NATIONAL BANK OF RWANDA

ANNUAL FINANCIAL STABILITY REPORT

JULY 2017-JUNE 2018

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ACRONYMS

ATS	Automated Transfer System
NBR	National Bank of Rwanda
CAR	Capital Adequacy Ratio
CSD	Central Securities Depository
DSR	Debt Service Ratio
DWH	Data Warehouse
EAC	East African Community
ECL	Expected Credit Loss
EDWH	Electronic Data Warehouse
FRW	Rwandan Franc
FSC	Financial Stability Committee
FSR	Financial Stability Report
FY	Financial Year
GDP	Gross Domestic Product
GWP	Gross Written Premium
H1	First Half
H2	Second Half
HQLA	High Quality Liquid Assets
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
KRR	Key Repo Rate
LA	Left Axis
LCR	Liquidity Coverage Ratio
MFIs	Microfinance Institutions
MMI	Military Medical Insurance
NISR	National Institute of Statistics of Rwanda
NOP	Net Open Position
NPLs	Non-Performing Loans
NSFR	Net Stable Funding Ratio
RA	Right Axis
RIPPS	Rwanda Integrated Payment Processing System
ROA	Return on Assets
ROE	Return on Equity
RSSB	Rwanda Social Security Board
RWA	Risk Weighted Assets
SACCOs	Saving and Credit Cooperatives
SMEs	Small and Medium Enterprises
SSA	Sub-Saharan Africa
US	United States
U-SACCOs	Umurenge Saving and Credit Cooperatives
WEO	World Economic Outlook
YoY	Year on Year

NBR IDENTITY STATEMENT

The National Bank of Rwanda strives to be a World class Central Bank that contributes to economic growth & development, by using robust monetary policy tools to maintain stable market prices. The Bank ensures financial stability in a free market economy as it embraces innovations, diversity, inclusiveness, and economic integration.

VISION

To become a World Class Central Bank

MISSION

To ensure Price Stability and a Sound Financial System

OUR CORE VALUES

INTEGRITY

We uphold high moral, ethical and professional standards for our people, systems and data

ACCOUNTABILITY

We are result-focused and transparent, and we reward according to performance

MUTUAL-RESPECT AND TEAM-WORK

We keep ourselves in high spirit, committed to each other for success

EXCELLENCE

We passionately strive to deliver quality services in a timely and cost effective manner. We continuously seek improvement by encouraging new ideas and welcoming feedback that adds value to customer services.

NBR also believes that transparency and communication of the financial sector performance is another important channel of promoting stability through guiding decisions of financial market players.

GOVERNOR'S STATEMENT

Maintaining financial stability is one of the National Bank of Rwanda's (NBR) primary responsibilities. NBR deems the financial sector stable when it is able to smoothly fulfil its core functions, even amidst substantial adverse shocks. The bank mainly achieves its stability mission through regulating and supervising different components of the financial sector within its mandate (i.e. banks, insurance companies, pension funds, microfinance institutions and the payment systems). NBR also believes that transparency and communication of the financial sector performance is another important channel of promoting stability through guiding decisions of financial market players.

The Annual Financial Stability Reports (FSRs) are amongst key tools that provide information on financial sector stability. They synthesize recent performance of the financial sector, identify both exogenous and endogenous risks to the sector, assess the resilience of the sector to different adverse shocks and, elaborate on recent reforms implemented by the bank and the extent to which these reforms are meeting the intended objectives. In addition to the annual FSRs, the bank communicates financial stability developments through the bi-annual monetary policy and financial stability statements (MP&FSS) and press releases of the quarterly Financial Stability Committee (FSC) meetings.

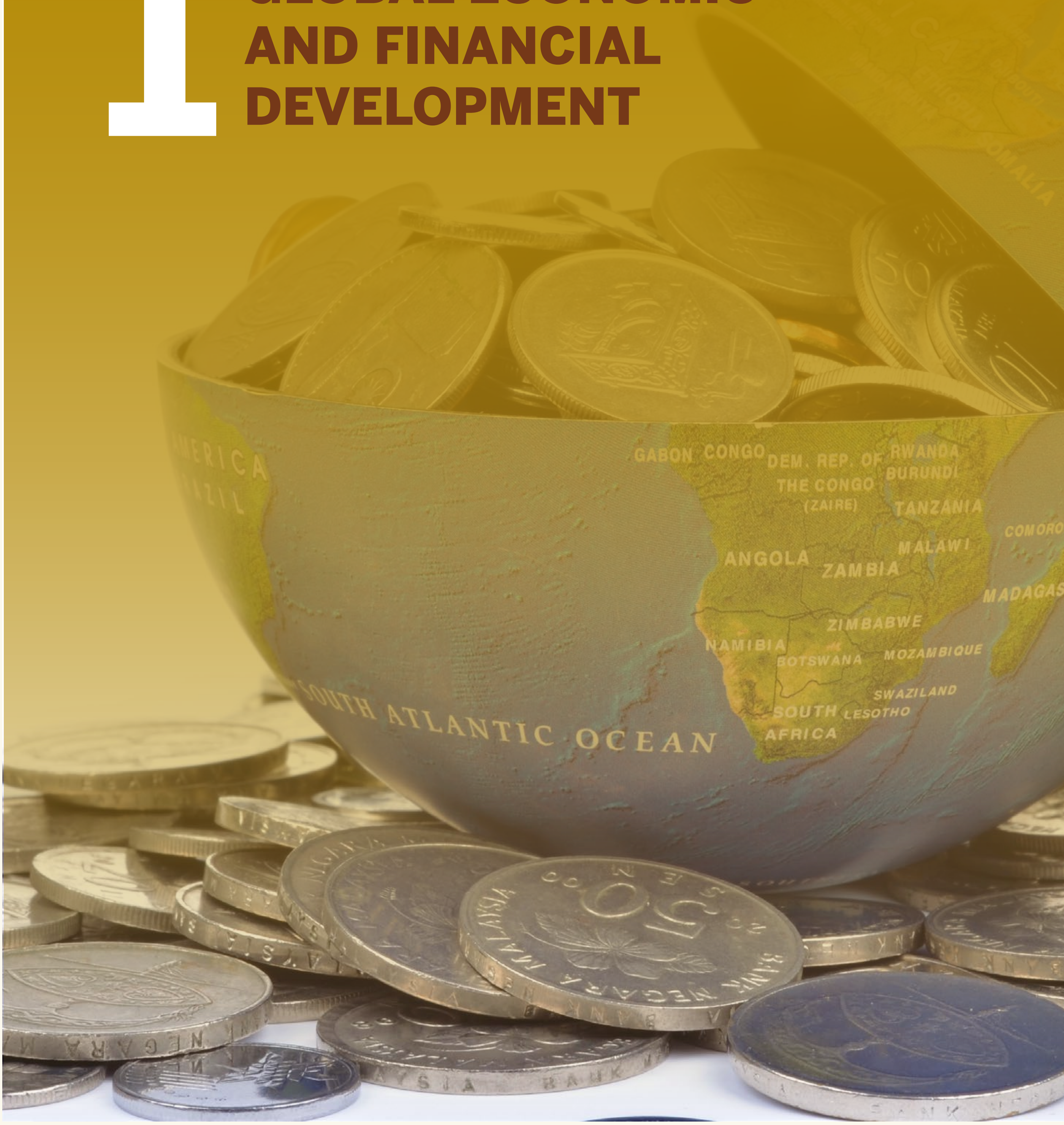
In this edition of the FSR, the bank observed that domestic macroeconomic environment was conducive for the stability and development of the financial sector. The strong economic growth, stable exchange rate, and low inflation environment during the first half of 2018 offered good investment opportunities for the financial sector.

The financial sector remains sound and stable. The capital and liquidity buffers held by financial institutions remain sufficient to contain multiple shocks to the financial sector. The challenges facing the financial sector relate to the recent weak credit demand, high loan concentration to the mortgage sector, shortage of long-term funds and low under writing returns of private insurers.

Going forward, the recent enhancement of financial sector regulatory framework provides a good foundation for a safe financial sector. The BNR will continue to monitor and mitigate systemic risks facing the financial sector. In the medium-term, the implementation of the Government plan to transform the economy, under the NST1 program, is expected to provide a good foundation for financial institutions to diversify and increase their investments.

RWANGOMBWA John
Governor

1 GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENT



Global economic growth strengthened to 3.7 percent in 2017, up from 3.2 percent in 2016. This global growth turnaround was driven by an investment recovery in advanced economies, continued strong growth in emerging Asia, growth acceleration in emerging Europe, and the recovery in several commodity exporters. Growth in advanced economies edged up to 2.3 percent from 1.7 percent, reflecting increased global trade (Table 1). A combination of accommodative monetary policy in some countries, favorable financial conditions, and an improved outlook offered incentives for investment in developed countries. In emerging markets and developing countries, improved growth was due to diverse causes. Growth in China and India was supported by stronger growth of net exports and strong private consumption, respectively, while investment growth slowed. The higher growth of fixed investment supported the performance of other emerging market and developing economies, alongside stronger private consumption.

Global growth is projected to remain steady in 2018 and 2019. The International Monetary Fund (IMF) projects the global economy to grow at 3.7 percent in 2018 and 2019, the same level it grew in 2017. According to IMF, further growth acceleration is expected to be weighed down by negative effects of trade measures implemented between April and mid-September, as well as a weaker outlook for some key emerging market and developing economies arising from country-specific factors, tighter financial conditions, geopolitical tensions, and higher oil import bills

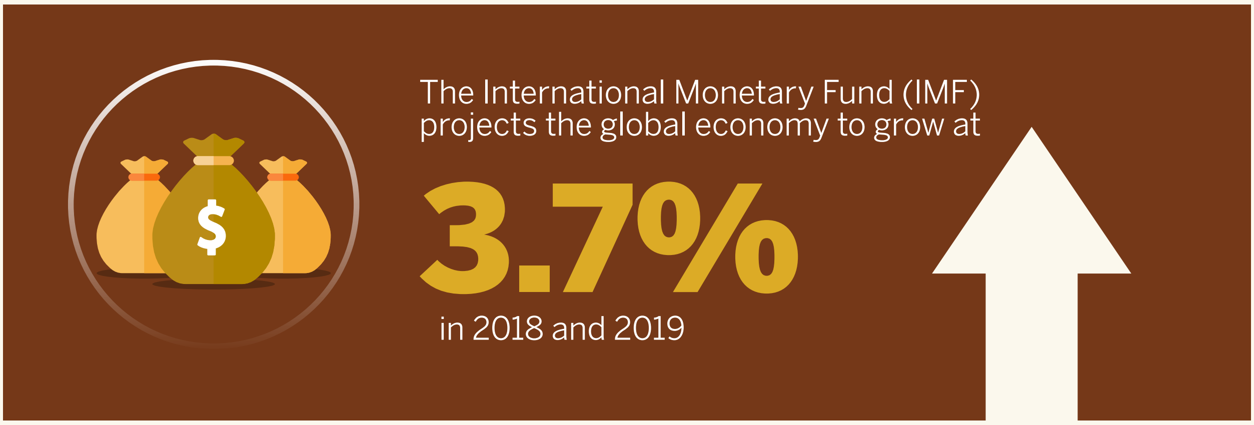


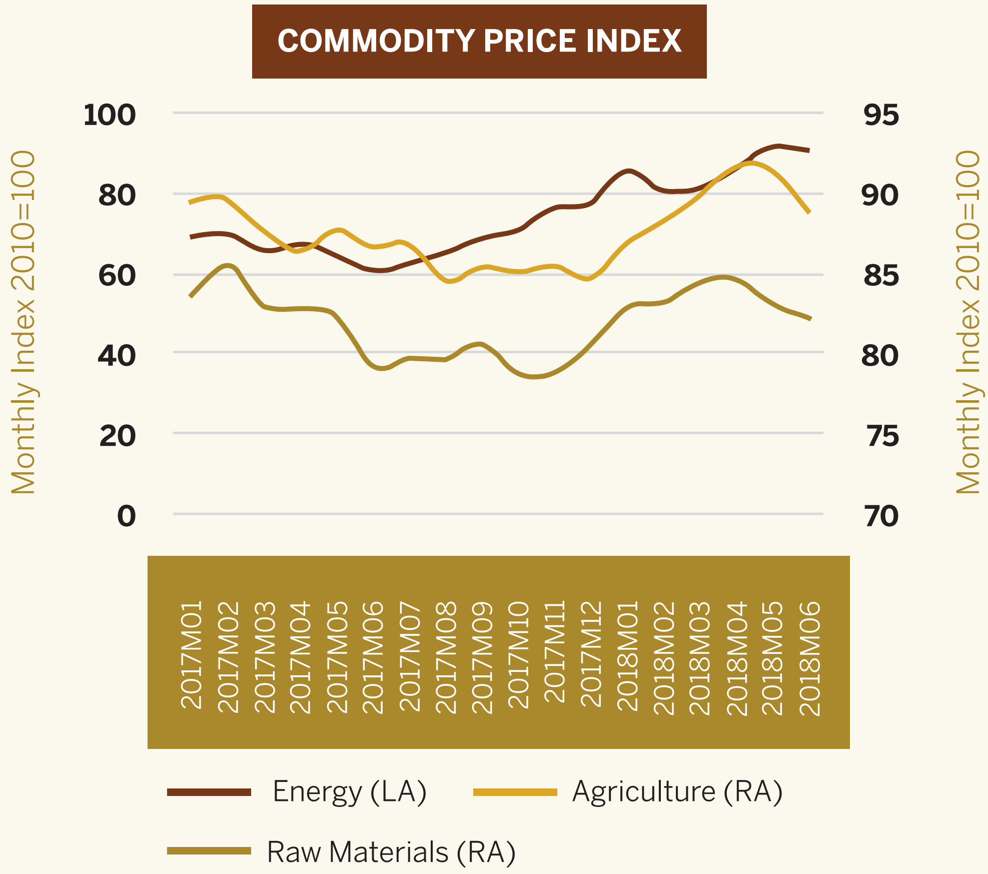
Table 1: Global Growth Projections

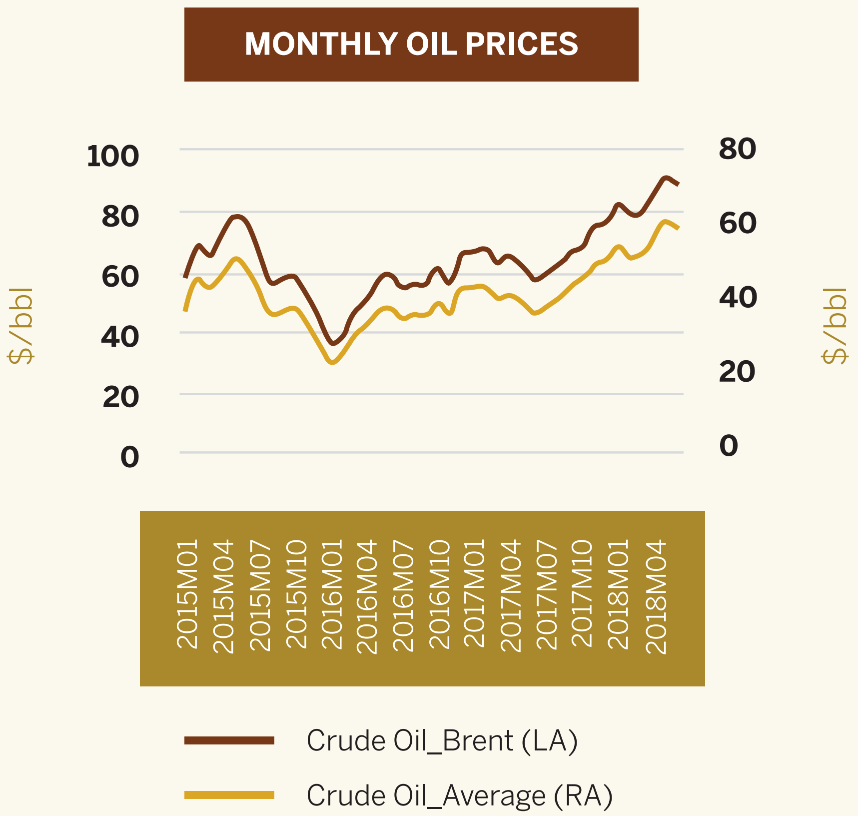
Growth Projections by Region	2016	2017	2018 Proj.	2019 Proj.
World	**3.2**	**3.7**	**3.7**	**3.7**
Advanced Economies	**1.7**	**2.3**	**2.4**	**2.1**
United States	1.6	2.2	2.9	2.5
Euro Area	1.9	2.4	2.0	1.9
Japan	1.0	1.7	1.1	0.9
United Kingdom	1.8	1.7	1.4	1.5
Emerging Markets & Developing Economies	**4.4**	**4.7**	**4.7**	**4.7**
Russia	-0.2	1.5	1.7	1.8
Brazil	-3.5	1.0	1.4	2.4
China	6.7	6.9	6.6	6.2
India	7.1	6.7	7.3	7.4
Sub-Saharan Africa	**1.4**	**2.7**	**3.1**	**3.8**

Source: IMF, WEO, July 2018

The recovery of commodity prices is expected to support growth in commodity exporting countries (Figure 1). Metal prices are expected to increase by 9 percent in 2018, following three years of relative stability, while agricultural prices are expected to gain 2 percent in 2018. For commodity exporters, the expected commodity price recovery is expected to boost their fiscal space, increase their reserve bases and stabilize their currency. Looking ahead however, policy actions under discussion, such as trade barriers and production cuts offer uncertainty to the global commodity market.

Figure 1: Selected Commodity Prices





Source: World Bank, October 2018.

Global growth risks are balanced in the short-term but skewed to the downside in the medium-term. In the medium-term, the global growth is expected to slow down as cyclical forces wane-down: Financial conditions are expected to tighten in developed countries as they close out-put gaps, and seek to uphold prices and financial stability. According to IMF[1], the sustainability of the US fiscal policies, which have boosted global demand, is expected to be reversed in the medium-term. Other risks to the global economic outlook relate to the recent shift or intention to inward-looking policies that harm international trade. In the longer-term, the declining productivity levels remains the major downside risk to the growth.

Rwanda benefits from a buoyant global economy through demand for its exports (both goods and services), as well as, increased opportunities of foreign direct investment. From the imports perspective, increased global investment and production also offers the opportunity for importing less expensive products.

Rwandan banks' direct exposure to the international financial market is still limited, as banks reliance on foreign funding remains low. Total banks' offshore borrowing accounted for 7.1 percent of banks' total liabilities as at June 2018. Banks do not lend offshore and with this structure, the impact of volatile global financial market currently poses limited impact on Rwanda's financial system. Nonetheless, banks would be indirectly affected by a sharp increase in global funding costs.

Total banks' offshore borrowing accounted for 7.1 % of banks' total liabilities as at June 2018. Banks do not lend offshore.

[1] IMF, World Economic Outlook, July 2018

2 REGIONAL ECONOMIC AND FINANCIAL SECTOR DEVELOPMENT: SUB-SAHARAN AFRICA (SSA) AND EAST AFRICAN COMMUNITY

The economic growth in Sub-Saharan Africa (SSA) picked up to 2.7 percent in 2017, from 1.4 percent registered in 2016. The growth rebound in SSA was supported by both supply and demand side factors. On the supply side, the growth was weighed–up by rising oil and metal production, recovering commodity prices and improving agriculture production, following draught conditions experienced in 2016. On the demand side, the growth was supported by improved domestic demand in some SSA countries: both consumer and investment spending improved, amidst moderate inflation environment. The SSA growth is projected to pick-up further to 3.1 percent in 2018 and 3.8 in 2019. The assumptions of improved growth of SSA relate to the expected recovery of oil and metal prices, conducive global trade environment, favorable financial market conditions and favorable weather conditions for agriculture production.

In particular, the South African economy grew by 1.3 percent in 2017, from 0.6 percent in 2016 reflecting the rebound in agricultural and mining output. The outlook for South Africa is set for a modest recovery, with the growth expected to reach 1.5 percent in 2018. For large oil exporters, Nigeria and Angola, the economy grew by 0.8 percent and 0.7 percent in 2017 from a decline of 1.6 percent and 0.8 percent in 2016 respectively. The increased SSA growth forecasts reflect the improved prospects for oil exporters. More than half of the expected pick up in SSA reflects the growth rebound in Nigeria. Economic activities in Nigeria and Angola are expected to grow by 2.1 percent and 2.2 percent respectively in 2018 owing to the uptick in oil prices and increased hydrocarbon production. Excluding the two largest economies (Nigeria and South Africa), the SSA growth is foreseen to pick up from 4.6 percent in 2017 to 4.8 percent in 2018.

The East African Community (EAC) economies continue to perform well with real Gross Domestic Product (GDP) growth accelerating to 5.2 percent in 2017, up from 4.6 percent in 2016. The acceleration of growth is being driven by improved agricultural and industry output, as well as continued recovery of tourism. In 2017, real GDP growth was strongest in Tanzania (7.1 percent) and Rwanda (6.1 percent). Elsewhere, real GDP grew by 4.8 percent in Kenya and by 4.5 percent in Uganda (Figure 2). Economic growth for the EAC block is projected to edge up to 5.8 percent and 6.2 percent in 2018 and 2019, respectively, mainly supported by strong public infrastructure spending, the recovery in external demand, and better agriculture performance.

Inflation remained moderate throughout the EAC region as favorable weather conditions brought down food inflation. The median consumer price inflation eased to 6.8 percent in 2017, from 11.3 percent in 2016. Inflation in most EAC partner states remained below 8 percent minimum convergence criteria. In 2017, annual inflation averaged at 5.6 percent in Uganda, 4.8 percent in Rwanda, 5.3 percent in Tanzania, 8 percent in Kenya and 16.6 percent in Burundi. Despite the increase of oil prices, inflation in the region has remained low and in single digits since December 2017 (Figure 2). The benign inflationary environment reflects falling food prices and stable exchange rates.

