2015 SUPERVISION ANNUAL REPORT

CENTRAL BANK OF LESOTHO

BANKA E KHOLO EA LESOTHO

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GOVERNANCE, MISSION & OBJECTIVES

Ownership and Governance

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

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

Mission Statement

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

Objectives

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

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

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The Bank is mandated under its strategic plan to, inter alia; promote a stable monetary and financial system in the country.

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FOREWORD BY THE GOVERNOR

I am delighted to present the Supervision Annual Report 2015, which highlights key developments in the Lesotho financial sector and other various activities that were undertaken by the Supervision Department in an effort to improve supervisory activities. The report further attempts to provide trends observed in the banking and non-banking sectors, and challenges faced by the Central Bank of Lesotho (the Bank) in the course of regulation and supervision. The report also indicates that the banking industry continued to play a major role in the economy as reflected by investments in low-cost service channels, employment and increasing market activity.

The Bank is mandated under its strategic plan to, inter alia; promote a stable monetary and financial system in the country. In order to attain financial system stability, the Bank undertakes a number of regulatory and supervisory activities. In 2015, the Bank started in great earnest to implement activities under the Basel II migration project. One milestone reached under this project was the publication of a paper that assesses the architecture of the Basel accords and assessed their relevance in the context of Lesotho. Furthermore, the paper recommended a basket of selected aspects of Basel II that can be adopted by the Bank. I wish to commend the banks for their commitment and support to this initiative.

The banking industry remained generally sound and stable as reflected by growth in assets, good profitability and strong capital positions. Mobile money services in facilitating money transfers continued to intensify with positive implications for financial inclusion. However, the industry continued to be challenged by increasing levels of past-due loans, and liquidity funding structure which was dominated by wholesale funding. Other challenges included high operational risk as banks were using out-dated core banking systems which were not interfaced with other peripheral systems, and thereby calling for a lot of manual intervention. The increasing sophistication of products and services also justified the need for advanced risk management practices in banks. Through the Risk-based supervision, banks were able deploy strong risk management systems as prescribed by the Risk Management Guidelines, which place emphasis on the adequacy of Board and Senior Management oversight over the risks across the banks.

Despite overall compliance with statutory requirements by all banks, instances of non-compliance were noted. These were however, resolved without endangering the safety and soundness of the concerned banks. During that period, the Bank also received numerous complaints relating to ATM frauds which propelled the need to improve on security measures around ATMs and also more investment on financial education by both the Bank and the industry. Moreover, in the last quarter of 2015, the bank noted a large number of pyramid schemes. In order to mitigate the risk posed by such a resurgence of pyramid schemes to Basotho and the stability of the financial industry at large, the Bank undertook a number of campaigns which were intended to raise awareness. Bill boards, radio and newspapers were used to raise the awareness. Such efforts were successful and the emergence of pyramid schemes was thwarted.

In 2015, the Bank in partnership with the Government of Lesotho registered significant progress with regard to strengthening the legal framework for banks on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT). Regulations on AML/CFT for the banking sector were published in July 2015 to prescribe safeguards against the abuse of financial services, including but not limited to, prohibit financial institutions to enter into, or continue correspondent banking relationships with shell banks.

FOREWORD BY THE GOVERNOR

The Insurance sector in 2015 remained less competitive as it continued to be dominated by few players with a single insurer contributing about 50% and 80% in terms of assets in the short-term and long-term sectors, respectively. This is despite the growing interest from foreign firms which saw an additional entrant to the insurance industry, pushing the number of insurance companies to 11 as at the end of 2015. Lack of competition is further witnessed in the collective investment schemes industry where despite having four licensed schemes, one scheme accounts for more than 90% of the industry's assets. The year 2015 further marked the end of the 12-month transition period to the Insurance Act of 2014 which was developed after gaps had been identified in the regulatory frameworks across the financial sector, particularly the pension and capital market sectors.

In 2015, the Bank commenced the process of development of legislation for pension sector. The legislation was expected to protect pension funds by enforcing reporting by the pension schemes and appropriate governance to oversee the pension funds. In the capital markets, the Capital Markets Regulations of 2014 were published in December 2014. As a result, the year 2015 saw the regulation of capital markets.

The Bank also continued to implement several financial sector reforms aimed at improving access to finance and deepening financial inclusion through the creation of a conducive environment for non-bank financial institutions (NBFIs). During the year under review, the Bank managed to operationalize the Credit Information Bureau following the licensing of the first credit bureau in 2014. At the end of 2015, credit information for the four banks was live on the bureau and expansion of data coverage for other credit providers was in progress. In addition, the World Bank under First Initiative approved and initiated a technical assistance program aimed at supporting the Government and the Bank in deepening financial inclusion in Lesotho. This program is meant to strengthen the supply of financial services by non-bank financial institutions using an appropriate legal and regulatory framework as well as establishing a consumer protection framework The establishment of the Secured Transactions Regime on Movables and the Collateral Registry is another priority area that the Bank initiated in 2015. The year 2015 saw the drafting of a policy framework on the creation of this regime in Lesotho. Furthermore, during the review year, there were still no players in the financial leasing space since the Financial Leasing Regulations were enacted in 2013. However, the Bank further developed the leasing market through a project that identified and unlocked potential barriers to entry into the market.

In conclusion, the Bank, in collaboration with other financial sector players, shall continue to maintain macro-economic stability to support a sound and stable financial system ❑

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

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In order to determine financial soundness of the banks in Lesotho and to establish the quality of their compliance with applicable laws and regulations.

BANKING SECTOR REVIEW

2.1 ON-SITE EXAMINATION

In order to determine financial soundness of the banks in Lesotho and to establish the quality of their compliance with applicable laws and regulations, the CBL undertook on-site examinations for all 4 banks in 2015. The exam assessed the risks facing the banking sector and applied the camels rating to analyse and rate their conditions during 2015.

2.1.1 Risk Assessment

During the year under review, CBL carried out full scope on-site examinations of three commercial banks. The examination assessed nine major risks inherent in the local banking industry including credit, operational, strategic, legal, compliance, interest rate, liquidity, reputational and foreign exchange risks. Amongst them, operational and compliance risks were considered to be high whilst, legal and credit risks were considered moderate. However, some weaknesses were identified which suggested that legal and credit risks could increase in the future.

First, operational risk was inherently high due to the fact that risk management systems were not satisfactory resulting in high composite risk. The core banking systems created challenges for some banks due to the fact that they required excessive manual intervention. However, the affected banks were already putting in place some plans to address this problem by migrating to some new core banking systems.

Second, legal risk was considered moderate. However, there was an increasing trend of cases that were instituted against banks by the former employees which had the potential to erode the banks' earnings and capital in the event of ultimate adverse judgements.

Last, credit risk on the overall was also considered moderate even though there were a number of discrepancies noted in the origination processes and loan classification which could have negative impact on the banks asset quality.

Against this background, CBL issued directives to all banks requesting them to address causes of the observed risks. For monitoring and evaluation purposes a matrix for tracking progress under early findings was introduced and quarterly reporting is made to the CBL.

[1] The system includes forward looking elements within each of the six components (**C**apital adequacy, **A**ssets quality, **M**anagement, **E**arning, **L**iquidity and **S**ensitivity to market risk) as well as the quality of risk management practices.
[2] **CAMELS** rating assign a scale of 1 for the best financial condition to 5 for the poorest. Thus, a rating of 3 denotes **'fair'** but indicates that management responsiveness and ability to correct some errors is lacking to some degree.

During the year under review, CBL carried out full scope on-site examinations of three commercial banks.

2.2 OFF-SITE SUVEILLENCE

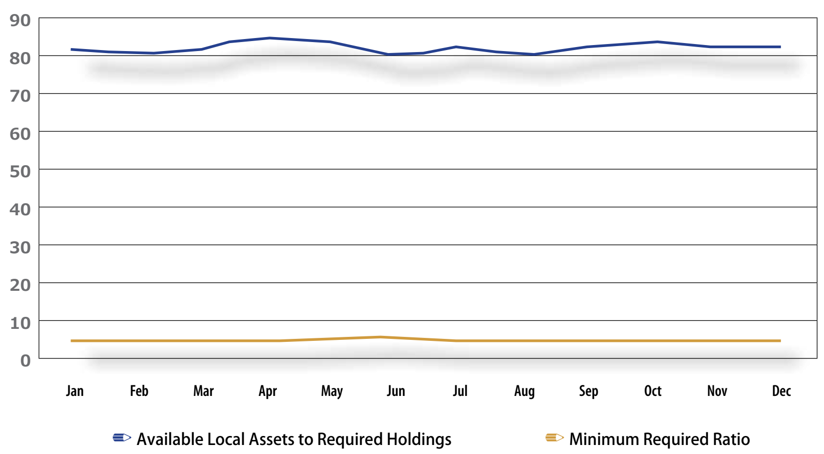
During the year under review, CBL continued to monitor performance of the banking sector through analysis of the periodic returns submitted on a regular basis by the banks. The purpose was to reflect on the soundness of the financial indicators and to monitor trends as well as industry statistics based on the returns.

2.2.1 Compliance Issues

a) Minimum Local Assets Requirement

The minimum local assets requirements are stipulated in the financial Institutions (Minimum Local asset) regulations 1999. The regulations require a bank to maintain local assets[3] not less than 5 percent of the aggregate value of its liabilities to the public in Lesotho and its required paid up or assigned capital. The regulations are intended to encourage banks to actively play their intermediary role in Lesotho to spur the country's economic growth. Commercial banks' compliance with these regulations is depicted in Figure 1, it is apparent that banks in 2015 local assets ratio was well above the minimum stipulated by the law. The industry's local assets ratio ranges between 81 and 85 percent, this is far above the 5 percent requirement.

Figure 1 Minimum Local Assets Requirement



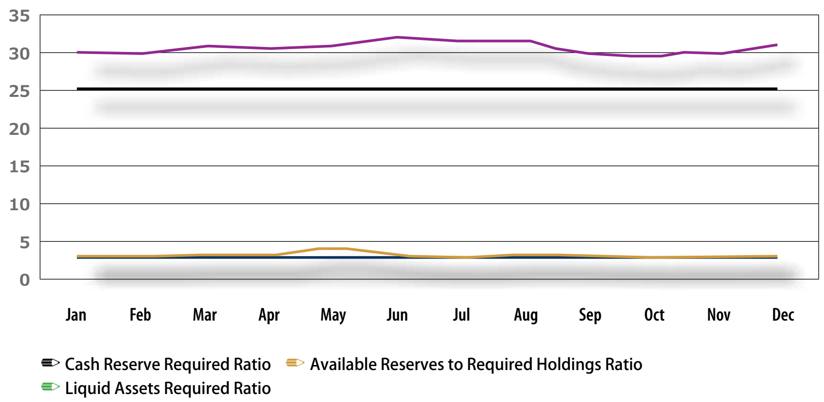
Source: Central Bank of Lesotho

[3] According to the regulations local assets are defined as advances or credit facilities to persons doing business or resident in Lesotho, properties and other assets situated in the country..

b) Liquidity

Commercial bank's liquidity requirements were stipulated in the Financial Institutions (Liquidity Requirement) regulations 2001. The regulations required banks to maintain a 3 percent and 25 percent of the aggregate of deposit liabilities balances due to banks abroad and other liabilities for borrowed money excluding CBL and government borrowing as reserve requirement or liquid assets requirement respectively. The objectives of the regulations are to ensure that banks have adequate liquidity to meet their short-term obligations when they fall due. Figure 2 portrays the industry's compliance with the liquidity requirements regulations. It is observed that the reserve balance ratio was slightly above the regulatory requirement averaging 3.3 percent during the review period. The liquid assets ratio hovered around 30.3 percent which was in excess of the minimum requirements.

Figure 2 Liquidity Requirements



Source: Central Bank of Lesotho

c) Capital Adequacy

All banks in Lesotho were required to maintain a capital base of an amount not less than 8 percent of their risk-weighted assets. The requirements were stipulated in the Financial Institutions (Risk based capital requirements) regulations 1999. The objectives of the regulations were to ensure that banks have adequate levels of capital to protect their depositors and creditors as well as to promote public confidence. The industry's compliance with the capital requirements are illustrated in Figure 3. As can be observed from Figure 3 shows that the industry's capital adequacy ratio was well above the minimum prescribed by the regulations. This indicated that during the review period,.

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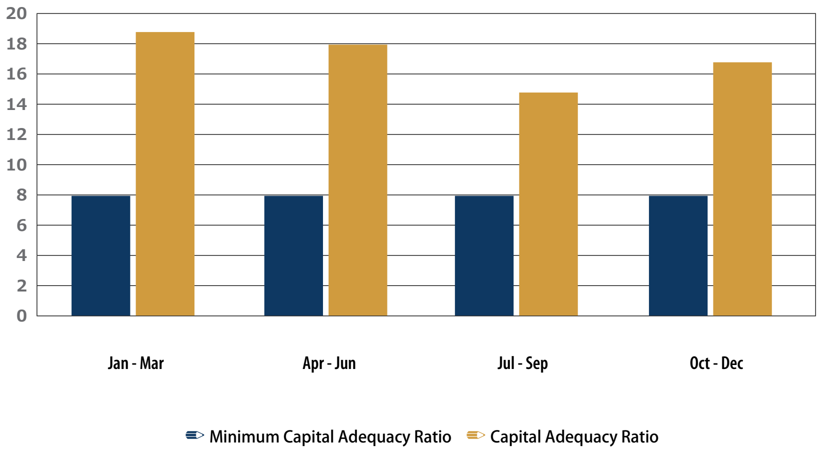
Commercial bank's liquidity requirements were stipulated in the Financial Institutions (Liquidity Requirement) regulations 2001.

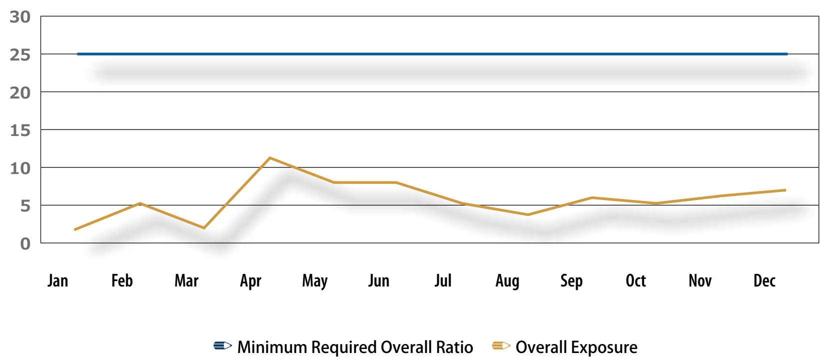
Figure 3 Capital Requirements



d) Foreign Currency Exposure

The Financial Institutions (foreign currency exposure limits) regulations 2002 mandated banks to maintain foreign exchange exposures of not more than 15 percent of the total qualifying capital for any single foreign currency exposure and 25 percent of the total qualifying capital for the overall foreign exchange exposure. The ratios were to be computed at the end of each business day and apply to both short and long-term positions. The purpose of the regulations is to minimise the banks' foreign exchange risk by preventing them to take excessive foreign currency positions that may expose the bank to unwarranted risks and potential losses. The industry's single foreign currency exposure was within the regulatory requirement for the entire period. This was also the case for the overall foreign exchange exposure requirements as shown Figure 4.

Figure 4 Foreign Currency Exposure



2.2.2 Financial Soundness Indicators

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

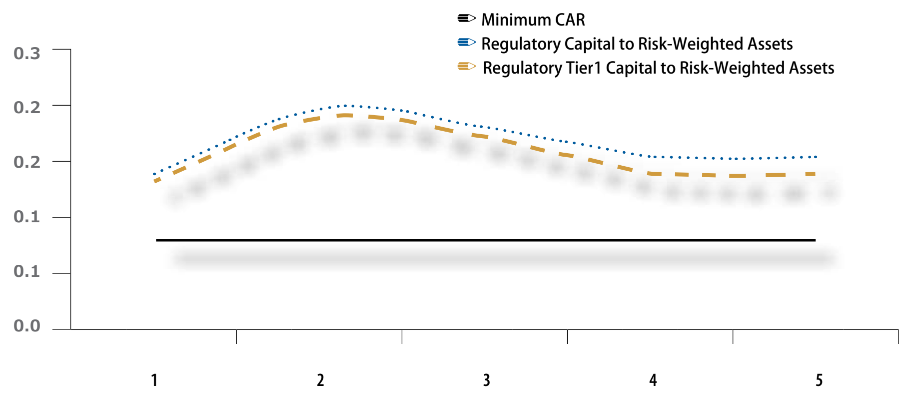
a) Capital Adequacy

Capital adequacy ratios are a measure of the amount of a bank's capital expressed as a percentage of its risk weighted exposures. Applying minimum capital adequacy ratios serves to protect depositors and promote the stability and efficiency of the financial system[4]. The purpose of having minimum capital adequacy ratios is to ensure that banks can absorb a reasonable level of losses before becoming insolvent and before depositors funds are lost. The higher the capital adequacy ratios a bank has, the greater the level of unexpected losses it can absorb before it becomes insolvent. When a bank becomes insolvent, this may lead to a loss of confidence in the financial system, thereby causing problems for other banks and above all, threatening the smooth functioning of the financial sector.

[4] http://www.rbnz.govt.nz/finstab/banking/regulation/0091769.html

Financial Soundness Indicators (FSIs) are statistical measures designed to monitor the financial health and soundness of a country's financial sector.

Figure 5 Capital Adequacy Ratios



Source : http://www.rbnz.govt.nz/finstab/banking/regulation/0091769.html

The banking sector in Lesotho remained adequately capitalised for the period ending December 2015. The banks continued to maintain the minimum regulatory capital requirement of 8% during the period. The ratio of total regulatory capital to risk weighted assets in the last quarter of 2015 stood at 15.2 percent. Year-on-year, this ratio has increased by 1.5 percent. Tier 1 capital to risk-weighted assets ratio increased by 0.8 percent from 13.0 percent in December 2014 to 13.8 percent in December 2015. The banks continued to maintain sufficient levels of core capital to absorb shocks that could arise.

b) Earnings and Profitability

The industry remained profitable during the year 2015, which implies that the banks are efficiently utilizing their resources (assets and capital) to generate income. The return on assets at December 2015 was 1.08 percent, a slight increase of 0.01 percent from December 2014. Similarly, return on equity increased slightly from December 2014 to December 2015. The ratio increased by 0.31 on an annual basis to 40.81 percent in December 2015.

BANKING SECTOR REVIEW

Figure 6 (a): Earnings and Profitability Ratios

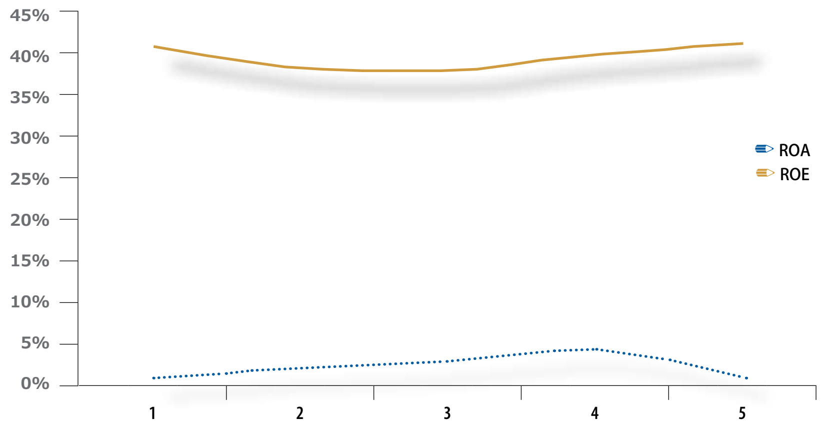
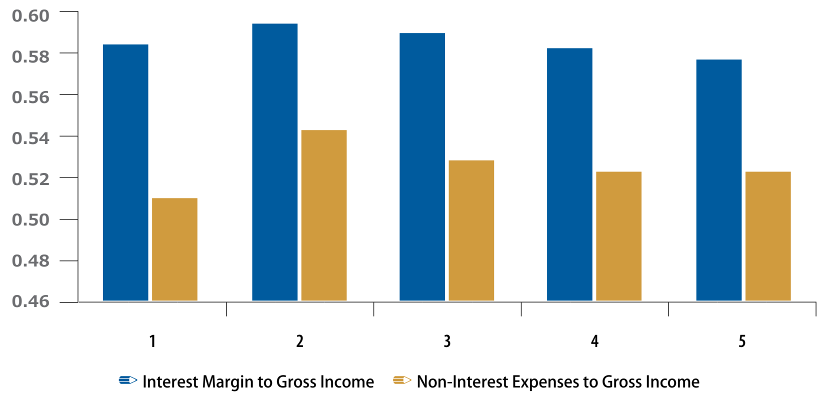


Figure 6 (b) Earnings and Profitability Ratios



Source: http://www.fdic.gov/regulations/safety/manual/section3-1.pdf

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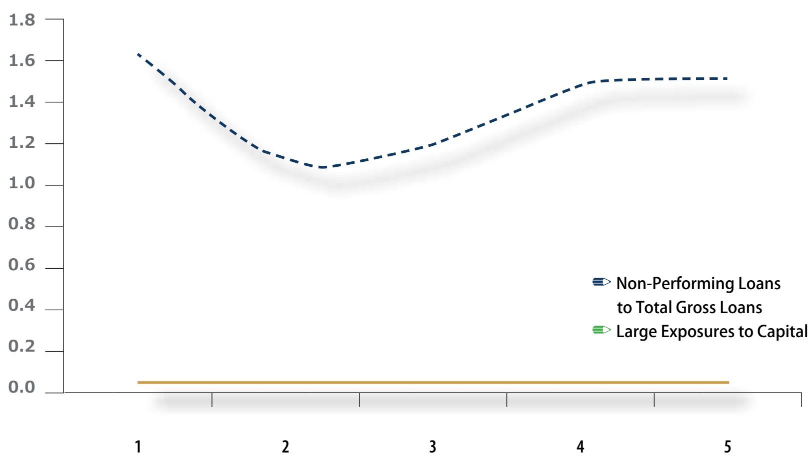
The ratio of net interest margin to gross income was 57.6 percent for the period ending December 2015.

