NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

ANNUAL FINANCIAL STABILITY REPORT

JULY 2016 - JUNE 2017

BNR IDENTITY STATEMENT

The National Bank of Rwanda strives to become a world class Central Bank that contributes to the economic growth and development by using robust monetary policy tools to maintain stable market prices. The bank embraces innovation, diversity and inclusiveness, economic integration and ensures financial stability in a free market economy.

VISION AND MISSION

VISION

To become a World-Class Central Bank

MISSION

To ensure Price Stability and a Sound Financial System

THE BANK'S CORE VALUES

INTEGRITY

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

MUTUAL-RESPECT & TEAM-WORK

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

ACCOUNTABILITY

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

EXCELLENCE

We passionately strive to deliver quality services in a timely and cost effective manner

FOREWORD

Maintaining financial stability is one of the National Bank of Rwanda's (BNR) primary responsibilities. BNR 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 system). BNR also believes that transparency and communication of 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 policies 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 the financial sector grew despite the deceleration of economic activities in 2016 and during the first half of 2017. The slowdown of economic activities in the first half of 2017 impacted, to some extent, the financial sector through weaker credit demand and increase of NPLs in sectors like agriculture. However, the slowdown of economic activities did not stress the financial sector performance as shocks were absorbed by capital and liquidity buffers held by financial institutions. The financial sector remains sufficiently solvent, liquid, profitable and resilient to shocks. However, the main challenges were increasing non-performing loans, lending concentration in banks and the underperformance of the insurance sector. The policy instruments implemented by BNR on these challenges are yielding positive results as noted by the subsequent decline in NPLs from 8.2 percent in June 2017 to 7.7 percent in September 2017. Similarly, the solvency position of private insurers improved from 61 percent in June 2017 to 160 percent in September 2017.

Going forward, the performance of the financial sector is expected to improve in line with improved economic growth and on-going implementation of policy instruments established by BNR. The bank will continue to assess risks related to credit concentration and consider the possibility of implementing appropriate macro-prudential tools to mitigate these risks.

John RWANGOMBWA
Governor

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ACRONYMS

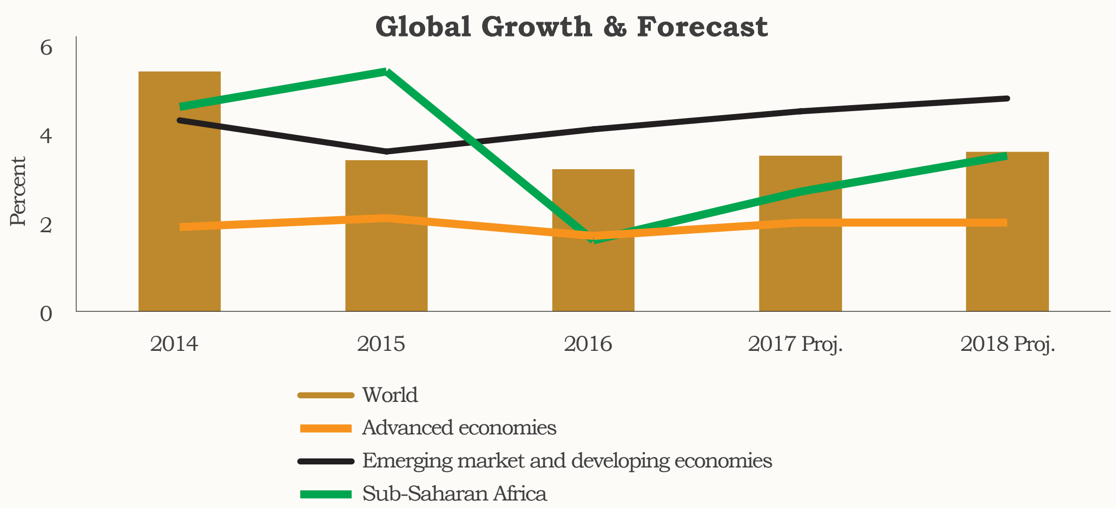
ACH:	Automated Clearing House
ASSAR:	Rwanda Association of Insurers
ATS:	Automated Transfer System
BK:	Bank of Kigali
BNR:	National Bank of Rwanda
CAR:	Capital Adequacy Ratio
CSD:	Central Securities Depository
DSIBs:	Domestic Systemically Important Banks
EAC:	East African Community
FRW:	Rwandan Franc
FSC:	Financial Stability Committee
FSR:	Financial Stability Report
FX:	Foreign Exchange
FY:	Financial Year
GDP:	Gross Domestic Product
GWP:	Gross Written Premium
H1:	First Half
H2:	Second Half
IBNR:	Incurred But Not Reported
IMF:	International Monetary Fund
LCR:	Liquidity Coverage Ratio
MFIs:	Microfinance Institutions
MMI:	Military Medical Insurance
MNOs:	Mobile Network Operators
NBFIs:	Non-Bank Financial Institutions
NISR:	National Institute of Statistics of Rwanda
NOP:	Net Open Position
NPLs:	Non-Performing Loans
NSFR:	Net Stable Funding Ratio
OPEC:	Organization of Petroleum Exporting Countries
P2G:	Payments to Government
RIPPS:	Rwanda Integrated Payment Processing System
ROA:	Return on Assets
ROE:	Return on Equity
RSSB:	Rwanda Social Security Board
RTGS:	Real Time Gross Settlement
RWA:	Risk Weighted Assets
SACCOs:	Saving and Credit Cooperatives
SSA:	Sub-Saharan Africa
SSS:	Securities Settlement System
US:	United States
U-SACCOs:	Umurenge Saving and Credit Cooperatives
WEO:	World Economic Outlook
YoY:	Year on Year