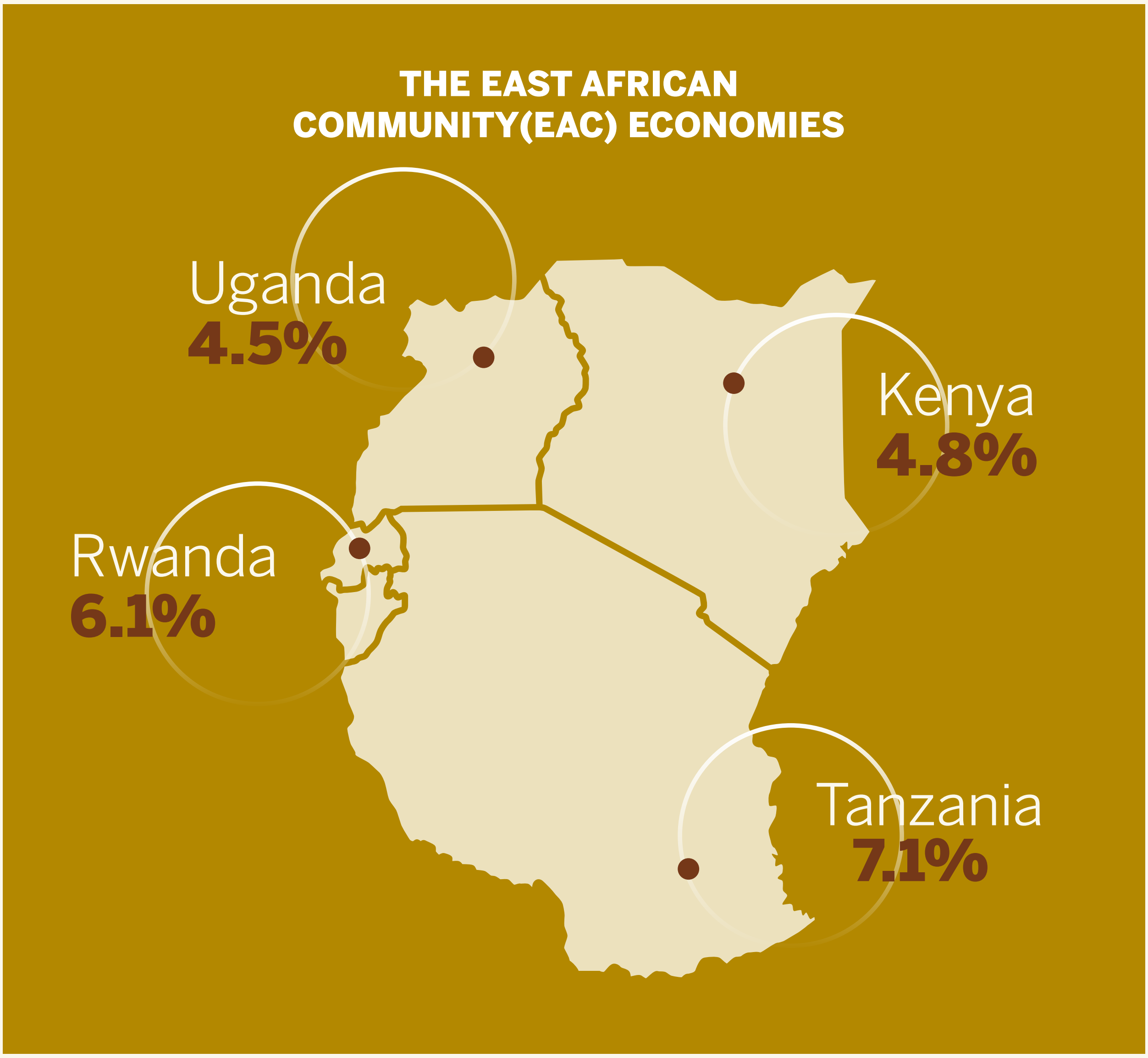
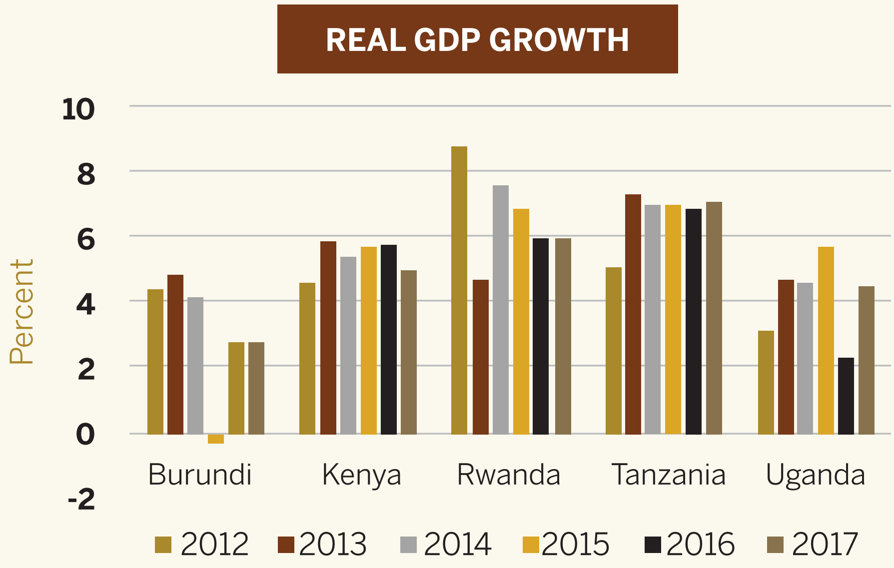
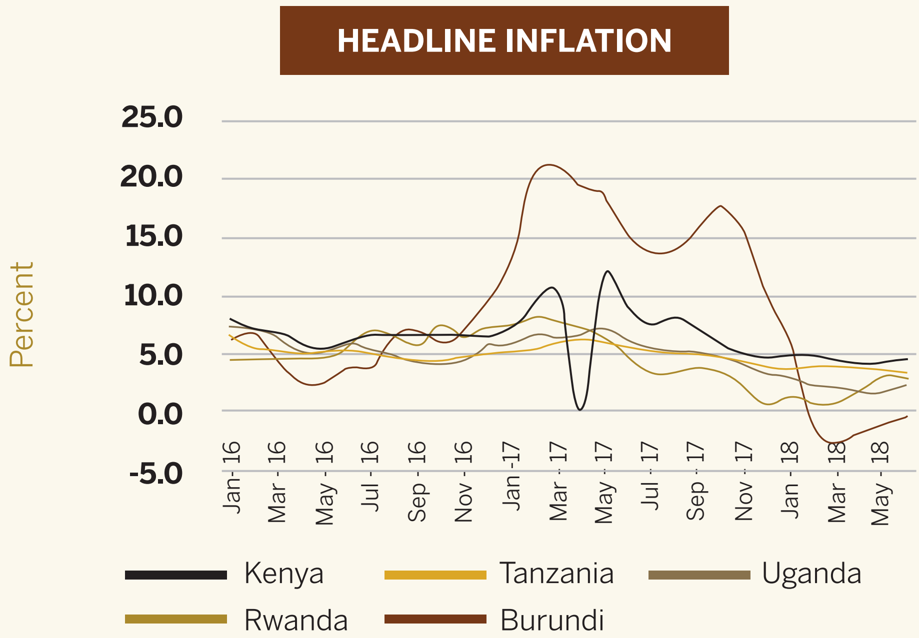


Figure 2: Economic Growth and Inflation Development in EAC Countries

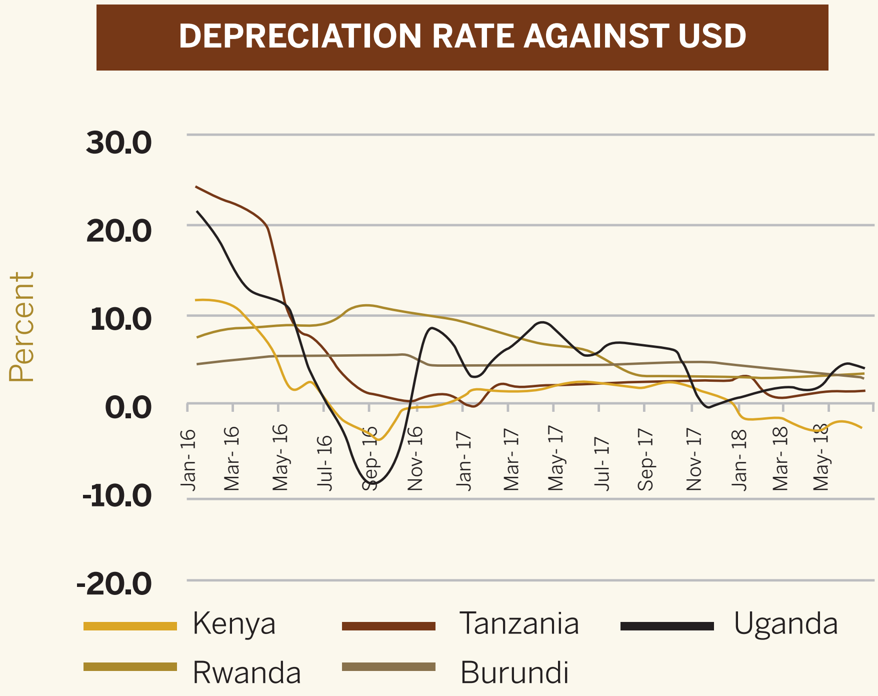


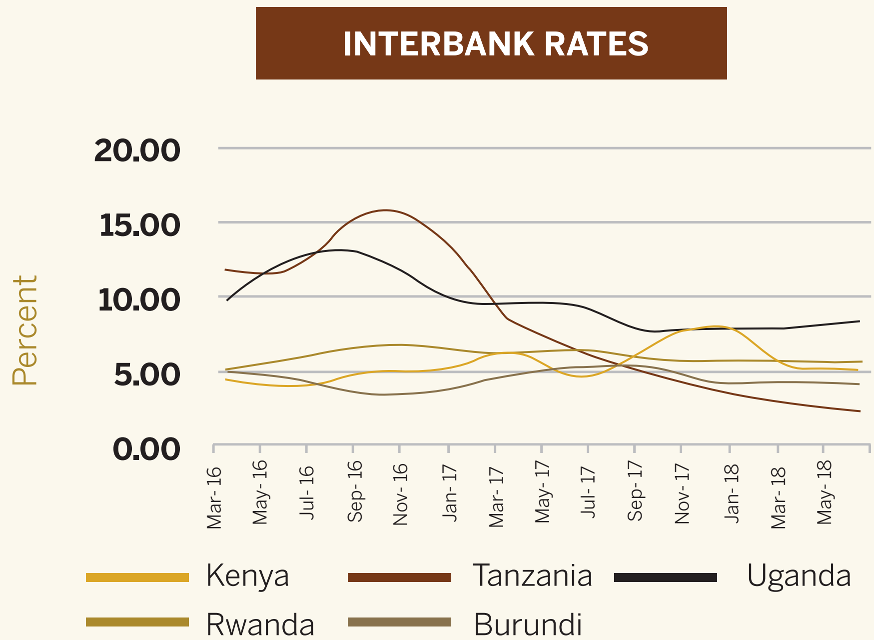


Source: EAC Partner States Central Banks

Favorable commodity prices supported exchange rate stability in the EAC region during the first half of 2018. Depreciation rate of regional currencies against the US dollar (except Uganda shillings) decelerated during the first 6 months of 2018 (Figure). The improved commodity export receipts and rising transfer inflows improved the trade balance positions of EAC partner states. Reflecting these favorable external developments, the exchange rates have remained stable and partner states are expected to build their foreign exchange reserves in 2018. Foreign exchange stability and declining inflation enabled some EAC central banks to pursue an accommodative monetary policy, in part to stimulate credit to the private sector, which slowed in the recent past. In line with the monetary policy stance across EAC countries, the cost of funds in the interbank market declined (Figure 3). In particular, the liquidity conditions in Kenya have been volatile in the first half of 2017 but stabilized in the second half of 2018.

Figure 3: Exchange Rates and Overnight Interbank Rates in EAC Countries

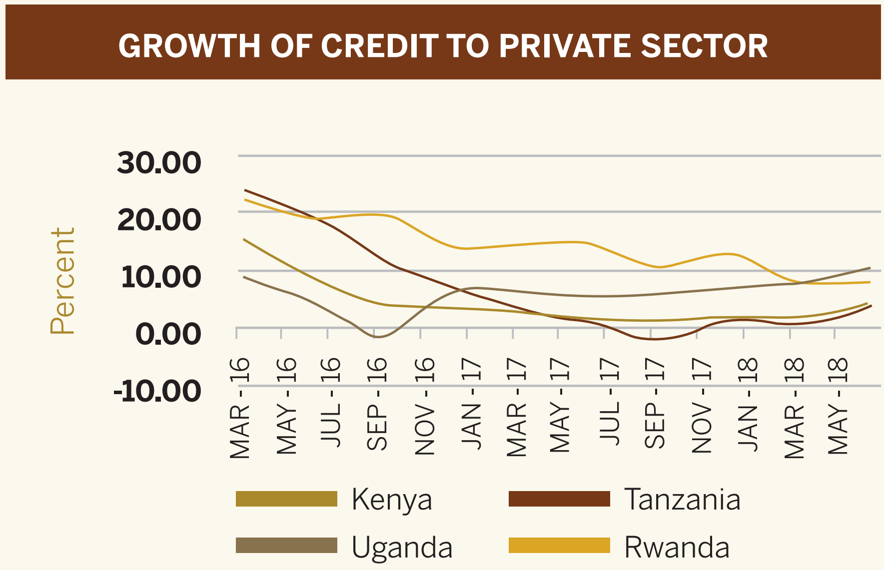


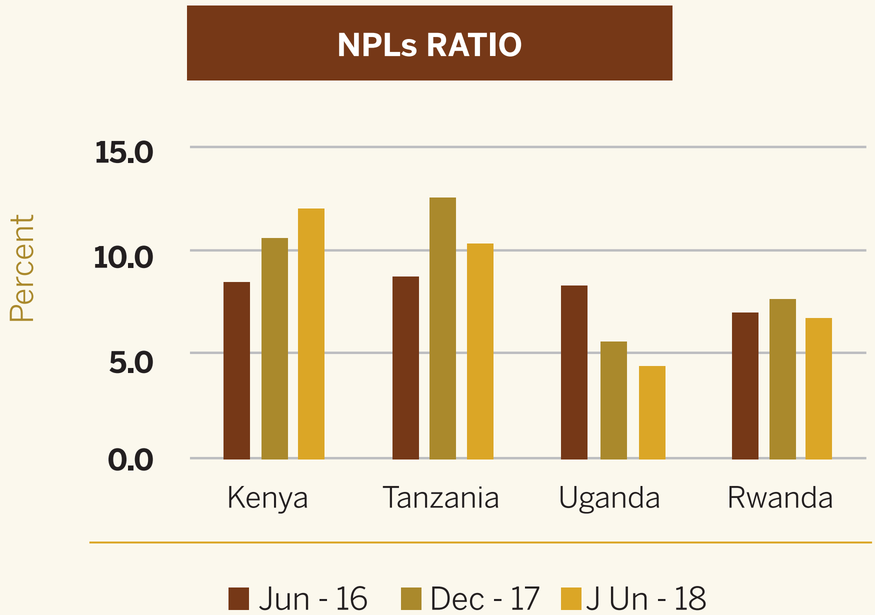


Source: EAC Partner States Central Banks

During the year to June 2018, credit expansion decelerated as banks took a cautious lending stance amid high non performing loans (Figure 4). In some countries, banks increased their appetite to invest in government securities, which are perceived to be less risky. In particular, the situation in Kenya was compounded by the continuation of interest rate cap on banks loans. In Kenya there is concern that the cap on interest rates may have had a detrimental effect on credit growth, particularly by limiting access to credit for Small and Medium Enterprises (SMEs). The saturation of highly financed sectors such as construction led to a decline in demand for credit and ultimately a slowdown in credit growth. Generally, in most EAC countries growth of credit has slowed in the last three years.

Figure 4: The Growth of Credit to Private Sector and NPLs Ratios in EAC Countries

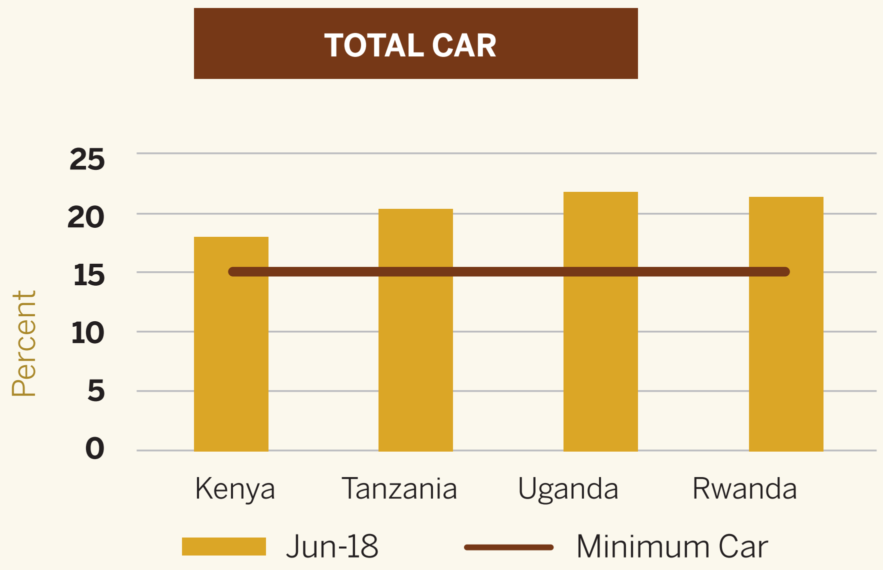


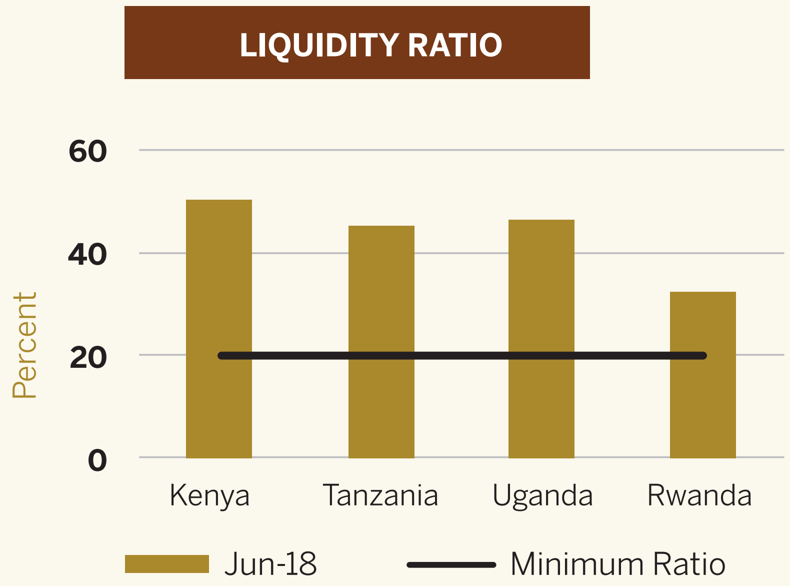


Source: EAC Partner States Central Banks

The EAC banking system remains well capitalized and liquid (Figure 5). On aggregate, banks in the EAC partner states have capital and liquidity[2] buffers above the minimum regulatory requirements. However, the banking system's non-performing loans remain elevated in the region, though declining in recent months. As at June 2018, Kenya and Tanzania held double-digit NPLs ratio, at 12 percent and 10.3 percent, respectively, from 9.8 percent and 10.6 percent in June 2017, respectively. In Uganda and Rwanda, the banking sector NPLs ratio stood at 4.4 percent and 6.9 percent, respectively, in June 2018, from 6.2 percent and 8.2 percent in June 2017. The NPLs in the region were partly driven by weaker economic activities in 2016.

Figure 5: Capital and Liquidity Position of Banks in EAC





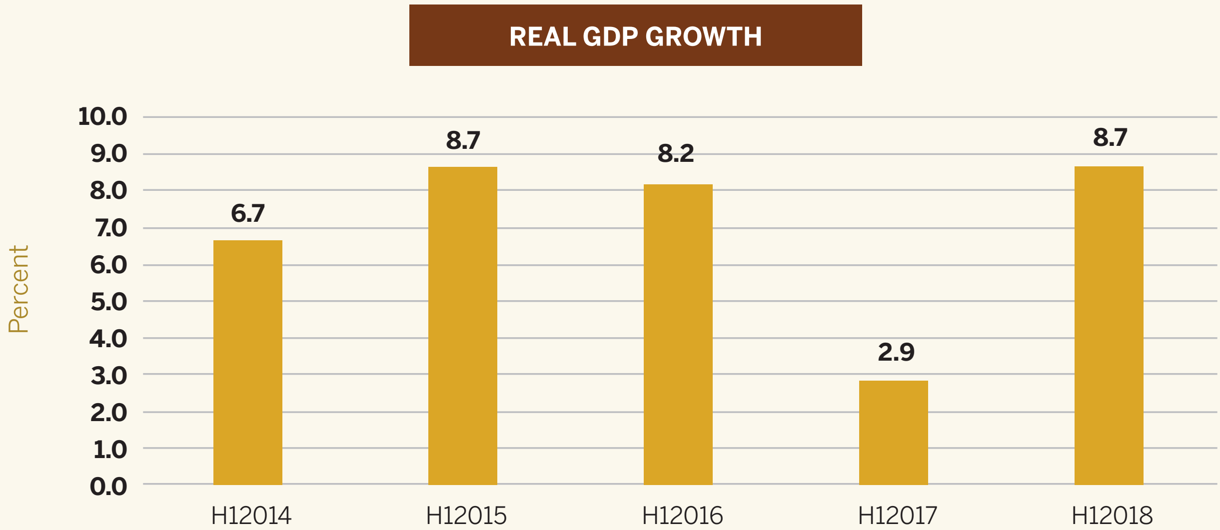
Source: EAC Partner States Central Banks

[2] Liquidation Ratio in Rwanda has been computed as the ratio between high quality liquid assets and total deposits.

3 DOMESTIC MACROECONOMIC DEVELOPMENT

Rwanda's economy continues to perform well, with real GDP accelerating to 8.7 percent in the first half of 2018, compared to 2.9 percent registered in the first half of 2017 (Figure 6). The improved growth in 2018 reflects strong industrial activity, notably construction, and improved agriculture production, following favorable weather conditions. The Rwandan economy is projected to grow by 7.2 percent in 2018, compared to 6.1 percent registered in 2017, reflecting the expected rebound in the construction sector, favorable commodity prices and better agriculture output. In the medium-term, Rwanda's growth is expected to strengthen, supported by continued diversification of the export base, public investment spending and more resilient agriculture because of extensive irrigation programs, mechanization and technology adoption.

Figure 6: Economic Growth in Rwanda (YoY)



Source: National Institute of Statistics of Rwanda (NISR)

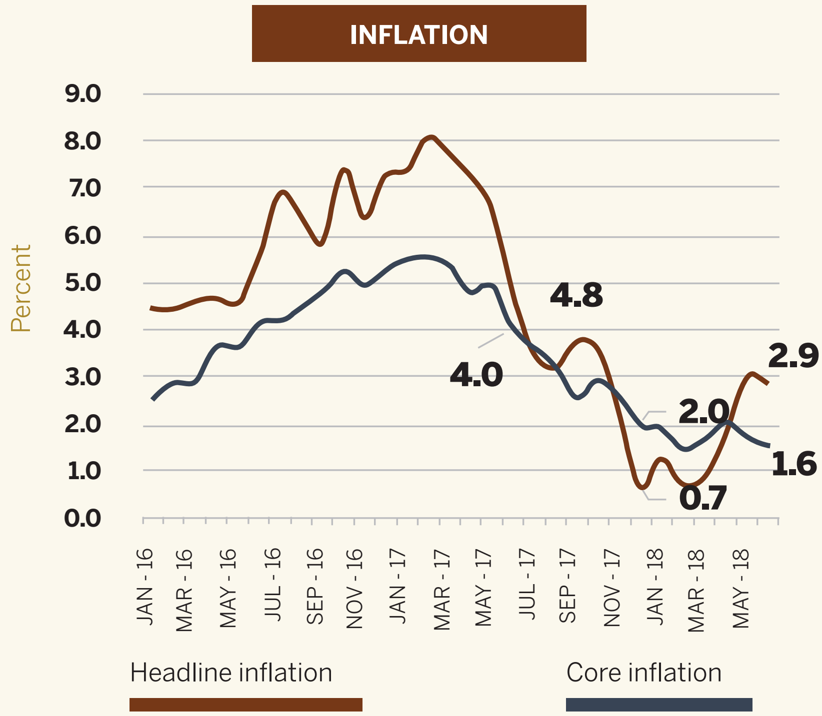
Inflation moderated throughout the financial year 2017/18 as better weather conditions brought down food inflation. Headline inflation averaged at 1.7 percent in the first half of 2018, compared to 7 percent registered in the first half of 2017. Headline inflation stood at 2.9 percent in June, low compared to the medium-term target of 5 percent (Figure 7). The low inflation environment in the first half of 2018 reflected favorable food price developments, thanks to better weather conditions, and the stable exchange rate that muted imported inflation. Inflation is projected to remain moderate and stable through 2018, at 2.8, and below the medium-term target of 5 percent.