The ratio of net interest margin to gross income was 57.6 percent for the period ending December 2015. This was less than the ratio observed in December 2014 by 0.8 percent. The ratio of non-interest expenses to gross income, which measures the proportion of administration expenses to total income or the efficiency of the bank in using its resources to generate income, increased from 51.1 percent in December 2014 to 52.2 percent in December 2015.

c) Asset Quality

Asset quality is one of the critical areas in determining the overall condition of the financial sector. The primary factor affecting overall asset quality is the quality of the loan portfolio and the credit administration program. It is in line with the above that non-performing loans (NPLs) are managed carefully. Loans typically comprise a majority of a bank's assets and carry the greatest amount of risk to the capital[5]. The ratio of non-performing loans to total loans decreased from 4.10 percent in December 2014 to 3.90 percent in December 2015. The ratio of NPLs to total loans returned to within the industry's threshold of 4 percent in December 2015 after breaching it in December 2014.This was indicative of banks efforts in managing NPLs effectively.

Figure 7 Asset Quality Ratios



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

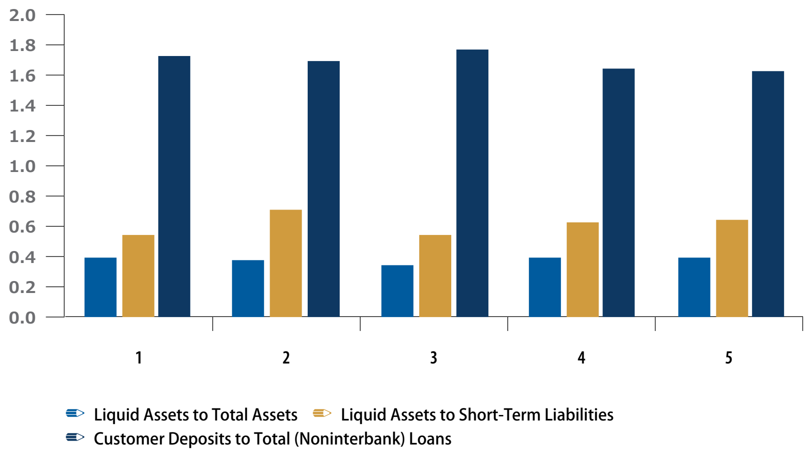
[5] http://www.fdic.gov/regulations/safety/manual/section3-1.pdf

One of the key lessons from the financial crisis is that banks did not always consistently measure, and control aggregate exposures to single counterparties across their books and operations. It is important that banks manage large exposures carefully to minimise concentration risk. The ratio of large exposures to capital declined from 163.4 percent in December 2014 to 150.9 percent in December 2015. The large exposures declined by 12.5 percent on an annual basis. This ratio is intended to identify vulnerabilities arising from the concentration of credit risk. The industry threshold of this ratio is 800 percent and as at 31 December 2015, the banking industry was below the set threshold.

d) Liquidity

Liquidity is a measure of the ability and ease with which assets can be converted to cash. Liquid assets are those that can be converted to cash quickly if needed to meet financial obligations. Examples of liquid assets generally include cash, central bank reserves, and government debt[6]. To remain viable, financial institutions must have enough liquid assets to meet their near-term obligations, such as withdrawals by depositors. Generally, the higher the value of liquidity ratio, the larger the margin of safety that the bank possesses to cover short-term debts.

Figure 8 Liquidity Ratios



The ratio of liquid assets to total assets is a liquidity management tool used to assess on an on-going basis the extent to which liquid assets can support the asset base. As at December 2015, the ratio was 40.3 percent which was lower that the ratio observed in December 2014 of 40.6 percent. Even though there is no threshold for this ratio, the higher the ratio the better.

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

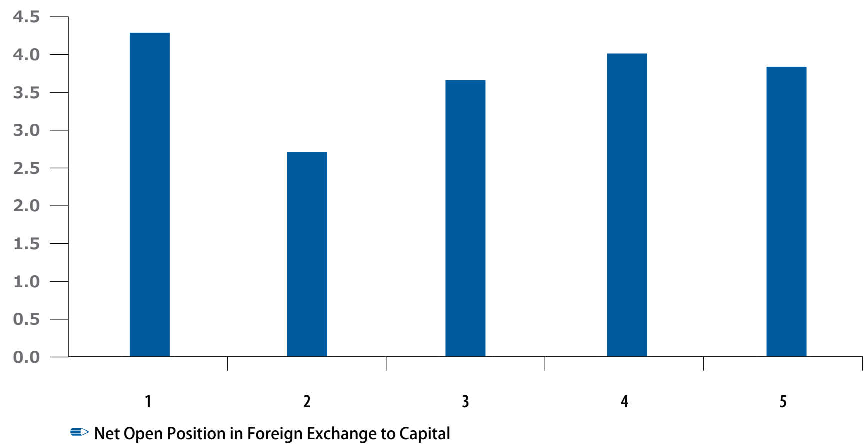
The ratio of large exposures to capital declined from 163.4 percent in December 2014 to 150.9 percent in December 2015.

The current ratio, which is computed by dividing liquid assets by short-term liabilities, is a liquidity and efficiency ratio that measures an institution's ability to pay off short-term liabilities with its liquid/current assets. A higher ratio is more favourable than a lower ratio because it shows that an institution can more easily make current debt payments. The ratio of liquid assets to short-term liabilities increased from 56.1 percent in December 2014 to 63.3 percent in December 2015. The customer deposits to total (non-interbank) loans is used to detect liquidity problems, whereby a low ratio might indicate potential liquidity stress in the banking sector and hence loss of depositor and investor's confidence in the banking sector. As at December 2015, the ratio was 163.1 percent which was lower that 174.2 percent that was observed in December 2014.

e) Sensitivity to Market Risk

Sensitivity to market risk is generally described as the degree to which changes in interest rates, foreign exchange rates, commodity prices or equity prices can adversely affect earnings and/or capital. Therefore, according to the statistics in hand, the banking industry seemed to have remained adequately capitalised during 2015 and continues to maintain the good quality of assets. The level of liquidity within the banking system remained fairly adequate to withstand shocks to banks' balance sheet during the period under review and therefore, the industry remained satisfactorily profitable. The banks' exposure to foreign risk seemed to have accelerated in December 2015 to18.6 percent in relative to 8.7 percent recorded in December 2014. Therefore, this shows that the industry is less sensitive to market risk.

Figure 9 Market Sensitivity Ratio



The Financial Soundness Indicators discussed above attributes a sound and healthy banking sector. The indicators revealed that the banking sector remained adequately capitalised over 2015. Furthermore, the banks have maintained good asset quality over 2015. The level of liquidity within banking sector remained adequate to withstand shocks to bank's balance sheet and the banking industry was satisfactorily profitable as at 31 December 2015. In relation to sensitivity to market risk, the bank's exposure to foreign exchange risk remained low, signifying less sensitivity to market risk.

2.2.3 Market Share Analysis

The banking industry continued to play a major role in the economy as seen by investments in low-cost service channels, employment and increasing market activity. The summary of market shares and measures of concentration used to assess the level of the banking sector competitiveness are illustrated in Table 1, while Table 2 and Figure 10 depict additional information on market outreach and total number of employees in categories of both the Top 2 banks and other banks.

The market share of foreign banks in 2015 reflects virtually identical picture compared to the previous year and remained at 97.2 percent. The HHI remained elevated but declined by 0.2 percentage points from 76.6 percent in 2014 to 76.4 percent in 2015. A decline could be explained by increasing branch network in a category of other 2 banks. In general, the number of branches increased by 4.4 percent from 45 in 2014 to 47 in 2015 driven purely by expansions in a category of other 2 banks. In short, the HHI[7] suggests high market concentration in a category of top-2 banks and thus reflecting oligopolistic nature of the banking system.

Table 1 Market Shares (%)

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

Source: Central Bank of Lesotho

Table 2 indicates that a growth rate of 11.2 percent in POS devices was observed from 1,050 in 2014 to 1,168 in 2015, reflecting a lower growth rate of 19.7 percent compared to 30.9 percent observed in the previous year. A decline in growth was attributed to loss of major customers who used this service. The ATMs increased by 13.2 percent from 159 in 2014 to 180 in 2015. The threat of ATM bombings as well as card related fraud which was trending significantly in 2014 remained subdued during the year under review.

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

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The market share of foreign banks in 2015 reflects virtually identical picture compared to the previous year and remained at 97.2 percent.

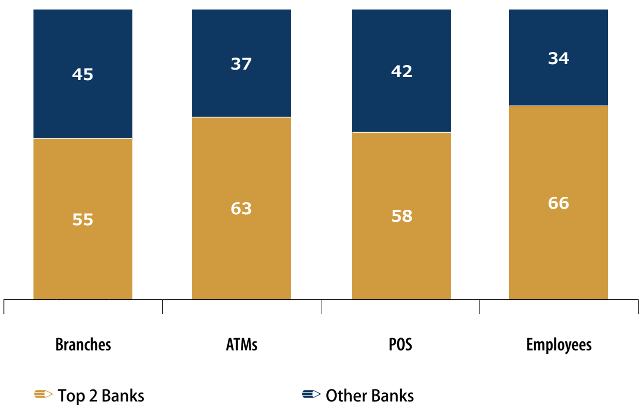
A year–on-year analysis on employment revealed that the number of employees increased by 6.7 percent from 1,320 in 2014 to 1,409 in 2015, a growth greater than 6.6 percent observed in 2014 by 10 basis points. The increase in this component was driven by a combination of different factors such as opening of new branches and short-term projects in the banking sector such as updating of KYC documents. Figure 10 highlights that during the year under review, the top-2 banks remained prominent on POS devices, ATMs, branch footprint and job offering. Needless to say, Figure 10 proved that the other banks remained competitive in POS devices and branch network.

Table 2 Market Outreach for 2015

	2014			2015		
	Top 2 banks	Other banks	Industry	Top 2 banks	Other banks	Industry
Branches	26	19	45	26	21	47
ATMs	106	53	159	113	67	180
POS	535	515	1,050	678	490	1,168
Employees	923	397	1,320	935	474	1,409

Source CBL

Figure 10 The Market Outreach for 2015 (%)



BANKING SECTOR REVIEW

Competition in the banking sector continues to deepen as technological progress introduces substitutes such as M-pesa and Eco-cash. During 2015, banks continued to be innovative and introduced new products for payment of utility bills, money transfers and other functionalities that improve convenience. Needless to say, banks should continue to strengthen security measures on their systems because developments in technologies also come with cyber-crime risk.

2.2.4 Banking Sector Performance

a) Total Assets

The banking system balance sheet size portrayed a growth of 13.3 percent from M12.3 billion in 2014 to M13.2 billion in 2015, a growth greater than 7.5 percent observed in 2014 (Table 3). The increase was driven mostly by the improved financial intermediation and placements with foreign banks. Credit portfolio recorded a 7.3 percent increase from M4.9 billion in 2014 to M5.3 billion in 2015, setting yet another milestone by crossing M5 billion-mark. The bulk of the increment in credit portfolio was mainly due to the supply of loanable funds and demand for credit. The analysis revealed that the growth in credit portfolio was due to improved performance in business loans and mortgages. Business loans increased by 15.9 percent from M1.8 billion in 2014 to M2.1 billion in 2015 and mortgages also increased by 15.6 percent from M616.6 million in 2014 to M712.7 million in 2015. Balances with banks abroad increased by 36.2 percent from M2.6 billion in 2014 to M3.5 billion in 2015.

Table 3 The Growth Rates of Total Assets (%)

	2012	2013	2014	2015
TOTAL ASSETS	1.2	35.0	7.5	13.3
Cash and Cash Items	34.1	21.5	-9.2	45.6
Balances with CBL	7.6	157.0	22.7	-31.9
Balances with local banks	-6.4	97.0	21.5	6.7
Balances with banks abroad	-21.9	27.4	11.0	36.2
Marketable securities	16.7	-20.6	-8.1	22.5
Other investments	-52.2	99.8	-41.0	4.3
Loans and advances	40.2	21.9	12.2	7.3
Fixed Assets	-1.2	21.3	20.5	25.7
Other Assets	4.0	59.5	42.1	-12.1

Figure 11 shows the distribution of loans by loan type. Personal loans continued to dominate total credit portfolio in the banking system by a share of 48 percent in 2015 revealing a decline of 4 percentage points from 52 percent observed in 2014. Business loans increased by 3 percentage points from 36 percent observed in 2014 to 39 percent registered in 2015. Mortgages reflected a virtually identical picture compared to the previous year but increased slightly by a 100 basis points from 12 percent in 2014 to 13 percent in 2015.

Competition in the banking sector continues to deepen as technological progress introduces substitutes such as M-pesa and Eco-cash.

Figure 11 Loans by Loan Type (%)

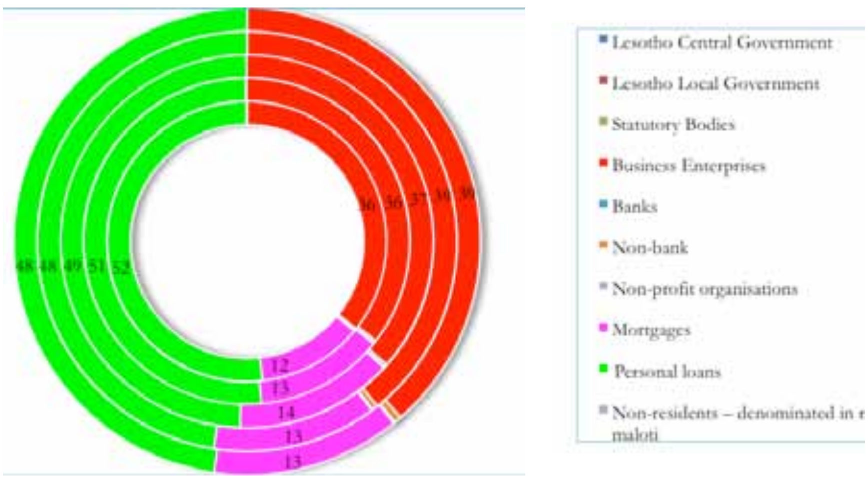
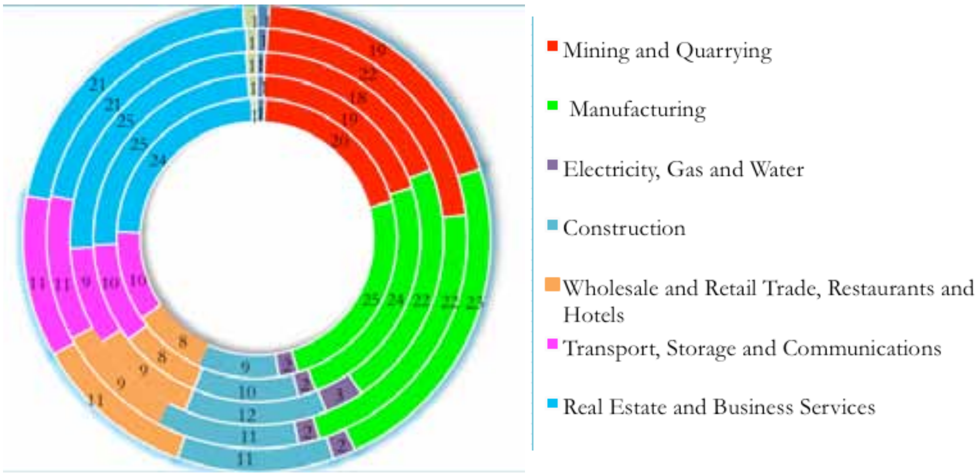


Figure 12 reflects the analysis of business loans. The concentration risk is slightly trending upward due to increasing momentum of business loans in relation to the total loan-portfolio. Loans to business enterprises presented an increasing concentration risk due to lack of diversification as the portfolio is largely concentrated in real estate, manufacturing and mining sub-sectors.

Figure 12 Distribution of Business Loans: Dec 2014–Dec 2015 (%)

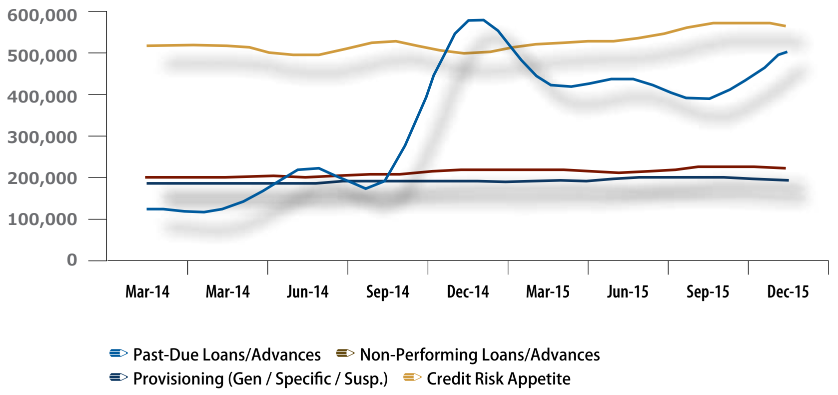


This credit concentration risk may be serious given the weakening outlook specifically in the manufacturing and mining sub-sectors driven by increased competition faced by textiles and clothing sector in global markets and lower commodity prices.

Figure 13 highlights the quality of the loan-book. The picture revealed that improved performance in credit portfolio came at the expense of slightly weaker balance sheet positions as portrayed by increasing NPLs. NPLs increased marginally by 3.1 percent from M213.8 million in 2014 to M220.5 million in 2015. This increase in NPLs resulted in a slightly higher provisioning to contain increasing distressed credit portfolios. As a result, provisioning increased by 1.9 percent from M186.6 million in 2014 to M190.2 million in 2015. Past-due loans remained elevated but plummeted significantly by 12.5 percent from M569.6 million in 2014 to M498.3 million in 2015. Figure 13 also indicates that the industry continued to reflect improved performance in credit risk management as highlighted by the level of NPLs fluctuating far below the industry credit risk appetite. However, pressure on borrowers is projected to take a toll on the back of increasing inflationary pressures and prime lending rates. Hence, the level of NPLs is anticipated to increase.

NPLs increased marginally by 3.1 percent from M213.8 million in 2014 to M220.5 million in 2015.

Figure 13 Credit Risk (M`000)



The prospects on credit growth specifically in mining, manufacturing and agriculture may be clouded by repercussions of lower commodity prices, precipitating drought effect, gradual decline of the country's competitiveness in the US market and increasing prime lending rates assuming demand for credit is price elastic. However, the impact is expected to be offset by the envisaged positive outlook on construction and mining resulting from the opening of additional diamond mines, in Liqhobong, Lemphane, Mothae and Kolo which are expected to operate fully by 2017. In addition, advanced infrastructure developments such as the second phase of the Lesotho Highlands Water Project are also expected to drive credit growth.

b) Total Liabilities

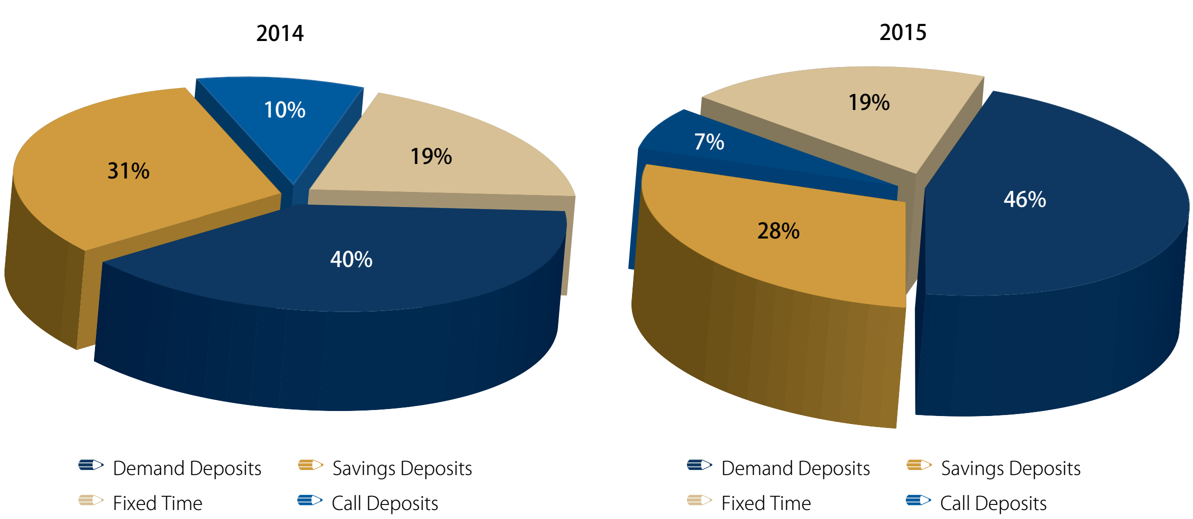
Table 4 highlights a growth of 13.4 percent in total liabilities from M11 billion in 2014 to M12.5 billion in 2015, a growth greater than 6.2 percent observed in the previous year by 7.2 percentage points. The growth was on account of an increase in total deposits and balances due to local banks and foreign banks. Deposits increased substantially by 13.9 percent from M8.2 billion in 2014 to M9.4 billion in 2015. Balances due to local banks picked-up by 7.8 percent from M2.2 billion in 2014 to M2.3 billion in 2015 and balances due to foreign banks increased by 26.1 percent from M197.8 million in 2014 to M249.4 million in 2015.

