2021.

3.3.2 Data Providers' Participation

Consumer credit information becomes increasingly reliable for credit underwriting and other purposes when data providers periodically and adequately share information to the credit bureau. By the end of 2021, commercial banks (4), Tier II MFIs (5) and retailers (5) are reported as live on the credit bureau at 100 per cent. Notably, 15 tier III MFIs are live while the other 67 MFIs are testing their data with the credit bureau. Moreover, SACCOs and insurance companies are live at 67 while one out of two telecommunication companies is live. In order to ensure greater participation of MFIs, particularly Tier III, the Central Bank resolved to make participation on the bureau mandatory as part of the licensing requirements.

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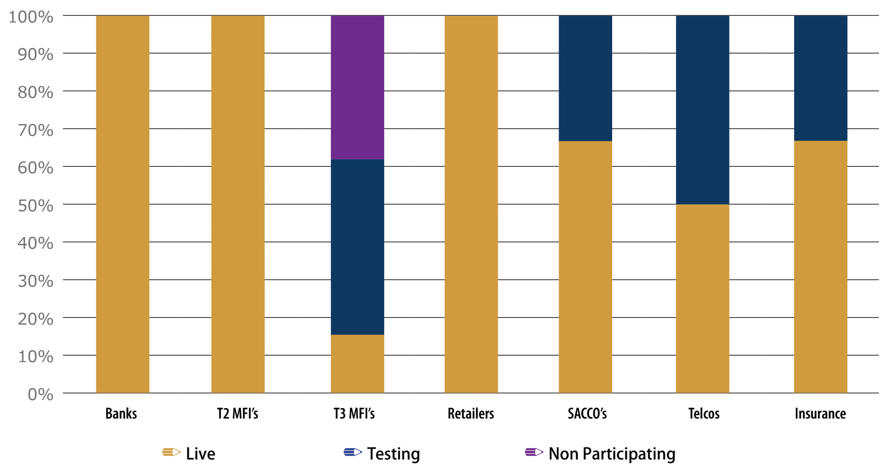
The year under review marks exactly ten years since the inception of the credit information initiative in Lesotho.

Figure 19 Data Providers Sharing Credit Information



Source: Central Bank of Lesotho

3.3.3 Borrowers Information Available at the Bureau

Availability of robust and reliable credit information in the bureau reduces challenges of adverse selection and information asymmetry between borrowers and lenders[1]. This promotes responsible lending and borrowing, reduces default risk and improves the allocation of new credit. To ensure that credit decision-making is supported by adequate and comprehensive data, all relevant borrower information has to be captured in the credit bureau system.

1 https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/credit-bureau

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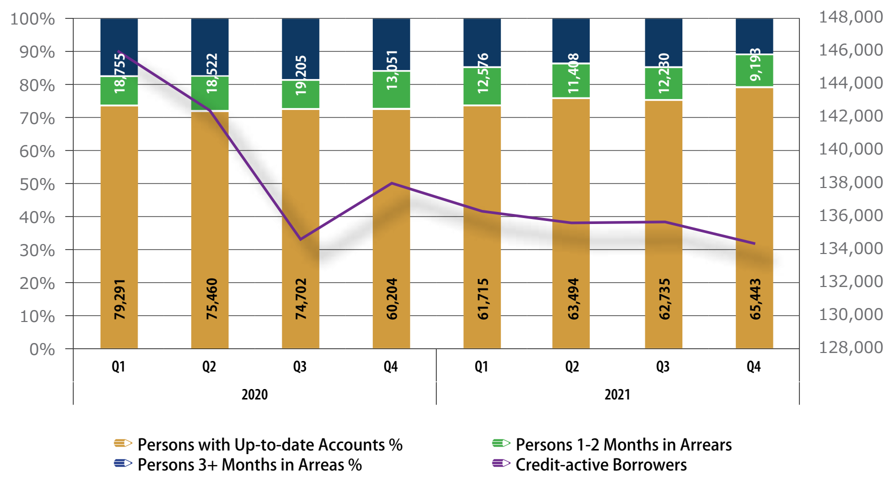
Figure 20 Status of Persons in the Bureau

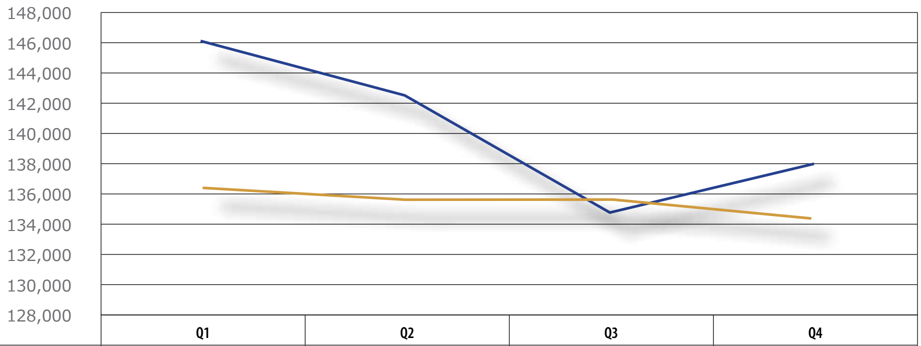


Source: Central Bank of Lesotho

The year 2021 closed at 202 723 persons recorded in the bureau, which amounts to an increase of 3.86 percent year-on-year, out of which, only 134 499 were reported as credit-active borrowers. A year-on-year comparison shows that by the end of 2021, credit active borrowers had fallen 2.54 percent. A fall in a tally of credit-active borrowers reveals the impact of covid-19 on the economy as lesser consumers demanded or qualified for credit. Furthermore, some credit providers slowed the rate of credit extension given the uncertainties precipitated by the prominence of Covid19 waves which led to the reintroduction of several restrictions. Lastly, Covid19 disrupted reporting of credit information to the Bureau hence the lower levels of credit active borrowers.

Availability of robust and reliable credit information in the bureau reduces challenges of adverse selection and information asymmetry between borrowers and lenders.

Figure 21 Credit-active Persons for the Years 2020 and 2021



	Q1	Q2	Q3	Q4
2020	140,073	142,541	134,757	138,000
2021	136,396	135,674	135,678	134,499

Source: CBL

3.3.4 Consumer Indebtedness

A borrower is defined as over-indebted "when its existing and expected resources are insufficient to meet its financial commitments without lowering its standard of living[2]". Another definition of over-indebtedness provides that a borrower is said to be over-indebted if they recurrently fail to meet their periodic repayments[3]. Drawing from the later definition, this report explores trends of borrowers reported as having their accounts up-to-date and those having skipped their debt repayments for at least one month.

A year-on-year look at credit accounts in the bureau reveals that in the first three quarters of 2021, persons with up-to-date accounts were lower than in 2020, only to close the year at 65,443, amounting to 8.75 percent higher than 2020. Borrowers categorised as having their accounts up-to-date in the year under review trended lower compared to 2020 except for the last quarter of 2021. In the first three quarters of 2021, borrowers comparatively struggled to keep their loan accounts paid up-to-date. This is attributed to the then prevailing lock-down restrictions in relation to covid-19 pandemic. It is evident that during that time, some borrowers' financial capacity was challenged and they could not keep up with their financial obligations.

[2] Giovanni D'Alessio & Stefano Iezzi, 2013. "Household over-indebtedness: definition and measurement with Italian data," Questioni di Economia e Finanza (Occasional Papers) 149, Bank of Italy, Economic Research and International Relations Area.

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

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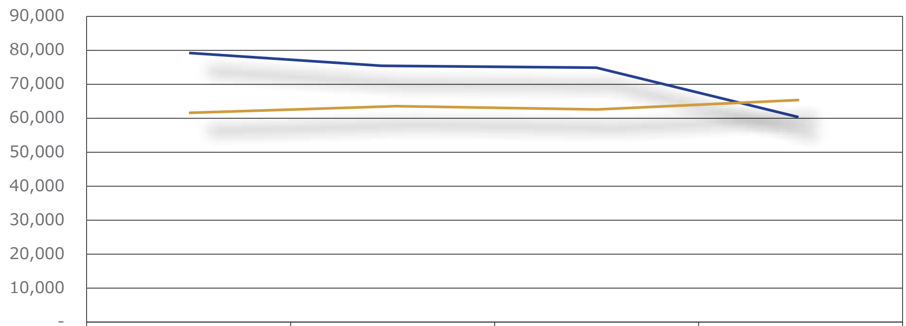
Figure 22 Persons With up to Date Accounts for the Years 2020 and 2021

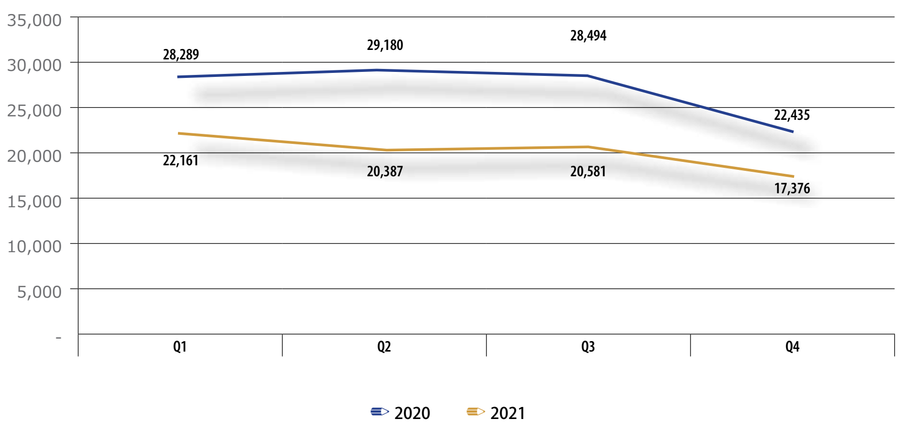


	Q1	Q2	Q3	Q4
2020	79,291	75,460	74,702	60,204
2021	61,715	63,494	62,735	65,443

Source: Muela Reports

As depicted on the figure above, it is discernible that the impact of COVID-19 in 2020 continued in 2021 and that the year 2021 registered a slow recovery towards the end of the year.