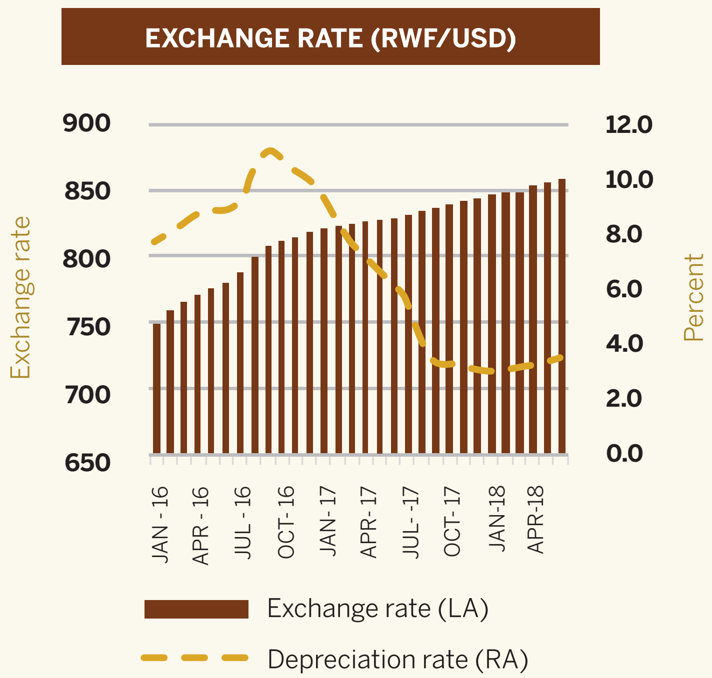
Headline inflation averaged at **1.7%** in the first half of 2018

compared to **7%** registered in the first half of 2017.

The Rwanda's external position continued to improve. Rwanda's formal trade deficit eased by 21.7 percent in 2017, to USD 1271.8 million from USD 1,624.5 million in 2016, as a result of 57.6 percent increase in formal exports and 0.4 percent decline in formal imports. This good performance continued in H1 2018. Rwanda's formal trade deficit reduced from USD 677.86 million in H1 2017 to USD 664.21 million in H1 2018. The improving external position reflects early benefits of appropriate policies implemented by Government to improve competitiveness, increase production, diversify exports, and contain imports. Better commodity prices also supported this progress. In line with improved trade balance, the pressures on the Rwandan franc have abated. On average, the depreciation of Rwandan franc against US dollar declined from 8.9 percent in June 2017 to 3.5 percent in June 2018 (Figure 7). NBR projects the depreciation rate to remain low (around 4 percent) during the remaining period of 2018.

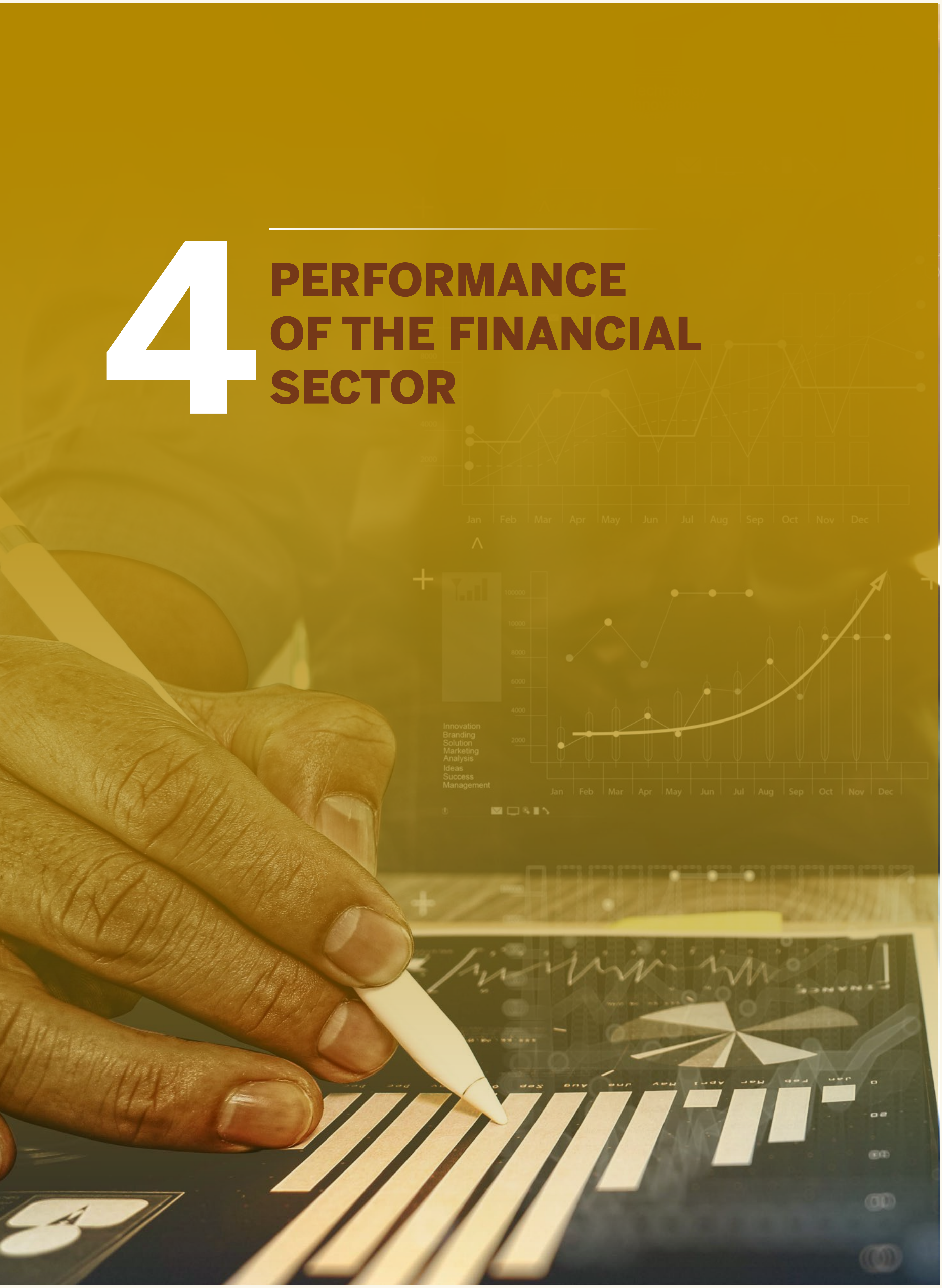
Figure 7: Inflation and Exchange Rate Development in Rwanda (YoY)



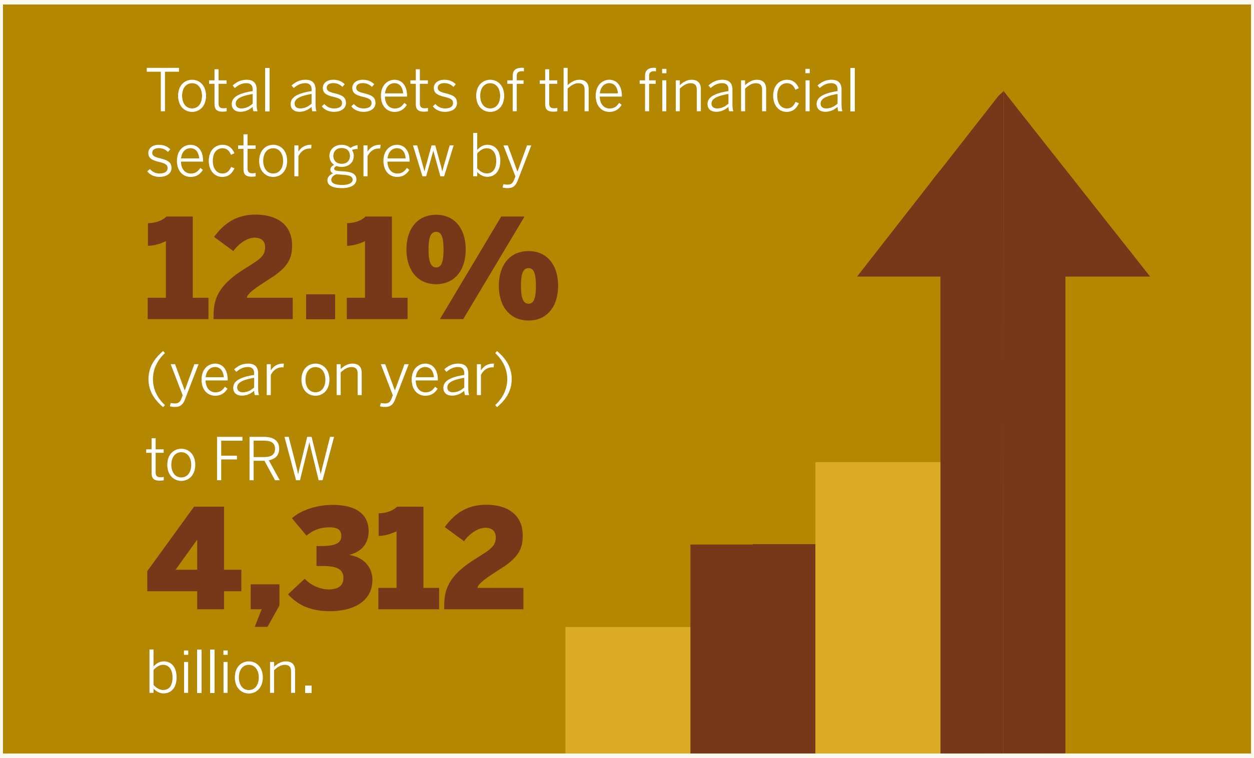


Source: NISR & BNR.

4 PERFORMANCE OF THE FINANCIAL SECTOR



The Rwandan financial sector continued to maintain robust growth during the year ended June 2018. Total assets of the financial sector grew by 12.1 percent (year on year) to FRW 4,312 billion. The sector remained sound, stable and its profits improved. Capital and liquidity levels of banks and microfinance institutions (MFIs) remained above the statutory limits. The solvency of the insurance companies improved and their liquidity level remained robust. The payment systems continued to operate efficiently and transactions were settled without delay or loss. The sections below provide in-depth account of the performance of different sub-components of the Rwandan financial sector.



5 THE BANKING SECTOR

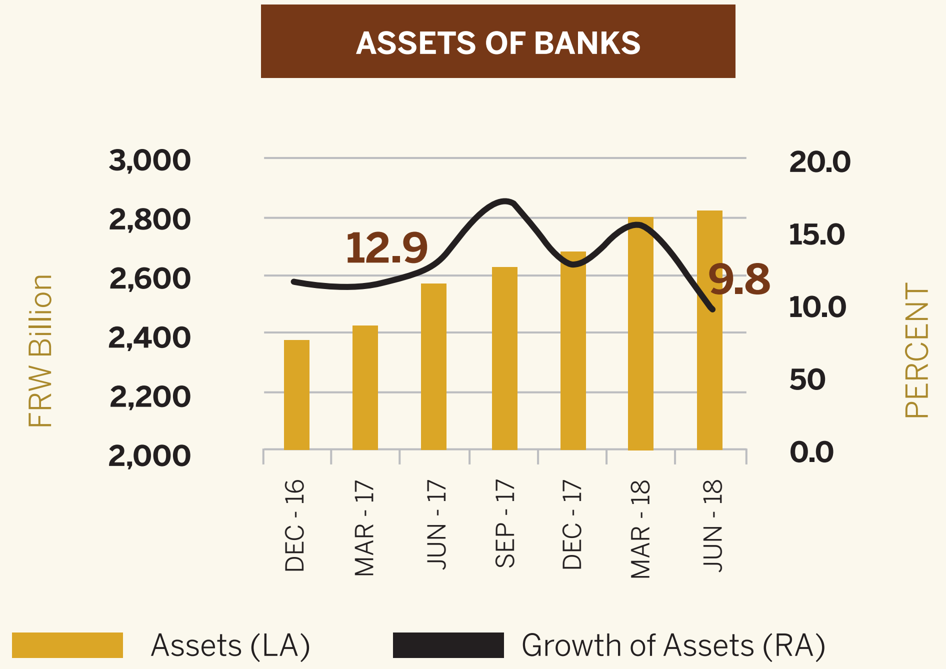
A sound and efficient banking sector is important for the Rwandan financial sector, because of its size, as well as its connectivity with other sub-sectors. During the year under review, the banking sector continued to grow, in-terms of assets, and remained adequately capitalized and liquid. Despite the reduced growth of loans, the banking sector profits improved, reflecting both higher interest margins and higher non-interest income that more than offset the growth in operational expenses. In-terms of number, the banking sector saw no major changes: As at end June 2018, the banking sector consisted of 11 commercial banks, 4 microfinance banks, 1 development bank and 1 cooperative bank.

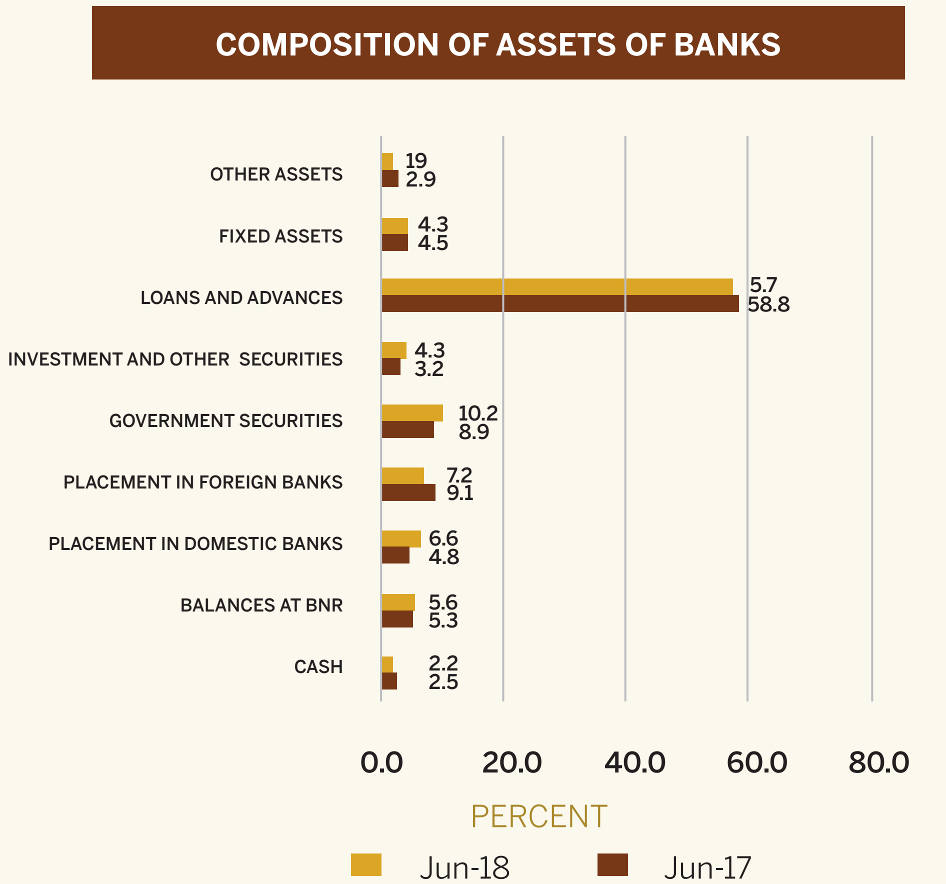
Assets of the Banking Sector

The banking sector remains the largest sub-component of Rwanda's financial sector with 65.5 percent of the total financial sector assets. During the year under review, assets of banks increased by 9.8 percent, from FRW 2,571.7 billion (40.2 percent of GDP) in June 2017 to FRW 2,824.5 billion (40.5 percent of GDP) in June 2018, compared to the increase of 12.9 per cent recorded during the previous year (Figure 8).

Financial intermediation remains the main business of the banking sector, with net loans accounting for 57.7 percent of total assets of banks (Figure 8). Other main components of earning assets of banks include: Government securities (10.2 percent), placements in foreign banks (7.2 percent), dues from domestic banks (6.6 percent), and investment in other securities (4.3 percent). The non-earning asset, account for 14 percent of total assets of banks. They include cash and reserves with central bank (7.8 percent), fixed assets (4.3 percent) and other assets (1.9 percent).

Figure 8: The Assets of Banks



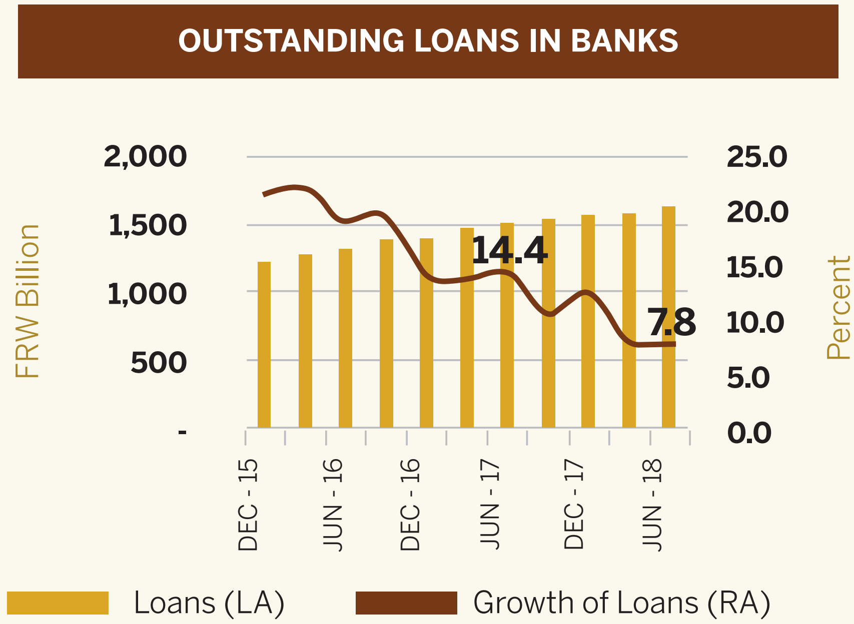


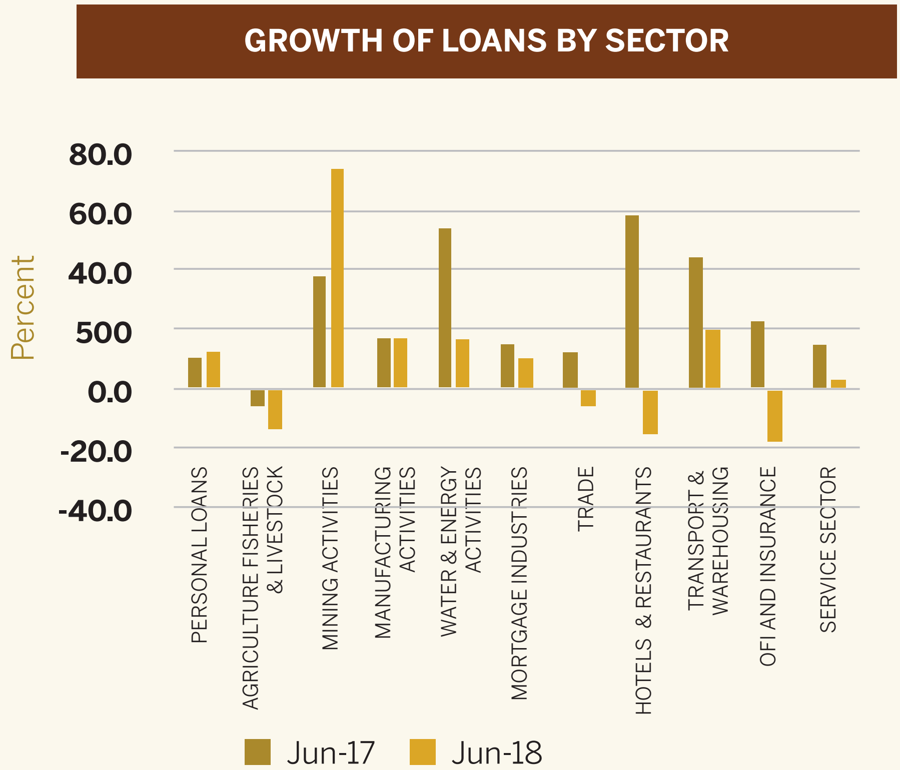
Source: NBR, Financial Stability Directorate

Banks' Lending Development

The banking sector lending growth moderated, although lending growth varied across sectors.
Aggregate banks' lending expanded by 7.8 percent (year-on-year) in the year ended June 2018, compared to 14.4 percent in the corresponding period of the prior year. The composition of that growth however varied across sectors (Figure 9). Banking sector loans reduced in trade (by 2.6 percent), hotels & restaurants (by 22.2 percent) and in agriculture (by 13.5 percent). Conversely, growth of loans increased in mortgage (by 14.1 percent), manufacturing (by 15.5 percent) and personal loans by 13 percent.

Figure 9: Lending Development in Banks





Source: NBR, Financial Stability Directorate

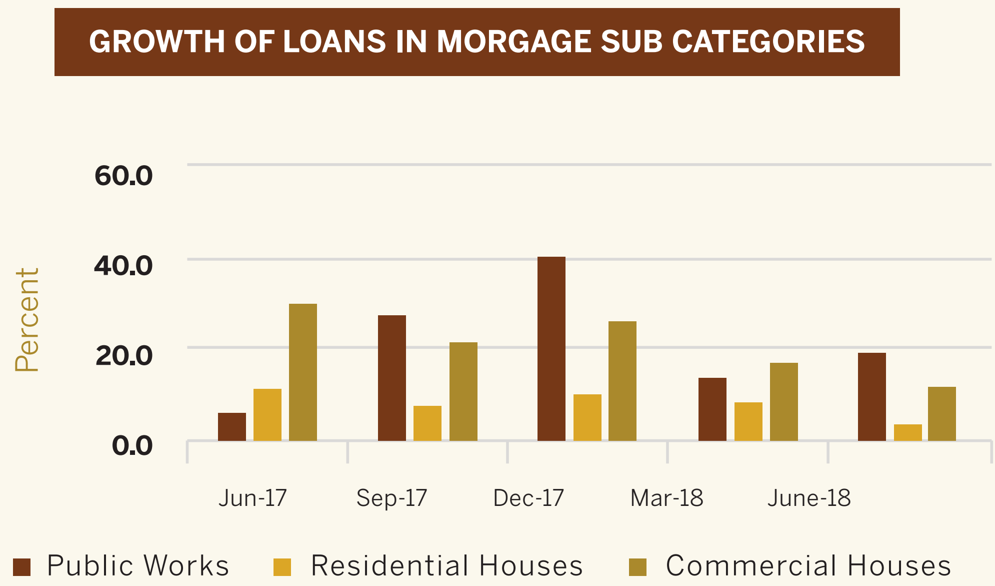
The deceleration of loans is attributable to the slowdown of new lending and loan write-offs related to NPLs pressures in 2017. New loans approved by banks in the first 6 months of 2018 amounted to FRW 402.7 billion, 3.5 percent lower than FRW 416.7 billion approved in the same period of last year. The reduction of new approved loans is attributable to two factors: First, weak credit demand that saw the volume of loan applications reduce by 5.5 percent in the first half of 2018, compared to the first half of 2017 (i.e., from 139,131 to 131,426). Similarly, in the same period, the value of loan applications increased by 1.1 percent (from FRW 500 billion to 505.7 billion), compared to 3 percent growth registered in the first half of 2017. On the other hand, write-offs of bad loans increased from FRW 15.4 (1 percent of total loans) in the first half of 2017 to FRW 32.2 Billion (2 percent of total loans) in the first half of 2018.