Table 4	Growth Rates of Total Liabilities (%)			
	2012	2013	2014	2015
TOTAL LIABILITIES	**-0.4**	**37.3**	**6.2**	**13.4**
Deposits	5.4	28.5	5.0	13.9
Due to Local Banks	-9.6	87.9	15.6	7.8
Due to Foreign Banks	-72.1	530.8	-36.9	26.1
Other Liabilities	-20.7	-14.7	20.6	16.1
TOTAL	100	100	100	100

Figure 14 depicts the structure of the deposits in the banking system in 2014 and 2015. Fixed-time and special deposits remained constant at 19 percent. Call deposits declined by 3 percentage points from 31 percent in 2014 to 28 percent in 2015. Savings also fell by 3 percentage points from 10 percent in 2014 to 7 percent in 2015. Demand deposits increased by 6 percentage points from 40 percent in 2014 to 46 percent in 2015.

The structure continued to be dominated by short-term deposits and this indicated that financial intermediation is mostly financed by short-term deposits and a large proportion of such deposits continued to be wholesale rather than retail. Figure 15 reveals that 73 percent of total deposits in 2015 were wholesale. Therefore, the system remained vulnerable to interest rate fluctuations. The growth in deposits is expected to remain sluggish despite increasing interest rates due to high financial intermediation spread.

Figure 14 Employment Trends



Source: Central Bank of Lesotho

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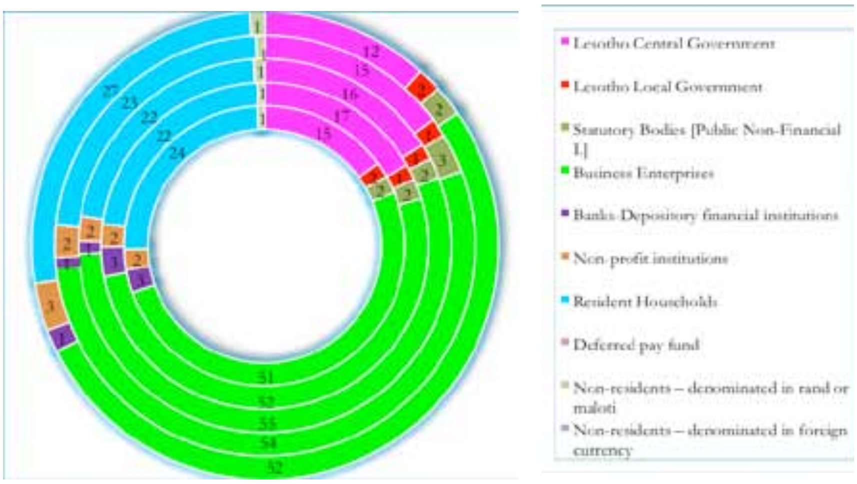
Call deposits declined by 3 percentage points from 31 percent in 2014 to 28 percent in 2015.

Figure 15 Total Deposits by Holder (%)



c) Shareholders' Equity

The banking system's total capital increased by 11.9 percent in 2015 from M1.3 billion in 2014 to M1.5 billion in 2015 as shown in Table 5. This growth is lower than 19.7 percent observed in 2014 by 7.8 percentage points. Retained earnings and profits continued to contribute notably towards strengthening the capital base as well as the resilience of the banking system. Retained earnings increased by 16.6 percent from 1 billion in 2014 to 1.2 billion in 2015. Profitability also maintained an upward trend and increased by 5 percent from M390.2 million in 2014 to 409.6 million in 2015. Paid-up capital accumulated substantially by 13.3 percent from M108.9 million in 2014 to M123.4 million in June 2016. Statutory reserves declined by 21.7 percent from 124.1 million in 2014 to M97.1 million in 2015. During the year under review dividends paid declined by 0.2 percent from M266.4 million in 2014 to M265.8 million in 2015.

Table 5 The Growth Rates of Total Capital (%)

	2012	2013	2014	2015
TOTAL CAPITAL	16.0	16.8	19.7	11.9
Paid-up Capital	11.3	10.1	0.0	13.3
Statutory Reserve	-4.2	3.6	-0.7	-21.7
Revaluation Reserves	0.0	0.0	16.4	52.1
Other Reserves	128.6	-54.9	64.9	-39.3
Retained Earnings	19.9	21.1	25.8	16.6
Profit/ loss for the year to date	12.1	31.0	9.3	5.0

The growth momentum in the capital base and the resilience of the banking system are expected to strengthen further on account of more promising prospects on profitability and the implementation of Risk Management Regulations 2016.

d) Total Income

Total income of the banking system increased by 10.7 percent, from M1.3 billion in 2014 to M1.4 billion in 2015 as indicated in Table 6, a growth greater than 8.7 percent observed in the previous quarter by 2 percentage points. Growth in total income continued to be driven by a rise in interest income from loans, commission income and interest income on placements. Interest income on loans observed a 27.1 percent increase from M560.3 million in 2014 to M711.9 million in 2015. The trends in commission income indicated a growth of 9.4 percent from M475.6 million in 2014 to M520.4 million in 2015. Interest income on placements reflected a growth of 10.9 percent from M358.9 million in 2014 to M397.9 million in 2015.

Table 6 The Growth Rates in Total Income (%)

	2012	2013	2014	2015
TOTAL INCOME	**20.4**	**27.5**	**8.7**	**10.7**
Interest Income-Loans	64.2	46.3	8.0	27.1
Interest Income-Placements	-19.5	3.2	55.8	10.9
Foreign Payments	19.8	-15.0	46.2	5.0
Domestic Payments	-43.7	-24.3	80.1	19.3
Interest Income-Securities	0.0	10.2	28.6	-63.1
Total Interest Income	14.0	26.5	23.5	8.5
Net Interest Income	22.7	28.3	12.3	10.2
Fees and Commission Income	20.0	30.5	5.4	9.4
Forex Gains/Losses	17.1	-2.6	11.3	21.0
Other Income	-34.0	101.3	1.0	51.2
Grants	-8.9	30.8	-70.0	-14.6
Non-interest Income	17.6	26.6	4.3	11.4

e) Total Expenses

Total expenses observed an upward trend of 13.5 percent from M756.7 million in 2014 to M859 million in 2015 as shown on Table 7. The growth is more than the 7.9 percent observed in 2014 by 5.6 percentage points. Interest expenses, operating expenses and staff salaries continued to account for a large share of total expenses. Interest expenses increased marginally by 4.6 percent from M330.9 million in 2014 to M346.2 million in 2015. Staff Salaries increased by 14.3 percent from M306.3 million in 2014 to M350.2 million in 2015. Other operating expenses increased by 11.1 percent from M543.6 million in 2014 to M580.5 million in 2015. A slightly weakened balance sheet position on account of a build-up in NPLs caused provisions for bad debts to increase by 19.7 percent from M81.8 million in2014 to M97.9 million in 2015.

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Total income of the banking system increased by 10.7 percent, from M1.3 billion in 2014 to M1.4 billion in 2015

Table 7 Growth Rates in Total Expenses (%)

	2012	2013	2014	2015
TOTAL EXPENSES	26.1	24.0	7.9	13.5
Interest Expense	-6.1	21.0	59.4	4.6
Staff Salaries and Benefits	1.5	23.9	11.3	14.3
Management/Directors Fees	141.8	-26.1	9.1	17.0
Auditors/Consultants Fees	8.2	33.3	11.2	12.4
Provision for Bad Debts	188.8	31.3	24.5	19.7
Depreciation	7.4	28.7	1.0	0.3
Other Operating Expenses	6.8	62.8	-0.5	11.1
Operating Income/Loss	12.5	33.0	9.9	6.8
Income/Loss Before Taxation	12.5	33.0	9.9	6.8
Taxation	13.9	38.4	5.9	7.4
Net Income	12.1	31.0	11.5	6.6
Dividend	-18.9	43.2	35.4	-0.2
Retained Income	83.0	18.6	15.9	118.6

The banking system's net profits maintained an upward trend and increased by 5 percent from M390.2 million in 2014 to 409.6 million in 2015. Generally, profitability increased due to increased interest rates and lower provisions due to lower level of NPLs. During the year under review dividends declared declined by 0.2 percent from M266.4 million in 2014 to M265.8 million in 2015.

The performance of profitability in the banking system is anticipated to improve, driven partly by improved outlook in the mining sector and advanced infrastructure developments such as the second phase of the Lesotho Highlands Water Project. In addition, interest income is envisioned to reflect improved performance specifically in the face of the hiking cycle and expected continuation of US monetary policy normalisation.

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2.3 EXCHANGE CONTROL AND ANTI-MONEY LAUNDERING

2.3.1 Exchange Control Issues

a) New Exchange Control Circulars

The South African Reserve Bank (SARB) issues circulars to all CMA member countries whenever there are changes in the financial system that provides space for further liberalisation. CBL analyses the circulars and assess their fitness to the local environment. The circulars that are deemed relevant are then adopted and issued to local ADs for implementation. The affected sections of the Exchange Control Rulings are also amended accordingly. During the review period, nine circulars were issued by the South African Reserve Bank (SARB). The circulars were as follows:

- Advance Payments on Capital Goods; Sections B.1(E) and (F)
- Foreign Investment for Private Individuals and Companies, and Foreign Diversification by Authorised Dealers; SectionB.2(B)
- Income Transfers; Section B.3(A)
- Single Discretionary Allowance, Gifts and Travel Allowance; Sections B.4(B), (D) and (E)
- Limit for Credit and Debit Cards; Section B.16(E)
- Inward Listing by Foreign Entities; Sections H.(A) and (C)
- Trade Finance, Long-term Loans, Working Capital Loans extended by ADs; Section I.3(B)
- Bulk Transfers by Shipping and Airline Companies; Section B.8(D)
- Customer Foreign Currency Accounts: Section E.(B)

b) Compliance with Exchange Control Rulings

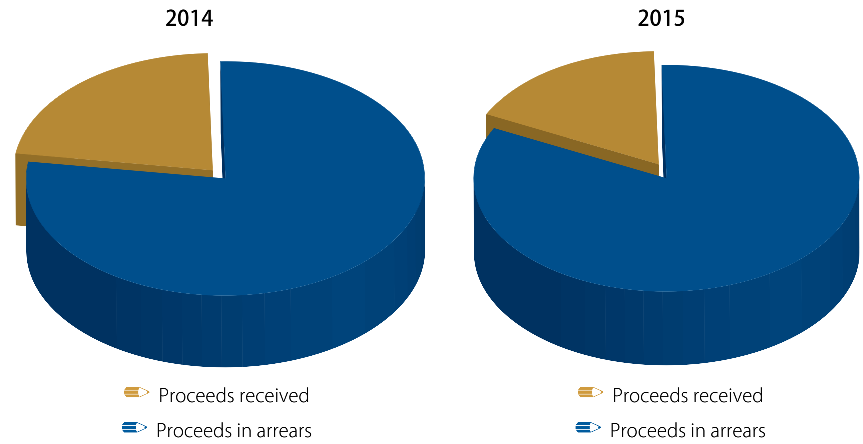
The Exchange Control Rulings are issued to ADs under the powers delegated by the Minister of Finance and contain the conditions, permissions and limits applicable to transactions in foreign exchange, which may be undertaken by ADs. During the review period, an overall of 32 exporting companies were attested for by the ADs, an increase of 2 from 2014. None of the attested companies fully repatriated all the export proceeds within the stipulated time frames. However, ADs continued to attest for them without ensuring that outstanding proceeds are fully repatriated. It is important to indicate that such failure to report full repatriation of export proceeds while still continuing to attest for the exporters is in contravention of the Exchange Control Regulations 7, 11 and 12 and Rulings B.18(B). In respect of BOP categories, most of cross-border transactions still remained misclassified. This posed a challenge in terms of proper analysis of BOP data, which undermined accurate reporting of the economy.

During the review period, nine circulars were issued by the South African Reserve Bank (SARB).

c) Analysis of Export Proceeds

Figure 16 shows the share of repatriation of export proceeds for the whole banking industry in 2014 and 2015. Export proceeds received stood at 22.1 per cent in 2014 while they declined to 17.2 per cent in the following year. Export proceeds in arrears increased from 77.9 per cent to 82.8 per cent in 2015. This was at the back of failure by the manufacturing companies (garments and textiles industries) to report proceeds from their exports to the ADs on time. However, ADs did not effectively follow-up on such proceeds. The failure for ADs to repatriate the export proceeds impacts the country's ability to realize foreign currency earnings from exports. This retards economic development and undermines the country's ability to build foreign reserves.

Figure 16 Share of Repatriation of Export Proceeds in 2014 and 2015



d) Applications to Sell Foreign Currencies

A total of 238 applications to sell foreign currency were submitted by ADs to the Central Bank of Lesotho for approval in 2015. This figure compares with 222 applications that were submitted and approved in 2014. In terms of value, approved applications were worth M2.3 billion in 2015, representing an increase of M800 million from the previous year. As depicted in Table 1 below, the largest share went towards payment of royalties and dividends. Other payment was attributable to professional fees, insurance premiums and management fees due to major construction at Metolong as well as most roads within the country.

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Table 8 Applications by Type of Services in 2015

	No. of applications	Value	% share
Dividends	**10**	**345,312,299.50**	**15.0**
Royalties	8	1,296,470,274.00	56.4
Professional fees	97	47,709,403.50	2.1
Management fees	18	19,226,303.02	0.8
Insurance premiums	20	22,313,646.87	1.0
Miscellaneous	30	561,131,467.40	24.4
Other	55	318,836,606.20	13.9
Total	**238**	**2300,000,000.00**	**100**

2.3.2 AML/CFT Issues

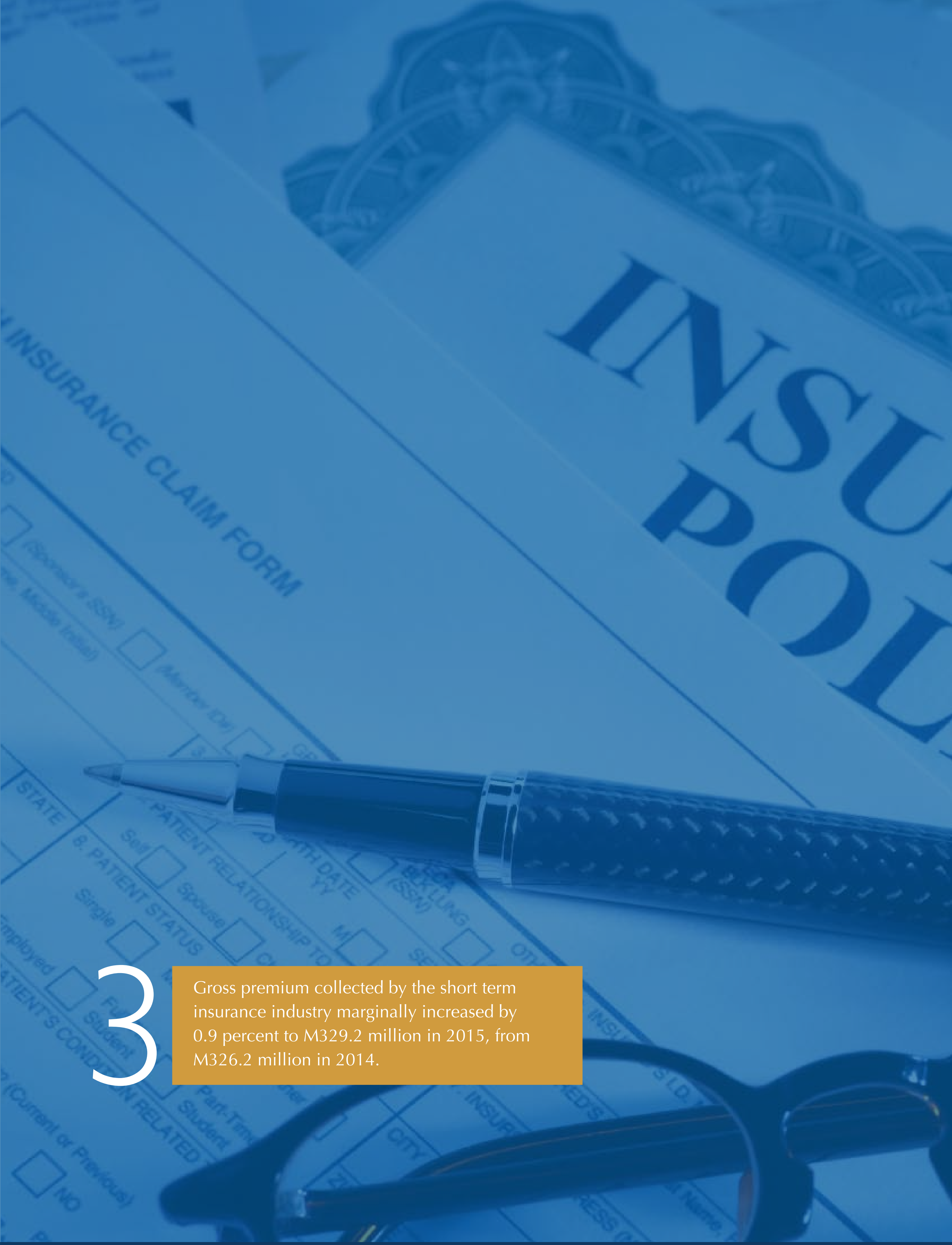
a) Regulatory Framework

The Financial Action Task Force (FATF) has developed 40 recommendations which set out the measures that governments should effectively undertake to implement AML/CFT programmes. In the regions, FATF works in collaboration with the Eastern and Southern Africa Anti- Money Laundering Group (ESAAMLG), which is based in Dar Essalam, Tanzania to ensure that member states comply with its recommendations.

During the review period, in order to ensures compliance with AML/CFT laws by ADs as well as assess the risk implications of money-laundering to banks and the adequacy of controls that banks have put in place to mitigate such risks, CBL was guided by Money Laundering and Proceeds of Crime Act (MLPCA) 2008. MLPCA has its implementing guidelines which were promulgated in 2013 and 2015 namely; the Money Laundering (Accountable Institutions) Guidelines 2013, Money Laundering (Politically Exposed Persons) Guidelines 2015, the Financial Institutions (Anti-Money Laundering) Guidelines 2000, Financial Institutions (Know Your Customer) Guidelines 2007 and Financial Institutions (Suspicious Transactions) Regulations 2015.

b) Non-Compliance Issues

Some banks opened accounts for clients without observing the KYC requirements. This was due to failure of the bank's account opening procedures to stipulate proof of source of income as a requirement for opening an account ❑



3

Gross premium collected by the short term insurance industry marginally increased by 0.9 percent to M329.2 million in 2015, from M326.2 million in 2014.

INSURANCE SECTOR REVIEW

3.1 SHORT-TERM INSURANCE BUSINESS REVIEW

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

3.1.1 Underwriting Results

Underwriting results is a measure of underwriting gain or loss that remains after paying off claims and underwriting expenses.

Gross premium collected by the short term insurance industry marginally increased by 0.9 percent to M329.2 million in 2015, from M326.2 million in 2014. The small growth would indicate the need for the industry to intensify its marketing strategies.

Premium ceded to reinsurers dropped by 2.6 percent to M161.2 million in 2015, from 165.5 million in 2014. This is indicative of the short term insurance industry's preparedness to shoulder more risk. The level of risk retained by the industry thus increased to 51.0 percent compared to 49.3 percent retained in 2014. The positive effect of retaining more risk is that more funds become available to the industry to invest. The downside is that should claims increase unexpectedly, the industry would have to meet them with little assistance from reinsurers.

Despite the drop in reinsurance premium, the industry realized 81.1 percent rise in commission income, which totalled M38.5 million in 2015 compared to M21.2 million received in 2014. Commission income is revenue the industry receives from reinsurers for premium ceded to them. The rise in commission income was attributable to the fact that some of the commission income earned in 2014 was only received by the industry in 2015.

Total underwriting expenses rose by 4.6 percent to M163.5 million from M156.3 million incurred in the 2014, mainly due to increases in commission expenses and management expenses, which rose by 90.4 percent and 16.4 percent respectively, indicating a need for the industry to control this expense given that gross premium only grew slightly. A 22.2 percent decline in claims helped to contain the total underwriting expenses.

Though the total underwriting expenses increased, the industry recorded 68.3 percent increase in underwriting surplus bolstered by the 81.8 percent growth in commission income.

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Premium ceded to reinsurers dropped by 2.6 percent to M161.2 million in 2015, from 165.5 million in 2014.

3.1.2 Assets

The industry registered an improvement of 23.9 percent of total assets to M353.8 million in the reporting year from M285.6 million in the preceding year. This was attributable to additions in property, plant and equipment by 64.3 percent. Liquidity of assets improved as short-term assets increased by 34.7 following maturity of long term investments. The sector's collection strategies still need to be improved as evidenced by increased outstanding premiums implying that the sector remains exposed to insurance intermediaries.

3.1.3 Equity and Liabilities

Shareholders' funds (capital and reserves) reported a gain of 81.7 percent to M108.5 million in 2015, from M59.7 million in 2014. The main reason for this upward movement was the increased share capital by 256.3 percent (M10.3 million) and retained earnings by 89.1 percent.

The short-term insurance industry reported a rise of 9.3 percent in technical provisions to M202.8 million in the reporting period. The policyholders' obligations would be met as evidenced by the excess of short-term assets (considering only cash and cash equivalents plus loans and receivables) compared to both technical provisions and current liabilities of M56.3 million

3.1.4 Ratio Analysis

Ratios are indicators used to measure performance and financial soundness of an insurance industry.

a) Net Premiums to Gross Premiums

Net premiums to gross premiums ratio measures the portion of risk that the insurance industry retains on its account. This ratio increased marginally by 1.4 percentage points to 50.7 per cent in 2015, from 49.3 percent in 2014. This implied that the industry's absorptive capacity improved slightly during the period under review as evidenced by an increase in retained premiums.

b) Claims Incurred to Net Premiums

Claims incurred to net premiums ratio (loss ratio) is an indicator of how much of net premiums was paid out in claims incurred. Higher ratio may be an indicator of poor pricing policy . However, high risk lines of business have volatile loss ratios.