GLOBAL ECONOMIC AND FINANCIAL DEVELOPMENT

The outlook for the global economy has strengthened since June 2016, reducing risks from the global economic system. Reflecting positive outlook, global market sentiments have improved in-form of stability in equity and bond markets as markets are optimistic of improved corporate profits. Despite the optimistic near-term outlook, global medium-term risks are skewed to the downside. Risk to the medium-term global economic outcome relate to high and increasing debt levels in emerging countries like China; policy uncertainty amongst advanced economies; monetary policy normalization in some advanced economies; possibility of inward-looking and protectionism policies; geopolitical risks and populism movements and; soft commodity prices. The risk of softening commodity prices and unpredictable weather conditions remain particularly risky to developing countries. The global economic shocks pose an indirect risk to the Rwandan financial system due to its limited cross-border linkage to financial system of developed and emerging countries. Nevertheless, the impact would be through reduced trade and foreign direct investment which would impact domestic economic activities and demand for credit.

The outlook of global economic growth has improved, following a year of depressed economic activity. The International Monetary Fund (IMF) expects global growth to rise from 3.1 percent in 2016 to around 3.5 percent in 2017 and 3.6 percent in 2018 (Figure 1). The improved growth outlook reflects stronger economic activities in advanced countries like Japan and the euro area. Growth in emerging countries is also expected to remain solid, supported by strong growth in China and India. Several factors are contributing to this positive outlook — moderation of fiscal austerity in several European countries, stimulus programs in China and; moderating US dollar strength.

Figure 1: Projected Stronger Growth of the Global Economy



Sources: *IMF, World Economic Outlook*

Based on prospects of strengthening global outlook, global financial market sentiments improved in 2017. Risk appetite amongst global financial market players has improved and market-based measures of volatility have reduced. Implied volatility in equity and bond markets remains well below historical averages. Equity prices in advanced economies remain strong, signaling continued market optimism regarding corporate earnings (this is so mainly in the US, where a cut of corporate tax is expected to push-up profits of corporates). The decision by the Federal Reserve to raise the policy rate was expected by the market, and markets reacted positively, with bond yields and the US dollar declining marginally. Markets are also optimistic about emerging market prospects as reflected in strengthening equity markets and some further compression of interest rate spreads.

Despite the optimistic near-term outlook, global medium-term risks are skewed to the downside. Risk to the medium-term global economic outcome relate to high and increasing debt levels in emerging countries like

China; policy uncertainty amongst advanced economies which might affect investor confidence; monetary policy normalization in some advanced economies, notably the United States, could trigger a faster-than-anticipated tightening in global financial conditions; turn towards inward-looking; protectionism policies; geopolitical risks and populism movements and soft commodity prices — IMF's Primary Commodities Price Index declined by 5 percent between February and August 2017and Oil prices declined the most, by 8.1 percent. Oil prices dropped on account of higher-than-expected US share production; stronger-than-expected production recoveries in Libya and Nigeria and higher supply from OPEC countries.