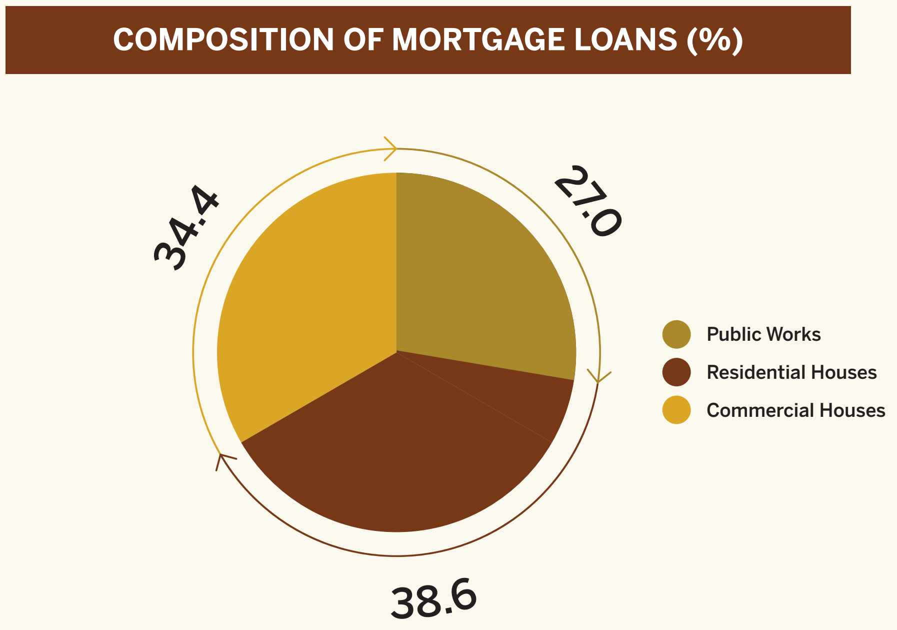
Banks tightened lending conditions to sectors they considered risky. From the NBR's credit survey (Box 1) of June 2018, the overall loan rejection rate[3] (in value) increased from 16.6 percent in the first half of 2017 to 20.4 percent in the first half of 2018. In terms of volume, the loan rejection rate increased from 3.5 percent to 14.7 percent. The loan rejection rate in "restaurants and hotels" sector, that faced the sharpest reduction of loans, increased from 0.8 percent in H1 2017 to 17.2 percent in H1 2018. Generally, banks with higher NPLs ratio in 2017 concentrated their efforts on loan recovery as opposed to accelerating new lending.

The banking sector loan portfolio continued to be concentrated in the mortgage sector. As at end June 2018, outstanding loans in mortgage sector accounted for 37.1 percent of total outstanding loan portfolio of banks (Table 2). Loans for residential houses account for the largest component of mortgage loans, with 38.6 percentage share, followed by commercial real estate, with 34.4 percentage share, and public works loans, with 27-percentage share (Figure 10). Nonetheless, over the last year, strong growth of mortgage loans happened in public works. The growth of loans in commercial real estate and residential houses moderated. Generally, the mortgage sector NPLs ratio remains moderate, at 5.3 percent as at end June 2018, lower than the average of 6.9 percent for all sectors.

[3] The loan rejection rate is the ratio of the value or number of rejected loan applications by all banks to the number of loan applications received by the banks during the same period.

Figure 10: Lending Development in Mortgage Sector





Source: NBR, Financial Stability Directorate

Diversifying lending to other sectors of the economy should be the priority for the banking sector. Loan concentration, especially to the real estate is the underlying risk for the banking sector. With this loan composition, banks are vulnerable to real estate price fluctuations and property value fluctuations. Key economic sectors like agriculture, mining and manufacturing offer alternative investment opportunities. Nevertheless, these sectors are considered risky for the banking sector. Lending to agriculture, which accounts for 33 percent of national GDP and employs more than 66 percent of total labor force, is still marginal, at less than 2 percent. On-going Government efforts to de-risk and transform the agriculture sector will offer investment opportunities for banks and enable them to diversify their loan portfolio.

Table 2: Banks' Loans by Activity Sector

Activity Sector	% of total loans			% Point change Jun-18/17
	Jun-16	Jun-17	Jun-18	
Personal loans	8.5	7.9	8.4	0.5
Agricultural, fisheries and livestock	2.3	1.8	1.5	-0.3
Mining activities	0.1	0.1	0.2	0.1
Manufacturing activities	9.8	9.7	10.5	0.8
Water & energy activities	2.3	2.6	2.6	0.0
Mortgage industries	34.6	34.5	37.1	2.6
Trade	22.7	19.4	17.2	-2.2
Hotels	7.6	10.2	8.1	-2.1
Transport & warehousing	7.1	8.7	9.8	1.1
OFI &Insurance	1.6	1.7	1.3	-0.4
Service sector	3.2	3.1	3.3	0.2

Source: NBR, Financial Stability Directorate

Box 1: Methodology for the Credit Survey

In many countries, bank-lending surveys is a standard tool allowing central banks and other users to obtain valuable information about developments in the bank credit market beyond regular reporting data. NBR introduced such a survey in March 2017 with the purpose to enhance the knowledge of financing conditions in Rwanda. The credit survey provides information on prevailing credit conditions for central banks to make appropriate monetary and macro prudential policy decisions.

The survey is conducted through a structured questionnaire and interview addressed to senior loans officers of banks, therefore helping NBR to obtain both quantitative and qualitative information from all banks operating on the Rwandan credit market. The questionnaire focuses on both the credit supply side (credit standards and terms and conditions for approving loans as stipulated by banks) and the credit demand side (demand for loans among individuals and enterprises as perceived by banks) and assesses the most significant factors underlying changes in supply or demand.

The credit survey covers not only the observed evolution of credit standards and credit demand in the previous quarter, but also the expected developments in the near future. The survey is conducted on quarterly basis and from October 2018, the findings from the survey will be published on NBR website.

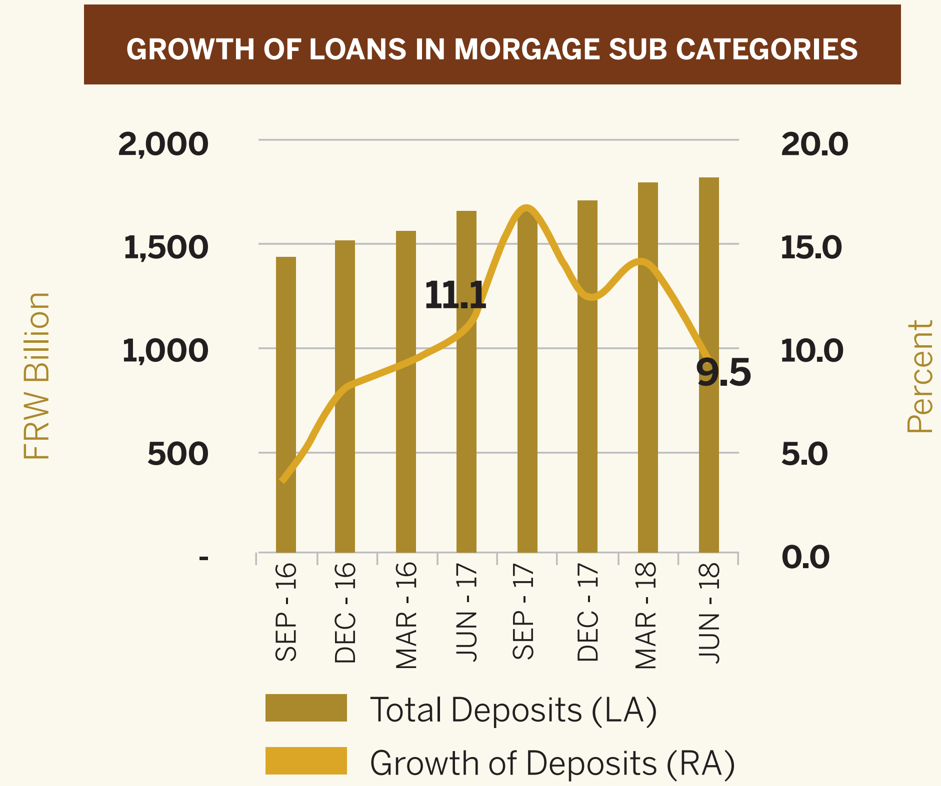
Banks Funding Development

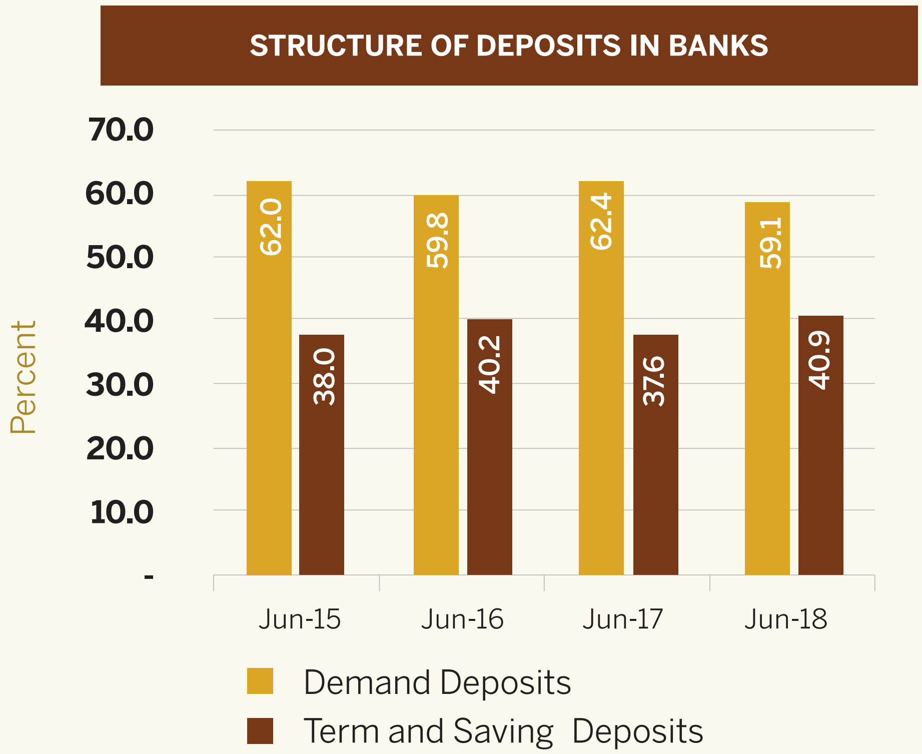
During the year ended June 2018, the funding base of banks remained strong. Deposits remained the principal source of funding for banks accounting for 78.2 percent of total liabilities of banks. Between June 2017 and June 2018, deposits increased by 9.5 percent (from FRW 1,674.4 billion to FRW 1,833.0 billion), albeit lower than 11.1 percent observed a year before (Figure 11).

The share of long-term deposits increased during the period under review. The share of term deposits and saving deposits increased from 37.6 percent in June 2017 to 40.9 percent in June 2018 (Figure 11). This change of banks' deposit composition was underpinned by the robust growth of term deposits, by 19.2 percent (year on-year) to FRW 750 billion. In same period, the growth of demand deposits was modest at 3.6 percent. Strong growth of term deposits was partly supported by a slight increase of deposit rate - average deposit rate increased from 7.8 percent in June 2017 to 7.9 percent in June 2018. Not withstanding this improvement, the size and maturity of banking sector long-term funds remains insufficient, compared to the investment needs of the country. In fact, close to 98.5 percent of banking sector term deposits hold a maturity of less than a year.

In support of the agenda to increase savings, the Government through the revised Income Tax Law (April 2018), introduced fiscal incentives by waiving 15 percent withholding tax on term deposits with at least 1-year maturity. This policy, along with continued financial literacy and specifically savings awareness campaigns should improve the level of term deposits in the medium-term.

Figure 11: Deposits in Banks





Source: NBR, Financial Stability Directorate

Banks' Capital Adequacy

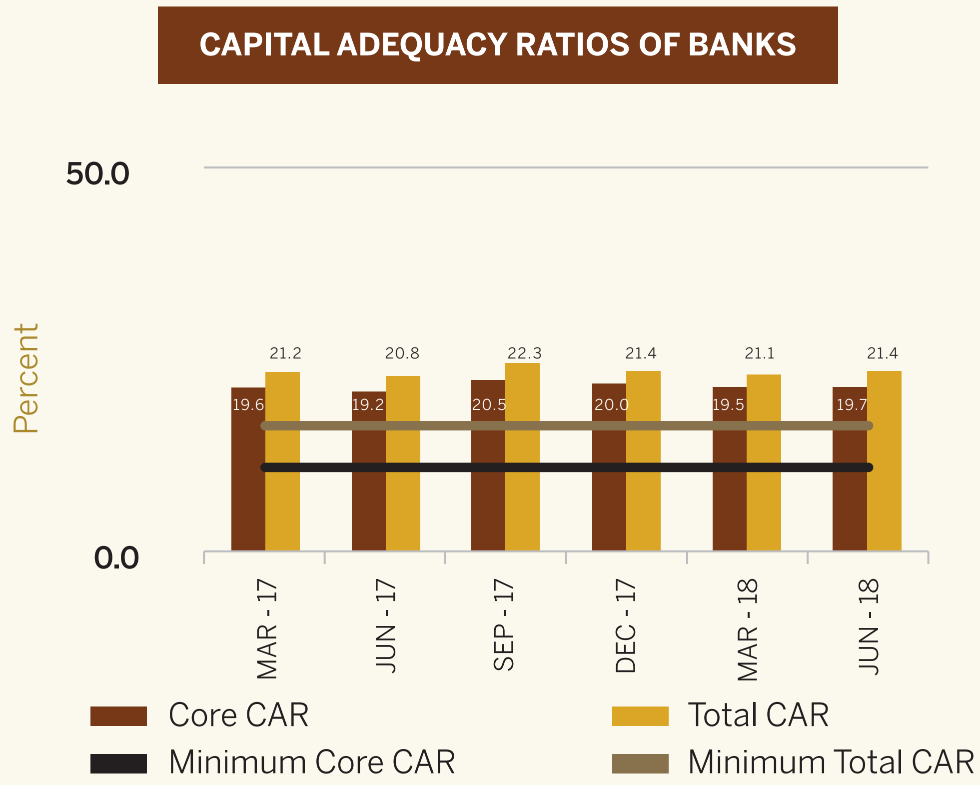
Bank solvency position continued to improve, mainly due to increase in capital. The capital adequacy ratio, which measures bank's capital resources in relation to its risk-weighted assets, remained above minimum prudential requirement. The system-wide total capital adequacy ratio improved from 20.8 percent in June 2017 to 21.4 percent in June 2018, and remains above 15 percent minimum prudential requirement. During the same period, the core capital adequacy ratio increased from 19.2 percent to 19.7 percent, and remains above 10 percent minimum prudential requirement (Figure 12).

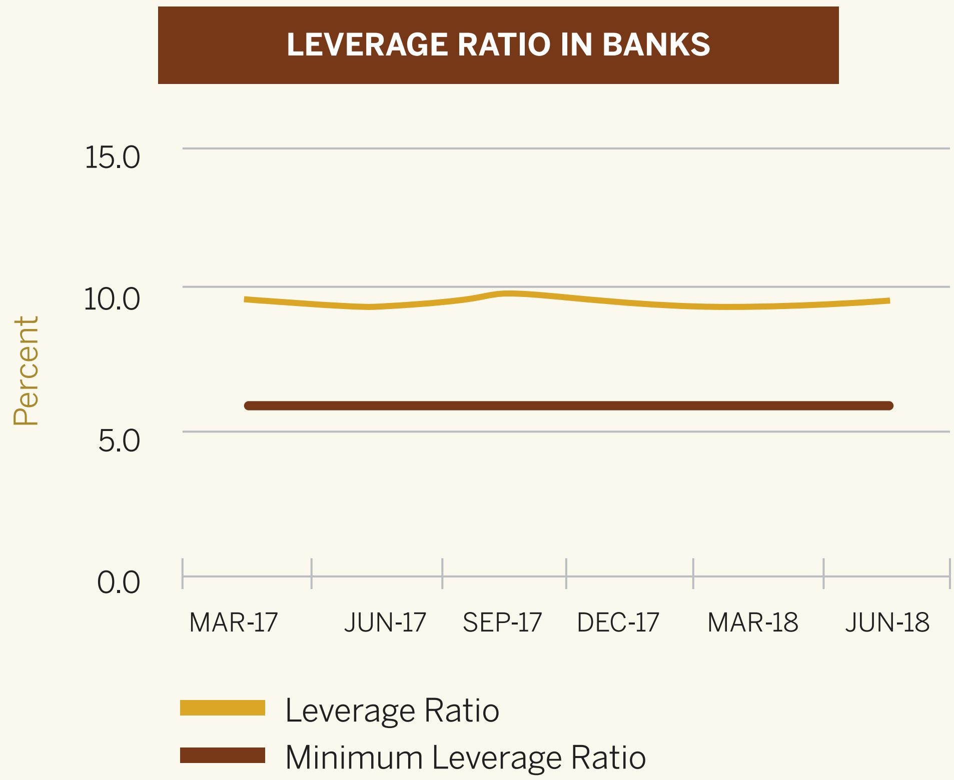
The growth of capital ratios is attributable to the faster growth of capital that outmatched growth of risk weighted assets. During the period under review, total capital of banks increased by 12.9 percent (from FRW 383.3 billion in June 2017 to FRW 432.6 billion in June 2018). On the other hand, the total risk weighted assets of banks increased by 9.7 percent (from FRW 1,843 billion in June 2017 to FRW 2,022 billion in June 2018). A breakdown of banks' capital reveals that increased paid-up capital explains the growth of capital. During the period under review, banks increased their paid-up capital by 26 percent (from FRW 209 billion in June 2017 to FRW 262 billion in June 2018).

In May 2017, NBR issued the regulation n°06/2017 of 19/05/2017 on capital requirements of banks in compliance with Basel II/III. The regulation became effective beginning January 2018. The new framework requires banks to hold enough capital to contain a number risks, ranging from the traditional risks associated with financial intermediation (credit risk), to operational risks and market risks. The new framework ensures that banks set a side appropriate level of capital (high quality capital) to cater for various risks they undertake. Banks faced no major challenges in meeting the requirements of this framework, largely because even in the old framework, they held sufficient capital buffers and due to the sufficient preparatory period, (the framework was tested under a parallel run for more than one year).

The banking sector continued to meet the leverage ratio prudential requirement. The leverage ratio for the banking sector increased from 9.5 percent in June 2017 to 9.7 percent in June 2018, compared to the minimum prudential requirement of 6 percent (Figure 12). This increase was due to the positive effect of core capital growth (12.2 percent) that surpassed the growth of total exposures (10.1 percent). The leverage ratio is an additional prudential tool used by NBR to complement minimum capital adequacy requirements. The NBR adopted the leverage prudential standard to control banks from taking excessive on and off balance sheet leverage.

Figure 12: The Capital Position of Banks





Source: NBR, Financial Stability Directorate

Banks' Liquidity

The banking system remains liquid, with both their Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) well above 100 percent minimum requirements. As at June 2018, the aggregate LCR and NSFR of banks stood at 299.5 percent and 224.7 percent respectively, above the minimum regulatory requirement of 100 percent. On a solo basis, all banks met these requirements. The two liquidity standards came into effect in January 2018, through a directive nO 07/2017 of 19/05/ 2017 on liquidity requirements for Banks. The LCR requires that financial institutions have the necessary high liquid assets on hand to ride out any short-term liquidity disruptions. On the other hand, the NSFR supplements the LCR by encouraging banks to fund longer-term assets with more stable liabilities.

The banking sector liabilities continue to be dominated by stable funds. Deposits accounted for 78.2 percent of total banking sector liabilities as at end June 2018. The other main component of banks' liabilities include dues to domestic banks with 17.1percent.

Assets Quality of Banks

The banking sector asset quality improved in the first half of 2018, mainly driven by improved economic performance and write-offs of overdue NPLs. The ratio of non-performing loans (NPLs) to gross loans decreased from 8.2 percent in June 2017 to 6.9 percent in June 2018. In-terms of value, non-performing loans decreased by 7.6 percent (from FRW 149.4 billion in June 2017 to FRW 138.1 billion in June 2018), after they had grown by 33.1 percent a year before. The reduction of NPLs reflects the stronger economic growth in the first half of 2018, as well as the loan write-offs performed by banks. Total loan write-offs between June 2017 and June 2018 amounted to FRW 64.8 billion compared to FRW 29.7 billion loan write-offs between June 2016 and June 2017.

The Central Bank's regulation n°12/2017 of 23/11/2017 on credit classification and provisioning requires banks to classify loans extended to their customers based on performance. The performance criteria are based on repayment profile of the borrower and loans are classified as either normal[4] , watch[5] , substandard[6] , doubtful[7] or loss[8] . Non-performing loans relate to loans in substandard, doubtful and loss categories. As at end June 2018, loans in the normal category (high quality loans) accounted for 84 percent of total loans, while loans in watch category accounted for 9.1 percent, substandard (1.7 percent), doubtful (1.8percent) and loss (3.4 percent). The regulation requires banks to write-off loans that have been classified "loss" for more than 360 days.

From a sectoral perspective, NPLs ratio in the agriculture sector dropped from 18.2 percent in June 2017 to 7.2 percent in June 2018 (Table 3). This reduction reflects improved performance of this sector during the year. NPLs ratio also reduced for personal loans, loans in transport and services sectors. However, NPLs ratio continued to be elevated in manufacturing, trade and hotel sectors. NPLs ratio in manufacturing sector increased from 8.8 percent in June 2017 to 13.9 percent in June 2018 owing to few big projects that underperformed. Similarly, NPLs ratio in trade sector increased from 8.8 percent in June 2017 to 11.5 percent in June 2018, while in the hotel sector, NPLs ratio increased from 9.8 percent to 11 percent. The mortgage sector with the highest share of loans in total loans (37.1 percent) continued to be among the sectors with low NPLs ratio at 5.3 percent, lower than the NPLs ratio of 5.8 percent registered in June 2017.

NPLs ratio in the agriculture sector dropped from **18.2%** in June 2017 to **7.2%** in June 2018

[4] Normal loan refers to a credit facility with repayment, which is up to-date in payments.

[5] Watch loan is a credit facility on which the principal or interest is due and unpaid for thirty days to less than ninety days.

[6] Substandard is a credit facility on which the principal or interest is due and unpaid for ninety days to less than one hundred and eighty days.

[7] Doubtful loan is a credit facility on which the principal or interest is due and unpaid for one hundred and eighty days to less than one year.

[8] Loss loans is a credit facility on which due principal or interest remains unpaid for twelve months or more.

Table 3: NPLs Ratios of Banks by Economic Sector

Activity Sectors	Sectoral NPLs Ratio (%)			% share in Total NPLs (Jun-18)
	Jun-16	Jun-17	Jun-18	
Personal loans	6.4	7.8	6.1	6.9
Agricultural, fisheries & livestock	16.9	18.2	7.2	1.4
Mining activities	0.9	0	0.6	0
Manufacturing	6	8.8	13.9	19.7
Water & energy	0.2	0.1	0	0
Mortgage industries	5.1	5.8	5.3	26.1
Trade	6.9	8.8	11.5	26.6
Hotel	9	9.8	11	11.9
Transport & warehousing	3.1	3	2.6	3.4
OFI &Insurance	4.2	0.4	0.4	0.1
Service sector	4.5	10.7	8.9	3.9

Source: NBR, Financial Stability Directorate

The NPLs coverage ratio improved from 44.9 percent in June 2017 to 67.2 percent in June 2018 on the back of high growth of provisions and reducing NPLs. In-terms of value, the total banking sector provisions increased from FRW 67 billion in June 2017 to FRW 93 billion in June 2018. The reduction of the stock of NPLs, by 7 percent, (from FRW 149 billion to FRW 138 billion) also contributed to the growth of NPLs coverage ratio. The increase in provisions is largely attributable to the implementation of the requirement to compute general provisions at 1 percent for normal risk and 3 percent for loans in watch category.

Banks' Profitability

The banking sector profits picked-up in the first half of 2018 amid improving macroeconomic conditions (Table 4). The banking sector profits (after tax) amounted to FRW 23 billion in June 2018, compared to FRW 22 billion registered in the corresponding period of 2017. The improved banking sector profits in the first half of 2018 was driven by higher Net Interest Income (from FRW 92 billion to FRW 99 billion) and higher Non-Interest Income (from FRW 44 billion to FRW 50 billion) which more than offset the increase of operational costs and provisions expenses of banks (from FRW 104 billion to FRW 112 billion). Return on Equity (ROE) remained unchanged at 9.6 percent in the first half of 2018, the same level it was in the first half of 2017 as growth in profits matched capital injections performed by banks.