Figure 23 Persons 1 Month + in Arrears for the Years 2020 and 2021

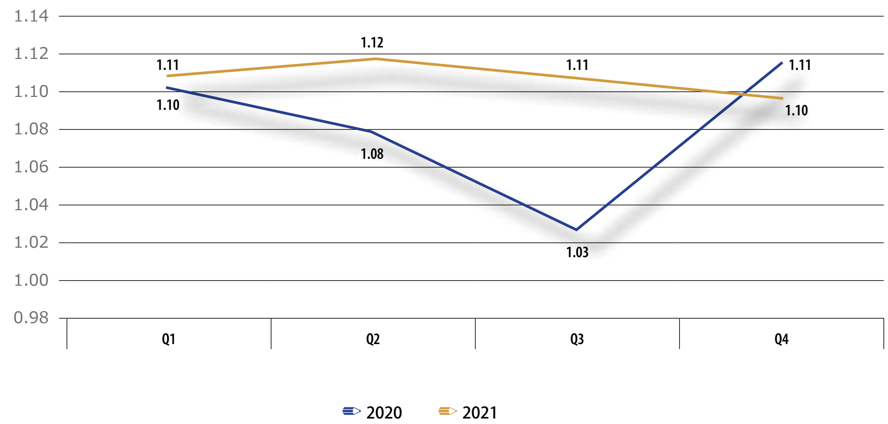


Source: Central Bank of Lesotho

On average, borrowers in the credit bureau system held at least 1.11 accounts in the year under review.

Borrowers who were 1 month and above in arrears trended lower in 2021 than in 2020, on average, over 27 thousand borrowers were behind with their monthly loan repayments in 2020 while in 2021 the tally went down to just 20 thousand. Another key indicator in assessing levels of indebtedness in the market, is the trend in the number of loan accounts per credit active persons in the bureau.

Figure 24 Accounts Per Person for the Years 2020 and 2021



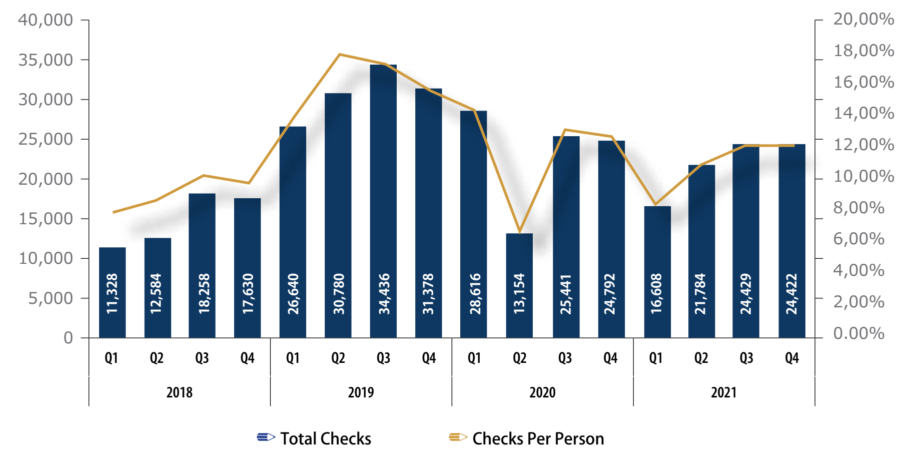
Source: Central Bank of Lesotho

On average, borrowers in the credit bureau system held at least 1.11 accounts in the year under review. This count is 2.48 percent up compared to 2020 at 1.08 accounts on average. This ratio reveals that a higher proportion of borrowers had loan accounts in the year under review than in the year before.

3.3.5 Credit Market Activity

Submission or uploading data to the bureau is just but one aspect of the credit information sharing cycle. The other aspect of the cycle relates to usage of such information during the credit underwriting process. This indicator is also used to detect the credit market activity and to determine the level of demand for credit in the market.

Figure 25 Credit Market Activity



Source: Central Bank of Lesotho

The total number of credit checks conducted in the year 2021 closed at 87,243, amounting to a 5.2 percent decline as compared to 2020 and a further 29.2 percent fall as compared to 2019. This decline in credit checks reveals the slowed activity in the lending market owing to covid-19 disruptions. As depicted in the figure above, it is discernible that the demand for credit surged during precovid19 era and plummeted since Covid19. However, the trend in credit checks in the year 2021 is showing some early signs of recovery albeit as a lower rate. It is therefore clear that it will take time before trends revert back to the levels attained in precovid19 era.

A disaggregated analysis of credit checks conducted reveals that the decline cuts across all sectors. Microfinance institutions' activity declined 4.7 percent in the year under review while banks performed 6.3 percent lower.

3.3.6 Credit Market Breakdown by Product Type

Despite a slow economic activity in the year under review, credit accounts rose 2.2 per cent on average year-on-year in the period under review. Mortgage accounts grew 5.2 percent year-on-year while unsecured lending grew largest at 6.6 percent in the same year. Such loans as revolving non-store cards and one-month loans grew 2.3 percent while all the other loan types as credit facilities and vehicle and asset finance fell 23.6 and 4.4 percent respectively.

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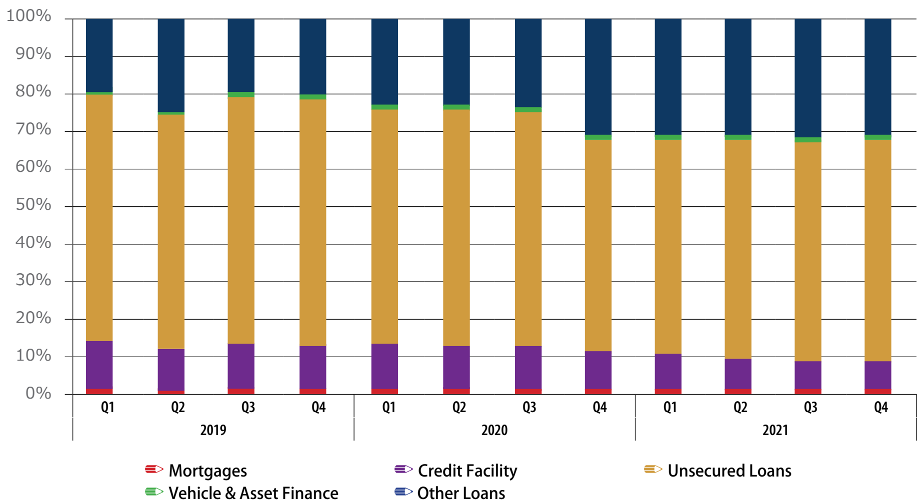
Despite a slow economic activity in the year under review, credit accounts rose 2.2 per cent on average year-on-year in the period under review.

Figure 26 Share of Credit Accounts by Type



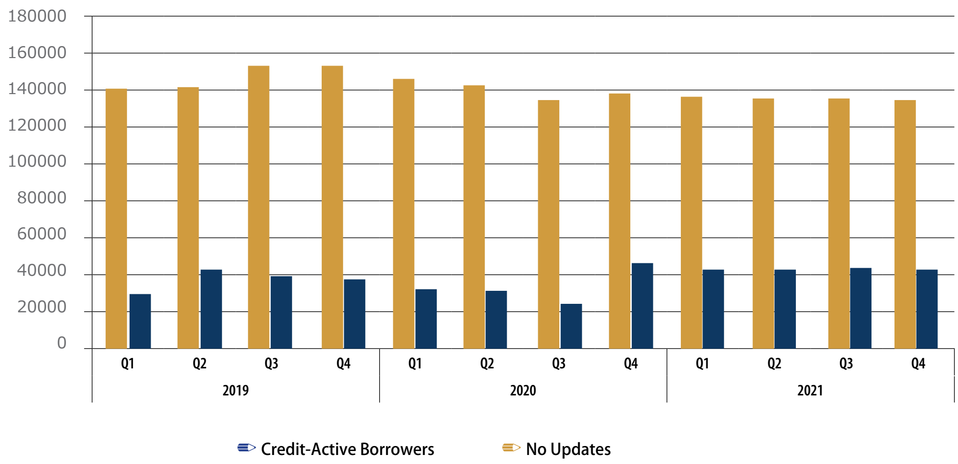
Source: Central Bank of Lesotho

3.3.7 Data Quality

Data quality issues undermine basic credit risk management. Poor quality and untimely credit information leads to ill-advised credit decision making and ample time spent on data accuracy verification.