The performance of the global economy influences Rwandan economy through trade and foreign direct investment. Rwandan financial system has limited cross-border connection to the global financial system, hence volatilities in global financial markets are not fully transmitted to Rwandan market. Nevertheless, Rwanda's export receipts (goods and services) is much influenced by global demand, especially in trading partners like china. The in-flow of foreign direct investment is also to some extent dependent on the global economic performance. Going forward, as Rwandan financial sector develops, deepens and gets more connected to regional and global markets, then exposure to global risks will increase. It is in this context that, while assessing risks to the financial sector, the performance of the global economy and financial market is monitored.

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

Following a weak economic performance in 2016, Sub-Saharan Africa (SSA) growth is projected to pick-up in 2017. The IMF forecast SSA to grow at 2.6 percent in 2017, up from 1.4 percent in 2016. Growth is expected to strengthen further to 3.2 and 3.5 percent in 2018 and 2019 respectively (Figure 1). The rebound in growth reflects strengthening external demand and improved agriculture performance in several countries. Following the end of the drought, lower inflation is expected across most of the regional countries as agricultural production recovers, thus reducing food price inflation.

The setback of commodity prices in the third quarter of 2017, creates more uncertainties and downward risks for SSA commodity exporting countries. Commodity prices that demonstrated signs of improvements in the first quarter of 2017, reversed in the second and third quarter of the year. The decision in May 2017 by the Petroleum Exporting Countries (OPEC) to cut oil production did to take effect and US oil production increased causing oil prices to decline — consequently, IMF Oil price index declined by 8 percent. In the same period, other non-oil commodity prices also reversed downwards. If this trend continues, several SSA could struggle to deal with large terms-of-trade shocks and implied budgetary revenue losses.

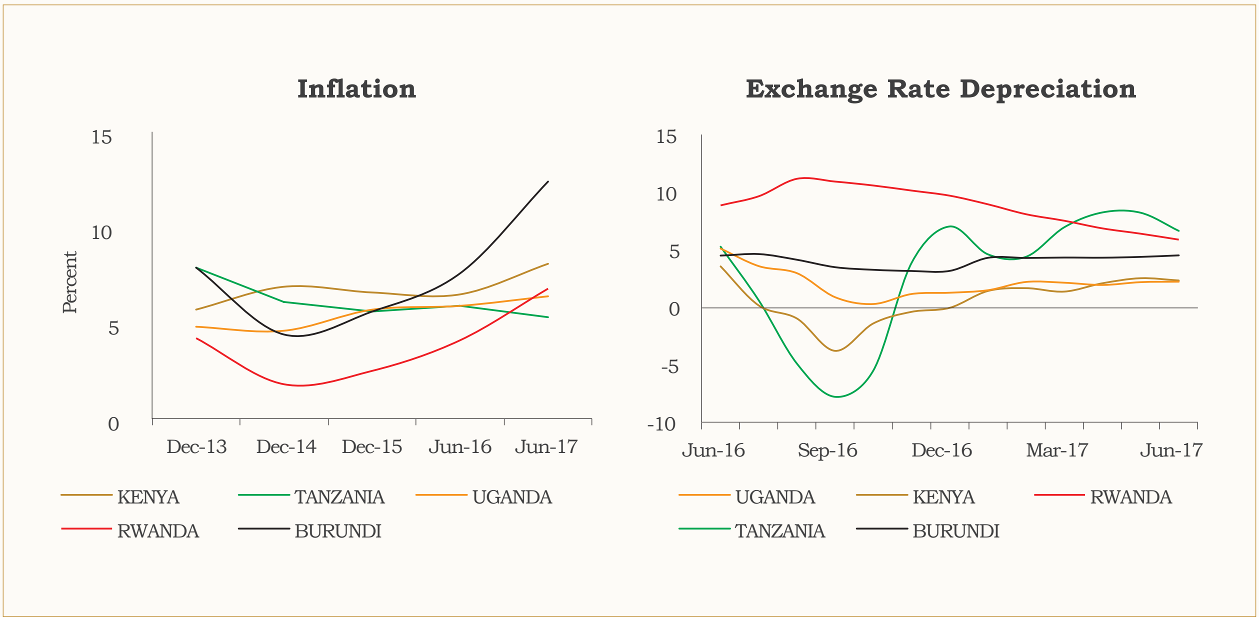
Banking sector vulnerabilities increased in several Sub-Saharan Countries due to weak growth in 2016. Non-performing loans have increased mainly in oil exporting countries, and profitability and capital buffers have decreased, giving rise to recapitalization and increased provisioning needs to contain the risks. According to IMF October 2017 WEO, capital adequacy ratios have worsened in almost a half of SSA's resource intensive countries and banking sector profitability has declined in two-thirds of these countries. In the near-term and medium-term, macroeconomic conditions are expected to shape performance of financial institutions and markets and this calls for banking system resilience to be strengthened.