Growth of non-interest income picked-up and supported the performance of banks. Non-interest income grew by 14 percent (year-on-year) as at end June 2018 (from FRW 44 billion to FRW 50 billion), higher than 8 percent registered in the corresponding period of last year. Banks' non-interest incomes is composed of fees and commissions (with share of 48 percent); foreign exchange income (23 percent); and other incomes (29 percent). Other incomes are dominated by recoveries from written-off loans. High growth of non-interest income during the period under review happened in foreign exchange income (by 19 percent) and other incomes (by 18 percent). Fees and commissions increased by 9 percent.

Looking at cost structures, the banking sector staff expenses reduced, as banks strive to achieve operational efficiency. Total banking sector staff costs reduced by 0.1 percent (year-on-year) in the year ended June 2018, after increasing by 9.1 percent in the corresponding period of 2017. Staff costs account for more than a third (35 percent) of total operational expenses of Rwandan banking sector. The reduction of staff costs was achieved mainly through staff headcount reduction, as the total number of banking sector staff reduced from 5,545 in June 2017 to 5,384 in June 2018. On the other hand, staff cost per employee also remained stable around FRW 2,200 per hour between June 2017 and June 2018, indicating that banks maintained wages stable. Other elements of operational costs increased though: Provisions for bad debt increased by 17.4 percent (year-on-year) in the year to end June 2018, up from 14 percent growth in the corresponding period of 2017. Growth of provisional expenses was partly influenced by the implementation of general provisional requirements. During the same period, other expenses that includes IT related expenses, increased by 17 percent, following a reduction of 1.4 percent in the previous year. The operating cost-to-income ratio, used to measure efficiency, reduced from 48.2 percent as at end June 2017 to 45.5 percent as at end June 2018.

Table 4: Income and Expenses Structure of Banks

Income & Expenses (FRW billion)	Jun-16	Jun-17	Jun-18	% Change 16/17	% Change 17/18
Interest Income	118.9	129.9	145.6	9.3	12.0
Non-Interest Income	40.8	44.2	50.2	8.4	13.5
Total Income	159.6	174.1	195.7	9.1	12.4
Interest Expenses	34.0	37.5	46.5	10.5	23.8
Provisions for Bad Debts	17.1	19.7	23.0	14.7	17.3
Operating Expenses	79.7	84.0	89.0	5.3	6.0
Total Expenses	130.8	141.1	158.5	7.9	12.3
Profit After Tax	19.4	22	23	11.1	6.3
ROA (%)	1.7	1.7	1.6		
ROE (%)	9.2	9.6	9.6		
Efficiency Ratio (%)	49.9	48.2	45.5		

Source: NBR, Financial Stability Directorate

Banks' Foreign Exchange Exposure

Overall exposure to exchange rate risks remained low. The Net Open Position (NOP) which shows the vulnerability of the banking sector's capital position to exchange rate movements continued to be within the regulatory limits. NBR prudential rule stipulates that foreign exchange exposure shall not exceed +/- 20 percent of the bank's core capital. As at June 2018, the NOP of banks stood at -6.2 percent, compared to -6.1 percent in June 2017. In addition, the share of foreign currency denominated loans in total loans stood at 15 percent in June 2018, compared to 14.2 percent in June 2017, therefore minimizing foreign exchange risk.

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6 SYSTEMIC RISKS ASSESSMENT

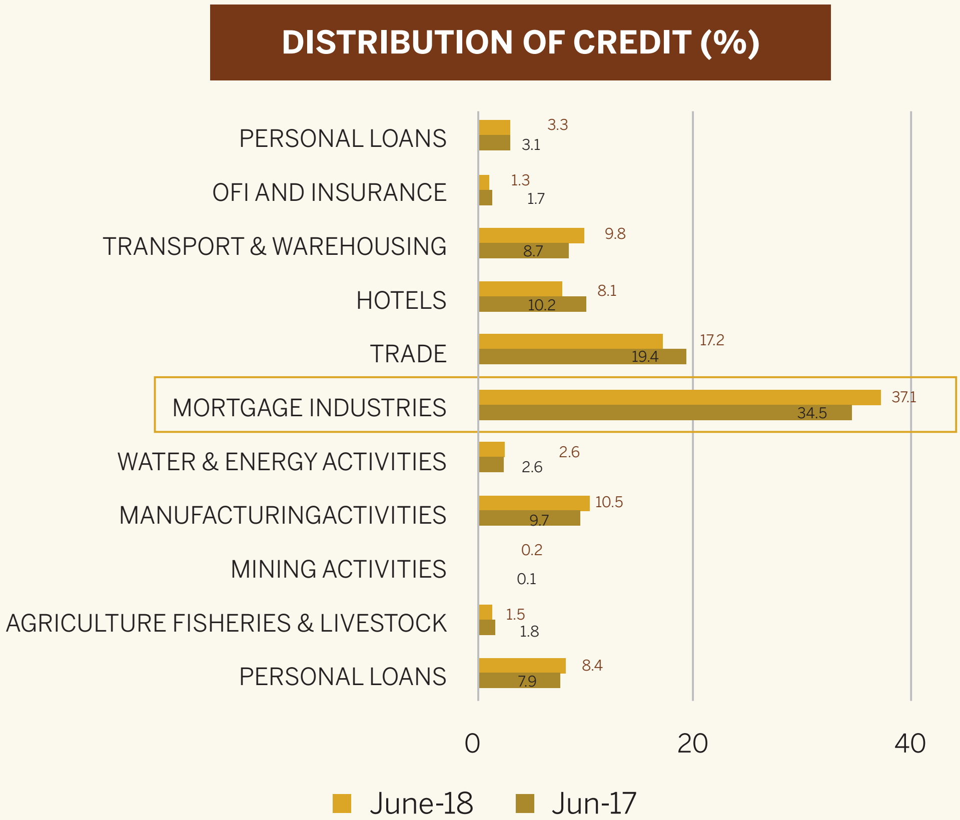
In pursuing financial stability, NBR regularly monitors developments of systemic risks facing the financial sector, with the ultimate objective of implementing the necessary mitigation policies. Systemic risks assessed by NBR refer to existing or evolving conditions in the financial sector that make the financial sector vulnerable when faced with economic and financial shocks. These risks relate to the structure of the financial sector, the interconnectivity, the structure of their asset portfolio and, the status of household and corporate sector balance sheet. Overall, the recent risk assessment has pointed at an improved picture compared to the prior year. Notwithstanding these improvements, NBR will continue assessing emerging risks to financial stability and implement the necessarily macro prudential tools. The section below summarizes the recent assessment of key risks facing the financial sector.

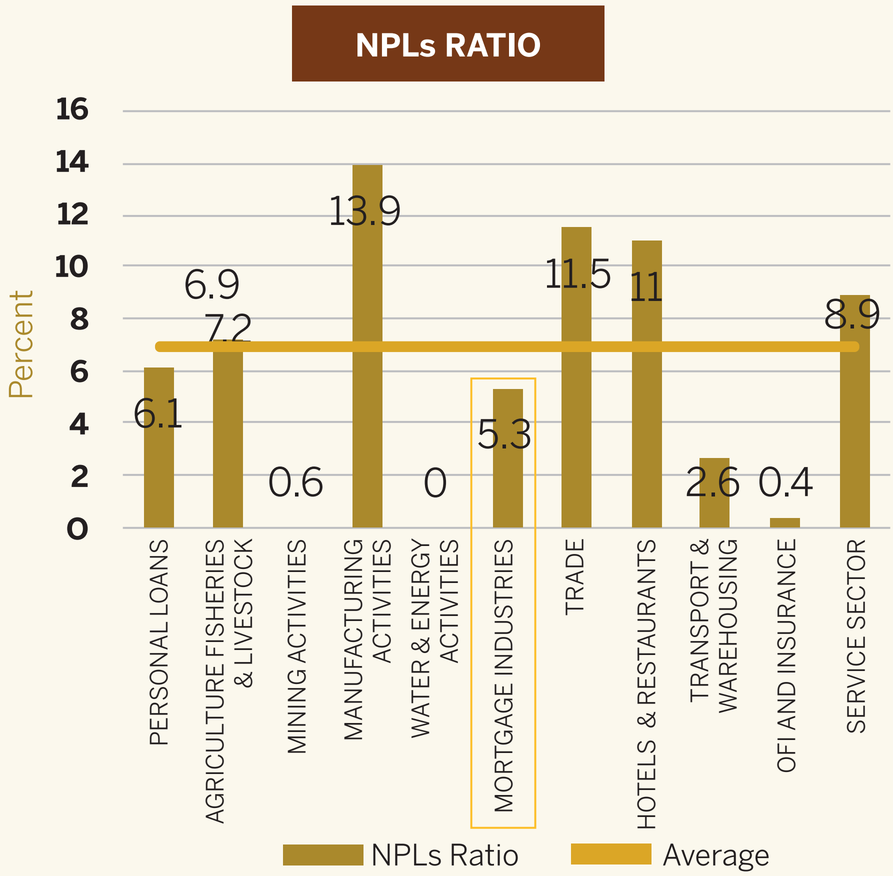
Concentration of Risks

The banking sector exposure to the mortgage sector remains the main risk facing the banking sector. As at June 2018, the sector wise distribution of credit (Figure 13) shows that banks' credit was more concentrated in mortgage (37.1 percent) and trade (17.2 percent) with lower credit directed to sectors like services (3.3 percent), water and energy (2.6 percent), agriculture (1.5 percent) and mining (0.2 percent). The ratio of mortgage credit increased to 37.1 percent in June 2018, from 34.5 percent in June 2017, implying that banks' exposure to risks arising from mortgages increased. Nonetheless, the mortgage sector continues to hold the low NPLs ratio (5.3 percent in June 2018, down from 5.8 percent in June 2017), indicating that the bigger portion of mortgage loans are performing. However, considering the low occupancy rate of commercial real estates and the increased supply of high and middle income housing, NBR is considering the implementation of "Loan to Value" as a macro prudential tool to curb these risks.

Banks' credit was more concentrated in mortgage **(37.1 percent) and trade (17.2 percent) with lower** credit directed to sectors like services **(3.3 percent), water and energy (2.6 percent),** agriculture **(1.5 percent) and mining (0.2 percent).**

Figure 13: Sectoral Credit Concentration





Source: NBR, Financial Stability Directorate

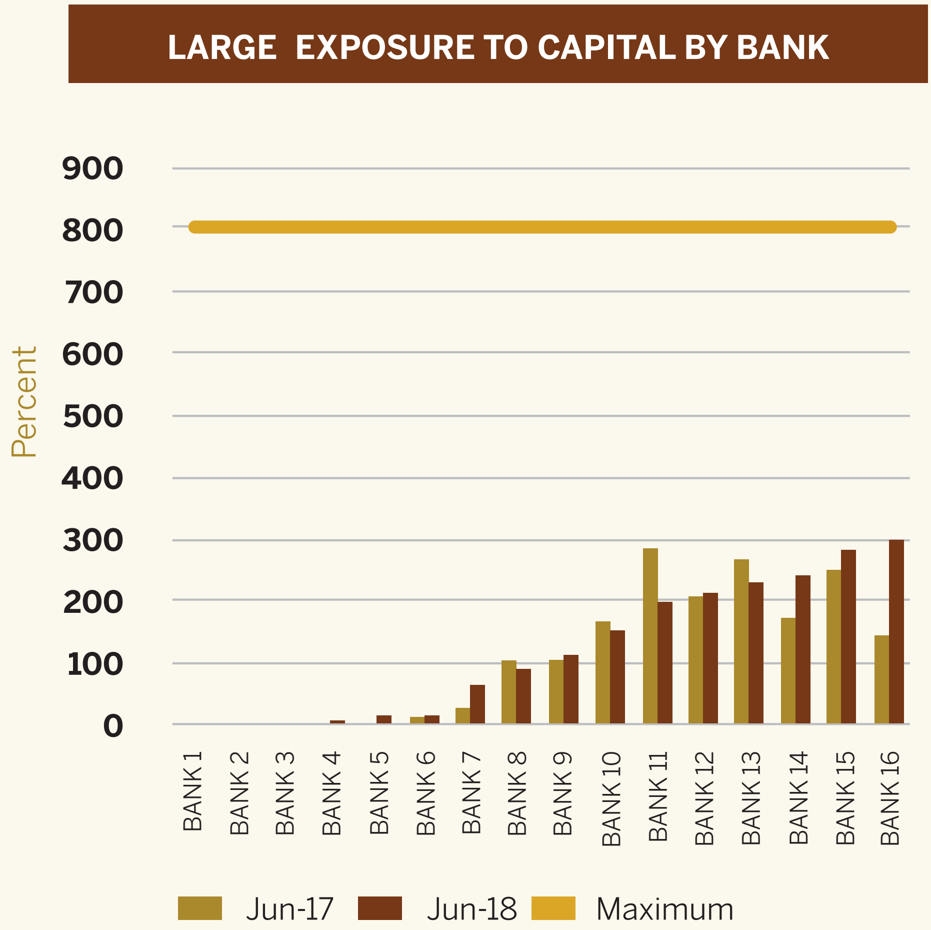
Households Indebtedness

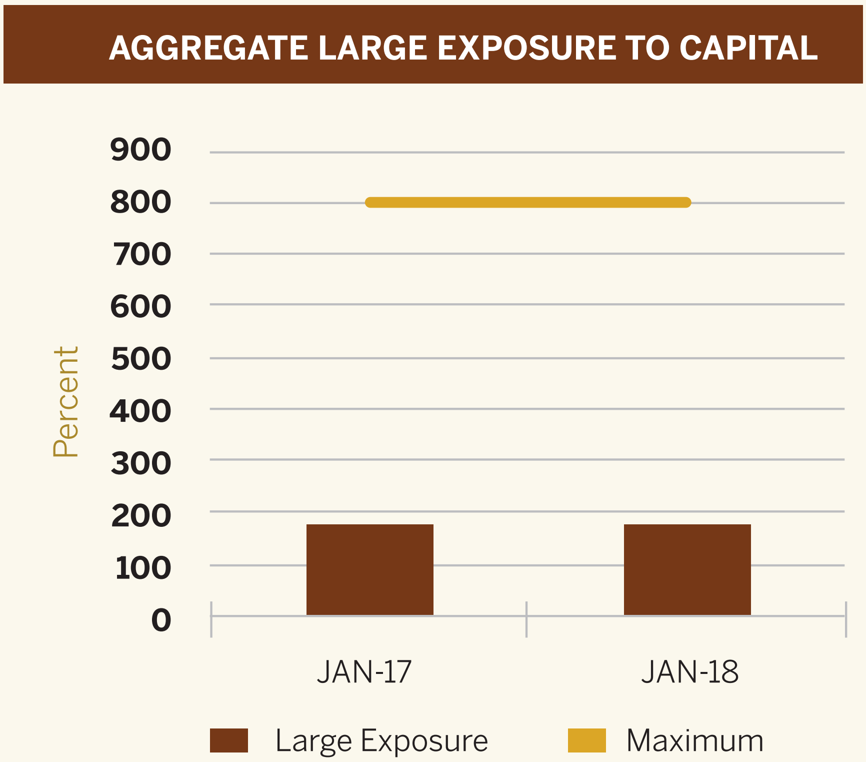
Risks of high household debt remain minimal in Rwanda. With the ratio of banking sector credit to GDP at 21.8 percent, the household debt risks are minimal. In fact, the household Debt Service Ratio (DSR) that measures the debt burden of households relative to their disposable income stood at 7.4 percent in December 2017, compared to 51 percent in developed countries. These two ratios indicate that banks have opportunities to increase household financing, although this has to be guided by availability of feasible and bankable projects.

Large Exposures

The banking sector lending to large exposures remained within prudential standards (Figure 14). NBR regulation n°13/2017 of 23/11/2017 on transactions with bank related parties and management of credit concentration sets out prudential limits for large exposures whereby a large exposure is defined as the sum of all exposures of a bank to a single counterparty that are equal to or above 10 percent of its Tier 1 capital. The regulation requires banks to limit loans to large exposures to below 8 times its core capital. Banks observed this requirement as total loans to large exposures, as at end June 2018, was 1.7 times the banking sector core capital, lower than 8 times limit. By this regulation NBR seeks to minimize risks of large losses associated with the failure of a single counterparty.

Figure 14: Large Exposure in Banks





Source: NBR, Financial Stability Directorate

7 MICROFINANCE SECTOR

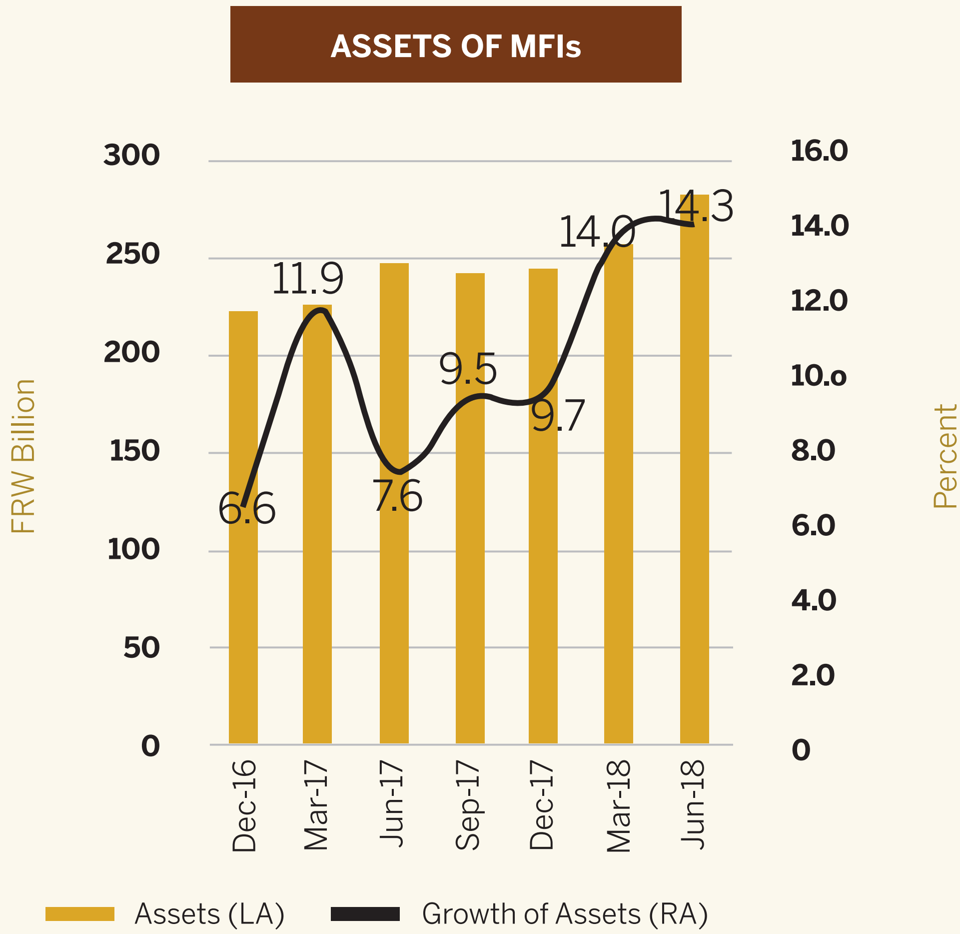
Microfinance institutions (MFIs) continue to play a paramount role in fostering financial inclusion. During the period under review, the number of account holders in MFIs increased from 3,356,523 in June 2017 to 3,687,851 in June 2018, while the number of outstanding loans increased form 222,871 in June 2017 to 253,936 in June 2018. The structure of microfinance sector remained unchanged with 473 institutions of which: 416 Umurenge SACCOs (U-SACCOs), 38 non-Umurenge SACCOs and 19 SACCOs with limited liabilities. The sections below summarize the performance of microfinance sector during the year ended June 2018.

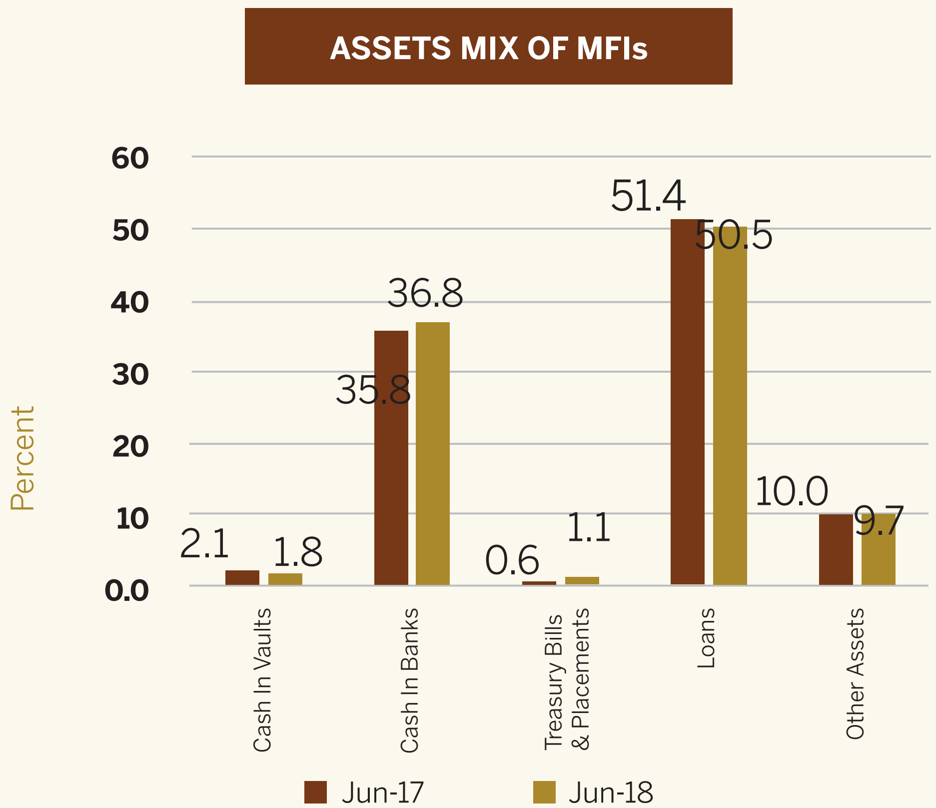
During the period under review, the number of account holders in MFIs increased from 3,356,523 in June 2017 to 3,687,851 in June 2018, while the number of outstanding loans increased form 222,871 in June 2017 to 253,936 in June 2018. The structure of microfinance sector remained unchanged with 473 institutions of which: 416 Umurenge SACCOs (U-SACCOs), 38 non-Umurenge SACCOs and 19 SACCOs with limited liabilities.

Growth of Assets of MFIs

The balance sheet of the microfinance sector continued to grow during the period under review (Figure 15). Total assets of MFIs increased by 14.3 percent (from FRW 247.7 billion in June 2017 to FRW 283.1 billion in June 2018), higher than 7.6 percent a year before. The improved growth of assets of MFIs mainly reflects increased growth of deposits (+17 percent), increased equity capital (+11.4 percent) and borrowings (+ 42.5 percent). Loans and placements in banks remained the main components of the MFIs' assets accounting for 50.5 percent and 36.8 percent of the total assets respectively.