[4] https://www.brinknews.com/practical-ways-to-improve-credit-data-quality/

Figure 27 Borrower Report Updates on Credit Active Borrowers



Source: Central Bank of Lesotho

Data quality fell 5.1 percent in the year under review. In total, 42,908 borrower files were deprived of their due updates, thus rendering borrower information less useful. The figure above portrays borrower reports updates as discussed. On average, the year 2021 saw 31.8 percent borrower data deficit, 8.1 percent lower than the previous year.

3.3.8 Conclusion

The aftermath of covid19 pandemic in the credit market continued to linger throughout 2021 albeit at an abating rate. As a consequence, the credit market remains subdued though there are early signs of slow recovery. However, it is clear that it will take time before the credit market recovers to levels registered in precovid19 era. As highlighted in this report, challenges remain in the following areas in particular: data quality; indebtedness; and the slow credit market activity. Issues of data quality remain prevalent, thus giving emphasis to stronger efforts through regulatory instruments to ensure full compliance by all the players in the credit market.

The issue of indebtedness should be looked at from the supply and demand sides. Enforcement should be improved in order to limit incidences of reckless lending while from the demand side, efforts to provide financial education and literacy should be strengthened and intensified in order to ensure that the levels of indebtedness abates. Market activity issues are however dependent on supply and demand factors depending on the performance of the economy, as such reforms aimed at ensuring the recovery of the economy are paramount

On average, the year 2021 saw 31.8 percent borrower data deficit, 8.1 percent lower than the previous year.

3.4 LESOTHO ELECTRONIC REGISTRY IN MOVABLE ASSETS (LERIMA)

3.4.1 Introduction

Following the promulgation of the Security Interest in Movable Property Act in 2020 and the publication of the Security Interest in Movable Property Regulations of 2020, the development of the Lesotho Electronic Registry in Movable Assets was concluded. This was followed by the rigorous testing and acceptance after which the system was deployed for training, capacity building and awareness. Having laid this foundation and building blocks, the Secured Transactions Regime and Collateral Registry was launched in July 2021 by the Hon. Minister of Finance and the Governor of the Central Bank of Lesotho

3.4.2 Developments in 2021

Post the launch, a lot of work went into on-boarding of participants in the registry. As at the end of the review period, there was a total of 11 active accounts in the Registry comprised of the following categories: 3 commercial Banks; 6 MFIs; 1 Law Firm; and 1 individual. In total there were 454 notices filed by the end of the review period amounting to M159,5 million. In terms of usage of the system, there were only 35 searches that were made on the system. Therefore, there is still a lot of potential to increase the numbers as there are still a lot of big credit providers who have not yet registered on the system. These include one bank, MFIs, Furniture Shops, Telecommunications Companies and other credit providers of asset based finance.

3.4.3 Conclusion

There has been a slow uptake of the system as highlighted in the summary above, however, the numbers are also encouraging given that the launch was only done in the last half of the year. Going forward there is need for capacity building within the Credit Infrastructure Unit of the Bank. This will ensure that the system is well maintained, secure and credible to use. Lastly there is need for intensifying training for the users of the system and awareness for prospective users and all stakeholders of the secured transactions regime in Lesotho ❑

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PENSIONS AND SECURITIES

4

The number of formally registered asset managers remained at two (2) during the review period. STANLIB Lesotho (Pty) Ltd remained the only active collective investment scheme with four (4) registered collective investment schemes during the review period.

PENSIONS AND SECURITIES

4.0 PENSIONS AND SECURITIES

4.1 COLLECTIVE INVESTMENT SCHEMES

Oversight and regulation of collective investment schemes in Lesotho is guided by the Central Bank of Lesotho (Collective Investment Schemes) Regulations 2018. The number of licensed asset managers remained at two (2) during the review period. There continued to be only one active asset manager within the industry with four (4) registered collective investment schemes during the review period. The total assets under management at the end of the review period amounted to three billion one hundred million Maloti.

An examination was conducted during the review period. Some instances of non-compliance with the laws were uncovered and directives were issued to remedy the issues. Nonetheless, all the regulated entities submitted requests for renewal of their licenses as per the regulations and they were granted. The overall performance of the collective investment schemes industry showed a stable and sound financial position.

4.2 PENSIONS

Pension funds and service providers in Lesotho are regulated and supervised by the Central Bank of Lesotho under the Pensions Act, 2019 and its subordinate regulations that were promulgated in 2020. Over the review period, the Regulator prioritized the registration and licensing of well-known pension funds and service providers. The Regulator had several engagements with the known entities on how they can register and transition their operations in accordance with the law. Over the review period, the Regulator continued to embark on public campaigns to sensitize industry wide pension funds, other service providers and the public at large about the existence of the Law. At the end of the review period, there were two (2) registered umbrella pension funds, one (1) licensed pension fund intermediary and three (3) pension fund administrators, while several other well-known entities were in the process of collating the necessary documentation for registration and licensing. The two registered umbrella funds were covering 145 participating employers with total membership of 16040 and total assets amounting to M1.6 billion.

Active oversight and regulation of the pensions industry is expected to commence in the following reporting period. The Regulator will therefore aim to promote a safe and stable environment for pension fund members by mandatory registration of all remaining unregistered pension funds in Lesotho. Furthermore, the Regulator will spend most of the upcoming year readying itself for the full implementation of the Pension Funds Act, 2019 and its subordinate regulations and the development of risk-based framework for pension funds. To this end, the Regulator will continue to train its staff on the implementation of the law and the regulations and standards

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thereunder, as well as on risk based supervision. In addition, the Regulator will monitor the conduct of industry players to identify industry malpractice and other contraventions of relevant legislation.

4.3 SECURITIES

The Capital Markets in Lesotho are regulated under the Central Bank (Capital Markets) Regulations, 2014. The Regulations are meant to promote, regulate and facilitate the development of orderly, fair and efficient capital markets in Lesotho. The market comprises of the Maseru Securities Market and the licensed market players which include stock brokers, broker-dealers and investment advisors. There were three licensed brokers/dealers and three investment advisors at the end of the review period. There were no applications for public offers during the review period ❑

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DEVELOPMENTS RELATED TO SUPERVISION

5

The most dominant mobile money transactions in 2020, in terms of transaction volumes, were cash-in, followed by cash-out, person-to-person (P2P) transfers, airtime purchases and bill payments.

DEVELOPMENTS RELATED TO SUPERVISION

5.0 DEVELOPMENTS RELATED TO SUPERVISION

5.1 PERFORMANCE OF PAYMENT SYSTEMS

5.1.1 Lesotho Wire

Lesotho Wire (LSW) is the backbone of the payment and settlement system in Lesotho. It provides real time and intraday settlement of financial transactions on a continuous and gross basis. It has five participants consisting of the commercial banks and the Banking Division of the Central Bank of Lesotho.

In the review year, the transaction volumes and values settled by LSW increased. The transaction volumes and values increased by 18 per cent and 0.3 per cent, respectively, from the previous year. Table 15 depicts LSW transactions between 2014 and 2021. An increase in the volume of third party payments contributed to the increase in LSW transaction volumes and values in the reporting year. In terms of the uptime, this system generally maintained an uptime of 99 per cent in 2021, which was above the tolerance level of 98 per cent. Therefore, it remained operational and available to settle all large value and time-critical payments in the reporting year.

Table 14 LSW Transactions Between 2014 and 2021

Year	Volumes	Change (%)	Values	Change (%)
2014	19 916	-	30 754 988 595	-
2015	25 683	29	28 058 854 748	-8,8
2016	23 917	-7	34 257 297 169	22,1
2017	29 968	25	43 046 062 473	25,7
2018	25 880	-14	51 466 286 357	19,6
2019	33 047	28	66 901 041 540	30,0
2020	32 474	-2	77 581 732 255	16,0
2021	38 450	18	77 794 364 791	0,3

Source: Central Bank of Lesotho

5.1.2 Automated Clearing House

The automated clearing house (ACH) is the key retail payment system in Lesotho and hosted both the cheques and electronic funds transfers (EFT) systems in 2021. In the reporting year, the transaction volumes and values processed by the cheque clearing system declined. Specifically, both the transaction volumes and values decreased by 60 per cent, from the previous year. Table 16 depicts cheque and electronic funds transfer (EFT) transactions between 2014 and 2021. Prolonged pause in cheque issuance by the government and phasing out of cheque decreased cheque transaction volumes and values in the reporting year.

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The automated clearing house (ACH) is the key retail payment system in Lesotho and hosted both the cheques and electronic funds transfers (EFT) systems in 2021.