[8] The Insurance Insider-the litmus Ratio Guide, 2013

Claims incurred to net premiums ratio registered a decline of 12.8 percentage points to 44.0 percent in 2015, from 56.9 percent in 2014 due to decrease in claims incurred. At this level, the ratio was outside the international range of 50 to 70 percent and needs to be watched closely. Too low a ratio may indicate that the industry may have repudiated legitimate claims.

c) Commission Earned to Premium Ceded

Commission earned to premium ceded ratio is a measure of how much commission the industry received from reinsurers for the portion of risk it transferred to them.

Commission earned to premium ceded ratio grew by 7.6 percentage points to 23.9 percent in 2015 from 16.3 percent in 2014, indicating that the industry received more commission on premiums ceded to reinsurers during the period under review, than it did during the preceding year.

d) Commission Expenses to Gross Premiums

Commission expenses to gross premiums ratio is a measure of the extent to which gross premiums were used to pay insurance brokers for business they brought to an insurer.

The ratio recorded an increase of 5.5 percentage points to 14.0 percent during the year under review from 8.5 percent in 2014 due to growth in commission expenses. This is an indication that most of the business written during the period under review was through insurance intermediaries.

e) Expense Ratio

Expense ratio is an indicator of the extent to which net premium was used to acquire business (commission expenses) and run underwriting operations (management expenses).

This ratio registered a marginal growth of 0.1 percentage point to 98.5 percent in 2015, from 98.4 percent in 2014 as commission and management expenses increased by 64.8 percent and 13.0 percent, respectively. This indicates that much of the received premiums went into commission and management expenses. Management expenses grew to M44.5 million in 2015 from M39.3 million in 2014 due to increased staff complement in some insurers and payment of bonuses in the last quarter of the year. The increase in both management expenses and commission expenses was attributable to the inclusion of additional two companies during the period under review which were not in included in the preceding year.

Commission earned to premium ceded ratio grew by 7.6 percentage points to 23.9 percent in 2015 from 16.3 percent in 2014.

f) Combined Ratio

Combined ratio is a measure of the industry's performance on underwriting operations. It is the sum of claims and expense ratios.

The industry registered combined ratio of 142.5 percent in 2015, down by 12.7 percentage points from 155.2 percent in 2014 following a decline of 12.8 percentage points in the claims ratio. The decline in the combined ratio implied that the industry's underwriting profit had improved during the period under review.

Table 8 Short-Term Insurance Selected Ratios

	2015	2014	Change 2015/2014
Premiums Ceded to Gross Premium	49.3%	50.7%	-1.4%
Net Premiums to Gross Premiums	50.7%	49.3%	1.4%
Commission Earned to Premiums Ceded	23.9%	16.3%	7.6%
Claims Incurred to Net Premiums	44.0%	56.9%	-12.8%
Underwriting Gains/ Losses to Net Premiums	24.7%	18.4%	6.3%
Commission Expenses to Gross Premiums	14.0%	8.5%	5.5%
Expense Ratio	98.5%	98.4%	0.1%
Management Expenses to Net Premiums	26.8%	24.3%	2.5%
Combined Ratio (Claims Ratio + Expense Ratio)	142.5%	155.2%	-12.7%

3.1.5 Reinsurance

Reinsurance is one of the major risk and capital management tools used primary by insurance companies. Reinsurance provides flexibility for insurers in the size and types of risk and the volume of business they can underwrite. It reduces the risk of the primary insurer. It allows the insurer to enter into new business, stabilise company solvency and expand underwriting capacity

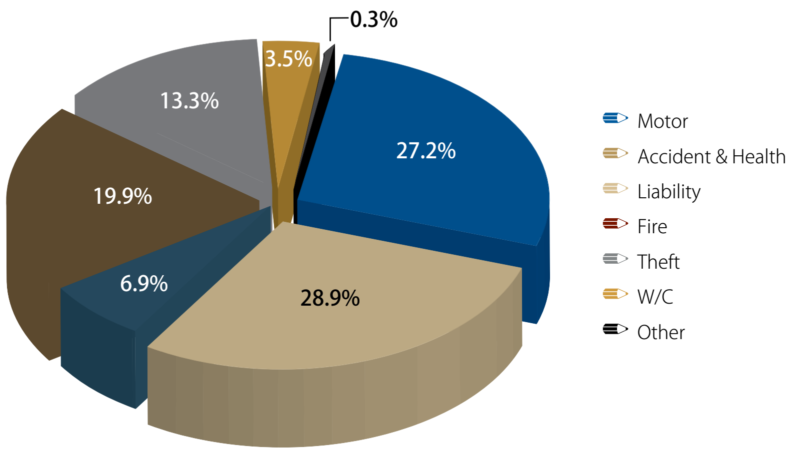
In Lesotho, there are no reinsurance companies. The short-term industry, however, made reinsurance arrangements with various reputable reinsurance companies to protect policyholders' funds against possible losses and catastrophic risks above its absorptive capacity. Though the industry earns commission for risk transferred to reinsurers, capital outflow in the form of reinsurance premium is much more than the inflow in the form of commission income. In 2015 though, premiums ceded to reinsurers decreased by 2.6 percent, indicating that the sector retained more risk than it did in the preceding year. This implied more funds remained in Lesotho to improve the economy of the country.

INSURANCE SECTOR REVIEW

3.1.6 Product Mix

Product mix of the short term insurance industry is depicted in figure18. Accidents and Health products constituted the highest component at 28.9 percent, followed by the category of Motor at 27.2 percent. Third was Fire at 19.9 percent followed by the category of *Other* at 13.3 percent comprising Contractors' All Risk (CAR), Engineering, Motor Vehicle Accident (MVA) and Security.

Figure 17 Short-Term Insurance Product Mix



3.1.7 Market Share by Gross Premiums Written and Total Assets

It should be noted that both The Legal Voice Limited and Law Protection Clinic were not ranked in this report, while Zenith Horizon and Specialised Insurance are fairly new and their market share is expected to increase over time.

In 2015, the industry's total gross premiums amounted to M329.2 million, and Lesotho National General Insurance Company (LNGIC) constituted the largest share at 52.2 percent, followed by Alliance Insurance Company (AIC)-Short-term Division at 43.2 percent. Market share of the short term insurance sector is shown in figure 18 below.

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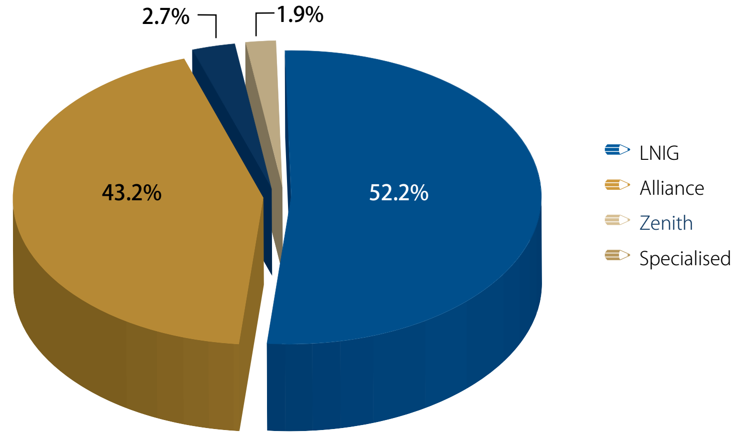
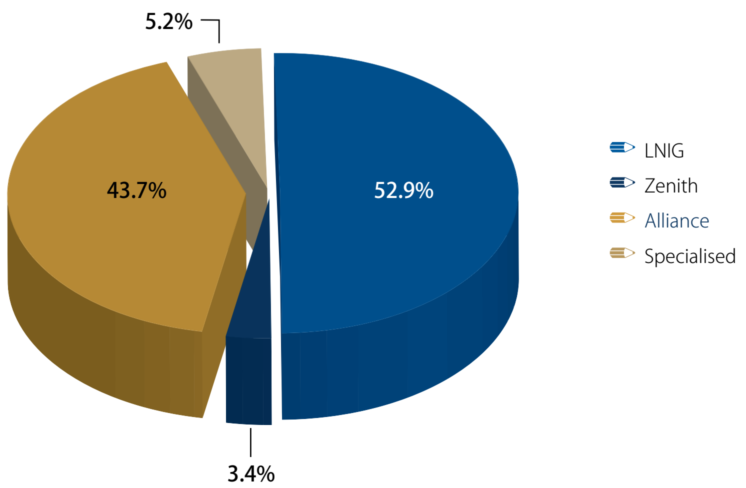
Accidents and Health products constituted the highest component at 28.9 percent, followed by the category of Motor at 27.2 percent.

Figure 18 Short-Term Insurance Gross Premium Share



In terms of assets holding, LNGIC was the highest at 52.2 percent, followed by Alliance at 43.7 percent as depicted in figure 19 below.

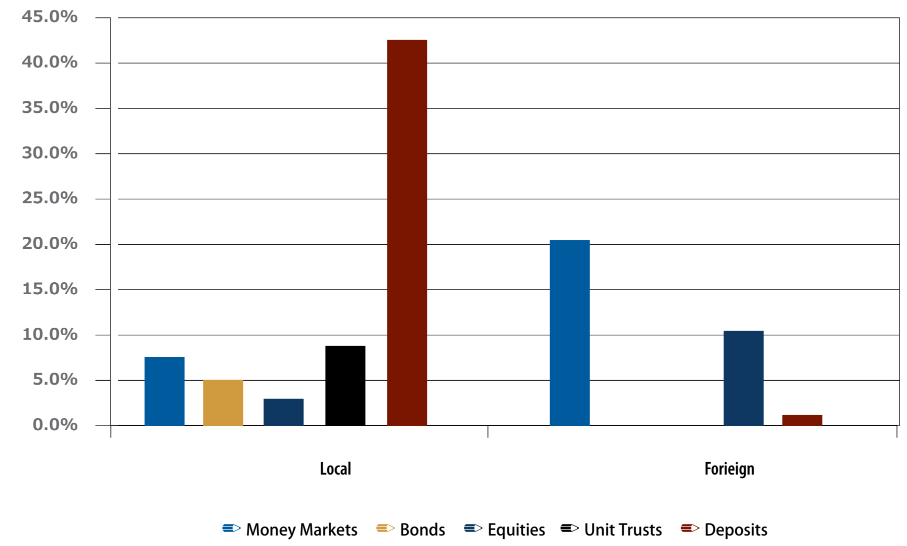
Figure 19 Short-Term Insurance Total Assets Share



3.1.8 Short-term Insurance Investment Mix

Investment mix of the short term insurance industry is shown in figure 20 below, where it can be seen that the industry invested in money markets, bonds, equities, unit trusts and deposits. The industry invested most of its funds in local bank deposits which could be accessed quickly to settle claims.

Figure 20 Short-Term Insurance Investment Mix

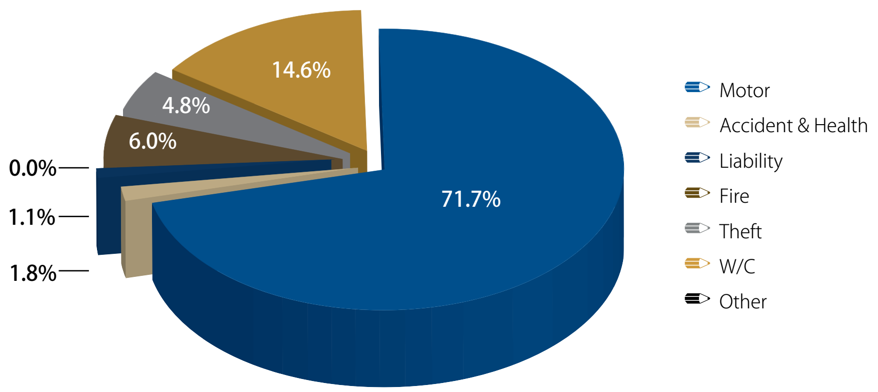


3.1.9 Claims Experience

At 71.7 percent, motor vehicle insurance products constituted the highest component of claims incurred in 2015, followed by *other* products such as CAR and Engineering, Security, MVA at 14.6 percent. Figure 21 below shows claims by product.

At 71.7 percent, motor vehicle insurance products constituted the highest component of claims incurred in 2015.

Figure 21 Short-Term Insurance Claims by Product



3.2 LONG-TERM INSURANCE BUSINESS

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

A new long-term insurance company was licensed in December 2015, increasing the number to six inclusive of one company which is a composite insurer.

3.2.1 Underwriting Results

Gross premium collected by the long term insurance industry increased by 13.1 percent to M916.7 million in 2015 from M810.3 million in 2014. The improved performance was attributable to a variety of marketing strategies employed by the sector.

Premium ceded increased by 29.2 percent to M32.7 million in 2015 from M25.3 million in 2014 as the industry prudently transferred excess risk to reinsurers to remain within its absorptive capacity. Despite the increase in premium ceded to reinsurers, the industry's net premium rose by 12.6 percent to M883.9 million in 2015, from M785.0 million in 2014 following the aforesaid rise in gross premium collected. The rise in net income availed more funds that could be invested and contribute to strong industry's asset base.

Claims incurred increased by 8.7 percent to M443.9 million in 2015 from M408.2 million in 2014. The insurers do not have any control on the occurrence of claims incurred, but they are expected to act prudently by holding adequate funds to absorb policyholders' liabilities.

Commission expenses increased by 10.1 percent to M136.8 million in 2015 from M124.2 million recorded in 2014. The increased expenditure was related to a rise in gross premium, implying that insurance intermediaries were rewarded accordingly for the new business they introduced.

Management expenses increased by 6.3 percent to M142.7 million in 2015, from M134.2 million incurred in 2014. Despite this observed upward movement, the expense registered a slight decline in relation to gross premium, implying that there were no extra expenses introduced compared to the previous year.

Underwriting profit improved by 35.6 percent to M160.9 million in 2015, from M118.7 million in 2014, as a result of an increase in gross premiums. Underwriting expenses increased by 8.5 percent, yet in relation to gross premiums written, there was a decrease, implying that the industry managed to control overall operational expenditure.

Investment income registered a 19.3 percent increase to M244.8 million in 2015, from 205.2 million in 2014. With other expenses declining to M55.6 million from M57.7 million in the preceding year, a 32.6 percent increase in profit before tax was realized in 2015. This continuous improvement implied a steady contribution of earnings to sustainability of the industry's financial soundness, as the capital base will increase. Profit before tax was M380.8 million in 2015, up from M287.1 million in 2014.

3.2.2 Assets

Despite the unfavourable economic conditions, total assets of life insurance business rose by 11.3 percent to M4.5 billion in 2015, from M4.0 billion in the prior year. The long-term insurance sector, by its nature, requires higher long-term investments than short-term investments to match the long-term policyholders' obligations and promised return. The industry, therefore, acted prudently by increasing long-term investments by 12.9 percent in order to secure high investment returns.

Bank and cash balances climbed to M2.0 billion at the end of 2015, from M103 million in the previous year. The result was mainly driven by matured investments which were in the process of being reinvested.

Underwriting profit improved by 35.6 percent to M160.9 million in 2015, from M118.7 million in 2014.

3.2.3 Equity and Liabilities

Shareholders' wealth improved by 35.8 percent to M924 million in 2015 from M680 million in 2014. This was due to a rise in accumulated funds and other reserves by 32.4 and 252.5 percent, respectively.

The sector is very liquid as evidenced by current assets exceeding both technical provisions and current liabilities by M963 million as at December 2015. This indicates that the sector will not have any problem in settling policyholder's obligations when they fall due.

3.2.4 Ratio Analysis

Ratio analysis below evaluates the financial soundness of the life insurance industry for the financial year ending 2015.

Table 10 Long-Term Insurance Selected Ratios

Particulars	2015	2014	Change
Premiums Ceded to Gross Premium	3.6%	3.1%	0.5%
Net Premiums to Gross Premiums	96.4%	96.9%	-0.5%
Claims Incurred to Net Premiums	50.2%	52.0%	-1.8%
Underwriting Gains/ Losses to Net Premiums	18.2%	15.1%	3.1%
Commission Expenses to Gross Premiums	14.9%	15.3%	-0.4%
Management Expenses to Net Premiums	16.1%	17.1%	-1.0%
Combined Ratio (Claims Ratio + Expense Ratio)	81.3%	84.4%	-3.1%

Premium ceded to gross premium ratio indicates the rate at which the industry shared risk with reinsurance. The ratio increased by 0.5 percentage points to 3.6 percent in 2015, from 3.1 percent in 2014. The upward movement of the ratio indicates that the industry utilised the reinsurance arrangements to manage the risk that it could not absorb. This gave the industry an opportunity to increase its underwriting capacity and be in a position to improve its asset base.

Claims incurred to net premiums ratio decreased by 1.8 percentage points to 50.2 percent in 2015, from 52.0 percent in 2014. There was a decrease in claims incurred compared to the previous year. Though insurers do not have control on the amount of claims, they are expected to hold adequate funds to settle the claims as they become due.

Underwriting gains to net premium ratio increased by 3.1 percentage points to 14.9 percent in 2015 from 15.3 percent in 2014. The improvement in the ratio was attributable to a rise in underwriting gain following improved gross premium collection. Improved underwriting performance will ultimately strengthen the industry's asset base.

Commission expenses to gross premium ratio slightly decreased by 0.4 percentage points to 14.9 percent in 2015, from 15.3 percent in 2014. This implied that most of commission paid was on renewal business.

Management expenses to net premium ratio slightly decreased by 0.1 percentage points to 16.1 percent in 2015, from 17.1 percent in 2014. This implied that there was no extra operating expenditure introduced compared to the previous year, therefore the decrease was related to economic adjustments indicating that the industry was able to control management expenses.

Combined ratio decreased by 3.1 percentage points to 81.3 percent in 2015, from 84.4 percent in 2014. The ratio relates to total claims and expenditure paid out of net premiums, and indicates the underwriting profitability. At 84.4 percent, the industry registered underwriting gain, indicating a profitability growth compared to the previous year.

3.2.5 Reinsurance

Reinsurance is an efficient and flexible option for protecting primary insurers against major claims and accumulated losses, and for strengthening their capital base. Through the use of reinsurance, an insurer reduces risk, stabilises company solvency, uses available capital more efficiently; and expands the underwriting capacity.

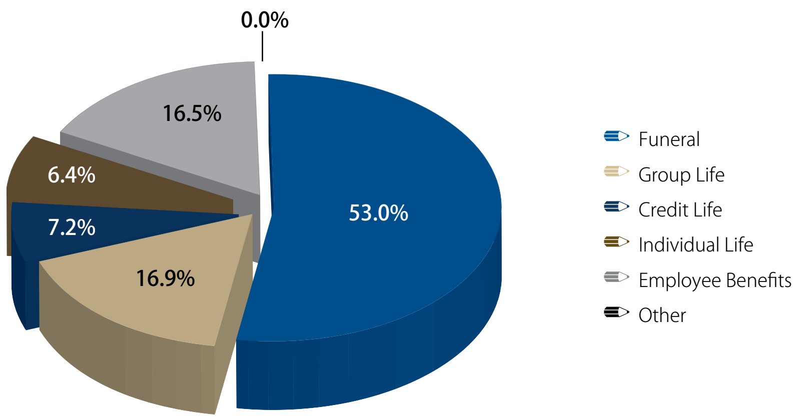
Though there are no reinsurance companies in Lesotho, the life industry made reinsurance arrangements with reputable reinsurance companies from around the world to ensure that it is protected against the potentially large policyholders' claims above its absorptive capacity. The industry increased its level of reinsurance as evidenced by an increase in premiums ceded to 32.7 million in the current year from 25.2 million in the preceding year.

3.2.6 Product Mix

The funeral products contributed the highest gross premiums written at 53.0 percent during the period under review as figure 22 below depicts. This implied that policyholders continued to invest more funds in funeral than other products, suggesting the need for more education to assist the nation to change the mind set and consider investing in savings products that can improve their wealth and enhance self- employment.

The funeral products contributed the highest gross premiums written at 53.0 percent during the period under review as figure 22 below depicts.

Figure 22 Long-Term Insurance Product Mix



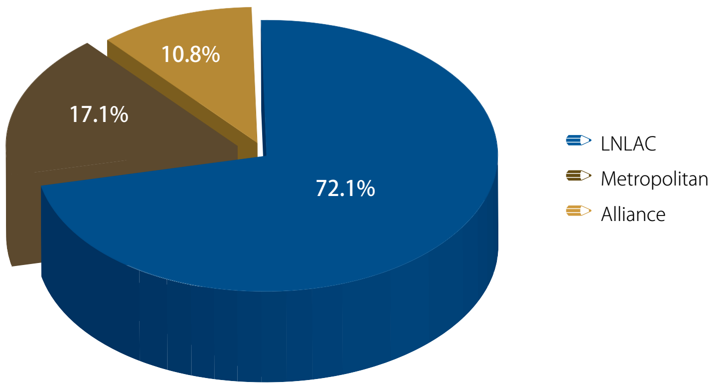
3.2.7 Market Share by Gross Premiums Written and Total Assets

It is worth noting that Medi-Life Assurance Limited (MLAL), NBC Lesotho Insurance Company (NBCLIC) and Liberty Life Lesotho Insurance Company (LLLIC) were not ranked in this report. It should also be noted that LLLIC is new in the market and had not started operations during the period under review.

The long-term insurance industry's gross premiums written amounted to M810.3 million and Metropolitan Lesotho Limited (MLL) ranked number one in terms of gross premiums written at 72.1 percent, followed by Alliance Insurance Company (AIC) – Life Division at 17.1 percent, and lastly Lesotho National Life Assurance Company (LNLAC) at 10.8 percent.