Economic growth remains strong among East African Community Countries (EAC), albeit projected to slowdown in 2017. Real GDP growth in the four EAC countries (Tanzania; Rwanda; Kenya; Uganda) was above the SSA average growth in 2016. Growth was highest in Tanzania at 7 percent, followed by Rwanda at 6 percent; Kenya at 5.8 percent; Uganda at 4.6 percent and Burundi at -0.5 percent. Economic growth momentum is however projected to slow down across EAC countries in 2017 due to subdued private sector investment growth, unrecovered adverse drought conditions and muted growth in the first quarter of 2017. In Q1 2017, growth in Uganda decelerated to 3.7 % (from 4.1% in 2016); in Tanzania it decelerated to 5.7 percent (from 6.8 percent); in Rwanda it decelerated to 1.7 percent (from 8.9 percent); in Kenya it decelerated to 4.7 percent (from 5.3 percent).

Generally, inflation in EAC rose but it is expected to ease in second half of 2017. Inflation in EAC picked up from 5.5 percent in June 2016 to 6.8 percent in December 2016 and it stood at 10.6 percent in April 2017. Headline inflationary pressures mainly reflected rising oil prices and poor performance of agriculture due to dry weather conditions. Inflationary pressures in 2016 can entirely be attributed to high food prices as non-food price inflation remained restrained. Most agriculture in East Africa is highly dependent on the weather, and adverse rainfall is directly reflected in both agricultural production and food prices. However, agricultural harvests have started improving in the second quarter of 2017 leading to the deceleration in inflation and ultimately creating some space for Central Banks to ease monetary policy.

The exchange rate broadly remained stable across the region during the period under review (Figure 2). During the second half of 2016, prudent liquidity management owing to the intervention of Central Banks played a major role in easing exchange rate pressures observed in the previous periods. Regional currencies remained broadly stable in the first half of 2017 consistent with the recovery in commodity prices since 2016 H2 and improvements in the external sector environment.

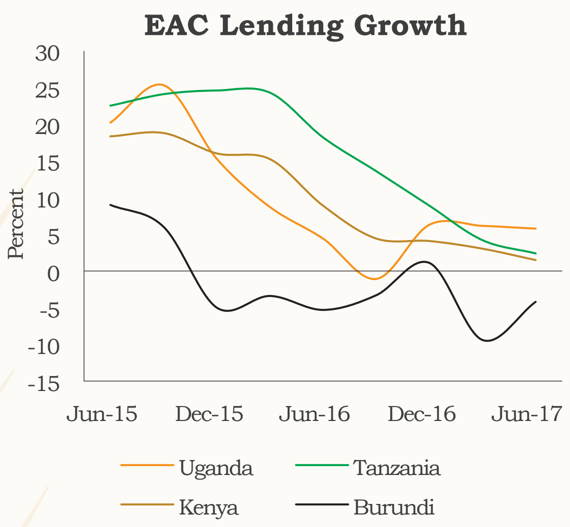
Figure 2: Inflation and exchange rate developments in EAC (percent)

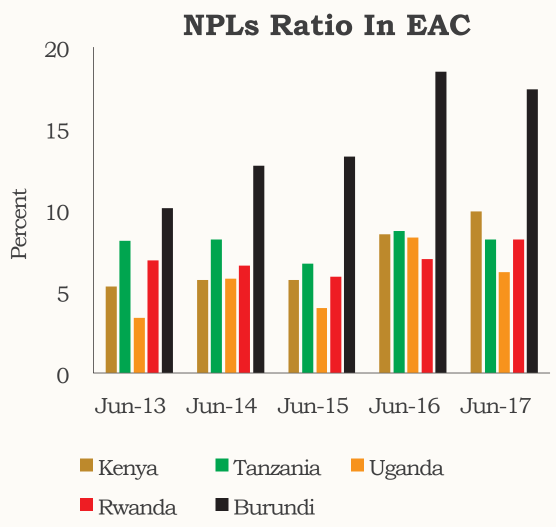


Sources: *IMF, World Economic Outlook*

Despite easing monetary policies, bank lending to private sector in EAC countries slowed down further during the period under review (Figure 3). The decline of the pace of lending mainly reflected the deterioration of assets quality, and lagging effect of the economic activities slowdown. Credit risk, as measured by the ratio of Non-Performing Loans (NPLs) to gross loans increased across the region except in Uganda. As at June 2017, Burundi had the highest NPL ratio of 17.4 percent followed by Kenya with 9.9 percent, Tanzania and Rwanda with 8.2 percent. Uganda had the lowest NPL ratio of 6.2 percent. Numerous factors were mentioned as drivers to increased NPLs and the latter include poor project assessment, delayed payments to contractors for government funded projects, drought and subdued economic performance among others.