Table 15 Cheque and EFT Transactions Between 2015 and 2021

	Cheque		Electronic funds transfer	
Year	Volumes	Values	Volumes	Values
2015	127 682	1 719 989 779	224 924	1 811 830 586
2016	144 743	1 560 718 211	431 671	3 401 141 406
2017	60 355	881 532 856	557 916	4 424 643 963
2018	56 901	826 170 076	666 541	5 321 027 584
2019	44 727	713 239 309	776 441	6 049 474 412
2020	21 749	412 190 144	877 151	6 605 769 732
2021	8 652	164 951 871	1 032 070	7 974 835 986

Source: Central Bank of Lesotho

On the other hand, EFT transaction volumes and values grew in 2021. In particular, the transaction volumes and values increased by 18 per cent and 21 per cent, respectively, from the preceding year. Similar transaction trajectory was also observed preceding years. The growth in EFT transactions was mainly due to the pause in cheque issuance by the government and the growing appetite of consumers to use efficient and safe electronic payment instruments. In addition, the phasing-out of cheque as a payment instrument in the country contributed to the increase in EFT transactions. Electronic payment methods expose users to cybersecurity threats and scams. In light of this, they require financial service providers not only to put in place robust and effective cybersecurity management systems and frameworks, but also to make consumers aware of this imminent risk.

In terms of the uptime, the cheque and EFT clearing systems generally maintained an uptime of 99.8 per cent in 2021, which was above the tolerance level of 98 per cent. Therefore, the systems generally remained operational and available to clear all payments during the reporting year.

5.1.3 Payment Systems Initiatives

The payment system landscape is dynamic and continues to change year after year. In connection with this, several initiatives were undertaken in 2021 in order to modernise the national payment system and to promote safety and efficiency, which consequently contribute towards fostering financial stability. These initiatives are the implementation of the national payment switch, review of the payment system legislation, phasing out of cheque as a payment instrument, migration of LSW to the new SWIFT messaging standard, as well as the separation of mobile money issuance businesses of the mobile network operators from their telecommunication business.

5.1.4 Implementation of the National Payment Switch

In 2021, the Bank together with financial sector stakeholders started the implementation of the national payment switch. In particular, the Bank procured and appointed the national payment switch solution provider, which was introduced to the broader financial sector. Subsequently, the solution provider conducted stakeholder workshops, infrastructure requirements analysis, external interface and specifications, as well as developed the project plan and project scope. In addition, technical testing environment was set-up and the legal framework and procedures were reviewed in order to accommodate the national payment switch. In terms of the timeframes, the go-live of the national payment switch was changed from June 2022 to September 202.

5.1.5 Review of the Payment Systems Legislation

In 2021, the Bank in collaboration with financial sector stakeholders continued the review of the payment systems act. Consequently, the draft Payment Systems Bill 2021 was produced, and sent to the Ministry of Finance and the Office of Parliamentary Counsel (OPC) for further drafting in line with legislative processes. In connection with this, the Bank also started the review of the payment systems regulations.

5.1.6 Phasing-out of Cheque as a Payment Instrument

In the reporting year, the Bank, Payments Association of Lesotho (PAL) and the Bankers Association of Lesotho (BAL) jointly phased-out cheque as a payment instrument in Lesotho. Cheque was phased-out as a payment instrument in the country due to a number of challenges associated with its usage. These challenges include, but are not limited to lengthy processing period, fraud perpetrated through its issuance, high costs of cheque as a payment instrument, restricted acceptance and declining usage. In addition, outdated cheque processing system, limited consumer financial education and protection of consumers and adverse impact of the outbreak of coronavirus of 19 (COVID-19) pandemic also drove the phasing-out of cheque as a payment instrument.

5.1.7 Migration of the LSW to the New Messaging Standard

In the reporting year, the Bank in collaboration with other LSW participants continued the project for migration to ISO 20022 messaging standard for both domestic and cross border payments. The objectives of the migration project are not only to ensure alignment with migration efforts of the SADC RTGS so that back office systems of the participants are ready to integrate, and send and/or receive ISO 20022 messages, but also to align with international standards. In addition, the migration is meant to meet AML/CFT regulatory requirements.

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In 2021, the Bank together with financial sector stakeholders started the implementation of the national payment switch.

5.1.8 Separation of Mobile Money Issuance Businesses of the Mobile Network Operation from their Telecommunication Business

The Bank working together with Vodacom Lesotho and Econet Telecom Lesotho completed separation of mobile money issuance businesses of these two companies from communication businesses. Consequently, the Bank licensed VCL Financial Services and Cassava FinTech Lesotho as mobile money issuers in the country. The separation of these two businesses and the subsequent licensing of VCL Financial Services and Cassava FinTech Lesotho was meant to improve oversight and regulation of mobile money by the Bank, which will contribute towards financial stability in the country.

5.2 BASEL II.5 MIGRATION

5.2.1 Consumer Protection and Market Conduct Regulation and Supervision

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 2020, the Financial Consumer Protection Bill was presented before Cabinet and approved and then tabled before the National Assembly in April, 2021. Disclosure of Credit Information (Key Fact Statement) Regulations were also presented to Financial Institutions Technical Committee and validated with the key stakeholders in a virtual workshop.

The rationale for the Bill is to have an over-arching structure that adequately protects financial consumers with clear enforcement mechanisms by the CBL as the proposed Regulator under this draft legislation. 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 and improper market conduct of financial service providers ❑

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Appendices

APPENDICES

Appendix 1	Banking Sector Audited Balance sheet (M'000)								
BALANCE SHEET	2013	2014	2015	2016	2017	2018	2019	2020	2021
TOTAL ASSETS	**11,441,254**	**12,295,054**	**13,926,566**	**13,201,813**	**16,074,849**	**17,411,287**	**17,181,049**	**20,041,261**	**21,552,964**
Cash and Cash Items	426,976	387,871	564,886	613,960	747,067	762,106	957,317	773,311	3,256,649
Balances with CBL	447,963	549,673	374,398	445,400	397,372	337,114	536,027	675,038	560,413
Balances with local banks	1,780,323	2,163,450	2,307,861	2,138,905	2,196,629	1,695,041	902,079	1,377,909	785,547
Balances with banks abroad	2,332,483	2,590,189	3,528,206	2,985,556	3,891,395	4,782,533	2,416,680	3,864,120	2,322,998
Marketable securities	666,030	612,183	750,200	756,951	1,003,304	1,691,100	3,431,039	4,092,358	4,548,947
Other investments	1,063,519	627,325	654,354	241,703	930,077	562,492	776,746	1,024,436	1,454,197
Loans and advances	4,375,961	4,907,856	5,265,522	5,403,718	5,804,732	6,523,182	7,049,973	6,996,179	7,489,537
Fixed Assets	175,394	211,284	265,665	324,867	697,537	650,350	435,354	657,908	604,744
Other Assets	172,605	245,223	215,474	290,753	406,736	407,369	675,834	580,002	529,933
TOTAL LIABILITIES	**10,347,048**	**10,985,499**	**12,461,502**	**11,515,455**	**14,013,566**	**15,267,829**	**14,792,652**	**17,321,605**	**18,711,384**
Deposits	7,822,771	8,213,781	9,352,181	8,796,049	11,060,237	11,710,064	12,869,603	14,732,281	15,446,465
Due to Local Banks	1,864,779	2,156,610	2,325,171	2,009,065	2,002,976	2,544,961	963,361	1,707,980	2,144,528
Due to Foreign Banks	313,361	197,786	249,352	225,095	355,442	257,232	291,434	61,612	198,663
Other Borrowings	0	0	50,417	70,946	70,904	71,596	71,027	70,682	8,537
Other Liabilities	346,137	417,322	484,381	414,301	524,007	683,976	597,227	749,050	913,190
TOTAL CAPITAL	**1,094,205**	**1,309,555**	**1,465,063**	**1,686,362**	**2,061,281**	**2,143,459**	**2,388,407**	**2,719,657**	**2,841,579**
Paid-up Capital	108,858	108,858	123,358	125,858	125,858	125,858	125,858	125,858	125,858
Statutory reserve	124,919	124,059	131,777	194,331	185,876	189,106	190,654	197,880	197,880
Revaluation reserves	13,975	16,261	24,740	23,211	26,162	20,374	22,741	34,276	30,681
Other reserves	12,070	19,903	12,074	13,628	60,803	2,240	62,747	62,746	62,746
Retained earnings	477,464	642,604	749,165	867,918	1,321,787	1,328,591	1,471,693	1,976,884	2,044,758
Profit/ loss for the year to date	356,919	397,870	423,949	461,416	340,795	477,290	514,714	322,012	359,651
Other Capital account	0	0	0	0	0	0	0	0	20,005