Figure 15: Assets of Microfinance Institutions



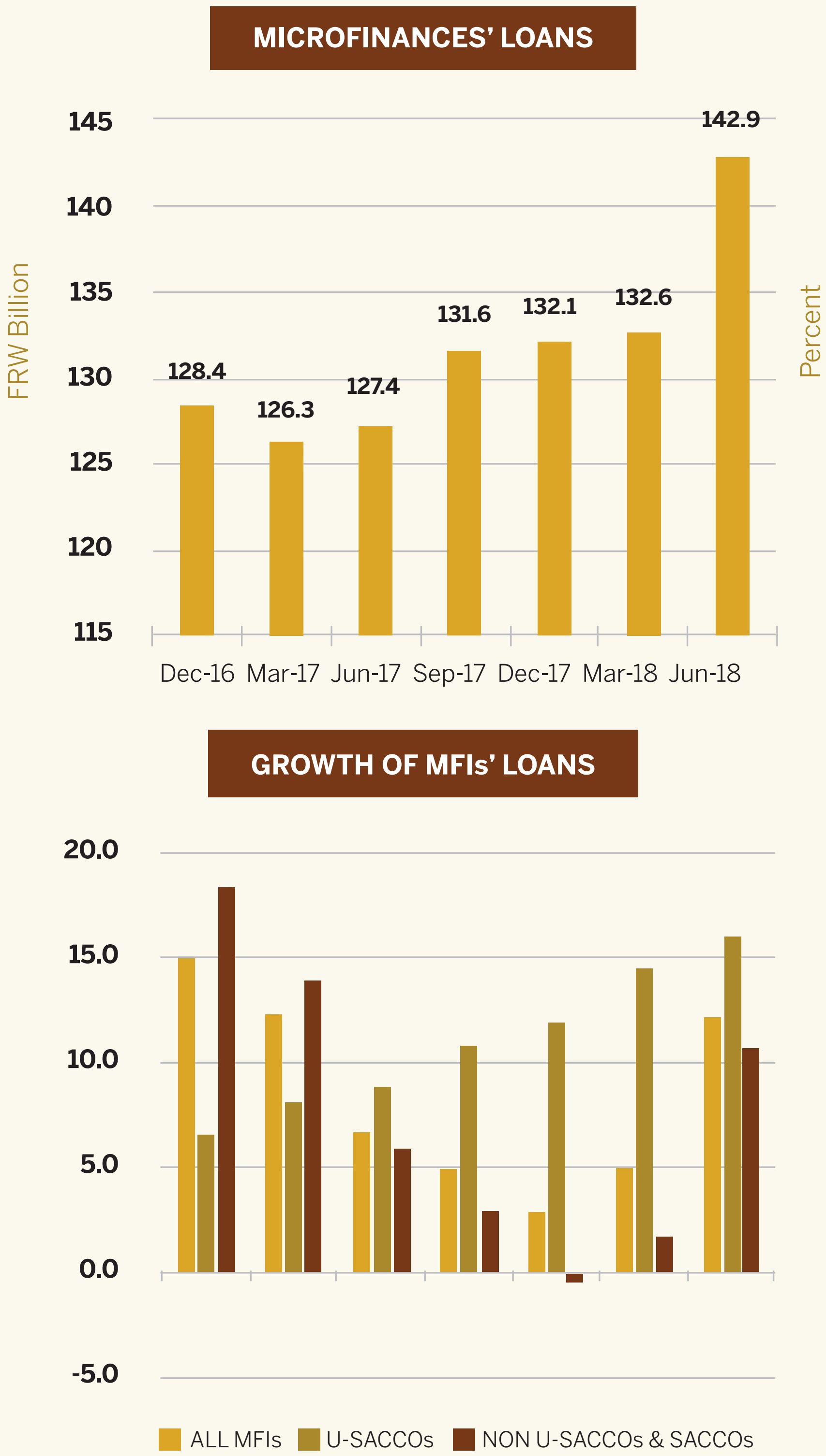


Source: NBR, Financial Stability Directorate

Lending Development in MFIs

Unlike in the banking sector, lending in MFIs improved in the wake of increased funding (Figure 16). As at June 2018, the total outstanding credit expanded by 12.1 percent (from FRW 127.4 billion in June 2017 to FRW 142.9 billion in June 2018), compared to 6.7 percent growth registered in the corresponding period of 2017. Loans in U-SACCOs (which account for 28.6 percent of total MFIs loans) grew by 16 percent, up from 8.9 percent growth registered a year before.

Figure 16: Lending Development in Microfinance Institutions

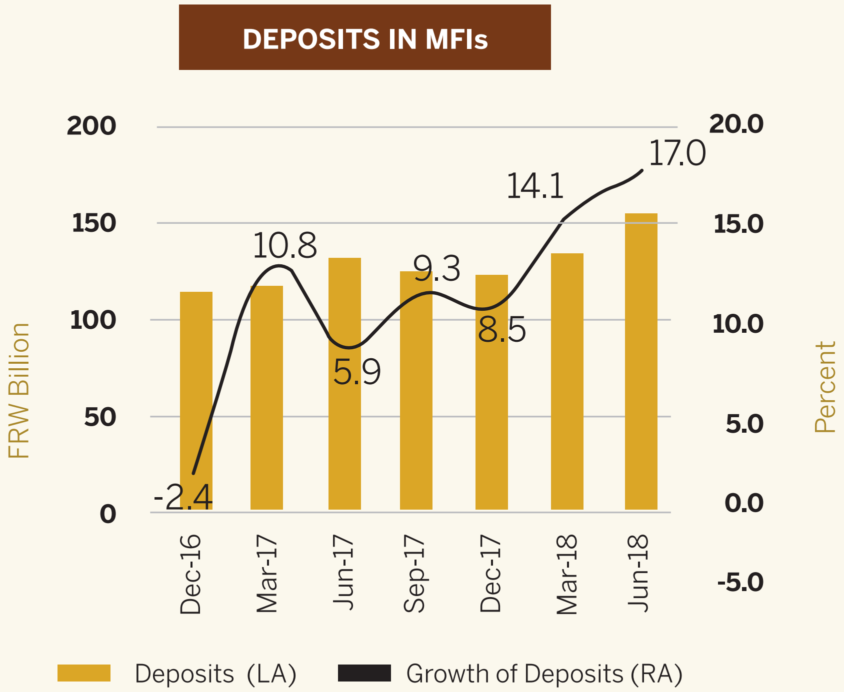


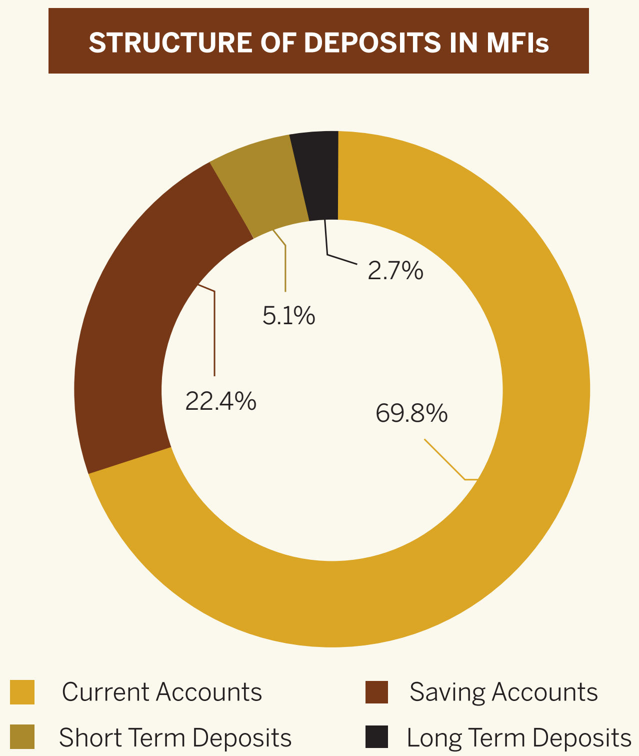
Source: NBR, Financial Stability Directorate

Funding Development in MFIs

On the liability side, customers' deposits remained the main source of funding for MFIs and constituted 82 percent of total liabilities as at end June 2018. Deposits grew by 17 percent (from FRW 133.4 billion in June 2017 to FRW 156.1 billion in June 2018), higher than the growth of 5.9 percent observed in June 2017 (Figure 17). Demand deposits dominate the composition of deposits with a share of 69.8 percent as at end June 2018. On the other hand, saving account deposits, short term deposits and long term deposits constituted 22.4 percent, 5.1 percent and 2.7 percent of total deposits respectively.

Figure 17: Deposits in Microfinance Institutions





Source: NBR, Financial Stability Directorate

The Capital and Liquidity Conditions of MFIs

The microfinance sector maintained sufficient capital and liquidity positions as at end June 2018. Total Capital Adequacy Ratio (CAR) stood at 32.5 percent, higher than 15 percent prudential requirement. The CAR for Umurenge SACCOs, a sub-sector of the MFI sector, stood at 32.1 percent. With regard to liquidity, the liquidity ratio of MFIs stood at 103.3 percent, compared to 30 percent prudential requirement. The higher capital and liquidity buffers held by MFIs reflect their asset mix, with cash in vault and deposits in banks accounting for 40 percent of total assets of MFIs, while the outstanding loans represent 50.5 percent of total assets of MFIs. Over time, as investment opportunities increase, MFIs are expected to invest this capital buffer to more income generating assets.

Assets Quality of MFIs

The asset quality for MFIs improved during the first half of 2018. The NPLs ratio in MFIs reduced from 12.3 percent in June 2017 to 8 percent in June 2018. In terms of amount, NPLs in MFIs reduced from FRW17 billion in June 2017 to FRW 12 billion in June 2018. The reduction of the NPLs ratio was more pronounced in Limited Liability MFIs (from 20.9 percent to 8.7 percent). The NPLs ratio in Umurenge SACCOs reduced from 13 percent to 12.4 percent. The reduction of NPLs during the first half of 2018 is attributable to write-offs of bad loans, especially in Limited Liability MFIs, and the improved economic performance, especially of agriculture, in the last quarter of 2017 and the first half of 2018.

Profitability of MFIs

Profits of the microfinance sector recovered to FRW 3.3 billion in the first half of 2018, from a loss of FRW 118 million in the first half of 2017. Average ROE for the MFIs increased from -0.3 percent to 3.7 percent during the same period. Profits mainly came from SACCOs. Profits of Umurenge SACCOs was FRW 1.9 billion, slightly below the profits of FRW 2 billion achieved in the first half of 2017, while profits of other non U-SACCOs increased from FRW 1.5 billion to FRW 2.1 billion. On the other hand, Limited Liability MFIs registered losses amounting to FRW 653 billion, compared to the loss of FRW 3.6 billion registered in the first half of 2017. Higher provision expenses related to non-performing loans caused losses in Limited Liability MFIs.

Table 5: Financial Soundness Indicators of MFIs

FSIs (Percent)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Benchmark
CAR	33.8	33.3	36.0	35.8	34.4	32.5	≥15
NPLs ratio	11.7	12.3	8.0	8.2	8.8	8.0	≤ 5
ROA	-1.7	-0.1	1.7	1.0	1.4	2.5	-
ROE	-4.9	-0.3	5.2	2.9	4.1	7.5	-
Liquidity ratio	91.0	99.1	95.9	102.0	107.0	103.3	≥30

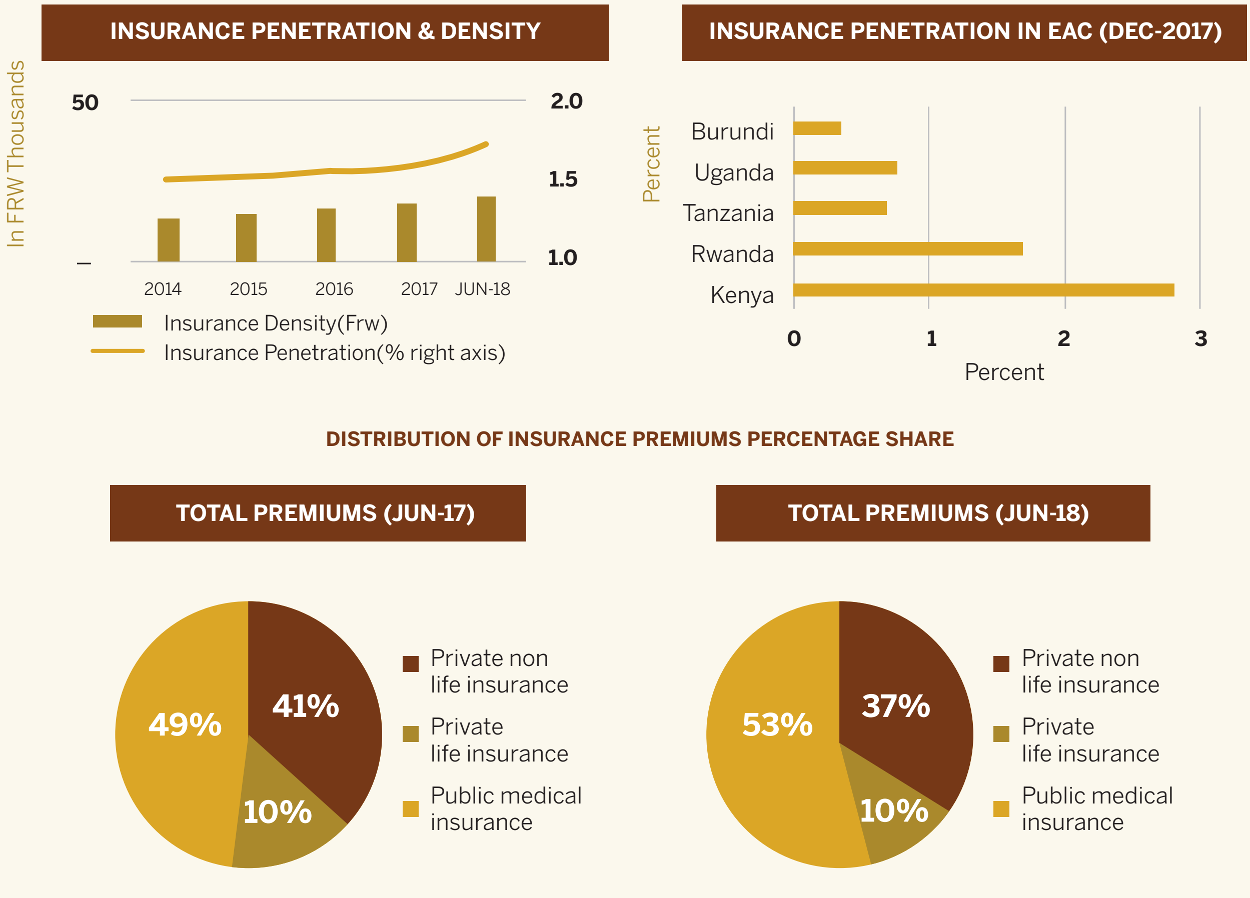
Source: NBR, Financial Stability Directorate

8 INSURANCE SUB-SECTOR

The last financial year was marked by continued improvement of the insurance sector performance. Following the measures put in place in 2016 to streamline the private insurers' business conduct, a steady improvement in the performance of private insurers is observed. Profits of private insurers increased, mainly underpinned by high growth of premiums, slowdown of growth of operational expenses and claims. The solvency position of private insurers has improved, standing at 149 percent in June 2018 from 61 percent in June 2017, and higher than 100 percent prudential minimum. The sections below highlight the details of the insurance sector performance during FY2017/18.

During the period under review, the insurance density – measured as gross premiums relative to active population improved to FRW 20,943 in June 2018 from FRW 17,813 in June 2017 (Figure 18). This improved insurance density was largely driven by 26 percent growth of total premiums collected in public medical insurers and 35 percent growth of total premiums in private non-life insurance business due to the recent increase of motor insurance premiums rates. Despite this improvement, the insurance penetration (Gross premiums relative to GDP) remains low at 1.7 percent as at June 2018, the same level it was in June 2017.

Figure 18: Insurance Business Market and Growth



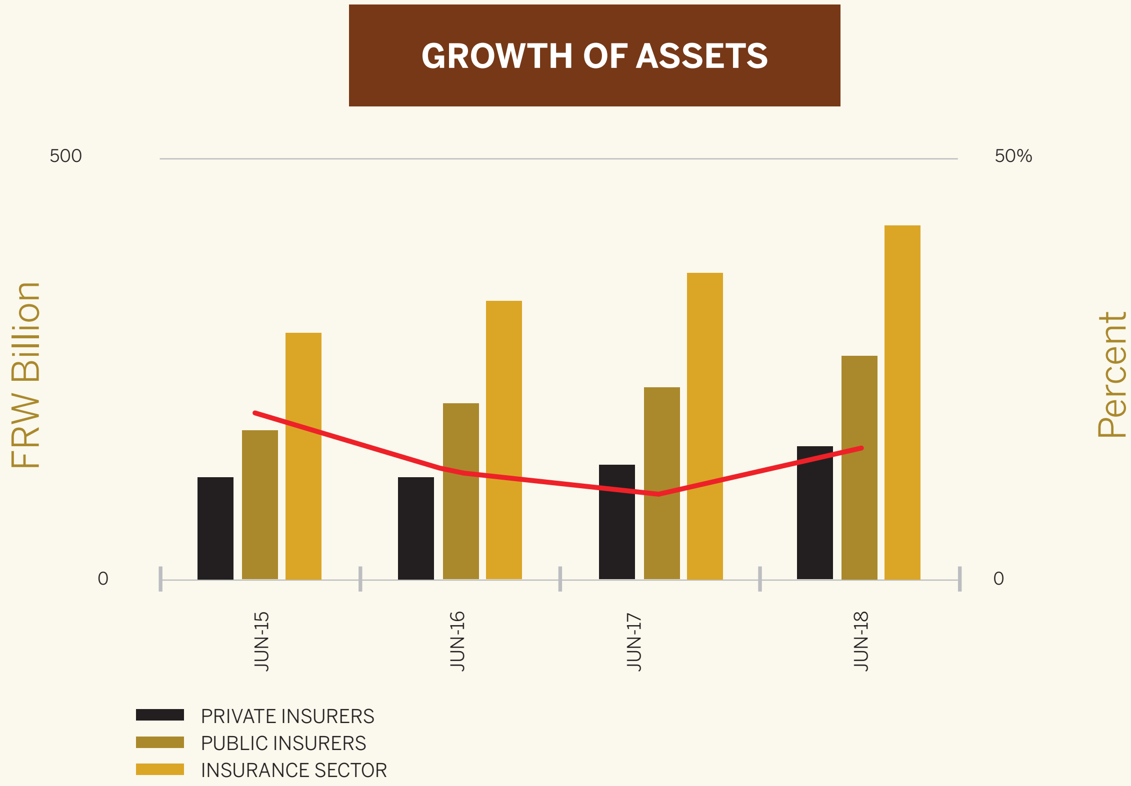
Source: **NBR, Financial Stability Directorate**

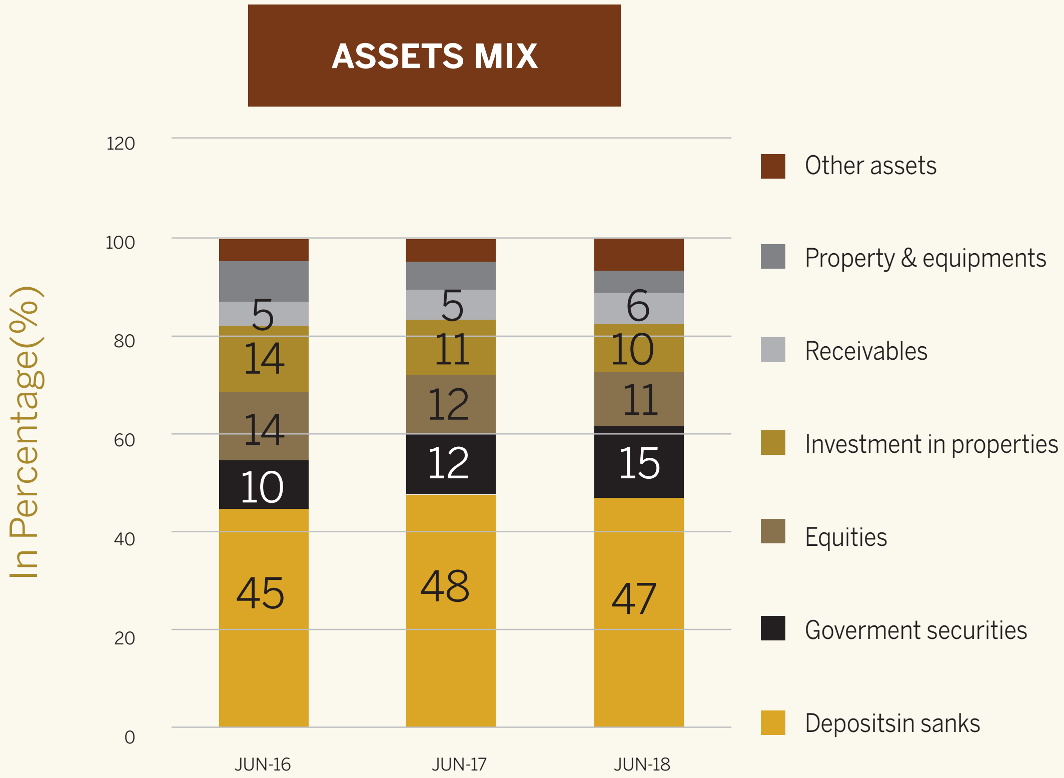
The Balance Sheet of Insurance Sector

The assets of insurance sector increased by 15 percent (from FRW 366.5 billion in June 2017 to FRW 423 billion in June 2018), compared to 10.2 percent achieved in the corresponding period of 2017. Improved growth of the insurance sector assets was driven by retained earnings from public insurers and capital injections of several private insurers during the period between June 2017 and June 2018.

Insurance sector assets are dominated by placements in banks and investment in Government securities (Figure 19). As at end June 2018, placements in banks accounted for 47 percent insurance sector assets from 48 percent as at June 2017, followed by investment in Government securities at 15 percent of total assets from 12 percent as at June 2017. Insurers also continued to meet the investment limits established by the NBR on asset classes. On a consolidated basis, total investment in properties was at 10 percent as at June 2018 from 11 percent as at June 2017, which is lower than 30 percent maximum prudential limit. Similarly, total insurance sector investment in equity was 11 percent of total assets as at June 2018 from 12 percent as at June 2017, which is lower than the 30 percent prudential maximum. Other assets accounted for 16 percent of total assets as at June 2018, from 18 percent as June 2017. General insurers, with short-term liabilities, maintained their investment in short-term instruments like placements in banks. On the other hand, life insurers relatively maintained their investments in long-term assets (real estate, treasury bonds) that match their long-term liabilities.

Figure 19: Composition and Growth of Assets of Insures





Source: NBR, Financial Stability Directorate

Growing technical reserves continued to strengthen the resilience of the sector to insurance risks during the period under review. Technical reserves remains the largest component of total liabilities with the share of 77 percent of total liabilities of insurance sector and represent 36 percent of total capital of insurance sector as at June 2018. During the period under review, the insurance sector's technical reserves increased by FRW 5.5 billion to FRW 85.5 billion in June 2018. The sector's technical reserves continued to grow in line with underwritten insurance risks, reflecting the adequacy of insurers' provisioning against losses.

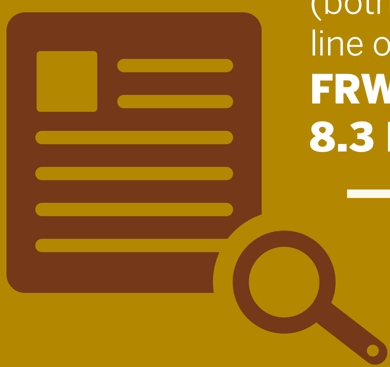
Profitability of Insurance sector

Profits of the insurance sector improved mainly due the strong growth of premiums. Profits (after tax) of the insurance sector increased from FRW 18.6 billion as at June 2017 to FRW 24.9 billion as at June 2018. The improvement happened in both underwriting returns and investment income. The underwriting returns of the insurance sector (both public and private), which is the core business line of insurance companies, increased from FRW 6.3 billion in June 2017 to FRW 8.3 billion in June 2018. During the same period, the improved underwriting returns is noticeable among private insurers from a loss of FRW 4.2 billion to a loss of FRW 3 billion.