Figure 3: Credit risks has affected the lending development in EAC

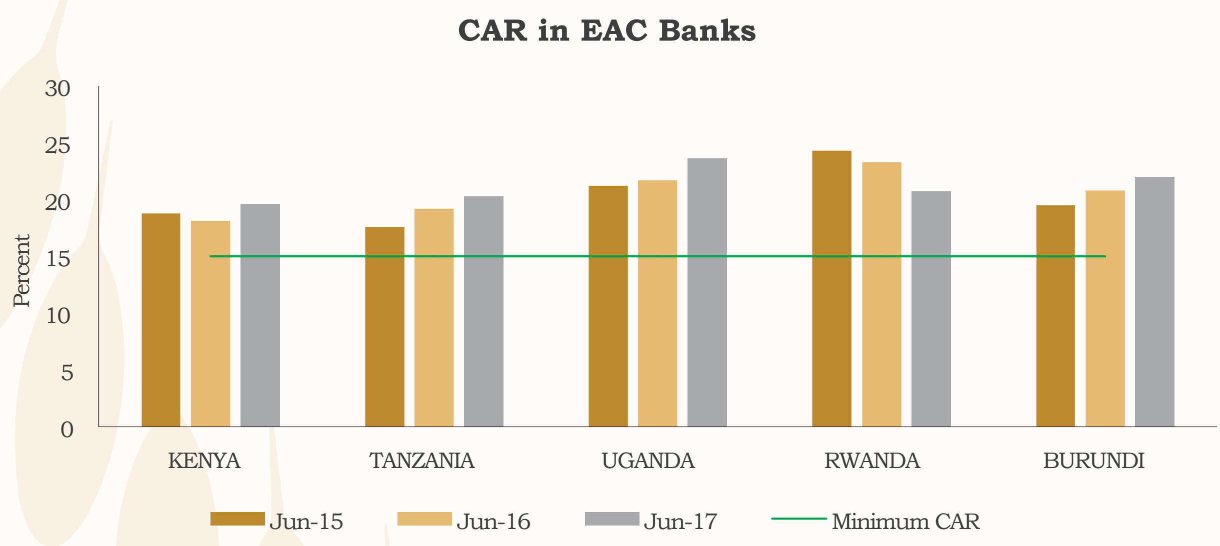




***Source**: EAC Central Banks*

Despite the challenges highlighted above, the banking sector in EAC continued to be adequately capitalized. The capital adequacy ratio - a measure of how effectively banks can sustain a reasonable amount of loss - remained above the prudential limits of 15 percent across the region (Figure 4). Capital buffers represent an extra measure of safety in the event of unexpected loss.