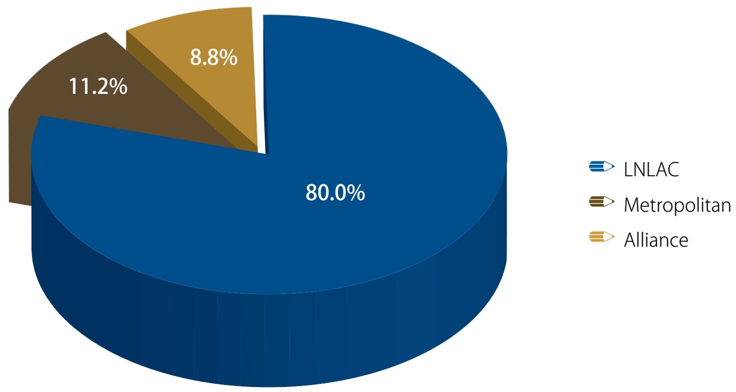
INSURANCE SECTOR REVIEW

Figure 23 Long-Term Insurance Gross Premium Share



Total assets amounted to M4, 5 billion and, MLL ranked the highest at 72.1 percent, followed by AIC at 11.2 percent and LNLAC at 8.8 percent. The draft insurance regulations have strengthened asset admissibility to ensure that only assets with required quality level are recognized.

Figure 24 Long-Term Insurance Total Assets Share



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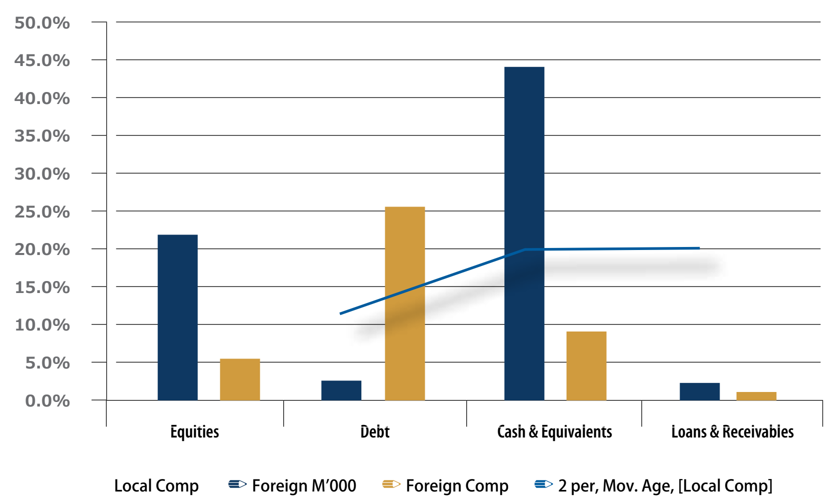
Total assets amounted to M4, 5 billion and, MLL ranked the highest at 72.1 percent, followed by AIC at 11.2 percent and LNLAC at 8.8 percent.

3.2.8 Investment Mix

Figure 25 below depicts that there is still a need for the industry to invest in other instruments that generate investment income than cash and cash equivalents while still maintaining the reasonable liquidity to cater for immediate and short-term obligations, thus increasing both the shareholders' wealth and policyholders' promised return without compromising financial soundness.

It is notable that the industry has invested more in local assets than foreign investments during the period under review. With the establishment of Maseru Stock Exchange, it is believed that more local asset holding will continue to grow and improve the level of employment in Lesotho.

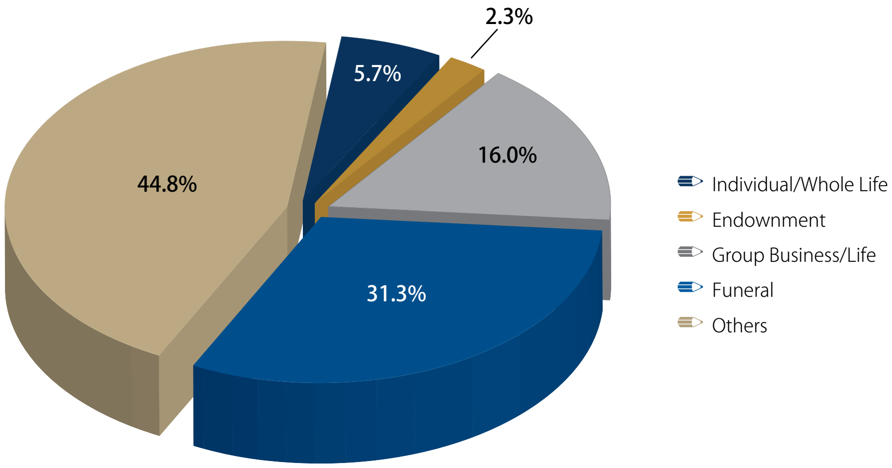
Figure 25 Long-Term Insurance Investment Mix



3.2.9 Claims Experience

During the year 2015, the industry experienced more claims in the category of other products which includes employee benefits at 44.8 percent. However, besides the group of *other products*, more concentration seems to be on funeral products at 31.2 percent. The claims experience in funeral expenses is in line with the gross premiums written whereby funeral products constituted the highest component as stated under 3.2.5. It is, however, still critical to require a more detailed breakdown of bundled products into sub-categories to ensure accurate statistical data which would assist in the development of micro-insurance products which are currently subsumed in other conventional insurance products.

Figure 26 Long-Term Insurance Claims by Product



3.3 MICRO-INSURANCE BUSINESS

In accordance with Section 5 (2) (c) of the Insurance Act 2014, micro-insurance means all types of micro-insurance business specified in Part C of Schedule 1. While there is no operator currently licensed to operate as a micro-insurance company in Lesotho, the products are still being sold by the conventional insurance companies. The intention is to ensure separate reporting of all micro-insurance products from conventional insurance products by all players in order to ensure proper reporting and improve statistical data collection.

3.4 INSURANCE BROKERS

In the period under review, the insurance brokerage business consisted of thirty (30) brokers operating in both life insurance and general insurance business. The review is based on the performance of five (5) brokers that submitted their audited financial statements. The industry is highly fragmented with commission income ranging from M0.3 million to M27 million.

The insurance brokerage business consisted of thirty (30) brokers operating in both life insurance and general insurance business.

3.4.1 Profitability

The brokerage industry continued to be profitable during the period under review as reflected in appendix 7 of the report. The total income for the year amounted to M36.6 million, indicating a 7.0 percent decrease when compared to the 2014 performance.

The industry's revenue consisted mainly of commission income which constituted 95 percent of total income. When compared with the previous year, commission income, also declined by 7.0 percent from M36.9 million in 2014, to M34.7 million in 2015. Other income fell dramatically by 408 percent from M183 thousand in 2014 to M36 thousand in 2015, implying that the insurance brokers industry's income was not diversified and that the industry relied heavily on commission income during the period under review.

Profit before tax improved by 67 percent from M4.1 million in 2014 to M12.6 million in 2015. The improvement in profits was attributable mainly to the 45 percent decrease in total expenditure.

3.4.2 Ratio Analysis

Financial ratio analysis evaluates the relationship between financial statement items over time, and gives an indication of the industry's financial performance in several key areas. It focuses on the measurement of the industry's operating efficiency and its ability to generate income, as well as the ability to repay debts and to meet unexpected cash needs, both long-term and short-term.

The ratio of commission earned to total income increased by 4.4 percentage points from 94.7 percent in 2014, to 99.1 percent in 2015, implying that the brokerage industry's income during the review period was mainly dependent on commission income.

Total expenditure to total income ratio decreased by 77.4 percentage points from 89.3 percent in 2014, to 11.9 percent in 2015. The decrease in the ratio resulted from the 44 percent decrease in total expenditure.

Operating Profit before taxation to Total Income ratio declined by 4.8 percentage points from 10.7 percent in 2015, to 5.9 percent in 2015.

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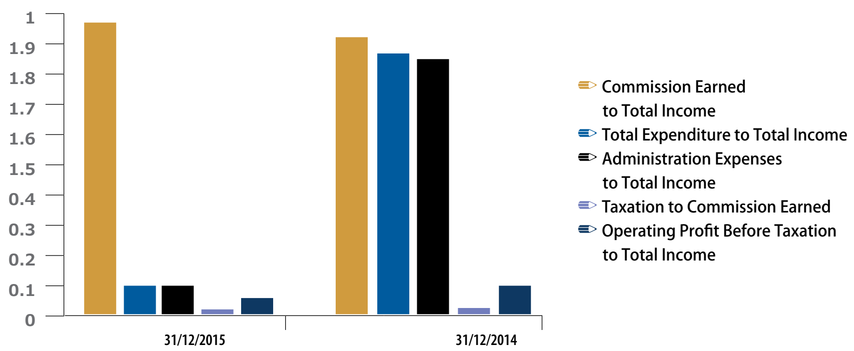
Table 11	Insurance Brokers Performance Ratios		
Particulars	31/12/2015	31/12/2014	Variance
Commission Earned to Total Income	99.1%	94.7%	4.4%
Total Expenditure to Total Income	11.9%	89.3%	-77.4%
Administration Expenses to Total Income	11.8%	87.3%	-75.4%
Taxation to Commission Earned	1.2%	1.4%	-0.1%
Operating Profit Before Taxation to Total Income	5.9%	10.7%	-4.8%

Figure 27 Insurance Brokers Performance Ratios



3.4.3 Assets and Liabilities

Total assets stood at M40.6 million in 2015, reflecting a decrease of 23 percent from the previous year. The main contributor to the decrease in total assets, across the board, was cash and cash equivalents.

Trade creditors stood at M15.5 million in 2015, from M27 million in 2014. This constitutes a 42.6 percent decrease in the liability. This decline may imply that brokers are remitting premiums timely to insurers.

Total assets stood at M40.6 million in 2015, reflecting a decrease of 23 percent from the previous year.

3.5 COLLECTIVE INVESTMENT SCHEMES, PENSIONS AND SECURITIES

3.5.1 Licensing

The number of formally registered asset managers increased from two to four with the registration of Prescient Highlands (Pty) Ltd and JM Busha (Pty) Ltd during 2015. The newly registered asset managers however did not register any collective investment schemes locally. The number of active and registered collective investment schemes therefore remained at five, four managed by STANLIB Lesotho (Pty) Ltd and one by African Alliance Lesotho Management Company (Pty) Ltd. The licences of both the management companies and collective investment schemes existent during the review period were duly renewed on due dates.

Oversight and regulation of collective investment schemes in Lesotho is guided by the Central Bank of Lesotho (Collective Investment Schemes) Regulations 2001. The responsibility of ensuring that the legal and regulatory framework used in supervision of these entities remains current and relevant is vested in the Central Bank of Lesotho as the regulator. To this end, the review of the Central Bank of Lesotho (Collective Investment Schemes), Regulations 2001 continued in 2015 in line with international best practices. The new regulations are expected to be published as soon as they have followed the legal process.

Oversight and regulation of occupational pension funds in Lesotho remains a challenge as there is no legislation that supports their direct regulation.. During the review period, the Central Bank of Lesotho working together with relevant stakeholders, kick-started the process of putting in place legal framework meant to guide the activities of pension funds in Lesotho. These efforts resulted in the draft Pensions Bill, which is expected to be enacted in the next review period.

3.5.2 Market Share

STANLIB Lesotho (Pty) Ltd controlled a larger market share in terms of total assets under management and number of funds being managed. The two new asset managers did not have any assets under management during 2015. The remaining two managers placed their funds in various types of investment categories including call deposits, fixed deposits, negotiable certificates of deposits, Bonds and other collective investment schemes. At end of last quarter of 2015, STANLIB Lesotho held 96 per cent (or M1.489 billion) of the market while African Alliance held the remaining 4 per cent at M0.055 billion. The level of market share gave STANLIB Lesotho (Pty) Ltd a considerable degree of systemic significance.

3.5.3 Compliance

Non-compliance issues recorded during the review period included late submission of audited financial statements and quarterly returns in contravention of Regulation 18 (1) (a) and (b) of the Central Bank of Lesotho (Collective Investment Schemes) Regulations 2001 by one asset manager. In addition to this, the asset manager failed to appoint a principal officer despite numerous attempts to compel the manager to comply in contravention of Regulation 35 (2) of the same Regulations. All these hampered monitoring and timely analysis of the health of the industry. Appropriate actions were taken by the Regulator to ensure compliance.

3.5.4 Sector Performance

The overall performance of the collective investment schemes industry has shown a stable and sound financial position. The combined assets under management amounted to M1.544 billion. However, African Alliance Lesotho's total assets under management showed a stagnant trend during the review period.

The funds consolidated operating profits totaled M 19.256 million at the end of the review period, hence, improved net assets attributable to the units holders. The combined income comprised interest received and dividends.

3.6 COMPLAINTS HANDLING AND MONITORING

The Insurance Act 2014 requires the Commissioner to, amongst other things, protect the policyholders' interests. The Commissioner requires insurers to ensure that their intermediaries are fit and proper to perform their tasks. Insurance intermediaries have fiduciary responsibility to disclose all information to the proposed and existing policyholders as required in terms of insurance core principles and international best practices. In addition, financial education is essential to ensure that the policyholders understand their rights and obligations before they conclude the proposal forms; and after receiving insurance policy contracts.

The reported complaints indicated that due diligence is still not performed by some licensed insurance companies before hiring intermediaries as evidenced by the number of complaints that centered around misunderstandings. In addition, some companies lack customer care as the complaints were due to lack of duty of care.

The overall performance of the collective investment schemes industry has shown a stable and sound financial position.

3.7 COMPLIANCE WITH INSURANCE ACT

The new Insurance Act provides the Commissioner with adequate power to enforce compliance, not only with the Insurance Act, but other laws such as Money Laundering and Financing of Terrorism Act as well as the Income Tax Act. The industry is continuously alerted to the need for strict adherence to relevant laws to ensure stability of the insurance sector. In 2015, the industry was not yet in full compliance. Insurance Regulations which are yet to be enacted will also enhance strict compliance ❑

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4

The microfinance sector in Lesotho is in its infancy and is being further developed with the assistance of the World Bank under the First Initiative.

NON-BANKS FINANCIAL INSTTUTIONS REVIEW

4.1 OVERVIEW OF THE NON-BANK FINANCIAL INSTITUTIONS

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

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

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

4.2 MICRO-FINANCE INSTITUTIONS (MFIS) REVIEW

4.2.1 Introduction

The microfinance sector in Lesotho is in its infancy and is being further developed with the assistance of the World Bank under the First Initiative. The Financial Institutions (Deposit Taking and Credit Only Microfinance) Regulations of 2014 provide for both Deposit Taking and credit-only MFIs.

4.2.2 Overview of MFIs

As at the end of December 2015, there were seven Credit-only MFIs and no deposit-taking MFI operating in Lesotho. Out of this seven, five are predominantly foreign owned while the remaining two are fully owned by Basotho.

Credit Only MFIs in Lesotho predominantly serve the salaried government and private employees with personal loans of up to M250,000.00 and mitigate the risk of non-payment by deducting at source. These personal loans are both for consumption and investment. The market being served by MFIs is already a market that is already being served by the formal banking sector and therefore MFIs are making little impact to the unbanked population and MSMEs in terms of credit extension. There is also a challenge of emergence of reckless lending by some MFIs leading to an increase in over indebtedness. This problem stems from poor frameworks in credit worthiness assessment and lack of disclosure by some of the individuals in the absence of a credit information sharing bureau with wide spread data coverage.

The credit-only MFIs sector has grown considerably well closing the year with total assets of M550.0 million. Credit-only MFIs do not take deposits and are currently not able to raise funds from the banking sector. They are primarily funded through loans and equity from their owners in order to fund their credit business. The credit-only MFIs consolidated balance sheet is therefore dominated by the loans and advances extended to the general public on the assets side. On the other side, liabilities are primarily dominated by the loans from creditor and shareholders' funds.

Non-performing loans (NPLs) are loans whose principal or interest is due and unpaid for 3 months or more. NPLs for the credit only MFIs closed the year considerably low at 2.9 per cent as a share of total loans. At this level, the credit only MFIs sector is seen to have maintained a good quality of its credit portfolio. The main reason behind the relatively low figure is that MFIs predominantly lend to salaried employees and collect at source in order to mitigate the credit risk.

Since the core business of credit-only MFIs is credit business, their main sources of income are interest income, fees and other income. On the expenses side, interest expense to their creditors, provision for doubtful debts and other expenses were the most dominant items. Overall the credit-only MFIs recorded the total profits of M13.7 million which amounts to 19.1 per cent and 2.5 per cent return on equity and return on assets respectively. At these levels, the credit-only MFIs sector is deemed profitable considering that they are still growing.

4.3 MONEY TRANSFER INSTITUTIONS

4.3.1 Introduction

Money Transfer institutions provide a formal and critical conduit through which payments are made and remittances are transferred for households and business purposes in a safe manner. These institutions play a critical role in fostering financial inclusions and access to finance. Money transfer institutions are supervised and regulated under the Financial Institutions Regulations of 2014.

4.3.2 Developments in 2015

Money transfer business is defined as 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. There were two such institutions operating as at the end of the review period. The main service is transfer of funds from Lesotho to the rest of the world and vice versa. These companies are also licensed as exchange bureaus.

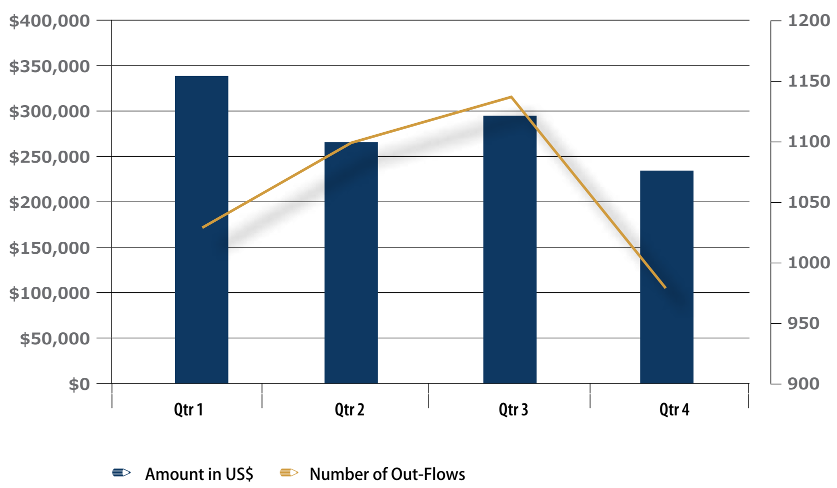
The credit-only MFIs sector has grown considerably well closing the year with total assets of M550.0 million.

This sub-sector is fairly new and still under development by the Central Bank of Lesotho. The entire money transfer sector has been increasing steadily in the year under review. The total assets subsector increased by 5.7 per cent from March 2015 to December 2015. The sector has also been profitable, declaring profits in excess of 27 per cent as a share of assets and 28 per as a share of equity. Their main source of income stems from money transfer related activities with 82 per cent as a share of total income while foreign exchange related activities account for the remaining 18 per cent.

4.3.3 Out-flows

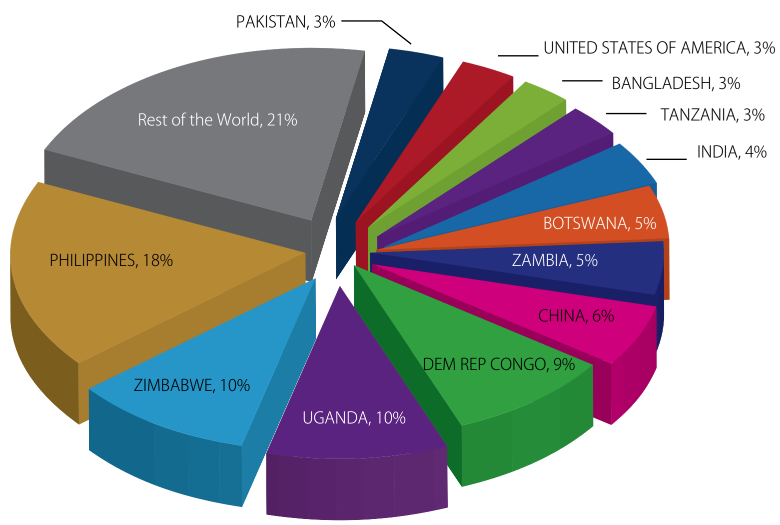
The number and value of outflows remitted through the money transfer platform were volatile throughout 2015. In the year under review, the number of transfers abroad was 4,247 amounting $1,134,980.90.

Figure 28 Number and amount of outflows



The money transfer platforms in Lesotho are able to transfer funds to many countries in the world across all the continents. Outflows by country of destination were dominated by The Philippines with 18 per cent, Zimbabwe and Uganda both with 10 per cent. This is in line with the number of immigrants of these countries in Lesotho. It must be noted that many migrant workers in South African and South Africans working in Lesotho rely on the banking system and mobile money network platforms given the interconnectedness of the banking system between Lesotho and South Africa.

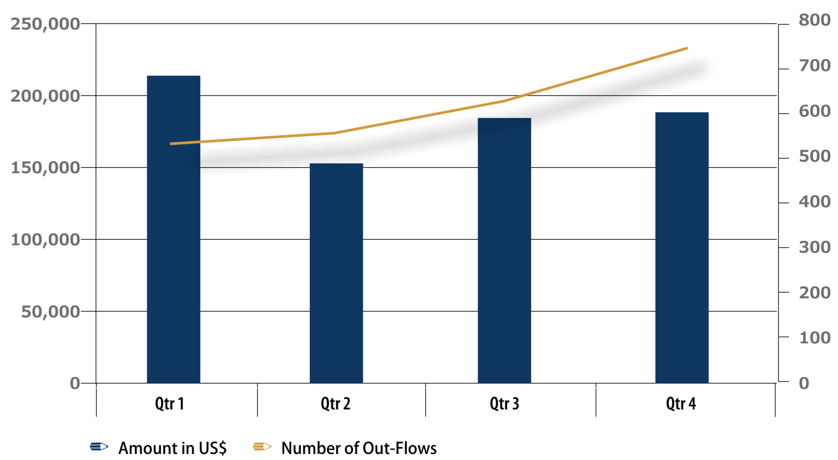
Figure 29 Outflows by Country of Destination in 2015



4.3.4 Inflows

In 2015, the number of inflows that came through the money transfer platform was on the increase while outflows in value terms were flat on average. In totality, there were 2447 inflows transmitted through the money transfer platform, which amounted to $738,390.14.