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Appendix 2	Banking Sector Audited Income Statement (M'000)								
INCOME STATEMENT	2013	2014	2015	2016	2017	2018	2019	2020	2021
TOTAL INCOME	**1,196,139**	**1,300,320**	**1,439,501**	**1,596,248**	**1,687,750**	**1,884,563**	**2,018,169**	**1,918,689**	**2,002,983**
Interest income - Loans	519,024	560,308	711,899	817,655	952,771	1,002,221	1,134,200	1,034,020	1,011,769
Interest income - Placements	230,404	358,880	397,897	485,133	409,325	598,016	419,494	345,782	248,956
i) Foreign payments	**144,646**	**207,677**	**212,271**	**248,609**	**198,571**	**150,349**	**162,835**	**179,540**	**125,225**
ii) Domestic payments	**85,759**	**151,203**	**185,626**	**236,524**	**210,755**	**288,612**	**256,658**	**166,241**	**123,730**
Interest Income-Securities	122,176	157,164	57,934	61,674	62,690	82,091	157,969	160,703	146,091
Total Interest Income	871,604	1,076,352	1,167,730	1,364,462	1,424,786	1,682,328	1,711,663	1,540,506	1,406,816
Interest Expense	207,659	330,943	346,249	433,950	417,099	521,483	528,577	465,512	313,699
Net Interest Income	663,945	745,409	821,481	930,512	1,007,687	1,160,845	1,183,086	1,074,994	1,093,117
Fees and Commission Income	451,125	475,642	520,386	574,645	601,250	613,444	639,627	644,609	569,413
Forex Gains/Losses	59,049	65,699	79,523	60,737	51,477	69,662	77,999	81,655	88,873
Income on Equity Investment	0	0	0	510	199	638	0	0	0
Other Income	9,822	9,916	14,822	26,463	20,158	28,365	104,022	103,557	237,729
Grants	12,198	3,654	3,289	3,381	6,979	11,609	13,434	13,875	13,850
Non-interest Income	532,194	554,911	618,020	665,736	680,063	723,718	835,083	843,695	909,865
TOTAL EXPENSES	**701,571**	**756,673**	**858,974**	**957,596**	**1,193,497**	**1,219,679**	**1,311,789**	**1,466,793**	**1,482,034**
Staff salaries and benefits	275,201	306,336	350,179	398,896	432,995	463,283	507,299	511,807	535,562
Management/directors fees	88,122	96,164	112,558	117,250	163,647	158,200	78,743	82,528	85,738
Auditors/consultants fees	4,478	4,979	5,596	6,006	6,855	15,025	29,752	31,862	43,549
Provision for bad debts	65,685	81,805	97,947	95,919	103,802	84,706	76,296	168,523	106,021
Bad-debts write-offs/irrecoverable losses	0	0	0	9,917	51,613	0	43,510	42,195	50,571
Depreciation	40,787	41,200	41,307	47,795	53,998	86,379	84,457	87,329	89,586
Other operating expenses	227,298	226,189	251,387	281,813	380,587	412,086	491,730	542,549	571,007
Operating income/loss	494,568	543,647	580,527	638,652	494,253	664,884	706,381	451,896	520,949
Income/loss before taxation	494,568	543,647	580,527	638,652	494,253	664,884	706,381	451,896	520,949
Taxation	137,649	145,777	156,578	177,236	153,458	187,594	191,667	129,884	161,297
Net income	356,919	397,870	423,949	461,416	340,795	477,290	514,714	322,012	359,651
Dividend	196,659	266,363	265,754	0	250,000	274,924	0	250,000	240,000

Appendix 3	List of Licensed Commercial Banks		
Institution	Chief Executive Officer / Managing Director	Physical & Postal Address	Contacts
Standard Lesotho Bank Ltd	Mr. Anton Nicolaisen	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	Mrs. Delekazi Mokebe	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

APPENDICES

Appendix 4 (a)	Short Term Insurance Sector Balance Sheet (Assets)				
Particulars	December 2021		December 2020		Change %
	M'000	% of Total Assets/Liabilities	M'000	% of Total Assets Liabilities	
ASSETS					
Fixed Assets	**14,927**	**2.22%**	**11,876**	**2.05%**	**25.69%**
Investments	**343,699**	**51.18%**	**342,484**	**59.11%**	**0.35%**
Government Securities	51,038	7.60%	48,964	8.45%	4.24%
Non-Governmental Securities	3,054	0.45%	2,461	0.42%	24.06%
Deposits at Financial Institutions	79,790	11.88%	70,906	12.24%	12.53%
Ordinary Shares Listed	-		-		
Preference Shares Listed	-		-		
Ordinary Shares Unlisted	-		-		
Preference Shares Unlisted	-		-		
Investments Funds	205,305	30.57%	215,914	37.27%	-4.91%
Investment Property	-		-		
Investment in Subsidiaries and Affiliates	4,512	0.67%	4,239	0.73%	6.44%
Investment in Subsidiaries and Affiliates	2 494	0.43%	2 330	0.44%	-0.01%
Loans	**3,087**	**0.46%**	**2,494**	**0.43%**	**23.78%**
Loans to Sector	3,087	0.46%	2,494	0.43%	23.78%
Other loans	-		-		
Receivables	**284,541**	**42.37%**	**193,397**	**33.38%**	**47.13%**
Cash and cash equivalents	**4,034**	**0.60%**	**5,663**	**0.98%**	**-28.75%**
Cash in hand	40	0.01%	42	0.01%	-4.38%
Cash in bank	3,994	0.59%	5,621	0.97%	-28.93%
Other	**19,727**	**2.94%**	**13,673**	**2.36%**	**44.27%**
Accrued Interest, Rent, Income	785	0.12%	612	0.11%	28.27%
Deferred Acquisition Cost	-		-		
Prepaid Expenses	2,338	0.35%	658	0.11%	255.54%
Intangible Assets	9,697	1.44%	11,359	1.96%	-14.63%
Taxation	6,907	1.03%	1,045	0.18%	561.22%
Other assets	**1,482**	**0.22%**	**9,783**	**1.69%**	**-84.85%**
Total Assets	**671,498**	**100.00%**	**579,369**	**100.00%**	**15.90%**

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Appendix 4 (b)	Short Term Insurance Sector Balance Sheet (Liabilities)				
Particulars	December 2021		December 2020		Change %
	M'000	% of Total Assets/Liabilities	M'000	% of Total Assets Liabilities	
Capital Reserves	**141,059**	**21.01%**	**137,631**	**23.76%**	**2.49%**
Paid Up Share Capital	13,250	1.97%	17,250	2.98%	-23.19%
Share Premium	46,278	6.89%	19,464	3.36%	137.76%
Statutory Reserves	-		-		
Retained Earnings	96,515	14.37%	91,157	15.73%	5.88%
Preference Shares	-		-		
Contingency Reserve	-		-		
Other Reserves	-		-		
Accumulated Profit/(Losses)	(14,985)	-2.23%	9,760	1.68%	-253.53%
Underwriting Provisions	**425,943**	**63.43%**	**350,006**	**60.41%**	**21.70%**
Technical Reserves	425,943	63.43%	350,006	60.41%	21.70%
Mathematical Reserves (Actuarial Liabilities)	-		-		
Non-Current Liabilities	**60,337**	**8.99%**	**49,395**	**8.53%**	**22.15%**
Debentures	-		-		
Loans Secured	-		-		
Unsecured Loans	-		-		
Amount Due to related parties (Affiliates and subsidiaries)	10,406	1.55%	5,731	0.99%	81.58%
Amount Due to reinsurers	49,931	7.44%	43,664	7.54%	14.35%
Current Liabilities	**39,617**	**5.90%**	**34,760**	**6.00%**	**13.97%**
Provisions	12,163	1.81%	27,786	4.80%	-56.23%
Taxation	2,106	0.31%	3,287	0.57%	-35.94%
Dividends	-		-		
Bank Overdraft/Short-Terms Loans	-		-		
Other payables	25,348	3.77%	3,687	0.64%	587.54%
Other Liabilities	4,542	0.68%	7,577	1.31%	-40.06%
Total Equity and Liabilities	**671,498**	**100.00%**	**579,369**	**100.00%**	**15.90%**