The improved underwriting returns of private insures reflects the high growth of net premiums earned, especially on motor insurance product. Over the period under review, private insurers total premium written increased by 12 percent to FRW 37.7 billion, higher than 10.2 percent registered last year. On the other hand, during the same period, total expenses of private insurers increased by 4 percent (claims marginally increased by 0.5 percent, while operational expenses increased by 9.8 percent). The combined ratio of private insurers, that compares total expenses to net premiums earned, reduced from 87 percent in June 2017 to 86 percent in June 2018, compared to 90 percent maximum prudential standard (Table 6).

The improved profits of the insurance sector also reflects higher investment income. As at June 2018, investment income of the insurance sector (both private and public) grew by 34 percent to FRW 17 billion. Investment income for private insurers increased by 17 percent to FRW 6.1 billion, and supported private insurers to absorb the underwriting losses incurred on their core business. Growth of investment income was underpinned by increased yield on earning assets from 8.2 percent in June 2017 to 9.6 percent in June 2018. The higher yield was supported by the increase of average deposit rate from 7.8 percent to 7.9 percent. The fact that 47 percent of insurance sector assets are placements in banks, the increase in deposit rate boosted their investment income.

The NBR's priorities to support further improvement of private insures performance are summarized in the directive no 6/2018 of 23/08/2016 on conduct of insurance business. The provisions of this directive seek to address the challenges that were identified to strain the sector: These challenges relate to price undercutting; selling insurance policies on credit; fraud in claims and; higher growth of management expenses. Ensuring that these challenges are steady and adequately addressed remains the top priority for NBR with regard to sustaining the stability of the insurance sector. Since 2016, when the directive was established, positive results are surfacing in-form of reduced growth of claims and a slowdown of growth of management expenses.



The underwriting returns of the insurance sector (both public and private), which is the core business line of insurance companies, increased from **FRW 6.3 billion in June 2017 to FRW 8.3 billion in June 2018.**

During the same period, the improved underwriting returns is noticeable among private insurers from a loss of **FRW 4.2 billion to a loss of FRW 3 billion.**

Table 6: Key Profitability Indicators (Percent)

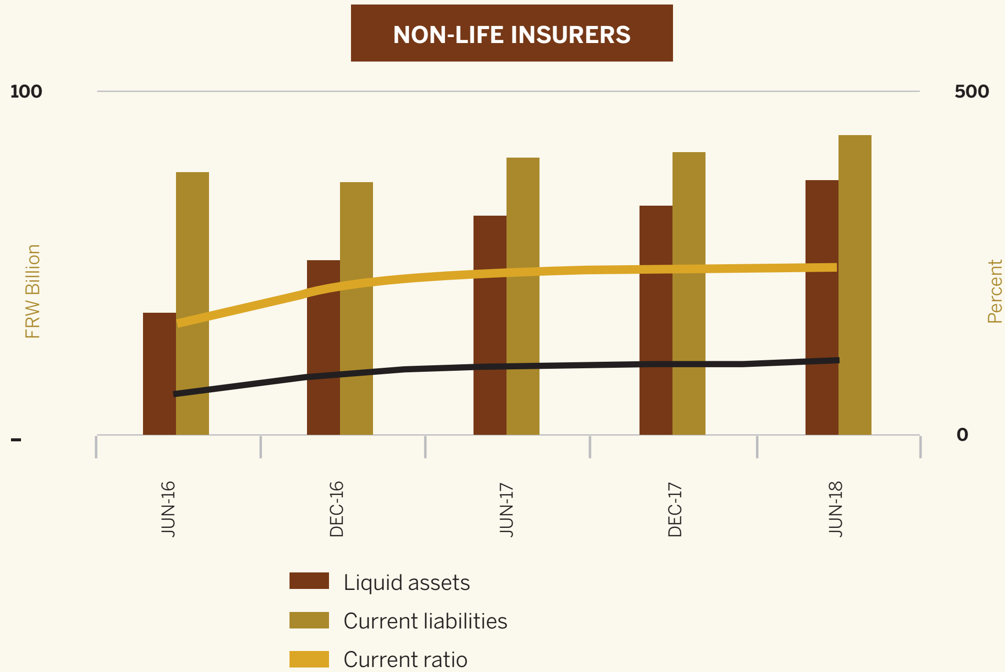
Key ratios	Jun-15	Jun-16	Jun-17	Jun-18
Insurance sector				
Claims ratio (max.60%)	54	66	59	59
Expenses ratio (max. 30%)	32	36	28	27
Combined ratio (max.90%)	85	102	87	86
ROE (min. 16%)-Annualized	13	8	14	16
ROA (min. 4%)-Annualized	10	6	10	12
Private non-life Insurers				
Claims ratio (max.60%)	63	83	71	60
Expenses ratio (max. 30%)	47	50	41	47
Combined ratio (max.90%)	111	132	112	106
ROE (min. 16%)-Annualized	-3	-40	2	12
ROA (min. 4%)-Annualized	-1	-11	1	5
Private life Insurers				
Claims ratio (max.60%)	63	59	66	80
Expenses ratio (max. 30%)	45	54	47	46
Combined ratio (max.90%)	108	113	113	126
ROE (min. 16%)-Annualized	13	7	14	0.22
ROA (min. 4%)-Annualized	4	2	2	0.04
Public medical Insurers				
Claims ratio (max.60%)	43	53	48	55
Expenses ratio (max. 30%)	13	18	11	10
Combined ratio (max.90%)	56	70	59	65
ROE (min. 16%)-Annualized	16	14	16	17
ROA (min. 4%)-Annualized	16	14	16	17

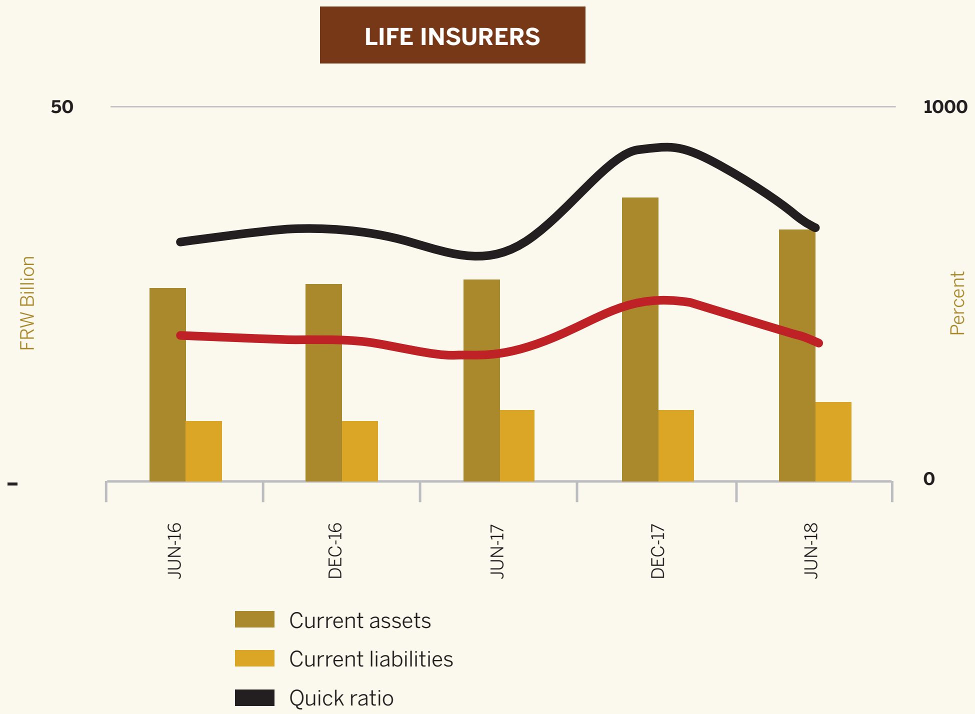
Source: **NBR, Financial Stability Directorate**

Liquidity Positions

The insurance sector continue to hold sufficient liquidity during the period under review (Figure 20). On a consolidated basis, the liquidity ratio of insurance sector, which compares current assets to current liabilities, improved from 333 percent in June 2017 to 353 percent in June 2018, which is above the minimum prudential requirement of 150 percent. A high liquidity buffer demonstrates that insurance companies possess adequate liquid assets to satisfy their policyholder's financial obligations. Liquid assets of insurance companies comprise of cash; bank deposits (with less than 1-year maturity), treasury bills and receivables. On the other hand, insurance sector current liabilities are composed of payables and technical reserves. A focused look at the financial statements of non-life insurance companies, that require more liquidity, suggests that a large proportion of their assets is invested in liquid assets (66 percent). By nature of their short-term liabilities, non-life insurance business requires adequate liquidity positions to cater for plausible large number of claims.

Figure 20: Liquidity Positions

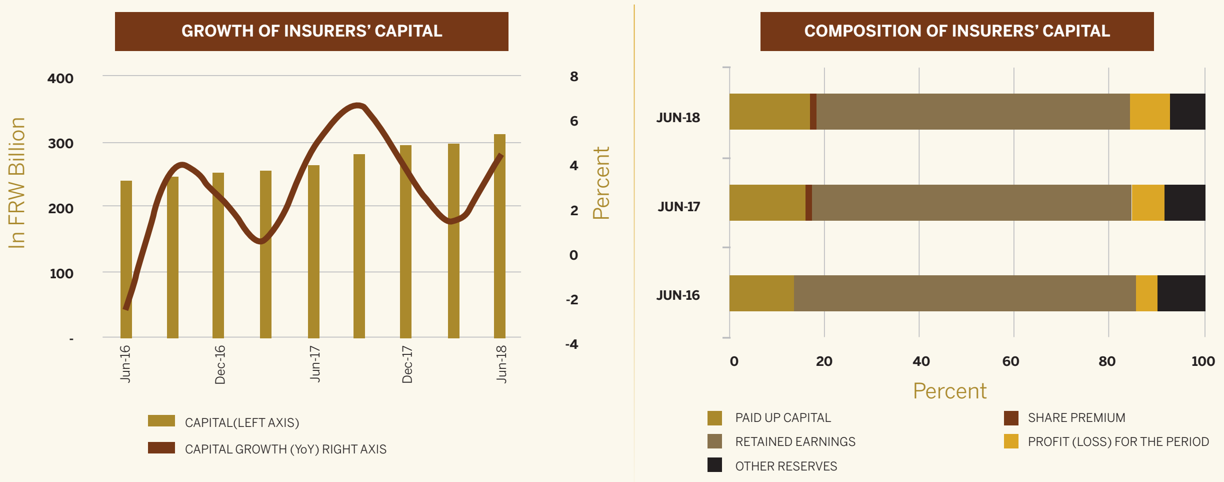




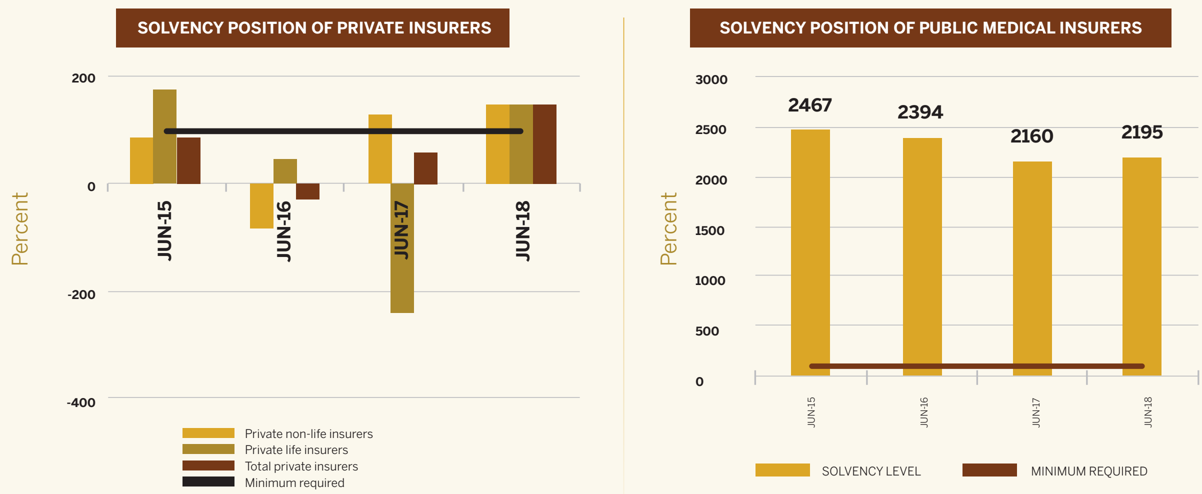
Capital Adequacy

Aggregate private insurers' solvency margins – a measure of the strength of insurers' capital buffers held to cover losses – strengthened to 149 percent in June 2018, compared to 61 percent in June 2017 and 100 percent prudential requirement (Figure 21). The improved solvency position of private insurers was driven by capital injections by some insurance companies.

Figure 21: Composition of Total Capital and Solvency Position



SOLVENCY POSITION OF PRIVATE INSURERS IMPROVED SIGNIFICANTLY, WHILE PUBLIC INSURERS' SOLVENCY POSITION REMAINS HIGHLY ADEQUATE.



Source: NBR, Financial Stability Directorate

9 PENSION SUB-SECTOR

The pension sector is the second largest sub-component of the financial sector, with 17.4 percent of total financial sector as at end June 2018. The sector is largely composed of the public pension scheme, although the licensing of private pension schemes started in January 2018, following the new pension law. The pension sector is an integral component of the Rwandan financial sector because it provides the retirement assurance for the working population, but also remains a source of long-term funds for financing long-term investments. As at June 2018, the total placements of pension fund in banks amounted to FRW 199.7 billion, and around 68 percent of this is term deposits.

The number of pension fund contributors increased during the period under review from 465,579 to 539,441. Nonetheless, the level of pension penetration in Rwanda remains low at 8 percent. Efforts to increase this penetration include laying the legal foundation for the development of the private pension schemes. Following the revised pension law of 2015, which provided for the licensing and supervision of private pension schemes, the NBR started licensing private pension schemes. As at end June 2018, NBR had licensed 10 private pension schemes of which 6 are complementary pension schemes and 4 personal pension schemes. The NBR has also licensed several service providers including 3 custodians, 5 investment managers, 4 administrators as well as 1 trustee for these schemes. As at June 2018, these schemes had 37,739 contributing members. The overall rationale for licensing and supervising these private schemes is to ensure their stability and growth.

The balance sheet of the pension fund continued to grow in the year ended June 2018, mainly due to increased contributions (Table 7). The total assets of pension fund increased by 13.3 percent (from FRW 661.3 billion in June 2017 to 749.2 billion in June 2018), up from 13 percent registered last year. This growth mainly came from increased contributions, which grew by 14.8 percent (from FFW 77.5 billion to FFRW 89 billion), compared to 4 percent registered in the corresponding period of last year. This increase was largely driven by increased number of contributors that increased from 465,579 in June 2017 to 539,441 in June 2018. The growth of investment income slowed to 6.9 percent (From FRW 27.4 billion in June 2017 to 29.3 billion in June 2018), compared to 18.6 percent growth registered in corresponding period of last year

Table 7: Key Financial Highlights of RSSB-Pension Fund

DESCRIPTION (FRW Billion)	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	% change Jun-17/16	% change Jun-18/17
Total assets	455.9	512.1	584.5	661.3	749.2	**13**	**13.3**
Total contributions	55.5	59.7	74.5	77.5	89.0	**4**	**14.8**
Total benefits paid	11.9	14.9	15.8	17.7	21.1	**12**	**19.1**
Operating expenses	7.1	4.3	4.7	4.5	5.9	**-4.3**	**31.4**
Investment Income	20.2	21.0	23.1	27.4	29.3	**18.6**	**6.9**

Source: NBR, Financial Stability Directorate

Equities (both quoted and unquoted) represent the largest portion of the pension fund's assets (36 percent up from 33 percent in June 2017). Investment in these equities increased by 22 percent (from FRW 217.2 billion in June 2017 to 264.7 billion in June 2018), after reducing by 11 percent in the previous year (Table 8). The increase of pension fund equity investments is mainly attributable to increased share prices in some quoted equities as well as new investments in unquoted equities.

Cash and bank balances are the second most significant asset category representing 27 percent of the fund's assets. Term deposits represented 68 percent of these balances as at June 2018, down from 72 percent as at June 2017 and 86 percent in June 2016. It is worthwhile noting that the fund's current accounts, which act as collection accounts prior to making investment decisions, are also remunerated in a bid to optimise returns.

The pension fund reduced their exposure in Government securities. The total pension fund investment in Government securities reduced from FFRW 98.4 billion in June 2017 to 92.8 billion in June 2018, implying a 5.7 percent decline. Similarly, during the same period, the pension fund total investment in property also dropped from FFRW 117.5 billion to FRW 98.4 billion, implying a 16.3 percent decline.

Table 8: The Investment Mix of RSSB-Pension Fund

Description (FRW billion)	Jun-15	Jun-16	Jun-17	Jun-18	% share	% change Jun-18/17
Government Securities	77.7	97	98.4	92.8	13%	-6%
Equities	166.6	199.7	217.2	264.7	36%	22%
Properties	112.8	117.2	117.5	98.4	13%	-16%
Cash & Bank balances	137.5	156.5	187	199.7	27%	7%
Other investments & securities	14.3	12	39.3	78.9	11%	101%
TOTAL	**508.9**	**582.4**	**659.4**	**734.5**		**11%**

Source: NBR, Financial Stability Directorate

The level of contributions to RSSB remains adequately higher compared to the benefits paid. As at end June 2018, benefits paid were 23.7 percent of contributions. The RSSB invests the surplus on contributions[9] to meet the future liabilities. The low number of beneficiaries as compared to the number of contributors reflects the demographic structure of the Rwandan population, where the percentage of the retiring age population is 3 percent of the total population, while the working age population is 58 percent of total population[10].

[9] The figure includes all contributors who paid their premiums within the financial year 2016/2017.

[10] Source of data: NISR population estimate based on the 2012 census.

10 PAYMENT SYSTEMS

NBR has the statutory obligation to maintain an efficient, reliable and secure payment systems, which are critical to the stability of the financial sector. To that end, NBR operates the Rwanda Integrated Payment Processing System (RIPPS), which combines the Automated Transfer System (ATS) and Central Securities Depository (CSD). The ATS is a hybrid system providing integrated facilities for clearing and settlement of all interbank electronic payments while the CSD component accommodates all securities issued in Rwanda in a book entry form.

During the year to June 2018, the two components of RIPPS continued to operate efficiently without notable incidents that would have had an impact on financial stability. In particular, ATS smoothly processed all credit transfers and cheques without delay or loss. As at June 2018, ATS settled 3,810,388 transactions worth FRW 8.3 trillion, compared to 3,178,071 transactions worth FRW 7.1 trillion a year before, representing an increase of 20 percent in volume and 17 percent in value.

ATS settled **3,810,388** transactions worth **FRW 8.3 trillion,** compared to **3,178,071** transactions worth **FRW 7.1 trillion** a year before, representing an increase of **20 %** in volume and **17%** in value.

NBR achieved an important milestone by launching a cheque truncation system. In March 2018, NBR introduced a modern system for clearing cheques which is most secure and fastest mode of cheques clearing. The system will bring speed, efficiency and security to the whole chain of processes related to payment by cheques. NBR has also undertaken several initiatives to bring more efficiency, safety and resilience in the payment environment. These initiatives include the implementation of a payment system oversight framework, reinforcement of the payment system regulatory framework and the enactment of the new regulations on money remittance services among others. All these initiatives are expected to improve the efficiency, competitiveness and security in payment environment.

11 KEY REGULATORY DEVELOPMENTS

The NBR continues to make progress on establishing and reviewing the regulatory policies required for an efficient and stable financial sector. In reviewing these policies, NBR aimed at mitigating potential risks to the financial sector, strengthening the resiliency of the financial sector, aliening the legal framework to international standards, aliening the regulatory framework to the EAC convergence criteria. The section below summarize key regulatory reforms implemented since the last FSR.

The revised Banking Law was published in October 2017. The revised banking law provides a foundation for compliance with the Basel core principles for effective banking supervision. Particularly, the new law, among other things, revised the licensing conditions, strengthened the corporate governance requirements, provides for effective consolidated supervision, spells-out prompt corrective actions and recovery measures. The revised banking law provides a foundation for Rwanda to comply with EAC financial sector convergence criteria. Following the publication of this law, the NBR is reviewing its implementing regulations.

In August 2018, the NBR issued a regulation n° 2100/2018 – 009 [614] of 25/07/2018 on risk management for banks. This regulation aims to promote the adoption of risk management principles and procedures to provide for an effective risk management system/ program and internal control systems to enable banks to properly identify, measure, monitor and control their risk exposures. The regulation requires banks to adopt a holistic and integrated approach for identification, measurement, monitoring, control, and reporting of all risk in accordance with the guidelines attached to this regulation. The regulation requires that the risk management program of banks should contain the following elements: active board and senior management oversight; adequate policies procedures and limits; adequate internal controls; adequate risk monitoring and management information systems.

NBR revised its data reporting regulation. Through the regulation N° 2100 /2018 – 008 [614] of 25/07/2018 on reporting requirements published in July 2018, NBR aims to implement an electronic reporting platform - Electronic Data Warehouse system (EDWH). The DWH refers to a large store of data accumulated from a wide range of sources within Central Bank stakeholders and used to guide Central Bank monetary policy and financial stability decisions. The regulation requires all supervised institutions to submit their reports to NBR electronically as well as providing access to NBR pull data directly from supervised institutions. The full migration to the new data reporting process is expected to commence in October 2018, and it is expected to enhance off-site bank supervision through improved timely reporting and improved quality of data.

The NBR provided guidance on the computation of the new liquidity standards (the LCR and the NSFR) through directive n° 01/2018 of 15/02/ 2018 on the computation of the liquidity. The NBR adopted the new Basel III compliant liquidity standards in 2017 through a regulation. The new standards aimed at strengthening the liquidity risk management of banks, benchmarking with international best practices, facilitating international rating of local banks and, positioning banks for international fund raising. Through this directive the NBR provides guidance on: Characteristics and eligible High Quality Liquid Assets (HQLA); calculation of Net cash outflows and net cash inflows for the purpose of the LCR; criteria for defining available stable funds and required stable funds.

The NBR also provided guidance on implementation of new capital standards through directive n° 02/2018 OF 15/02/ 2018 on computation of capital charge for credit, market and operational risk treatment.

The directive enforces a standardized approach on credit risk assessment by mentioning prudential risk weights for on-balance sheet and off-balance sheet assets. Through this directive, the NBR also provides guidance on the scope of application of external rating agencies for credit risk assessment. The directive also provides guidance on computation of market risk and operational risks.

In January 2018 the NBR issued regulation n° 02/2018OF 24/01/2018 on cyber security to contain cyber security threats to the financial sector. As the financial sector continuously adopt the latest technology, the NBR sought to mitigate cyber security risks through this directive. The directive established the minimum prudent standards to banks for their protection against cyber threats and for protection of customer information. Through this regulation, the NBR requires banks to establish adequate information security governance framework; to maintain a cyber-security policy, strategy and program based in their own cyber risk assessments. Overall, the directive requires banks to establish effective internal control measures that secure customer information, that protect the bank from operational disruptions and; that contain fraud or theft related IT hacking.

In February 2018, the regulation n° 01/2018 of 24/01/2018 on corporate governance for banks was published in official gazette n° 6 bis of 05/02/2018. In this regulation, the NBR outlined corporate governance principles aliened to the new banking law. This regulation calls for identifying responsibilities in the managerial and operational structure of the banks and reinforcing key components of risk governance.

In order to promote and maintain efficient, fair, safe and stable insurance market in the country, NBR enacted the regulation nº 11/2017 of 23/11/2017 on corporate governance, risk management and internal controls requirements for insurance business. This regulation establishes requirements for corporate governance, risk management and internal controls requirements for insurance business to ensure effective oversight of the insurance business basing on the nature, scale and complexity of the insurance business being regulated. It provides further the means by which members of the board and senior management are held accountable and responsible for their actions.