Figure 30 Number and Amount of Inflows



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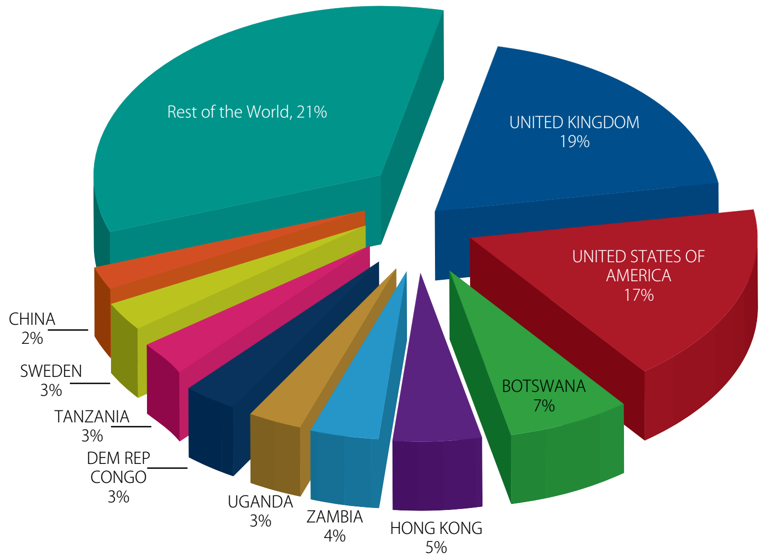
In 2015, the number of inflows that came through the money transfer platform was on the increase while outflows in value terms were flat on average.

Similar to outflows, the money transfer platforms in Lesotho are able to receive funds from many countries in the world across all the continents. Inflows by country of origin are dominated by the United Kingdom with 19 per cent, United States of America with 17 per cent and Botswana with 7 per cent.

Figure 31 Inflows by Country of Origin

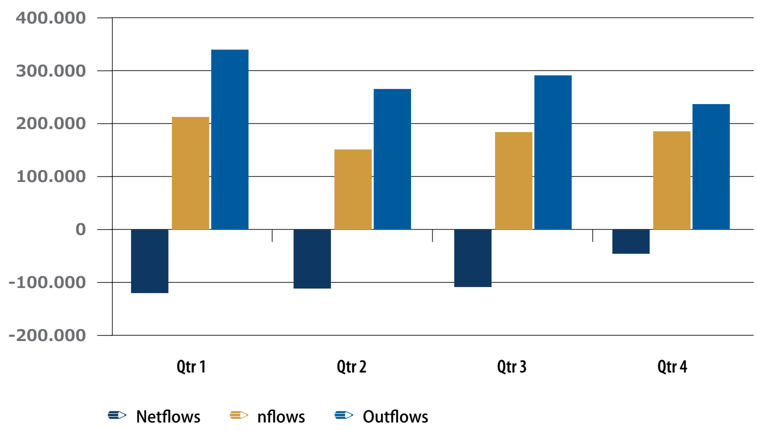


On one hand, outflows are dominated by Asian and African countries, while on the other hand inflows are dominated by European and North America. Since the money transfer platform is mainly used by immigrants for regular remittances, this picture is reflective of the immigration dynamics in and out of Lesotho. Most Basotho working abroad are in the United Kingdom and North America while many immigrants in Lesotho are of Asian and African descent.

4.3.5 Net Flows

In term of net flows of remittances, it is discernible that Lesotho runs a deficit as outflows are far more than inflows . This is in line with the greater number of migrants from abroad (excluding SA) than Lesotho's Migrants with rest of the world (excluding SA). However this deficit does not apply across all countries. Asian countries reflect the greatest deficit while North American and Europe reflects the greatest surplus.

Figure 32 Comparison of Total Inflows, Outflows and Net Flows (US$)



4.4 MONEY LENDERS

4.4.1 Status of Money Lenders in 2015

Money Lenders operate in Lesotho as per Money Lenders Act of 1989 as amended in 1993. In consonance with the currents sets of laws, the subsector is open to both companies and sole traders. At the end of 2015, there were eighty six license renewals and forty one new applications processed amounting to a total of one hundred and twenty seven licensed money lenders.

Despite all the challenges highlighted below, this sector plays a very important role in financial inclusion. Money Lenders do not only focus on serving the banked individual households and companies but also go a long way in serving unbanked individuals and Micro Small Medium Enterprises (MSMEs). Therefore, money lenders extend credit to the lowest market where banks and MFIs do not feature.

4.4.2 Challenges

The Money Lenders subsector present many supervisory and regulatory challenges to the Central Bank of Lesotho. These challenges stem from an out-dated Money Lenders Act of 1989 as amended in 1993. This sector is also characterised mainly by small but many players scattered all over the country and making it difficult for the Central Bank of Lesotho to supervise and regulate.

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Money Lenders operate in Lesotho as per Money Lenders Act of 1989 as amended in 1993.

Specifically the following challenges have been observed in the review period albeit with reduced incidents and cases:

- Evidence suggests that money lenders charge interest in excess of 25% which is prescribed in the law governing money lending business;
- Money lenders do not assess clients' creditworthiness as per the legal requirements and this contribute immensely to the high over indebtedness in the credit market;
- Money lenders file late applications for license renewals despite being required by law to do that three months before a license expires;
- Money lenders do not issue clients with statements of their loan accounts every month as required by law;
- There are also late submissions of monthly, quarterly and audited financial statements;
- Some Money Lenders use one money lending license in multiple branches while the law requires each branch to have its own license.
- There is still evidence of some Money lenders forcing clients to leave important documents like passports, Automated Teller Machines (ATM) cards with secret codes as security. This is thus far the mostly and widely used method of collection.
- Clients sign credit agreements without understanding them and then complain later on.
- Money lenders take by force clients' property in case of default without necessarily doing what the law requires in such cases.

4.4.3 Developments in 2015

In an effort to address the above challenges, there have been several initiatives implemented in the past while others are still work in progress. In 2015, the Lesotho Microfinance Association (LEMFA) was constituted and registered by Law. In line with the FSDS, LEMFA is a self-regulatory apex association that is meant to effectively monitor lending practices. The plan is to repeal the Money Lenders Act of 1989 as amended in 1993 after which Money Lenders will be licensed as Credit Only MFIs. Those that will not meet the MFIs requirements will be exempted from the FIA if they are members of the LEMFA.

Another big development in the review period is that the Government of Lesotho and the Central Bank received a Financial Inclusion Technical Assistance from the World Bank funded by FIRST Initiative. The objective of the program is to support the Lesotho Government and the Central Bank of Lesotho in expanding financial inclusion in Lesotho by strengthening and deepening the supply of financial services and establishing a consumer protection framework. In the year under review, the Technical Assistance focused on the diagnostics in the credit market with much emphasis on Money Lenders and MFIs.

4.4.4 Education and Awareness

As far as consumer education and awareness, the Bank continued to undertake consumer awareness campaigns and educate financial services consumers through different media platforms, including radio and TV. Based on the Banks assessment, the radio and TV show are not yielding intended results. This calls for a new strategy through which targeted campaigns are going to be undertaken to make sure that the message is sent directly to specific consumer groups. On the supply side, the Bank continued to run workshops and meetings for the money lenders aimed at discussing new regulatory and supervisory developments and ways through which full compliance could be achieved.

4.5 CREDIT INFORMATION SHARING

4.5.1 Introduction

A credit bureau is an institution which facilitates the exchange of information on prospective debtor for the fast and safe processing of request for credit. To pursue this objective, credit bureau generates consumer credit profiles based on credit information previously received from credit providers, utility service providers as well as courts of justice.

Credit information sharing in Lesotho began in 2013 after issuing a credit bureau licence to Compuscan Lesotho. In terms of the Credit Reporting Act of 2011 and its supporting Regulations of 2013, the reporting duties of the credit bureau shall be to provide:

- Periodic analyses based on aggregated credit information of the credit market; and
- Reports on sources and quality of information received from data providers.

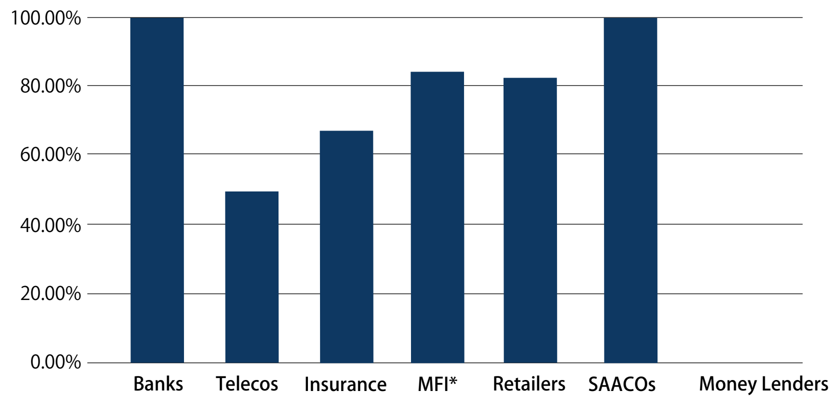
The role of the Central Bank of Lesotho is to regulate and monitor credit information sharing activity, licence credit bureaus as well as to analyse reports received from credit bureau and monitor trends in credit market.

4.5.2 Credit Reporting Status by Sector

During the year ended 31 December 2015, the credit bureau accumulated number of credit records of natural persons from several data providers. The number of credit providers which shared consumer credit information with credit bureau rose to 24 though with different submission statuses. While some data providers had their data live on the bureau, some were still in the testing stage while others were not yet on board.

The Bank continued to undertake consumer awareness campaigns and educate financial services consumers through different media platforms.

Figure 33 Status of Credit Reporting per Sector



The figure above depicts the percentage share of credit providers participating in the data uploading by sector. As at the 31st December 2016, all Banks were participating while all money lenders were not yet participating in the credit sharing initiative. Most money lenders are very small and operate manually. The challenge is to assist them to get requisite hardware, software and technical skills in order to report data to the bureau accurately. Another challenge relates to computer literacy and appreciation in order to enhance Information and Communications skill in the sector.

4.5.3 Credit Information Analytics

By the end of 2015, total loans recorded at credit bureau amounted to M1.7 billion out of which 3.8 per cent amounting to M64.4 million is overdue debt. There were 91,190 active consumers captured in the database of the Credit Bureau in the period under review. From these records 7,823 (8.6 %) and 8,563 (9.4 %) were 1-2 and 3 months in areas respectively.

Table 12	Consumer Credit Report as at 31st December 2015			
Description	Q4/2015	Q3/2015	Q2/2015	Q1/2015
Total number of natural persons recorded in the bureau system	91,190	85,643	78,218	77,870
Total number of natural persons with a credit record	90,479	85,643	77,351	76,724
Persons with up-to-date accounts	51,641	52,478	49,664	13,281
Up-to-date accounts %	57.08%	61.28%	64.21%	17.31%
Persons with worst position 1-2 months in arrears	7,823	9,428	8,642	3,639
Persons with 1-2 months arrears %	8.6%	11.0%	11.2%	4.7%
Persons with worst position 3+ months in arrears	8,563	13,284	15,526	4,182
3+ months in arrears %	9.5%	15.5%	20.1%	5.5%
Persons whose worst position is an adverse enforcement status code	10,705	5,258	1,458	542
Adverse position %	11.8%	6.1%	1.9%	0.7%

At the end of 2015, there were 52 thousand persons who were up to date with their payments. While the persons who were in a good standing, there were other 8.56 thousand persons who were in arrears for at least 3 last months of 2015. The high number of persons with credit accounts in arrears is an early warning sign of the high level of over indebtedness.

5

During the review period, Shoprite South Africa and Shoprite Lesotho, as well as Capitec Bank in South Africa launched the Shoprite Money Transfer cross-border remittances facility.

DEVELOPMENTS RELATED TO SUPERVISION

5.1 NATIONAL PAYMENTS SYSTEM

5.1.1 Electronic Transfer Funds (EFT) Domestication Project

The Electronic Funds Transfer (EFT) payment stream was launched in 2012 by the Payment Association of Lesotho (PAL). PAL outsourced the related clearing process for this payment stream to a South African company for a period of 3 years that ended in 2015. To further enhance the efficiency and maintain full control over the operations of the Payment Clearing House (PCH) of EFTs, the Bank and PAL undertook a project to domesticate the PCH. The project was successfully completed by the end of April, and the new PCH (EFT) went live in May 2015.

5.1.2 Remittances Projects

a) Shoprite Money Transfer Cross-border Remittances Facility

During the review period, Shoprite South Africa and Shoprite Lesotho, as well as Capitec Bank in South Africa launched the Shoprite Money Transfer cross-border remittances facility. This facility was the result of intensive consultations with the South African Reserve Bank (SARB), Central Bank of Lesotho (CBL), Shoprite South Africa and Shoprite Lesotho, as well as Capitec Bank in South Africa. The main objectives of this initiative was to develop an affordable, convenient, safe, reliable and real time inbound remittance corridor, through which Basotho who are working and residing in South Africa can send money home. Since its launch in March 2015, this service has experienced phenomenal growth in terms of processed transactions volumes and values. By the end of December 2015, the service transacted a total of 33,834 transactions valued at M31, 443,916.67.

b) Mobile Money Transfer Services

During the year, mobile money operators (MNOs), Econet Telecom Lesotho (ETL) and Vodacom Lesotho (VCL), each launched inbound cross border remittances services. Both MNOs partnered with licensed Money Transfer service providers to provide this service. These services have not only provided an instant and cost-effective remittance corridors but also bring convenience especially to the unbanked and under banked sections of the population as they allow Ecocash and M-pesa subscribers to use received funds to pay bills, buy airtime and send money locally or withdraw cash at registered Ecocash and M-Pesa agents across the country once such funds hit their Ecocash wallet and M-pesa account.

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The Electronic Funds Transfer (EFT) payment stream was launched in 2012 by the Payment Association of Lesotho (PAL).

5.2 FINANCIAL LEASING MARKET

5.2.1 Introduction

Development of the financial leasing market is identified by the FSDS as an integral reform in addressing financial inclusion and access to finance. These challenges are amongst the high ranking priorities identified by the NSDP. Thus far, the Financial Leasing Regulations were enacted into Law in 2013. However, there has been little interest in Leasing both as a product by financial institutions and credit providers and as business space by prospective leasing or asset finance companies.

The Private Sector Competitiveness and Economic Diversification Project (PSCEDP) have supported the Central Bank of Lesotho in the development of a legal framework for financial leasing. The Financial Institutions (Financial Leasing) Regulations 2013 have been gazetted and the Central Bank of Lesotho, with the support of the Private Sector Competitiveness and Economic Diversification Project (PSCEDP) is faced with the obligation of developing financial leasing in Lesotho. In this endeavour the CBL and PSCEDP have engaged IFC Africa Leasing Facility (ALF) to provide technical assistance to the Bank in developing an appropriate leasing market.

5.2.2 Developments in the Year Under Review

Acting in accordance with the IFC's advice, the Bank and the PSCEDP undertook two peer learning missions to Sri Lanka and Mauritius in the year under review. In their early development stage of the financial leasing industry, these countries had faced similar challenges that Lesotho is facing currently. The following lessons were derived from the two missions:

- Just having a leasing law does not necessarily mean a vibrant and sustainable leasing sector will emerge.
- Government support is a key enabler in the form of incentives and support to credit providers and MSMEs. In many countries, the Government even had to initiate the leasing sector, hand hold, mentor and coach credit providers and MSME's.
- On supervision and regulation, Leasing cannot and should not, be subject to the same type of prudential regulations as banks, if they are not deposit taking institutions.
- Proper tax incentives are critical and need to be in place for leasing to be attractive. The main lesson learnt is that the tax yields do not decline despite having tax incentive in place.
- Private sector organizations have a key role in promoting leasing as a vehicle to access to finance particularly for MSMEs.
- In order to ensure sustainability, leasing companies should have very solid internal control systems as well as robust leasing management systems.

Following the peer learning missions, a new work/project plan was drawn and a process of identifying and appointing a consultant to execute the plan was initiated in the year under review.

5.2.3 Financial Leasing Project Plan

This plan consists of the following components which will be executed by the consultant as soon as the procurement processes are complete.

a) Financial Leasing Market Scoping Research

Under this component, a thorough diagnosis or review of the state of the credit market, particularly the asset finance industry, will be undertaken in order to quantify the potential and identify market segments for leasing. The assessment will determine the size and other market dynamics from both the demand and supply side and identify economic sectors that could benefit from leasing and type of equipment that could be financed for each sector. This assessment will be carried out through rigorous data (qualitative and quantitative) gathering from all the stake holders.

b) Review of the Legal Framework and Undertaking the Environmental Scan

In order to understand the barriers that could hinder growth of the leasing industry, a complete review of the legal and regulatory framework for leasing will be undertaken under this component. This will extend to the review of the tax and accounting frameworks and identify and recommend fiscal, investment guarantees and other incentives packages that can unlock the barriers to entry into the leasing space by prospective player.

c) Training and Capacity Building

This component will involve a thorough assessment of requisite skills and systems required in order to run a viable leasing operation. Based on this assessment a training and capacity building plan will be drawn and implemented in order to make sure that the requisite skills and systems are put in place by financial leasing market players. On the regulatory side, a complete leasing supervisory framework that include the operation manuals and licensing processes and other guidelines with off-site and on-site supervisory procedures will be developed.

d) Promotion and Awareness Campaigns

This component involves selling the finance leasing space through investment forums to prospective market players in Lesotho and from abroad. A communication strategy on finance leasing will also be developed in order to identify all stake holders and modes through which awareness and outreach campaigns will be undertaken.

The Bank and the PSCEDP undertook two peer learning missions to Sri Lanka and Mauritius in the year under review.

5.3 ESTABLISHMENT OF THE SECURED TRANSACTIONS REGIME ON MOVABLES AND THE COLLATERAL REGISTRY

5.3.1 Background

With the aim of strengthening the financial sector and fostering financial inclusion and access to finance in Lesotho, the FSDS proposes the development of a modern secured transactions in movable property law and the establishment of a national public registry for security interests in movables. The main goals of this reform are: increase in access to credit for businesses and consumers by facilitating the use of movable assets as collateral for credit; reduction in risks to lenders through increased certainty of repayment; increase in the likelihood of loan approval; improvement in loan duration and loan-to-value ratios; and decrease in interest rates.

5.3.2 Developments in 2015

In 2014, the Bank undertook foundational and preparatory work for this project to take off. In the year under review, a consultancy firm was contracted to deliver this project and started work in May 2015. An inception report which provided an economic rationale and a diagnostic was delivered. The diagnostic covered the existing lending practices using movables; the legal system; capacity of major role players; and the assessment of IT infrastructure and its capacity to host this system.

The report concluded that the current legal framework and practices were out dated, inadequate and cumbersome. It reaffirmed the need to have a new law in place that would facilitate the development of a modern electronic collateral registry. The assessment of the Banks IT infrastructure was found to be adequate to host this state of the art electronic registry.

Based on this assessment a project plan was developed and a Secured Transactions Regime Technical Working Group (STR-TWG) was constituted to drive some of the components of this project. This working group is made up of all relevant stakeholders, including the financial sector, Government Ministries, private sector representatives and the legal practitioners. In the year under review, the policy framework on the creation of secured transactions and collateral registry system in Lesotho was developed and submitted to the Ministry of Finance for Cabinet clearance. The first draft of the Security in Movable Property Law based on the best international provisions was also drafter. As at the end of 2015, this Law was yet to be domesticated and discussed by the stakeholders while the policy framework was yet to be presented to Cabinet for approval.

5.3.3 Way Forward

Going forward, the draft law will be domesticated, presented to all stakeholders and finalized. Focus in the next year will also be on the development of the Collateral Registry that conforms to the provisions of the law. The next component of this project that is set to follow involves training and capacity building on the system and the law. Lastly outreach and awareness campaigns will be undertaken in order to make sure that this regime is fully appreciated by the general public and other strategic groupings. The post implementation monitoring and evaluation framework will be drawn through which the performance and impact assessment of this project will be undertaken.

5.4 DEVELOPMENT OF THE SUPERVISORY FRAMEWORKS AND THE ESTABLISHMENT OF AN ELECTRONIC REPORTING SYSTEM FOR THE CREDIT BUREAU

5.4.1 Background

The first phase of this project developed the legal and regulatory framework as the foundation for the establishment of the Credit Information Bureau. It is in this phase wherein the first Credit Information Bureau was licensed by the Central Bank. Following this monumental step in the development of the financial sector in Lesotho, the next phase focuses on data uploading into the bureau and developing an electronic reporting system and robust supervisory and regulatory frameworks.

5.4.2 Project Plan and the Progress in 2015

In the year under review a consultancy firm to drive this project was appointed and the contract was signed. This project entails the following key deliverables or components:

- Development of supervision methodology for on-site and off-site supervision. This framework entails instructions guidelines and manuals for supervision and the use of the electronic reporting system. Under this component, draft guidelines were still being finalised as at the end of 2015.
- Design and development of the electronic reporting system. This component involves assessment of specifications for the electronic reporting system, both software and hardware requirements. In the period under review a full assessment on IT infrastructure was untaken and the Central Banks infrastructure passed the test. However, the systems development and database center were still being done remotely by the end of 2016.

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Going forward, the draft law will be domesticated, presented to all stakeholders and finalized.