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Appendix 5 (a)	Short-Term Insurance Sector Underwriting Statement				
Particulars	December 2021		December 2020		Change %
	M' 000	% of Gross Written Premiums	M' 000	% of Gross Written Premiums	
Direct insurance gross written premiums	499,956	100.00%	387,150	100.00%	29.14%
Reinsurance assumed gross written premiums	-		-		
Gross written premiums	499,956	100.00%	387,150	100.00%	29.14%
Less: reinsurance ceded	262,314	52.47%	170,924	44.15%	53.47%
Net written premiums	237,642	47.53%	216,226	55.85%	9.90%
Less: change in unearned premiums	7,367	1.47%	6,643	1.72%	10.90%
Net earned premiums	**230,275**	**46.06%**	**209,582**	**54.13%**	**9.87%**
Reinsurance commissions earned	27,142	5.43%	27,533	7.11%	-1.42%
Other underwriting income	1,042	0.21%	1,210	0.31%	-13.87%
Total underwriting revenue	**258,458**	**51.70%**	**238,325**	**61.56%**	**8.45%**
Gross claims paid (including claim settlement expense)	184,372	36.88%	114,700	29.63%	60.74%
Less: reinsurance share of claims	73,495	14.70%	37,858	9.78%	94.13%
Net claims paid	**110,876**	**22.18%**	**76,842**	**19.85%**	**44.29%**
Add: change in outstanding claims reserve	(10,926)	-2.19%	5,509	1.42%	-298.31%
Add: change in claims IBNR reserve	6,519	1.30%	2,070	0.53%	214.96%
Add: change in mathematical reserves	-		-		
Less salvage and recoveries	1,796	0.36%	260	0.07%	590.77%
Net claims incurred	104,674	20.94%	84,161	21.74%	24.37%
Commissions paid	64,901	12.98%	56,797	14.67%	14.27%
Commissions received	19,102	3.82%	9,932	2.57%	92.33%
Net Commissions	45,798	9.16%	46,865	12.11%	-2.28%
Management expenses	137,554	27.51%	110,910	9.35%	279.98%
Total underwriting expenses	**288,026**	**57.61%**	**241,246**	**43.19%**	**72.24%**
Underwriting result	(29,567)	-5.91%	(3,611)	18.36%	-141.59%
Investment income	48,044	8.02%	28,357	7.32%	41.36%
Other expenses	(3,980)	-0.80%		0%	
Profit/(loss) before tax	**14,497**	**2.90%**	**24,746**	**6.38%**	**-41.29**
Taxation	555	0.11%	1,496	0.39%	-62.87%
Profit/(loss) after tax	**13,942**	**2.79%**	**23,250**	**5.99%**	**-66.34%**

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Appendix 5 (b)	Long-Term Insurance Sector Balance Sheet (Assets)				
Assets	December 2021		December 2020		Change %
	M' 000	% of Total Assets/ Liabilities	M' 000	% of Total Assets/ Liabilities	
Fixed Assets	**54,953**	**0.67%**	**54,687**	**0.74%**	**0.49%**
Investments	6,221,729	75.41%	5,379,864	72.77%	15.65%
Government Securities	741,973	8.99%	624,162	8.44%	18.88%
Non-Governmental Securities	804,095	9.75%	592,205	8.01%	35.78%
Deposits at Financial Institutions	477,424	5.79%	906,136	12.26%	-47.31%
Ordinary Shares Listed	-		-		
Preference Shares Listed	-		-		
Ordinary Shares Unlisted	9,176	0.11%	8,777	0.12%	4.55%
Preference Shares Unlisted	-		-		
Investments Funds	3,930,206	47.63%	2,992,454	40.48%	31.34%
Investment Property	128,775	1.56%	121,739	1.65%	5.78%
Investment in Subsidiaries and Affiliates	130,080	1.58%	134,390	1.82%	-3.21%
Loans	**372,827**	**4.52%**	**399,586**	**5.40%**	**-6.70%**
Loans to Sector	372,828	4.52%	399,586	5.40%	-6.70%
Other loans	(1)	0.00%	-		
Receivables	**303,534**	**3.68%**	**265,585**	**3.59%**	**14.29%**
Cash and cash equivalents	**985,772**	**11.95%**	**958,908**	**12.97%**	**2.80%**
Cash in hand	11	0.00%	11	0.00%	0.00%
Cash in bank	985,761	11.95%	958,897	12.97%	2.80%
Other	**27,417**	**0.33%**	**75,845**	**1.03%**	**-63.85%**
Accrued Interest, Rent, Income	1,481	0.02%	1,051	0.01%	40.91%
Deferred Acquisition Cost	968	0.01%	-		
Prepaid Expenses	16	0.00%	158	0.00%	-89.87%
Intangible Assets	-		-		
Taxation	24,952	0.30%	74,636	1.01%	-66.57%
Other assets	**284,449**	**3.45%**	**258,532**	**3.50%**	**10.02%**
Total Assets	**8,250,680**	**100.00%**	**7,393,008**	**100.00%**	**11.60%**

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Appendix 5 (b)	Long-Term Insurance Sector Balance Sheet (Liabilities)				
Particulars	December 2021		December 2020		Change %
	M' 000	% of Total Assets/ Liabilities	M' 000	% of Total Assets/ Liabilities	
Capital Reserves	**1,018,266**	**12.34%**	**1,047,044**	**14.16%**	**-2.75%**
Paid Up Share Capital	50,383	0.61%	44,383	0.60%	13.52%
Share Premium	154,050	1.87%	144,339	1.95%	6.73%
Statutory Reserves	-		-		
Retained Earnings	811,329	9.83%	855,619	11.57%	-5.18%
Preference Shares	-		-		
Contingency Reserve	1,500	0.02%	-		
Other Reserves	7,917	0.10%	8,256	0.11%	-4.10%
Accumulated Profit/(Losses)	(6,914)	-0.08%	(5,553)	-0.08%	24.50%
Provident Fund	700,317	8.49%	550,700	7.45%	27.17%
Underwriting Provisions	**6,218,600**	**75.37%**	**5,222,033**	**70.63%**	**19.08%**
Technical Reserves	228,050	2.76%	230,455	3.12%	-1.04%
Mathematical Reserves (Actuarial Liabilities)	5,990,550	72.61%	4,991,578	67.52%	20.01%
Non-Current Liabilities	**750,556**	**9.10%**	**583,433**	**7.89%**	**28.64%**
Debentures	-		-		
Loans Secured	3,976	0.05%	-		
Unsecured Loans	21,786	0.26%	8,242	0.11%	164.33%
Amount Due to related parties (Affiliates and subsidiaries)	13,792	0.17%	6,243	0.08%	120.90%
Amount Due to reinsurers	10,685	0.13%	18,248	0.25%	-41.44%
Current Liabilities	**203,371**	**2.46%**	**424,142**	**5.74%**	**-52.05%**
Provisions	12,020	0.15%	10,266	0.14%	17.09%
Taxation	76	0.00%	99	0.00%	-22.84%
Dividends	-		-		
Bank Overdraft/Short-Terms Loans	-		-		
Other payables	191,275	2.32%	413,778	5.60%	-53.77%
Other Liabilities	**59,887**	**0.73%**	**116,356**	**1.57%**	**-48.53%**
Total Equity and Liabilities	**8,250,680**	**100.00%**	**7,393,008**	**100.00%**	**11.60%**

Appendix 5 (c)	Long-Term Insurance Sector Underwriting Statement				
Particulars	September 2021		September 2020		Change %
	M' 000	% of Gross Written Premiums	M' 000	% of Gross Written Premiums	
Direct insurance gross written premiums	1,792,527	100.44%	1,636,701	100.00%	9.52%
Reinsurance assumed gross written premiums	(7,779)	-0.44%	-	0.00%	
Gross written premiums	**1,784,748**	**100.00%**	**1,636,701**	**100.00%**	**9.05%**
Less: reinsurance ceded	74,801	4.19%	60,168	3.68%	24.32%
Net written premiums	1,709,947	95.81%	1,576,533	96.32%	8.46%
Less: change in unearned premiums	3,087	0.17%	653	0.04%	372.90%
Net earned premiums	**1,706,860**	**95.64%**	**1,575,880**	**96.28%**	**8.31%**
Reinsurance commissions earned	4,584	0.26%	4,238	0.26%	8.15%
Other underwriting income	29,974	1.68%	21,755	1.33%	37.78%
Total underwriting revenue	**1,741,418**	**97.57%**	**1,601,873**	**97.87%**	**8.71%**
Gross claims paid (including claim settlement expense)	1,023,692	57.36%	844,496	51.60%	21.22%
Less: reinsurance share of claims	65,483	3.67%	37,388	2.28%	75.14%
Net claims paid	**958,209**	**53.69%**	**807,108**	**49.31%**	**18.72%**
Add: change in Outstanding claims reserve	(20)	0.00%	50	0.00%	-140.00%
Add: change in Claims IBNR reserve	3,698	0.21%	4,255	0.26%	-13.09%
Add: change in Mathematical reserves	126,420	7.08%	98,902	6.04%	27.82%
Net claims incurred	**1,088,307**	**60.98%**	**405,240**	**24.76%**	**168.56%**
Commissions paid	154,382	8.65%	580,170	35.45%	-73.39%
Commissions received	114	0.01%	85,339	5.21%	-99.87%
Net Commissions	**154,268**	**8.64%**	**75,095**	**4.59%**	**105.43%**
Management expenses	298,668	16.73%	148,131	9.05%	101.62%
Total underwriting expenses	**1,541,243**	**86.36%**	**510,081**	**31.17%**	**202.16%**
Underwriting result	**200,175**	**11.22%**	**1,091,792**	**66.71%**	**-81.67%**
Investment income	958,597	53.71%	(145,882)	-8.91%	-757.10%
Other expenses	754,636	42.28%	250,300	15.29%	201.49%
Profit/(loss) before tax	**404,135**	**22.64%**	**(115,592)**	**-7.06%**	**-449.62%**
Taxation	19,892	1.11%	18,657	1.14%	6.62%
Other expenses	**384,244**	**21.53%**	**(134,249)**	**-8.20%**	**-386.22%**