The revised regulation on credit classification and provisioning was published in official gazette nº 49 bis of 04/12/2017. The regulation n°12/2017 of 23/11/2017 on credit classification and provisioning governs credit classification and provisioning, to ensure that banks promptly identify and monitor their nonperforming credit facilities and undertake adequate measures to manage credit risk in their portfolios.

The revised law on prevention and punishment of money laundering and terrorism financing was also published in official gazette nº 37 of 10/09/2018. The law nº 69/2018 of 31/08/2018 on prevention and punishment of money laundering and terrorism financing, which reviewed the law n° 47/2008 of 09/09/2008 on prevention and punishment of the crime of money laundering and financing terrorism, aims at preventing and punishing money laundering and financing terrorism. This law will enhance the compliance with international standards on Anti-Money Laundering and Financing of Terrorism (AML/CFT) set by the Financial Action Task Force (FATF). The law further catered for the gaps that were identified in the AML/CFT assessment report undertaken by World Bank in 2014.

Conclusion

The domestic macroeconomic environment was conducive for the stability and development of the financial sector during the year to end June 2018. The strong economic growth, stable exchange rate and low inflation environment supported the financial sector business during the last financial year. The positive macroeconomic outlook is expected to continue supporting growth and stability of the financial sector.

The financial sector maintained adequate capital and liquidity buffers, sufficient to withstand economic and financial shocks. Banks complied with the new capital and liquidity standards (Basel II & Basel II) established by NBR. However, the overall risk assessment has pointed at increased concertation risk in mortgage sector. In this respect, NBR is contemplating the implementation of the loan to value as a macro prudential tool to tame this risk.

The performance of private insurers improved on both solvency and profitability. The measures put in place by the NBR to streamline the private insurers business is steadily paying-off inform of improved performance of private insurers. Further improvement of private insurers business is expected in the coming years, as the full effects of the recent policy reforms take effect.

Going forward, NBR will focus its efforts on strengthening the financial sector legal and regulatory framework, as well as enhancing the micro and macro-prudential supervision.

12 ANNEXES

ANNEXES

Annex 1: Banking Sector – Balance Sheet (FRW billions)

BALANCE SHEET	2016			2017				2018	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
A. ASSETS									
Cash (domestic notes and coins)	64.4	70.9	65.3	67.4	64.6	58.1	66.1	64.5	61.2
NBR with Balances	133.5	104.6	121.6	119.7	137.0	143.4	146.6	137.5	157.2
Due from banks in Rwanda	114.3	83.5	122.0	122.6	124.7	128.1	167.4	244.1	187.6
Due from with Banks Abroad	114.8	107.1	215.5	181.3	234.0	203.8	169.2	178.1	202.8
Government Securities	229.2	206.5	187.9	209.1	227.7	276.8	271.8	306.9	288.4
Investments and Other Securities	148.2	118.9	83.7	81.7	81.1	106.2	110.3	107.8	120.5
Loans & Overdrafts (gross)	1370.6	1444.5	1457.4	1531.6	1579.9	1600.2	1646.1	1664.6	1723.1
Less: Provisions	47.9	52.0	54.3	63.2	67.0	61.9	66.9	77.8	92.8
Loans & Overdrafts (Net)	1322.7	1392.4	1403.1	1468.4	1512.8	1538.3	1579.2	1586.8	1630.3
Fixed Assets (net)	97.9	98.1	115.7	114.5	115.3	117.4	123.6	123.1	123.4
Other Assets	53.1	65.1	54.7	65.9	74.5	59.2	51.2	58.4	53.2
Total Assets (net)	**2278.2**	**2247.3**	**2379.5**	**2430.6**	**2571.7**	**2631.3**	**2685.5**	**2807.2**	**2824.5**
B. LIABILITIES									
Due to banks in Rwanda	265.1	300.2	312.7	302.5	334.7	386.3	396.2	425.6	400.7
Borrowings from NBR	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.8	0.0
Deposits	1507.1	1437.1	1530.3	1579.8	1674.4	1680.4	1722.6	1803.4	1833.0
Due to Banks Abroad	6.3	5.7	7.7	4.6	5.1	5.0	7.3	6.0	9.7
Bills Payable	0.4	0.3	1.1	0.2	3.5	0.1	0.1	12.8	9.5
Other Liabilities	80.5	72.6	86.4	101.2	100.4	97.0	100.6	80.5	90.3
Total Liabilities	**1859.4**	**1815.9**	**1938.3**	**1988.3**	**2118.1**	**2168.8**	**2226.8**	**2337.0**	**2343.2**
C. CAPITAL									
Paid-up-Capital	189.1	189.1	189.7	198.8	208.7	206.4	209.6	257.2	260.1
Share Premium	36.5	36.6	36.6	36.1	34.7	38.3	37.3	37.3	38.7
Retained Reserves	28.0	28.7	33.2	33.7	27.8	21.7	20.0	22.8	15.9
Other Reserves/ Subordinated Debt	145.7	144.9	144.1	162.7	160.8	165.5	163.2	143.9	143.8
Profit/loss	19.4	32.1	37.7	11.1	21.5	30.6	28.5	9.2	22.9
Total Shareholders' funds	**418.8**	**431.4**	**441.3**	**442.3**	**453.6**	**462.5**	**458.6**	**470.2**	**481.3**
Total equity and liabilities	**2278.2**	**2247.3**	**2379.5**	**2430.6**	**2571.7**	**2631.3**	**2685.5**	**2807.2**	**2824.5**
D. OFF BALANCE SHEET ITEMS									
Guarantees and Performance Bonds	640.8	609.1	747.8	760.5	756.7	783.6	786.5	825.2	826.3
Unused Loans/ Overdrafts commitment	96.7	120.1	147.4	142.9	131.0	121.6	119.8	122.3	101.8
Other off balance sheet items	252.6	254.6	263.1	258.3	275.5	288.1	279.4	355.7	359.0
Total	**990.1**	**983.8**	**1158.3**	**1161.7**	**1164.1**	**1193.3**	**1185.7**	**1303.2**	**1287.0**

Source: Financial Stability Directorate

Annex 2: Banking Sector – Income Statement (FRW billions)

INCOME STATEMENT	2016			2017				2018	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
A.INCOME									
Interest Income/ Advances	102.6	155.8	207.2	55.0	113.3	170.7	231.0	60.9	123.0
Interest Income/ Government Securities	10.2	17.3	26.2	5.3	10.4	17.7	24.7	6.6	14.0
Interest Income on placement	6.1	9.6	10.9	2.5	6.1	9.1	12.9	4.2	8.5
Other interest income	-	-	-	-	-	-	0.0	2.0	0.0
Commissions	16.4	25.8	38.4	11.0	22.2	34.2	46.3	10.9	24.1
Foreign Exchange Income	11.1	16.2	20.4	4.6	9.6	14.9	20.3	4.6	11.4
Other Income	13.2	25.3	32.0	7.1	12.5	19.6	27.0	4.8	14.7
Total Income	**159.6**	**250.0**	**335.0**	**85.6**	**174.1**	**266.2**	**362.2**	**94.0**	**195.7**
B.EXPENSES									
Interest Expense – Deposits	26.7	40.3	55.4	14.1	28.3	41.9	57.2	15.5	32.3
Other Interest Expenses	7.2	11.3	13.9	4.5	9.2	15.8	22.4	7.3	14.2
Provisions for Bad Debts	17.1	27.9	42.0	8.6	19.7	30.4	53.1	12.2	23.0
Salaries, Wages, staff costs	36.0	53.8	69.7	19.1	39.2	58.3	77.0	18.6	39.2
Premises, Depreciation, Transport	13.8	21.0	28.6	7.4	15.2	22.7	30.3	8.6	15.2
Other Expenses	30.0	49.0	68.7	15.4	29.5	48.0	68.0	15.4	34.6
Total Expenses	**130.8**	**203.3**	**278.4**	**69.1**	**141.1**	**217.1**	**308.1**	**77.5**	**158.5**
Net Profit Before Tax	28.8	46.7	56.7	16.5	33.0	49.1	54.1	16.5	37.2
Corporation Tax	9.5	14.5	18.4	5.4	11.5	18.5	25.6	7.7	14.4
Net Profit After Tax	**19.4**	**32.1**	**38.3**	**11.1**	**21.5**	**30.6**	**28.5**	**8.7**	**22.9**

Source: Financial Stability Directorate

Annex 3: Banking Sector – Financial Soundness Indicators (Percent)

FINANCIAL SOUNDNESS	2016			2017				2018	
INDICATORS	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
CAPITAL ADEQUACY									
Core Capital / RWA	20.7	20.0	20.0	19.6	19.2	20.5	20.0	19.5	19.7
Total Qualifying Capital /RWA	23.3	22.2	21.9	21.2	20.8	22.3	21.4	21.1	21.4
Leverage ratio	-	-	-	-	-	-	-	11.7	11.8
Off Balance Sheet Items / Total Qualifying Capital	262.5	260.2	304.9	307.5	303.7	290.4	298.7	303.7	297.5
Insider Loans / Core Capital	3.5	3.6	2.4	4.4	5.2	5.2	6.0	5.9	5.9
Large Exposures / Core Capital	122.7	141.0	149.5	161.1	172.2	153.5	169.6	164.7	174.9
NPLs – Provisions / Core Capital	19.2	20.1	21.0	22.7	23.3	21.0	20.5	12.8	11.4
ASSET QUALITY									
NPLs / Gross Loans	7.0	7.5	7.6	8.1	8.2	7.7	7.6	6.8	6.9
NPLs net of interests/Gross loans	5.9	6.0	5.7	6.4	6.4	6.6	6.6	5.5	5.2
Provisions / NPLs	42.7	43.4	42.7	44.4	44.9	43.8	46.7	59.2	67.2
Earning Assets / Total Asset	81.9	82.6	82.4	81.4	81.9	81.8	83.0	78.9	80.8
Fixed Assets / Core Capital	29.3	28.7	33.4	32.8	32.5	31.1	33.3	31.6	31.1
Large Exposures / Gross Loans	25.6	29.9	31.0	32.1	33.6	31.7	33.6	34.2	34.8
EARNINGS (ANNUALISED)									
Return on Average Assets	1.7	1.9	1.7	1.8	1.7	1.6	1.1	1.3	1.6
Return on Average Equity	9.2	10.0	8.8	10.1	9.6	8.9	6.2	7.9	9.6
Net Interest Margin	10.3	10.2	10.4	10.1	9.9	9.5	8.8	9.8	9.6
Yield on Advances	15.2	14.8	14.3	14.7	14.6	14.3	14.2	14.7	14.5
Cost of Deposits	3.6	3.6	3.7	3.6	3.5	3.3	3.4	3.5	3.5
Cost to Income	82.0	81.1	83.1	80.7	81.1	81.5	85.1	82.5	81.0
Overhead cost to Income	49.9	48.9	49.9	49.0	48.2	48.5	48.4	45.3	45.5
LIQUIDITY									
Short term Gap	10.4	3.6	2.3	5.7	6.8	5.5	5.9	4.9	6.6
Liquidity Coverage Ratio (LCR)	-	-	-	-	-	-	-	-	299.5
Net Stable Funding Ratio (NSFR)	-	-	-	-	-	-	-	-	224.7
Liquid Assets / Total Deposits	42.8	42.3	42.5	43.3	44.0	43.7	46.7	49.4	-
Interbank Borrowings / Total Deposits	17.6	20.9	20.4	19.1	20.0	23.0	23.0	23.6	21.9
NBR Borrowings / Total Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.0
Gross Loans / Total Deposits	106.2	112.3	109.1	110.8	108.4	108.7	108.9	106.5	109.0
MARKET SENSITIVITY									
Forex Exposure / Core Capital	-1.8	-6.3	-7.0	-7.4	-6.1	-7.2	-7.8	-4.5	-6.2
Forex Loans / Forex Deposits	55.7	46.1	38.8	43.5	42.5	44.1	46.7	49.4	45.4
Forex Assets / Forex Liabilities	82.3	81.6	81.6	82.3	82.6	79.8	80.4	76.5	82.0

Source: Financial Stability Directorate

Annex 4: Microfinance Sector – Balance Sheet (FRW billions)

	2016			2017				2018	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
A. ASSETS									
Cash in Vaults	4.5	4.0	2.8	4.5	5.3	4.7	3.6	4.9	5.1
Cash in Banks	85.0	69.5	67.4	69.7	88.7	78.3	78.6	87.6	104.3
Treasury Bills& Placements	0.8	0.9	1.0	1.2	1.6	1.6	2.1	2.2	3.2
Gross Loans	124.5	131.1	134.1	136.0	138.7	137.5	138.3	139.3	150.4
Less Provisions	5.1	5.8	5.7	9.8	11.2	5.9	6.2	6.6	7.5
Loan Portfolio (Net of Provisions)	119.5	125.3	128.4	126.3	127.4	131.6	132.1	132.6	142.9
Other Assets	20.5	21.7	23.1	24.2	24.8	26.2	27.9	30.2	27.6
TOTAL ASSETS	**230.3**	**221.5**	**222.7**	**225.9**	**247.7**	**242.5**	**244.3**	**257.5**	**283.1**
B. LIABILITIES									
Total deposits	126.0	116.1	114.5	118.2	133.4	126.9	124.1	135.0	156.1
Current Accounts	95.0	82.4	80.2	82.9	96.4	88.3	82.6	88.5	109.0
Saving Accounts	24.7	25.9	26.1	26.6	28.5	29.5	31.7	33.9	34.9
Short Term Deposits	5.7	7.2	7.4	5.9	6.4	6.9	7.3	8.0	7.9
Long Term Deposits	0.6	0.6	0.7	2.7	2.2	2.2	2.5	4.5	4.3
Borrowings& Short Term Liabilities	18.7	19.8	17.7	18.3	13.8	13.6	18.9	19.5	19.6
Other Liabilities	15.8	12.1	12.1	13.0	18.1	14.6	13.7	14.5	15.5
Total Liabilities	**160.5**	**148.0**	**144.2**	**149.5**	**165.2**	**155.1**	**156.8**	**168.9**	**191.2**
EQUITY									
Earnings	18.0	20.7	23.3	18.7	17.5	20.3	19.1	20.2	20.2
Retained Earnings/Accumulated Losses	13.7	13.6	13.4	19.6	17.7	17.2	16.7	19.3	16.8
Net Profit/Loss of Period +/- (From January)	4.3	7.1	9.8	-0.9	-0.1	3.1	2.4	0.9	3.3
Paid up Capital	26.6	27.6	28.9	29.8	33.5	34.1	35.2	34.6	35.8
Other Equity	25.1	25.1	26.3	27.9	31.5	33.0	33.2	33.8	36.0
Total Equity	**69.7**	**73.5**	**78.5**	**76.4**	**82.5**	**87.3**	**87.5**	**88.7**	**91.9**
TOTAL LIABILITIES& EQUITY	**230.3**	**221.5**	**222.7**	**225.9**	**247.7**	**242.5**	**244.3**	**257.6**	**283.1**

Source: Financial Stability Directorate

Annex 5: Microfinance Sector – Income Statement (FRW billions)

INCOME STATEMENT	2016			2017				2018	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
Financial Revenue	19.9	30.7	41.9	10.2	21.4	33.1	44.3	11.0	23.0
Financial Expenses	1.6	2.2	2.9	0.7	1.4	2.5	3.3	0.7	1.7
Net Financial Income before Provisions	18.3	28.4	39.1	9.5	20.0	30.6	41.0	10.3	21.3
Net Provision Expenses/Gains	-1.6	-2.4	-3.3	-4.0	-5.7	-5.5	-7.5	-0.9	-0.6
Financial Revenue (After Net Provisions)	16.7	26.1	35.8	5.5	14.3	25.0	33.5	9.3	20.8
Operating Expenses	12.3	18.7	26.0	6.7	14.0	21.5	30.3	8.1	16.5
Personnel Expenses	6.8	10.3	14.0	3.8	7.8	11.8	16.1	4.4	8.9
Net Operating Income	4.6	7.6	10.2	-1.1	0.5	3.9	3.7	1.3	4.5
Net Non-Operating Income/Expense	-0.2	-0.3	-0.2	0.1	-0.1	0.0	-0.2	-0.1	-0.3
Net Income (Before Taxes& Donations)	4.4	7.3	10.0	-1.0	0.4	3.9	3.5	1.3	4.2
Net Income (After Taxes & Before Donations)	4.2	6.9	9.5	-1.0	-0.2	3.0	2.2	0.9	3.2
Donations	0.1	0.2	0.4	0.0	0.1	0.1	0.2	0.0	0.1
Net Income after Taxes and after Donations	**4.3**	**7.1**	**9.8**	**-0.9**	**-0.1**	**3.1**	**2.4**	**0.9**	**3.3**

Source: Financial Stability Directorate

Annex 6: Insurance Sector – Balance Sheet (FRW Billions)

BALANCE SHEET	2016			2017				2018	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
A. ASSETS									
Cash and deposits in banks	157.9	142.7	167.6	178.0	175.1	198.9	208.9	209.5	203.5
Loans and receivables	15.3	21.3	11.8	12.7	24.7	26.5	25.9	24.1	26.1
Investment in securities/equities	70.5	89.8	88.3	89.4	92.9	84.7	90.4	97.5	112.0
Investments in affiliates	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Investment in property	45.8	45.6	46.9	39.3	39.4	40.8	40.3	41.3	41.5
Property and equipment	27.9	28.0	19.8	21.5	21.6	21.6	21.4	21.5	19.8
Intangible assets	1.0	1.0	1.0	1.0	1.0	1.1	1.0	1.2	1.3
Other assets	14.1	13.1	11.2	10.9	11.6	13.0	11.7	11.9	18.8
Total assets	332.6	341.7	346.8	353.0	366.5	386.7	399.8	407.2	423.0
B. LIABILITIES									
Unearned premiums	19.8	20.0	17.6	21.4	20.9	21.7	21.1	24.6	24.7
Unexpired risk provision	0.6	0.6	1.5	1.7	0.2	0.3	0.8	0.3	0.3
Claims reported outstanding	24.0	22.3	21.4	22.2	23.7	22.0	20.6	20.1	24.5
IBNR	3.2	3.5	3.6	5.5	6.5	6.7	6.5	4.3	4.3
Other Provisions	26.6	26.3	26.7	29.1	29.3	28.9	26.2	31.3	31.7
Technical provisions	74.2	72.6	69.5	79.9	80.6	79.6	75.2	80.6	85.5
Borrowings	0.3	0.1	0.2	0.3	0.0	0.2	0.2	0.0	0.0
Due to parent/affiliates companies	1.4	1.2	0.9	1.0	0.9	1.0	0.8	0.7	0.3
Dividend Payable	0.0	0.0	0.8	0.6	0.4	1.7	0.0	0.0	0.0
Other liabilities	18.6	20.9	23.2	19.1	18.9	20.5	26.5	27.6	25.9
Total liabilities	94.5	94.8	93.8	98.6	100.4	102.9	105.5	108.9	111.7
C. CAPITAL AND RESERVES									
Paid up capital	31.8	32.0	36.9	40.9	42.1	43.2	45.7	45.8	51.6
Share premium	0.3	0.3	5.0	5.0	5.0	5.0	13.1	5.6	5.0
Retained earnings	170.9	173.6	164.0	177.2	177.6	175.5	172.8	208.0	205.7
Profit(loss) for the period	10.0	18.2	23.9	8.7	18.6	29.4	40.1	11.4	24.9
Other reserves	24.8	22.8	23.1	22.5	22.9	30.7	22.6	27.5	24.1
Total capital and reserves	238.1	246.9	252.9	254.4	266.1	283.8	294.3	298.3	311.3
D. TOTAL LIABILITIES AND EQUITY	**332.6**	**341.7**	**346.8**	**353.0**	**366.5**	**386.7**	**399.8**	**407.2**	**423.0**

Source: Financial Stability Directorate

Annex 7: Insurance Sector – Income Statement (FRW Billions)

INCOME STATEMENT	2016			2017				2018	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
Gross premium written net of cancelation	56.1	78.1	104.2	30.3	59.7	90.7	120.9	36.9	70.2
Less: premium ceded to reinsurers (& coinsurers)	4.3	6.3	8.9	2.2	4.8	6.9	10.9	3.5	6.4
Net premiums written	51.8	71.8	95.3	28.2	54.9	83.8	110.0	33.4	63.7
Less: Variations in unearned premiums	2.6	2.7	0.3	2.9	2.5	2.2	0.9	2.2	2.3
Net premiums earned	**49.3**	**69.0**	**95.0**	**25.2**	**52.4**	**81.6**	**109.1**	**31.2**	**61.4**
Less: Claims incurred	32.9	41.1	54.7	14.1	31.0	44.1	60.3	18.6	36.3
Commissions paid to agents (brokers)	-1.9	-3.5	-4.0	-0.8	-1.7	-2.7	-4.1	-1.2	-1.9
Management expenses	-15.9	-21.3	-30.5	-6.1	-12.9	-19.1	-27.3	-6.7	-14.9
Other Expenses	-0.6	-0.7	-1.1	-0.3	-0.6	-0.7	-1.0	0.0	0.0
Total Expenses	-51.3	-66.7	-90.4	-21.4	-46.2	-66.6	-92.7	-26.5	-53.1
Net underwriting profit (loss)	**-2.0**	**2.4**	**3.9**	**3.9**	**6.3**	**15.0**	**16.4**	**4.7**	**8.3**
Investment income	**9.3**	**12.9**	**16.7**	**4.5**	**11.0**	**13.2**	**20.8**	**5.8**	**15.1**
Other income	3.0	3.4	4.5	0.7	1.8	2.4	4.8	1.1	1.9
Finance costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Extraordinary charges/income	0.0	0.2	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Net income from operations	**10.2**	**18.9**	**25.9**	**9.1**	**19.1**	**30.6**	**42.2**	**11.6**	**25.3**
Provision for tax (income tax expenses)	0.2	0.7	1.3	0.4	0.5	1.2	2.0	0.2	0.4
NET INCOME AFTER TAXES	**10.0**	**18.2**	**24.6**	**8.7**	**18.6**	**29.4**	**40.1**	**11.4**	**24.9**

Source: Financial Stability Directorate

Annex 8: Insurance Sector – Assets Quality Ratios (Percent)

Indicators	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18	Benchmark
Insurance sector						
Investments in properties to total assets	14	15	14	11	10	≤30
Equity securities to total assets	12	14	14	12	11	≤30
PPE to total capital	15	13	12	8	6	N/A
Cash and deposits/total assets	49	44	45	48	47	≤100
Receivables/total assets	5	6	5	7	6	N/A
Government securities to total assets	4	6	10	12	15	≤100
Private non-life Insurers						
Investments in properties to total assets	20	19	19	13	12	≤30
Equity securities to total assets	12	15	10	9	9	≤30
PPE to total capital	9	8	6	7	6	N/A
Cash and deposits/total assets	32	21	24	36	34	≤100
Receivables/total assets	16	20	17	9	10	N/A
Government securities to total assets	1	4	8	14	14	≤100
Private life Insurers						
Investments in properties to total assets	37	40	40	33	28	≤30
Equity securities to total assets	15	11	10	10	9	≤30
PPE to total capital	5	14	11	23	14	N/A
Cash and deposits/total assets	38	35	36	39	30	≤100
Receivables/total assets	4	2	2	2	3	N/A
Government securities to total assets	1	4	5	8	24	≤100
Public medical insurers						
Investments in properties to total assets	5	7	6	6	6	≤30
Equity securities to total assets	11	15	16	15	15	≤30
PPE to total capital	14	12	10	6	5	N/A
Cash and deposits/total assets	61	56	55	54	56	≤100
Receivables/total assets	0	1	0	6	5	N/A
Government securities to total assets	6	7	12	12	14	≤100

Source: NBR, Financial Stability Directorate

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