- Capacity Building and Training for the Central Bank, Credit Information Bureau and other stakeholders. An assessment of the training and capacity needs for the central Bank, Credit Bureau and data providers was completed in 2015 and training and capacity building is due to follow in the next review period.
- Lastly the awareness and outreach campaigns ware initiated in 2015 through the design of the information and communications strategy as the basis for implementation of the awareness and outreach campaigns.

5.4.3 Way Forward

Going forward it is envisaged that the end of stage for this project will be completed in the next year. This includes the first three components while the last component above is planned to run for a full year afterwards.

DEVELOPMENTS RELATED TO SUPERVISION

Box 1 MIGRATION FROM BASEL I TO II

During the year under review the CBL continued with its efforts of migrating from the Basel I regulatory framework to Basel II. Specifically, the bank finalised its Basel II implementation plan, the plan was divided into three sections the first section focused on understanding Basel II and CBL's own readiness assessment, the second section detailed activities that were meant to assess commercial bank's readiness to migrate to Basel II. The last section involves the preparation of guidelines as well rolling out the implementation. As part of the deliverables under the migration plan the bank published its first consultative paper on Basel II (henceforth the paper) that mapped out a selective adoption plan of Basel II. In deciding on the elements of the accord that could be implemented, the Bank's decision hinged on two pillars namely simplicity and suitability. That is, the aspects of the accord that are to be implemented have to be simple and suitable to the domestic market. The paper proposed that pillar 1 be implemented however, all banks be required to adopt the same approach so as to ensure that a level playing field is maintained.

For computing capital requirements for credit risk the simplified standardised approach was proposed. This is mainly because under the approach the credit risk weighted assets are fixed and pre-determined implying that the approach would be implemented with relative ease. The other approaches on the other hand were deemed not suitable. For instance, due to the lack of third party credit ratings in the country the standardised approach could not be considered while the internal ratings based approach requires banks to have long and reliable databases which are currently not available. For market risk, the standardised measurement method was recommended. This is because the internal models approach requires banks to use their internal models to compute market risk capital charges which was considered more complicated as compared to the standardised measurement method where capital charges are calculated based on pre-determined ratios. The basic indicator approach was proposed for calculating operational risk capital charges. Despite proposing the capital calculations under Basel II, the minimum capital requirements set out in Basel III were recommended for adoption. This is because, Basel II retained the Basel I minimum requirements which the Bank feels are increasingly becoming inadequate to address the high concentration risk in the industry.

Pillar 2 which is intended amongst others to encourage banks to develop and use better risk management techniques in monitoring and managing their risk was also considered for adoption. While Pillar 3 was excluded from the proposed regulatory basket, this is due to the fact that the pillar is intended to apply at the consolidated level of a banking group as such it was considered not applicable to the domestic market where majority of the banks are subsidiaries of foreign banks. Having determined the elements of Basel II to adopt, the impact of the selected approaches on commercial banks' balance sheet was then assessed. To undertake the assessment the banks were split into two tiers namely the top two and bottom two banks. The findings of the assessment showed that the bottom two banks are able to meet all minimum regulatory requirements under the new accord, while the top two banks fail to meet the requirements at times. The paper is scheduled to be shared with the banking industry in 2016 in order to solicit inputs from banks on how to implement the accord. The first section of the implementation plan will be completed after the impact of the new accord is assessed on a bank by bank basis, thereafter CBL's readiness assessment will begin.

Following the completion of the first consultative paper, the bank extended the paper by evaluating the impact of the new accord on individual banks' balance sheets. The exercise was intended to inform the decision of whether the accord will be adopted by all banks in the country or whether a selective approach will be used in a phased manner, it is expected that the study will be completed by the first quarter of 2016. As part of Phase 2 of the implementation plan the CBL *first*, assessed its compliance with the Basel core principles in order to identify gaps in the existing supervisory framework and address them. *Second*, the bank assessed its legal and regulatory framework to identify potential gaps that will warrant redress in order to ensure a seamless migration to Basel II.

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The CBL continued with its efforts of migrating from the Basel I regulatory framework to Basel II.

Box 11	DEPOSIT PROTECTION

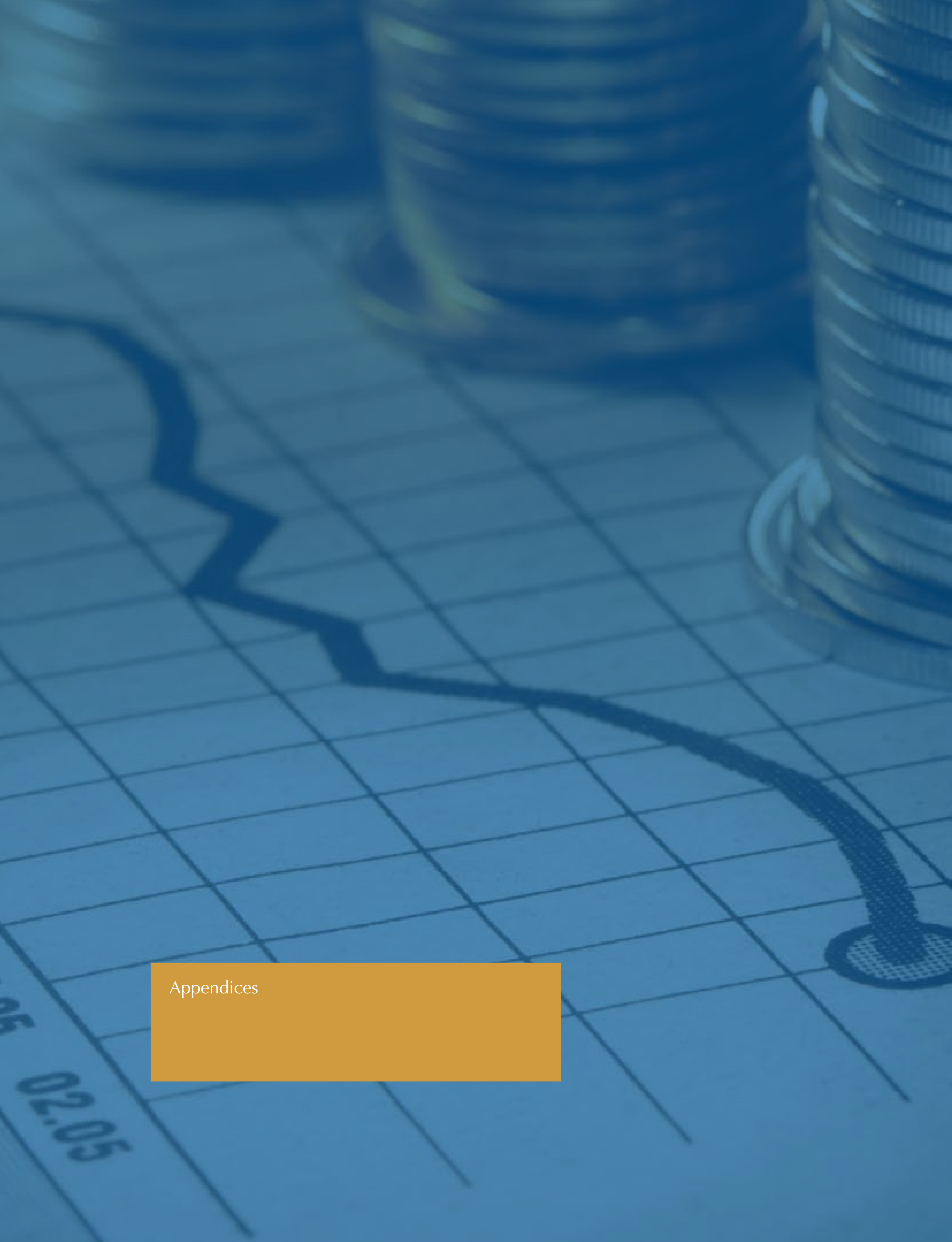
During the year under review, CBL continued to work towards the establishment of a Deposit Insurance System (DIS) that will protect small unsophisticated depositors from loss of their deposits arising from failure of banks and non-banks deposit taking institutions. The aim is to promote public confidence in the nation's banking and financial sector. As a starting point the DIS will be set up within the Supervision Department of the CBL as a *pay-box*[10] with a narrow mandate.

All banks and non-banks deposit taking institutions registered with CBL to do banking or deposit taking business in Lesotho will be bound by the law governing the system to be members of the system and to contribute premiums aimed at building a Deposit Insurance Fund that will compensate depositors in the event of a bank or non-bank deposit taking institution's failure. The premium rate will be determined by the law governing the system and will be subject to review from time to time depending on the prevailing circumstances. The purpose of the premiums will be to build up an adequate fund overtime so as to meet the depositors' reimbursement requirements should there be a failure by any member institution. Premium contributions from member institutions will be calculated based on the size of the contributing institution's deposit base regardless of any related risk.

All types of deposits at licensed institutions in deposit products approved by the CBL, whether savings account, current account, time deposit and any other deposits for which an institution is liable will be covered by the DIS. Covered deposits will be in Maloti or Rand and will be for nationals as well as foreigners. However, *insider deposits*[11], government deposits, deposits for parastatals and any other government related organisations will not be covered. The level of coverage will be set at a maximum to be prescribed by the law but with focus on small unsophisticated depositors, which implies that the system will not provide full coverage for large deposits. The coverage ceiling will be determined based on the structure of deposits with banks and non-banks deposit taking institutions.

[10] A DIS with a mandate limited to only collecting premiums, administering the Deposit Protection Fund and reimbursing depositors up to the maximum covered amount in the event of a failure.

[11] Deposits for any senior management and their relatives up to the second degree of kinship (parents, spouses, and children), employees responsible for management of one or more risks, board members and auditors of the affected member institutions.



Appendices

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APPENDICES

Appendix I	Financial Soundness Indicators (FSIs)	2014				2015
		Dec	Mar	Jun	Sep	Dec
Capital Adequacy	Regulatory capital to risk-weighted assets	0.137	0.195	0.178	0.154	0.152
	Regulatory Tier I capital to risk-weighted assets	0.130	0.187	0.170	0.137	0.138
	Nonperforming loans net of provisions to capital	0.80	0.066	0.065	0.082	0.078
Assets Quality	Nonperforming loans to total gross loans	0.041	0.041	0.039	0.40	0.039
	Large exposures to capital	1.634	1.124	1.197	1.480	1.509
Earnings & Profitability	Return on assets	0.0107	0.0217	0.0315	0.0432	0.0108
	Return on equity	0.405	0.379	0.376	0.396	0.408
	Interest margin to gross income	0.584	0.593	0.589	0.582	0.576
	Noninterest expenses to gross income	0.511	0.543	0.528	0.522	0.522
Liquidity	Liquid assets to total assets	0.406	0.396	0.349	0.395	0.404
	Liquid assets to short-term liabilities	0.561	0.711	0.539	0.623	0.635
Sensitivity to Market Risk	Net open position in foreign exchange to capital	0.087	0.194	0.263	0.233	0.186
Deposit Takers	Capital to Assets	0.111	0.122	0.106	0.099	0.105
	Large Exposures to Capital	1.634	1.124	1.1202	1.480	1.509
	Gross asset position in Financial Derivatives to Capital	0.005	0.007	0.003	0.003	0.009
	Gross liability position in Financial Derivatives to capital	0.054	0.021	0.015	0.08	0.081
	Personnel Expenses to noninterest expenses	0.532	0.486	0.489	0.497	0.495
	Customer deposits to total (non-interbank) loans	1.742	1.690	1.771	1.652	1.633
	Foreign-currency-denominated loans to total loans	0	0	0	0	0
	Foreign-currency-denominated liabilities to total liabilities	0.030	0.024	0.03	0.038	0.037

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APPENDICES

Appendix II	Banking Industry Balance Sheet as at the Dates Indicated (Thousand Maloti)			
	Dec. 2012	Dec. 2013	Dec. 2014	Dec. 2015
TOTAL ASSETS	**8,472,376**	**11,441,254**	**12,295,054**	**13,926,566**
Cash and Cash Items	351,431	426,976	387,871	564,886
Balances with CBL	174,311	447,963	549,673	374,398
Balances with local banks	903,599	1,780,323	2,163,450	2,307,861
Balances with banks abroad	1,830,326	2,332,483	2,590,189	3,528,206
Marketable securities	839,216	666,030	612,183	750,200
Other investments	532,188	1,063,519	627,325	654,354
Loans and advances	3,588,483	4,375,961	4,907,856	5,265,522
Fixed Assets	144,577	175,394	211,284	265,665
Other Assets	108,245	172,605	245,223	215,474
TOTAL LIABILITIES	**7,535,848**	**10,347,048**	**10,985,499**	**12,461,502**
Deposits	6,087,825	7,822,771	8,213,781	9,352,181
Due to Local Banks	992,324	1,864,779	2,156,610	2,325,171
Due to Foreign Banks	49,674	313,361	197,786	249,352
Other Borrowings	0	0	0	50,417
Other Liabilities	406,025	346,137	417,322	484,381
TOTAL CAPITAL	**936,527**	**1,094,205**	**1,309,555**	**1,465,063**
Paid-up Capital	98,858	108,858	108,858	123,358
Statutory Reserve	120,625	124,919	124,059	97,138
Revaluation Reserves	13,975	13,975	16,261	24,740
Other Reserves	26,775	12,070	19,903	12,074
Retained Earnings	669,740	810,813	1,019,916	1,189,678
Profit/ loss for the year to date	272,383	356,919	390,169	409,597

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APPENDICES

Appendix III	Banking Industry Income Statement For The Period Ending 31 December 2015 (Thousand Maloti)			
	2012	2013	2014	2015
TOTAL INCOME	**937,818**	**1,196,139**	**1,300,320**	**1,439,500**
Interest Income - Loans	354,706	519,024	560,308	711,899
Interest Income - Placements	223,323	230,404	358,880	397,896
Foreign Payments	162,669	138,332	202,245	212,455
Domestic Payments	108,782	82,329	148,252	176,813
Interest Income - Securities	110,905	122,176	157,164	57,934
Total Interest Income	688,934	871,604	1,076,352	1,167,729
Interest Expense	171,576	207,659	330,943	346,249
Net Interest Income	517,358	663,945	745,409	821,480
Fees and Commission Income	345,598	451,125	475,642	520,386
Forex Gains/Losses	60,655	59,049	65,699	79,523
Income on Equity Investment	0	0	0	0
Other Income	4,879	9,822	9,916	14,992
Grants	9,328	12,198	3,654	3,119
Non-interest Income	420,460	532,194	554,911	618,020
TOTAL EXPENSES	**565,995**	**701,571**	**756,673**	**858,974**
Staff Salaries and Benefits	222,110	275,201	306,336	350,179
Management/Directors Fees	119,209	88,122	96,164	112,558
Auditors/Consultants Fees	3,359	4,478	4,979	5,596
Provision for Bad Debts	50,011	65,685	81,805	97,947
Bad-Debts Write-offs/Irrecovable losses	0	0	0	0
Depreciation	31,693	40,787	41,200	41,307
Other Operating Expenses	139,613	227,298	226,189	251,387
Operating Income/Loss	371,823	494,568	543,647	580,526
Income/Loss Before Taxation	371,823	494,568	543,647	580,526
Taxation	99,441	137,649	145,777	156,578
Net Income After Taxation	272,382	356,919	397,870	423,948
Dividend	137,286	196,659	266,363	265,754
Retained Income	135,097	160,260	185,686	405,833

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Appendix IV	Short-Term Insurance Statement of Financial Position (Million Maloti)				
Particulars	2015		2014		% Change
		Comp		Comp	2015/2014
ASSETS					
Property, Plant and Equipment	2.3	0.7%	1.4	0.5%	64.3%
Intangible Assets	-	0.0%	-	0	0.0%
Total Other Assets	**2.3**	0.7%	**1.4**	0.5%	64.3%
Equity Securities	30.2	8.5%	39.5	13.8%	-23.5%
Debt Securities	19.7	5.6%	19.6	6.9%	0.5%
Loans and Receivables	67.1	19.0%	51.0	17.9%	31.6%
Cash and Cash Equivalents	234.5	66.3%	174.1	61.0%	34.7%
Total Financial Instruments	**351.5**	99.3%	**284.2**	99.5%	23.7%
TOTAL ASSETS	**353.8**	100.0%	**285.6**	100.0%	23.9%
EQUITY AND LIABILITIES					
Share Capital	14.3	4.0%	4.0	1.4%	257.5%
Other Reserves	23.3	6.6%	64.1	22.4%	-63.7%
Retained Earnings	70.9	20.0%	-8.4	-2.9%	944.0%
Total Capital & Reserves	**108.5**	30.7%	**59.7**	20.9%	81.7%
Outstanding Claims	87.2	24.6%	89.4	31.3%	-2.5%
Provision for Unearned Premiums	115.6	32.7%	96.2	33.7%	20.2%
Total Technical Provisions	**202.8**	57.3%	**185.6**	65.0%	9.3%
Other Payables	42.5	12.0%	40.3	14.1%	5.5%
Total Current Liabilities	**42.5**	12.0%	**40.3**	14.1%	5.5%
Total Capital, Reserves and Liabilities	**353.8**	100.0%	**285.6**	100.0%	23.9%

Appendix V	Short Term Insurance Underwriting and Revenue (Million Maloti)				
Particulars	2015		2014		% Change
		Comp		Comp	2015/2014
Gross Premium	329.2	100.0%	326.2	100.0%	0.9%
Reinsurance Premium	161.2	49.0%	165.5	50.7%	-2.6%
Net Premium	168.0	51.0%	**160.7**	49.3%	4.6%
Commission Income	38.5	11.7%	21.2	6.5%	81.8%
Net Earned Income	**206.6**	62.7%	**181.9**	55.8%	13.6%
Claims Incurred	73.1	22.2%	94.0	28.8%	-22.2%
Commissions Expenses	45.9	13.9%	24.1	7.4%	90.4%
Management Expenses	44.5	13.5%	38.2	11.7%	16.4%
Total Underwriting Expenses	**163.5**	49.7%	**156.3**	47.9%	4.6%
Underwriting Surplus/(Loss)	**43.1**	13.1%	**25.6**	7.8%	68.3%
Investment Income	18.7	5.7%	18.9	5.8%	-1.2%
Other income	4.0	1.2%	1.9	0.6%	110.8%
Operating Profit	**65.8**	20.0%	**46.4**	14.2%	41.7%
Other Expenses	14.0	4.2%	18.6	5.7%	-24.9%
Profit Before Taxation	**51.8**	15.7%	**27.8**	8.5%	86.3%

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Appendix VI	Short-Term Insurance Financial Soundness Indicators			
Category	Indicator	2015	2014	Change
				2015/2014
Capital Adequacy	Equity/ Total Liabilities	44.1%	26.4%	17.7%
Asset Quality	Receivables/Gross Premiums+ Recoveries	20.4%	15.6%	4.7%
	Equity /Total Assets	**30.7%**	20.9%	9.8%
Reinsurance	Net premiums/Gross Premiums	51.0%	49.3%	1.8%
Earnings and Profitability				
Loss Ratio	Net Claims /Net Premiums	43.5%	58.5%	-15.0%
Expense Ratio	Expenses /Net Premiums	97.3%	97.3%	0.0%
Return on Equity	Net Income / Shareholders' Equity	47.7%	46.6%	1.2%
Liquidity	Liquid Assets /Current Liabilities	**709.6%**	558.6%	151.1%

Appendix VII	Long Term Insurance Statement of Financial Position (Million Maloti)				
Particulars	YTD		YTD		% Change
	2015	Comp	2014	Comp	2015/2014
ASSETS					
Property, Plant and Equipment	26.9	0.6%	21.0	0.5%	27.9%
Intangible Assets	-	0.0%	11.2	0.3%	-100.0%
Total Other Assets	26.9	0.6%	32.2	0.8%	-16.6%
Financial Instruments					
Equity Securities	1 167.5	25.7%	2 658.4	65.1%	-56.1%
Debt Securities	1 203.8	26.5%	1 070.4	26.2%	12.5%
Loans and Receivables	142.4	3.1%	217.7	5.3%	-34.6%
Cash and Cash Equivalents	2 002.1	44.1%	103.6	2.5%	1832.5%
Total Financial Instruments	**4 515.8**	99.4%	**4 050.1**	99.2%	11.5%
TOTAL ASSETS	**4 542.7**	100.0%	**4 082.3**	100.0%	11.3%
EQUITY AND LIABILITIES					
Share Capital	128.7	2.8%	128.7	3.2%	0.0%
Other Reserves	691.5	15.2%	522.1	12.8%	32.4%
Retained Earnings	103.9	2.3%	29.5	0.7%	252.2%
Total Capital & Reserves	**924.1**	20.3%	**680.3**	16.7%	35.8%
Outstanding Claims	121.7	2.7%	95.6	2.3%	27.3%
Provision for Unearned Premiums	16.0	0.4%	30.8	0.8%	-48.1%
Insurance Contracts Liabilities	2 048.3	45.1%	1 874.9	45.9%	9.2%
Investment Contracts	1 199.5	26.4%	1 119.6	27.4%	7.1%
Total Policyholders Liabilities	**3 385.5**	74.5%	**3 120.9**	76.4%	8.5%
Employee Benefits Obligations	82.8	1.8%	55.3	1.4%	49.7%
Other Payables	150.3	3.3%	225.8	5.5%	-33.4%
Total Other Liabilities	**233.1**	5.1%	**281.1**	6.9%	-17.1%
Total Equity & Liabilities	**4 542.7**	100.0%	**4 082.3**	100.0%	11.3%