Appendix 6	List of Licensed Insurance Companies			
Long term Insurers				
No.	**Institution**	**Principal Officer**	**Registered Office Address**	**Contact Details**
1.	Lesotho National Life Assurance Company Limited	Mr. Mpho Vumbukani Managing Director	LNGIC House Constitution Road Maseru, Lesotho 100	mphov@lnighollard.co.ls
2.	Alliance Insurance Company Limited	Mr. Angus Yeats Chief Executive Officer	Alliance House 4 Bowker Road Maseru, Lesotho 100	ayeats@alliance.co.ls
3.	Metropolitan Lesotho Limited	Ms. Mamello Phomane Managing Director	Metropolitan Building Kingsway Road Maseru, Lesotho 100	mphomane@metropolitan.co.ls
4.	Liberty Life Lesotho Limited	Mr. Makhakhe Maliehe Managing Director	Liberty Life Lesotho Unit 39, Maseru Mall Maseru	maliehem@liberty.co.ls
5.	Transafrica Life Insurance Company Limited	Mr. Khauhelo Ramakongoana Chief Executive Officer	Shop 26, Race Course Mall (Maseru Mall) Ha Thetsane	khauhelo@trans-africa.co.za
6.	NBC Lesotho Insurance Company Limited	Mr. Godfrey Vatsha: Managing Director	4 Bowker Road, Ground floor, Pension Fund House	VatshaG@nbc.co.za

APPENDICES

Appendix 7	List of Licensed Insurance Brokers		
INSTITUTION	PRINCIPAL OFFICER	REGISTERED OFFICE ADDRESSS	CONTACT NUMBER
Long term Brokers			
Crescent Insurance Brokers	Mrs. Matebello Ntsoane	Plot 75 Behind Victoria Hotel	(+266) 68000255
JM Insurance Brokers (Pty) Ltd	Mrs. Maphomolo Seele	LNDC Block B Level 5 Room 503	(+266) 6286 0156 / 5886 0156
Pula National Insurance Brokers	Mr. Leqhaoe Thabane	Oblate Building First Floor, Maseru 100	(+266) 2232 4620 / 6300 7462
Mokhele Insurance Brokers (Pty) Ltd	Mr. Malongoa Mokhele	Oblate Building Behind Maseru Book Shop, Maseru 100	(+266) 2232 1964 / 5875 3977
MH Insurance Brokers(Pty) Ltd	Mrs. Mamosa Molapo	Lisemeng 1, Opposite Shoprite Hlotse, Leribe 300	(+266) 2240 0113 / 5812 7918
	Mr. Garth Dixie	(+266) 22316556	
Chelete Brokers (Pty) Ltd	Mr. Ntopa Chelete	Motherland property , First Floor, Room 6, Thuube Street, Thaba-Tseka 550	(+266) 5615 8485 / 6302 7551
Exclusive Risk Solutions (PTY) Ltd	Mr. Serei Hlabana	(+266) 22322553 (+266) 5858 5614	
Bright Point Insurance Brokers (Pty) Ltd	Mrs. Matumane Semoli	Oblate Building first floor, Kingsway Road, Maseru 100	(+266) 5892 9308
Active Insurance Brokers (Pty) Ltd	Mrs. Maelisa Leiee	Naomi House Office No.4, Broker Road, Maseru 100	(+266) 6324 8940
Cadiant Partners Consultants	Mr. Tsepo Letsoela	Christie House Building , First Floor, Maseru 100	(+266) 58701449/ 62701449

Appendix 7	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. Retšelisitsoe Leboela	(+266) 22313540 (+266) 22310033	MINET House, 4 Bowker Road, Maseru 100
Ideal Insurance Brokers (Pty) Ltd	Ms. Maliepollo	(+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
Thari - Ea - Tsepe Insurance Brokers (Pty) Ltd	Mrs. Pontso 'Matumelo Kou	(+266) 63124604	Thula Tu Complex 32, First Floor, Unit No 11, 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
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
Thathy Insurance Brokers (Pty) Ltd	Mr. Reentseng Thathasela	(+266) 6201 9877	BEDCO Building, Mafoso Street, Mohales Hoek 800
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
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 Ntšoane	(+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

Appendix 7	List of Licensed Insurance Brokers (continued)		
INSTITUTION	PRINCIPAL OFFICER	CONTACT	REGISTERED OFFICE ADDRESS
Cadiant Partners Consultants & Actuaries (Pty) Ltd	Mr. Tšepo Letsoela	(+266) 58701449	Christie House Building 3rd Floor Suite No. 308, Maseru 100

Appendix 8	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 9	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 Sekantši Principal Officer	(+266) 68261353	Office 3 Basement, Lenyora House Nightingale Road, Maseru 100

Appendix 10	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 11	List of Licensed Micro-Finance Institutions		
NAME OF INSTITUTION	NAME OF CEO OR MD	PHYSICAL & POSTAL ADDRESS	CONTACTS
Letshego Financial Services Limited	Mr. Abia Moabi	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
Alimela Thuto Financial Services Limited	Mrs. 'Mamonyake Mokebe	Hopolang Building, Corner Airport & Parliament Roads, P.O. Box 1932, Maseru 100	(+266) 22322403
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
Letlotlo Credit Finance Ltd	Mrs. Maphutheho Ranooe	Epic Printers Building, Moshoeshoe Road, Industrial Area, P.O. Box 1426, Maseru 100	(+266) 22314335/ 56550538
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
Platinum Credit Ltd	Ms. Motena Lishea	BNP Centre Crn Airport Road and Parliament Road, P.O. Box 1437, Maseru 100	(+266) 63419272
JFM Financial Services Ltd	Mrs. 'Mathabisang Leseba	Metro, Next to Hippo Transport, Ha Mathata, P.O. Box 766, Maputsoe 350	(+266) 57936489

Appendix 11	List of Licensed Micro-Finance Institutions (continued)		
NAME OF INSTITUTION	NAME OF CEO OR MD	PHYSICAL & POSTAL ADDRESS	CONTACTS
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
CHAMP Financial Services Limited	Mr. Moses Cholsu Kopo	Nnelese Construction Building, P.O. Box 12092, Maseru 100	63032085
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
M Leloka Company Ltd	Mrs.'Mampe Leloka	Likoting Complex, P.O. Box 143, Botha-Bothe 400	(+266) 68646612
Airvantage Lesotho Ltd	Mr. Micheal Roffey	Suite 211-212 Victory Hotel Offices, Private Bag A104, Maseru 100	22317748, (+27)827790943/ (+27)836757708
Redeem Financial Services	Mr. Thuso Mpholo	P.O. Box 117 Maseru, Modise Complex, Mookoli, Main North 1	58882100
Bohlokoa Financial Services	Ms. Palesa Ntlamelle	LNDC Centre, 2nd Floor, Suite 212, Maseru 100	57527777
Moses Microfinance Ltd	Mr. Lebohang Molumaela	Borokhoaneng, M&A Building, P.O. Box 1866, Maseru 100	58144431/59499686
Quick Financial Bailout (Pty) Ltd	Mr. Theko Clark Letsie	Oriental Center, Hospital Area, P.O. Box 701, Mafeteng	(+266) 59633399/ 57335150
Juju Financial Services (Pty) Ltd	Mr.'Mathulise Mpholle	Tlokoeng, Botha Bothe, P.O. Box 871, Botha Bothe 400	(+266) 62462541
Lesana Lesotho Limited	Mr. Tšepo Ramoholi	Level 4, Block C LNDC, Privant 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
TM Financial Services (PTY) Ltd	Mr. Mojalefa Tsatsane	BEDCO Complex Room 1211, Butha-Buthe	58067930/ 59557120