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Appendix VIII	Long Term Insurance Underwriting and Revenue (Million Maloti)				
Particulars					Change
	2015	Comp	2014	Comp	2015/2014
Gross Premium	916.7	100.0%	810.3	100.0%	13.1%
Reinsurance Premium	32.7	3.6%	25.3	3.1%	29.3%
Net Premium	**883.9**	96.4%	**785.0**	96.9%	12.6%
Commission Income	0.3	0.0%	0.3	0.0%	-7.7%
Reinsurance Recoveries	4.2	0.5%	-	0.0%	100.0%
Net Earned Income	**888.4**	96.9%	**785.3**	96.9%	13.1%
Claims Incurred	443.9	48.4%	408.2	50.4%	8.7%
Commissions Expenses	136.8	14.9%	124.2	15.3%	10.1%
Management Expenses	142.7	15.6%	134.2	16.6%	6.4%
Total Expenses	**723.4**	78.9%	**666.6**	82.3%	8.5%
Underwriting Surplus/(Loss)	**165.0**	18.0%	**118.7**	14.6%	39.0%
Investment Income	244.8	26.7%	205.2	25.3%	19.3%
Other income	26.6	2.9%	20.9	2.6%	27.2%
Operating Profit	**436.3**	47.6%	**344.8**	42.6%	26.5%
Other Expenses	55.6	6.1%	57.7	7.1%	-3.7%
Profit Before Taxation	**380.8**	41.5%	**287.1**	35.4%	32.6%

Appendix IX	Long-Term Insurance Financial Soundness Indicators			
Category	Indicator	YTD	YTD	%
		2015	2014	Change
Capital Adequacy Ratio	Capital /Total Liabilities	25.5%	20.0%	5.5%
Asset Quality Ratio				12.6%
	Receivables / (Gross Premium + Recoveries	15.5%	26.9%	-11.4%
	Equity / Total Assets	20.3%	16.7%	3.6%
Risk Retention	Net Premium /Gross Premium	96.4%	96.9%	-0.5%
Earnings and Profitability				8.7%
Expense Ratio	Expenses /Net Premium	88.1%	23.1%	65.0%
Loss Ratio	Net Claims /Net Premiums	50.2%	52.0%	-1.8%
Return on Equity (ROE)	Net Income /Shareholders' Equity	41.2%	115.4%	-74.2%
Liquidity Ratio	Liquid Assets / Current Liabilities	858.9%	114.3%	744.6%

Appendix X	INSURANCE BROKERS INCOME AND EXPENDITURE				
Particulars	31/12/15	Comp	31/12/14		Variance
				Comp	2015
Income					
Commission Earned	34 726	95%	36 998	95%	-7%
Other Income	36	0%	183	0%	-408%
Finance Income	1 879	5%	1 879	5%	0%
Total Income	36 641	100%	39 060	100%	-7%
Expenditure					
Operating costs	23 638	65%	34 086	87%	-44%
Finance Cost	377	1%	781	2%	-107%
Total Expenditure	**24 015**	66%	**34 867**	89%	-45%
Operating Profit Before Tax	**12 626**	34%	**4 193**	11%	67%
Taxation	3 095	8%	536	1%	83%
Profit After Taxation	**9 531**	26%	**9 692**	25%	-2%

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Appendix XI List of Licensed Insurance Companies

No.	Institution	Class
1.	Lesotho National Life Assurance Company (LNLAC)	Long-term Insurance (All categories of life insurance products)
2.	Metropolitan Lesotho Limited	Long-term Insurance (All categories of life insurance products)
3.	Alliance Insurance Company	Long term Insurance (All categories of life insurance products).
		Short-term Insurance (All Categories of general insurance products)
4.	Medi-Life Assurance Limited	Long-term Insurance (Health insurance products only)
5.	NBC Insurance Lesotho Limited (New)	Long-term Insurance (Pension and retirement administration, consulting)
6.	Liberty Life Lesotho Limited	Long-term Insurance (All categories of life insurance products)
7.	Lesotho National General Insurance (LNGIC)	Short-term Insurance (All categories of general insurance products)
8.	The Legal Voice Limited	Short-term Insurance (Legal insurance products only)
9.	Zenith Horizon Insurance Company	Short-term Insurance (All Categories of general insurance products)
10.	Law Protection Clinic	Short-term Insurance (Legal insurance products only)
11.	Specialised Insurance Company	Short-term Insurance (All Categories of general insurance products)

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Appendix XII	List of Licensed Insurance Brokers			
No	**Name of Insurance Brokers**	**Name and Title of Principal Officer**	**Postal Address**	**Telephone/ Fax**
1.	AON Lesotho (Pty) Ltd	**Mrs. L. Mohapeloa** Managing Director	P.O. Box 993 Maseru 100	(+266) 22313540 (+266) 22310033
2.	Insurecare Brokers (Pty) Ltd	**Mr. Mohasi** Managing Director	P.O. Box 11007 Maseru 100	(+266) 22321973 (+266) 22310669
3.	Roseland Insurance Brokers (Pty) Ltd	**Mr. M. Mahlaha** Managing Director	Christie House Ground Floor Orpen Road	(+266) 22322060 (+266) 22325489
4.	Thaba-Bosiu Risk Solutions (Pty) Ltd.	**Mrs.'Matokelo Seturumane** Managing Director	1st Floor Options Building Pioneer Road Maseru 0100	(+266) 62853340
5.	Clientcare Risk Consultants (PTY) LTD	Popi Kaiser Principal Officer	Premium House 224 Kingsway Road Opposite American Embassy	(+266) 22321768 (+266) 28325432
6.	Ideal Insurance Brokers (Pty) Ltd.	**Ms. Theresa Mosenye** Principal Officer	P.O. Box 11403 Maseru 100	(+266) 58432359
7.	Setha Insurance Brokers (Pty) Ltd.	**Mr. M. G. Setilo** Principal Officer	P.O. Box 112 Mafeteng 900	(+266) 22701203 (+266) 63074712
8.	TIB Pty (Ltd)	Joyce Mokhothu Principal Officer	Dolphin House 23 Motsoene Road Industrial Area Maseru	(+266) 22316556
9.	DBM Insurance Brokers (Pty) Ltd	**Doreen Brown Masilo** Principal Officer	Block B LNDC Development House Kingsway Road	(+266) 22311704
10.	Hamilton Solutions Short –Term Brokers Pty (Ltd)	**Ms. Charmaine Heymans** Principal Officer	Shop 21 Seipobi Building Moshoeshoe Road Maseru 100	(+266) 22627701
11.	Risk Managers Lesotho (Pty) Ltd	**Paseka Moletsane** Principal Officer	Sechaba House 4 Bowker Road	(+266) 22321898
12.	MSS Insurance Brokers (Pty) Ltd	**Tšeliso Makara** Principal Officer	Red Cross Building 23 Mabile Road Maseru	(+266) 28323269
13.	BMM Insurance Brokers (Pty) Ltd.	**Ms. M. Khalema** Principal Officer	Maseru Book Centre Kingsway Road Maseru	(+266) 22327940 (+266) 5885451
14.	MOTS Insurance Brokers (Pty) Ltd	**Montseng B. Phakoana** Principal Officer	Husteds Building 1st Floor Room 13 Maseru 100	(+266) 22310011
15.	Guardrisk Insurance Brokers (Pty) Ltd	Mr. Thuso Mapetla Principal Officer	1st Floor Maseru Book Centre, Kingsway Road	(+266) 50223825 (+266) 62866660
16.	Brokersure Insurance Brokers (Pty) Ltd	**'Marorisang Lepheane** Principal Officer	Lithoteng Ha Pita Maseru 100	(+266) 58842863
17.	Elite Insurance Brokers (Pty) Ltd	**Ilza Venter** Principal Officer	Block B LNDC Development House Level 3 Room 310	(+266) 57430605
18.	Amazing Grace Insurance Brokers (Pty) Ltd	**Ngaka William Sekokotoana** Principal Officer	Credit Union Building Kingsway Road Maseru	(+266) 62853255
19.	Ultimate Risk Solutions (PTY) LTD	**Paul Jankie Mohapi** Principal Officer	Shop UG 38B Pioneer Mall Maseru	(+266) 57334326
20.	Mokoma Insurance Brokers (Pty) Ltd	**Martin Mokoma** Principal Officer	Block B LNDC Development House Level 5 Room 505	
21.	Ultimate Risk Solutions (PTY) LTD	**Paul Jankie Mohapi** Principal Officer	Shop UG 38B Pioneer Mall Maseru	(+266) 57334326
22.	Thamotha Insurance Brokers (Pty) Ltd	**'Matokelo Thabane** Principal Officer	Mapetla House Kingsway Road	(+266) 58789268
23.	MH Insurance Brokers (Pty) Ltd	**'Mamosa Molapo** Principal Officer	Lisemeng 1, Opposite Shoprite Hlotse Leribe	(+266) 22400113 (+266) 58127918

Appendix XII	List of Licensed Insurance Brokers (continued)			
No	Name of Insurance Brokers	Name and Title of Principal Officer	Postal Address	Telephone/ Fax
24.	Urban Life Insurance Brokers (Pty) Ltd	**'Mamokete Mokete** Principal Officer	3rd Floor LNDC Office Block Kingsway Road Maseru	(+266) 58853270 (+266) 63248322
25.	'Mamolemo Insurance Brokers (Pty) Ltd	**Montšo Makutla** Principal Officer	Block B LNDC Development House Kingsway Road	(+266) 59597260
26.	UNICOM Insurance Brokers (Pty) Ltd	**Nthatisi Leburu** Principal Office	LNDC Centre 2nd Floor Kingsway Road	(+266) 59578525
27.	ELAREM Insurance Brokers (Pty) Ltd	**Lenka Malefane** Principal Officer	Carlton Centre 2nd Floor, Room 204 Kingsway Road	(+266) 22324607
28.	T & S Insurance Brokers (Pty) Ltd	**'Masenate Monyaka** Principal Officer	Oriental Centre Hospital Area Mafeteng	(+266) 63079850 (+266) 56327118
29.	Leseling Insurance Brokers (Pty) Ltd	**Ms. 'Mapaseka Mphole** Principal Officer	Carlton Centre Kingsway Road Maseru	(+266) 58869333
30.	Mahlaseli Insurance Brokers (Pty) Ltd	**Ms. 'Mapotsane Matsoso** Principal Officer	Mathabiso Tlelai Centre Room 14 Cathedral Area	+26622314807

Appendix XIII	List of Licensed Money Lenders		
No	Names	Postal Address	District
1.	Moleboheng Mochochoko	P.O. Box 1477	Maseru
2.	Likhapha Lucia Mapena	P.O. Box 1746	Maseru
3.	Tlali David Timile	P.O. Roma 180	Roma
4.	Tanki Khunong	P.O. Box 321	TY
5.	Zecho Phera	P.O. Box 1666	Maseru
6.	Sello Mofolo	P.O. Box 332	Leribe
7.	Mamotlatsi Matasane	P.O. Box1444	Berea
8.	Lieketso Mokeretla	P.O. Box 220 TY	Berea
9.	Lebona Ratlou	P.O. Box 62	Botha Bothe
10.	Kekeletso Mathosa	P.O. Box 12694	Maseru
11.	Mokete Selai	P.O. Box 11686	Maseru
12.	Mamolefi Phosisi	P.O. Box 710	Botha Bothe
13.	Maletšaba Senatsi	P.O. Box 811	Leribe
14.	Paballo Moses Mofokeng	P.O. Box 0309	Maseru
15.	Tšepiso Ntsie	P.O. Box 13718	Maseru
16.	Chabeli Nelson Leiee	P.O. Box 26 TY	Berea
17.	Malintle Ramaleshoane	P.O. Box 718	Botha Bothe
18.	Khopolo Letseka	P.O. Box 2	Quthing
19.	Ellen Matšane Malakia	P.O. Box 440	Botha Bothe
20.	Manqhobo Makara	P.O. Box 84 Maseru	Botha Bothe
21.	Motlatsi Michael Molefi	P.O. Box 4467	Maseru
22.	Thuso Mapetla	P.O. Box 11643	Maseru
23.	Tanki Mphahama	P.O. Box 489	Maseru
24.	Manthabiseng Alina	P.O. Box 108	Botha bothe
25.	Popotsi Phori	P.O. Box 462	Mohale's Hoek
26.	Maneko Mafisa	P.O. Box 38	Botha Bothe

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Appendix XIII	List of Licensed Money Lenders (continued)		
No	Names	Postal Address	District
27.	Mokhethi Mohohla	P.O. Box 90	Botha Bothe
28.	Nkileng Raphosholi	P.O. Box 176	Botha Bothe
29.	Shabe Nkoala	P.O. Box 940	Leribe
30.	Mabatho Seoka	P.O. Box 1904	Maseru
31.	Toporo Isaac Molelengoane	P.O. Box 1565	Leribe
32.	Litšeoane Ester Mahase	P.O. Box 700	Quthing
33.	Motlou Lebona	P.O. Box 62	Botha Bothe
34.	Sekabi Tjatajpa	P.O. Box 379	Leribe
35.	Mohau Peter Mabela	P.O. Box 282	Qacha's Nek
36.	Mpolai Keresiane	P.O. Box 169	Botha Bothe
37.	Maphepheng Monare	P.O. Box 400	Maseru
38.	Phumla 'Makananelo Moleko	P.O. Box 13136	Maseru
39.	Tšepo Jobo	P.O. Box 39	Leribe
40.	Mamotšelisi Motloheloa	P.O. Box 2378	Maseru
41.	Teboho Moremoholo	P.O. Box 358	Maputsoe
42.	Lefu Thaele	P.O. Box 39	Maseru
43.	Teboho Justice Ratlake	P.O.Box 263	Leribe 300
44.	Lehlohonolo Mahlatsi	P.O.Box 442	Botha-Bothe
45.	Masena Magumede	P.O. Box 608	Leribe
46.	'Matsomoli Lesesa	P.O. Box 4	TY
47.	Mpho Malinyane	P.O. Box 348	Maseru
48.	Nondule Chongoi	Thuathe	Berea
49.	Suzan Kasane	P.O. Box 705	Botha Bothe
50.	Moliehi Motsie	P.O. Box 3	Botha-Bothe
51.	Moleboheng Mochochoko	P.O. Box 1477	Maseru
52.	Lintle Nkoane	P.O.Box 104	Quthing
53.	Thabang Leoma	P.O.Box 102	Butha-Buthe
54.	Marethabile Thetsane	P.O. Box 15744	Maseru
55.	Molapo Charles Sekola	P.O.Box 983	Leribe
56.	Matokelo Mohale	P.O.Box 602	Mohale's Hoek
57.	Maletampu Koetlisi	P.O. Pitsi'Nek	Leribe
58.	Refiloe Lucy Mahaoane	P.O. Box 15846	Maseru
59.	Mobutu Matjeke Phera	P.O. Box 1666	Maseru
60.	Masemakale Motekase	P.O. Box 168	Leribe
61.	Matumelo Matsora-Letlala	P.O. Box 04	Berea
62.	Matsepang Mapitse	P.O.Box 1347	Mafeteng
63.	Masootho Mochochoko	P.O.box 10334	Maseru
64.	Pulane Sick	Maseru	Maseru
65.	Manoha C, Ntsie	P.O. Box 747	Mafeteng
66.	Limpho Phamotse	Room G03 Thetsane Industrial	Maseru
67.	Mabafokeng Khang	P.O. Box 9477	Maseru
68.	Masalemone Setjeo	P.O. Box 131 Maseru 100	Maseru
69.	Tšotleho Lebesa	P.O. Box 5 Botha-Bothe 400	Botha-Bothe
70.	Mankhalika Makhabane	Maputsoe 350	Leribe

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Appendix XIII	List of Licensed Money Lenders (continued)		
No	Names	Postal Address	District
71.	Lebusa Rabore	P.O. Box 89	Mokhotlong
72.	Maphepheng Mohale	P.O. Box 400	Maseru
73.	Libuseng Rankhabe	P.O. Box 808	Mohale's Hoek
74.	'Mapali Molula	P.O. Box 15330	Maseru
75.	Libuseng Rankhabe	P.O. Box 808	Mohale's Hoek
76.	Moeketsi Setai	P.O. Box 11686	Maseru 100
77.	Motlalepula Sepipi	P.O. Box 9808	Maseru
78.	Nthabiseng J. Nkhahle	P.O. Box 1771	Maputsoe
79.	Relebohile Takane	P.O. Box 9506	Maseru
80.	Matumane A. Sick	P.O. Box 2230	Maseru
81.	Motšelisi Alice Leoma-Nnoi	P.O. Box 536	Leribe
82.	Tsietsi Molapo	P.O. Box 15889	Maseru
83.	Tlali David Timile	P.O. Roma 180	Maseru
84.	Mpiti Molemo	Ha Foso Berea	Lesotho
85.	Khotla Financial Services (Pty) Ltd	P.O. Box 12902	Maseru
86.	Group Six Finance (Pty) Ltd.	P.O. Box 274	Quthing
87.	Nthabiseng Mokhoase	P.O. Box 244	Botha-Bothe
88.	Moliehi Moneuoa	Thaka-Banna 420	Botha-Bothe
89.	Thongoe C. Lerasa	P.O. Box 298	Botha-Bothe
90.	'Mamohlakala Joyce Pitso	P.O. Khukhune 140	Botha-Bothe
91.	Lieketso C. Mokeretla	P.O. Box 779	Teya-teyaneng
92.	'Malitšitso Lebohang Rafono	P.O. Box 210	Leribe
93.	Teboho Moremoholo	P.O. Box 358	Maputsoe
94.	Lefu Thaele	P.O. Box 39	Maseru
95.	Mahlasi Lekoelea	P.O. Box 292	Botha-Bothe
96.	Molaba J. Mantšo	P.O. Box 599	Mafeteng

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Appendix XIV	Statement of Financial Position for Mfis - December 2015
Assets	
Current assets	
Notes & Coins	4,853,952.00
Bank deposits maturity < 1 year	1,983,462.00
Accounts Receivables	375,502.00
Loans repayable < 1 year	33,693,341.41
(less) Provision for doubtful debts	-1,399,275.39
Net loans	0.00
Other current assets	2,853,177.00
Total current assets	**42,360,159.02**
Non-current assets	
Investments maturing > 1 year	0.00
Loans repayable > 1 year	512,384,606.34
(Less) Provision for doubtful debts	20,778,800.36
Net loans	491,605,805.98
Office furniture & fittings	655,148.00
(Less) provision for depreciation	271,920.00
Net office furniture and fittings	383,228.00
Buildings and other real estate	0.00
Net Intangible assets	475,582.00
Other noncurrent assets	15,126,800.00
Total noncurrent assets	**507,591,415.98**
Total assets	**549,951,575.00**
Liabilities	
Current liabilities	
Amounts payable to creditors due < 12 months	37,144,347.00
Provision for Income Tax	3,471,004.00
Total current liabilities	40,615,351.00
Noncurrent liabilities	
Amounts payable to creditors due > 12 months	437,624,791.00
Total non-current liabilities	437,624,791.00
Total liabilities	**478,240,142.00**
Equity and Liabilities (Shareholders' Funds)	
Fully paid up share capital	4,602,000.00
Debts where the rights of creditors are subordinated	0.00
Statutory Reserves	0.00
Other reserves	55,407.00
Unappropriated surplus	8,323,049.00
Surplus for the year to date	58,730,977.00
Total shareholders' funds	**71,711,433.00**
Total Liabilities and Equity	**549,951,575.00**

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APPENDICES

Appendix XV	Statement of Financial Performance for Mfis - December 2015
Income	
Loan interest	40,444,418.00
Fees income	15,247,048.00
Interest from investments	0.00
Any other income	1,144,878.00
Total income	**56,836,344.00**
Expenses	
Accommodation	66,511.00
Audit fees	268,377.00
Bad debts written off to expenses	1,168,175.00
Increase in provision for doubtful debts	4,734,613.00
Board fees	0.00
Computer charges	365,807.00
Interest expense	18,779,253.00
Salaries and on-costs	1,682,508.00
Other expenses	11,535,662.00
Total expenses	**38,600,906.00**
Surplus (deficit)	**18,235,438.00**
Tax expense	4,510,182.00
Net surplus (deficit)	**13,725,256.00**

Appendix XVI List of Mfis Operating – As at December 2015

No	--	---	Postal Address	Telephone/ Fax
1	Letshego Financial Services Lesotho	Mrs. Malehlohonolo Van Tonder	Old Maseru Toyota Building 20 Bowker Rd Old Europa, P.O. Box 13670, Maseru 100	+26622031017 +26622031023
2	Lesana Financial Services	Mr. Jacobus Janse Van Rensburg	3rd Floor, LNDC Building, Maseru	+26622321180
3	Blessings Financial Services	Mrs. Mamakamane Makamane	Metcash Complex Room 144 P.O. Box 12045, Maseru 100	+26628330004
4	Thusong Financial Services	Mr. Montoetsane Nchai	1st Floor Husteds Building, Kingsway Rd P.O. Box 15157, Maseru 100	+26628319479
5	Alibaba Financial Services	Mr. Zhuang Xiao Hua	BNP Centre, Private Bag A485, Maseru 100	+26628321508
6	Alimela Thuto	Mrs. Mamonyake Mokebe	Hopolang Building, Corner Airport & Parliament Rd, P.O. Box 1932, Maseru 100	+26622322403/6
7	Netloans	Mr. Jafeta Pheko	Naomi House, 286 Bowker Street, Old Europa, P.O. Box 9717, Maseru 100	+26658082223

Appendix XVII List af Money Transfer Companies – As at December 2015

No	---	---	Address	Telephone/ Fax
1	Inter Africa	Andre Ferreira		
2	Inter Change Lesotho	Maliponto Ramakatane	Pioneer Mall Shop UG 21 Corner Pioneer and Mpilo Maseru	22324296

Appendix XVIII List of Credit Bureaus – As at December 2015

No	---	---	Address	Telephone/ Fax
1	Compuscan Lesotho	Mrs. Mannete Khotle	Christie House Maseru, Lesotho	+266 58912448

Central Bank of Lesotho
Corner Airport and Moshoeshoe Roads
Maseru Central • P. O. BOX 1184 • Maseru 100

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