Appendix 11	List of Licensed Micro-Finance Institutions (continued)		
NAME OF INSTITUTION	NAME OF CEO OR MD	PHYSICAL & POSTAL ADDRESS	CONTACTS
Thaby & Khau Financial Services Limited	Mrs. Maphuthi Mathetsa	Metcash Complex, Room 168, Maseru 100	63330352/62333222
Future Loans Ltd	Mrs. Manapo Mohale	Room 139G Metcash Building, Kingsway Road, Maseru 100	59088372/ 58842702
Success Financial Services Ltd	Mr. Nkopane Tsoelipe	Ha Khotso Tarabane, Mapoteng, Berea 200	58916439
Express Credit (Pty) Ltd	Mrs. Mannete Khotle	Shop 4 LNDC, Kingsway Road, Maseru 100	(+266) 80044444 / 58912448
bushel financial Services Ltd	Ms. Retselisitsoe Rammolai	NRH Mall P.O Box 15569 Maseru 100	62482482/57594482
Green Dot Finance 1 Ltd	Mr. Katiso Tsenoli	Metcash Building P.O. Box 15121 Maseru 100	62009900/62856529
Myhope Micro-Finance Ltd	Mrs Bonang E. Ntlama	Grindnation Makhoana Building Industrial Area P.O.Box 41 Maseru 100	58062130
Highlands Financial Services	Mr. Tlala Lekanyane	Thaba Bosiu, TEBA Building, Mokhotlong	58086154
Mothusi Financial Services (Pty) Ltd	Ms. Refiloe Ntsoeu	Mount Moorosi	59111444/62211444
MCM Finance Ltd	Mrs. Mampho Motloli	Ntlholohetsane, P.O. Box 77, Mokhotlong 500	(+266) 53127926/ 66141400
Prime Financial Services	Mr. George Mokhethea	Tsoelopele House	63032085
Lithabaneng	Mr. Motlalepula Sepipi	Room 34 Tradorette Building, Kingsway Road, P.O. Box 9808, Maseru 100	(+266) 62810810/ 58102769
Main South 1	58042847	Office 314, LNDC Centre, Kingsway Road, P.O. Box 11659, Maseru 100	(+266) 58882582
NP Finance Limited	Mr. Ntale Phooko	Metcash Building Maseru 100	58993773
Innovated Financial Services Ltd	Mrs Makopoi Sehlabaka	Ha Sekekete, Maputsoe, P.O. Box 305, Maputsoe 350	(+266) 50263527
TJ Finance (Pty) Ltd	Mr Thabo Ratalane	Ha Leqele Next to Matale Local Court, Main South 1 Road, Maseru, P.O. Box 48, Maseru 100	(+266) 58481433
Selibeng Financial Services (Pty) Ltd	Mrs Makamohelo Makhaola	Room 6 Husteds Building, Kingsway Road, Maseru, P.O. Box 15157, Maseru 100	(+266) 580402297
LME Finance Ltd	Mrs Lits'eoana Mahase	Maoeng Masheane Next to Standard Bank ATM, Mount Moorosi, Quthing, P.O. Box 246, Quthing 700	(+266) 58150625/ 59100756
Sekabi Financial Services (Pty) Ltd	Ms Malekhoboki J Sekabi	Tradorette Mini Market, Kingsway Road, Maseru, P.O. Box 432, Botha Bothe 400	(+266) 57349500
Fresh Money Solutions	Mr. Thato Lefosa	AABuilding Room 1 P.O. Box 535 Leribe 300	(+266) 62320225 / 58000225
N & R Financial Services	Mrs 'Mants'ebo Seeiso	Floor 1 Speedy Complex, P.O. Box 2539 Maseru 100	(+266) 62848967
Sick Financial Services (Pty) Ltd	Ms Matumane Sick	Tradorette Mini Market, Kingsway Road, Maseru, P.O. Box 12059, Maseru 100	(+266)58469547
Big R Financial Services Ltd	Mr. Tsotetsi Ramahetlana	Thabang II Next to Motherland Guest House, Thaba Tseka, P.O. Box 135, Thaba Tseka 550	(+266) 62666669/ 50120012
SY Financial Services Ltd	Mr. Sixakeko Yengane	Tahlo Complex Fokothi, Moshoeshoe Road, P.O. Box 1387, Maseru 100	(+266) 62039312/ 58466299
Julias MP Financial Services Ltd	Mrs. Mantso Hlaping	Ha Mathata, Opposite Maputsoe Filter Clinic	(+266)53627464
JG Microfinance (PTY) Ltd	Mr Bokang Thulo	Maputsoe, P.O.Box 625, Leribe 300	(+266) 58012063/ 57301426
Reco Financial Services (Pty) Ltd	Mr Bokang Letho	Bible Society of Lesotho Building, Dove Road, Maseru. Liphookoang Box 60, Thaba Tseka 550	(+266) 63168390

APPENDICES

Appendix 11	List of Licensed Micro-Finance Institutions (continued)		
NAME OF INSTITUTION	NAME OF CEO OR MD	PHYSICAL & POSTAL ADDRESS	CONTACTS
Tharollo Financial Services	Miss Mojabeng Matsoso	Kobeli Building, Maseru Station	(+266)63907478
Mosh Fianancial Services	Mr. Mpho Moshanyana	Speedy Complex, Maseru 100	62002255/56066440
Serumula Financial Services Ltd	Mr. Motlatsi Nthejane	A.M.E Hall Room 5 Maseru	57362228/67400979
Digiloans Limited	Mr. Joel Makara	Mazenod, ha Paki	56678903
Five Star Financial Services (Pty) Ltd	Mr. Lilemo Tatane	Mochone's Building, Mofolo Street TY	57654451
Karabo Finance Limited	Mrs, Makatleho Mothebesoane	Khubetsoana ka Motseng, Maseru	59595654
Power House Financial Services	Mr. Thabang Ramoqopo	TEBA Building, TY. P.O. Box 14 Mapoteng, Berea	59023344
TSK Financial Services Ltd.	Ms Tlaleng Kaaba	Room 3 Everpride Enterprise Building Maputsoe. P.O. Box 406 Maputsoe, Leribe	59402156
Pulamaliboho Financial Services	Ms. Mamolalle Molalle	Ground Floor, Options Building, 240 Pioneer Road, P.O. Box 14312	57255447
Kente Cash Loans (Pty) Ltd	Mr Halekhetheloe Kente	Amohelang Moletsane Building, Mohlakeng, P.O. Box 539, Mohale's Hoek 800	58916411
Relsie Les Fond (Pty) Ltd	Mr Ntomane Seephephe	Metcash Building, Room 132, Kingsway Road, Maseru 100	51607279/57105751
MJM Financial Services Ltd	Ms Moliehi Motsie	Tradorette Building, Kingsway Road, Maseru 100	28329889/62040000
Kuena Financial Services Ltd	Ms Kuenahali Peete	Maseru Club, United Nations Road, P.O. Box 67, Maseru 100	58011604/62011604
Letlama Microfinance Ltd	Mr Letlama Joel	Phapjama pela Stepby Step Preschool, Butha Buthe 400	57301961/59787882
MSB Holdings	Mr. Sephula Letuka	Epic Building Industrial Area Maseru	63377888
PLN Financial Services	Mr. Khahliso Makhele	Asia Building, Door 3, HaMotlere, Mafeteng	58793905
Leo Financial Services	Mrs Maletsie Letsie	Moshoeshoe II near Military Base, P.O.Box 554, Maseru 100	58940634/62940634
P.K Financial Services	Mr. Lehlohonolo Phooko	Government residences, Likalaneng Ha Mohale, Maseru	58972305/58423796
Moralla Finance (Pty) Ltd	Mr. Rapalinyane Sekese	Mandlebe Building, Ha Tsautse	56713465
Mercury Finance Limited	Mathabo Mohobelo	Ha 'Mathata Maputsoe Leribe	59661277
Bophelong Financila Services	Refiloe Mahaoane	P.o. Box 2298 Leribe 300	56831312
Mokhothu Holdings (Pty) Ltd	Mrs Matheko Mokhothu	Platinum Building, Phamola Road, Maseru 100	(+266) 56622807
E.M. Instant Loans	Matholang Thabo	Mohale's Hoek	56678892
TL Finance	Mamolaba Ts'olele	P.O Box 28 Quthing 700	63781098
LH Financial Services	Lets'olo Lets'ela	Carlton Centre Maseru 100	59910178
Agriculture & Small Business MF	Thapelo Molatoli	Room 7 NRH Mall, Kingsway Road, Maseru	57854907/ 63464784

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APPENDICES

Appendix 12	List of Licensed Foreign Exchange Bureau & Money Transfer		
NAME OF INSTITUTION	NAME OF CHIEF EXEUTITVE OR MANAGING DIRECTOR	PHYSICAL & POSTAL ADDRESS	CONTACTS
Mukuru Bureau De Change (Pty) Ltd (Foreign Exchange & Money Transfer)	Andre Willem Ferreira	Room 4, 1st Floor Hopolang Building, Opposite BNP Centre, Maseru 100	(+27)878078310
Interchange (Pty) Ltd (Foreign Exchange & Money Transfer)	'Maliponto Ramakatane	Pioneer Mall Shop UG 21, Corner Pioneer & Mpilo Roads, Maseru 100	(+266) 22324296

Appendix 13	List of Licensed Credit Bureaus		
NAME OF INSTITUTION	NAME OF CHIEF EXEUTITVE OR MANAGING DIRECTOR	PHYSICAL & POSTAL ADDRESS	CONTACTS
Compuscan Lesotho (Pty) Ltd	Donovan-Marc Müller-Rust	Makhoane Building, Moshoeshoe Road, Industrial Area, P.O. Box 1005, Maseru 100	(+266) 22321124 (+266) 59 044 301

Appendix 14	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 15	Selected Financial Inclusion Indicators for the Banking Industry		
	2018	2019	2020
Agents	-	205	346
Mobile (Users)	158 600	136 737	199 361
Internet (Users)	131 623	220 741	169 155
Deposit accounts	592 750	680 830	707 629
LISA	358	56 242	22 287,00
Outstanding loan accounts	52 041	56 242	63 919
Business loan accounts	1 092	1 794	1 953
MSME loans acc	978	1 031	1 440
Total number of female deposit account holders	299 798	293 572	301 890
Total number of male deposit account holders	307 488	307 806	300 264
% of Male	50,6%	51,2%	49,9%
% of Female	49,4%	48,8%	50,1%
Gender Gap	1,3%	2,4%	-0,3%
Aggregate Deposit account ownership	607 286	601 378	602 154

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