Figure 4: EAC Banks maintained sufficient capital to withstand shocks



***Source**: EAC Central Banks*

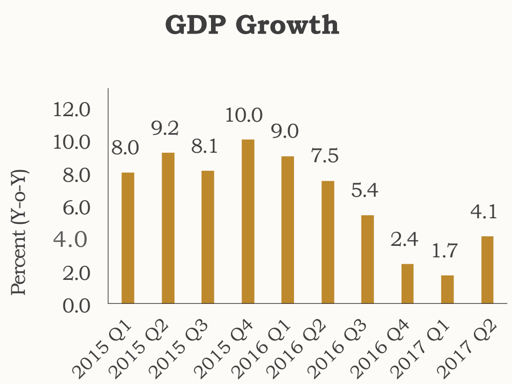
DOMESTIC MACROECONOMIC ENVIRONMENT

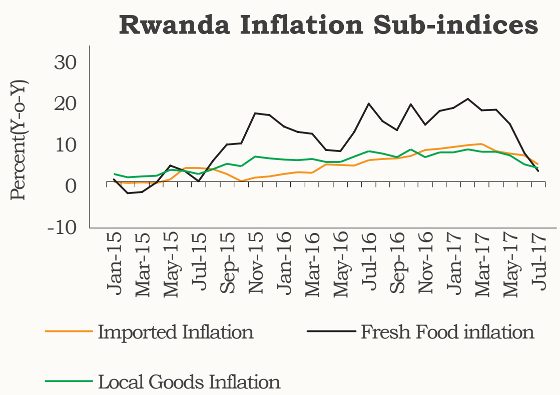
Rwanda's economic growth decelerated in the first half of 2017 to an estimated 2.9 percent average growth rate. Growth was particularly low in the first quarter of 2017 at 1.7 percent, but strengthened to 4 percent in the second quarter. The weak growth in the first quarter was driven by unfavorable external developments, with commodity prices remaining low and weak agriculture harvest caused by drought. Agriculture accounts for 28 percent of Rwanda's GDP and its performance greatly impacts the overall growth of economic activities. In the second quarter, agriculture growth rebounded to 6 percent, causing growth to improve.

Despite registering low growth in the first half, the Rwandan economy is expected to grow at an improved rate in the second half of 2017. The IMF and the Government project growth at 5.2 percent 2017. Stronger domestic demand—bolstered by uptick in Government investment and increased credit to private sector, improved agriculture production and stronger growth in trading partners are among key factors expected to spur the growth rebound in the second half.

Inflation has steadily decelerated since February 2017, reflecting stability of the Rwandan franc and lower food prices due to improved food production. Following inflation pressures experienced in the last quarter of 2016, inflation declined from 8.1 percent in February 2017 to 4.8 percent in June 2017. Inflationary pressures, especially in Q4 of 2016, reflected high food prices caused by drought conditions. Agriculture production however, improved in the second quarter of 2017, causing food prices to decline. Additionally, the stability of the Rwandan Franc caused import prices to decline (Figure 5). Lower inflation is expected in the last quarter of 2017, as the recovery of agricultural production continues, and as exchange rate stabilizes further in line with increasing commodity prices.

Figure 5: Economic Growth Moderated in H1 2017 and Inflation is falling

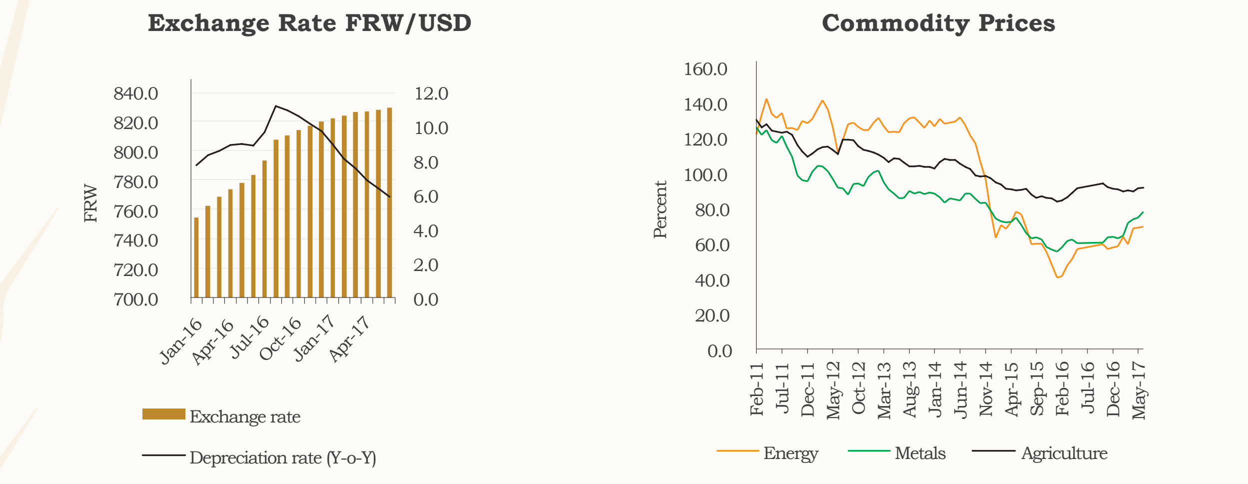




Sources: *National Institute of Statistics of Rwanda (NISR)*

The rebound in commodity prices and reduced growth of imports helped to stabilize the Rwandan franc since the last quarter of 2016 (Figure 6). Rwanda, like other African economies faced exchange rate pressures in the first half of 2016. These pressures were mainly due to decline of commodity prices (see figure 6). Following weak commodity prices, the Rwandan Franc (FRW) depreciated by 8.7 percent in the first 6 months of 2016. In the first half 2017, these pressures were waning down in line with increasing commodity prices. For example, the FRW depreciated by 7.3 percent in the first half of 2017 compared to 8.7 percent registered in the same period last year. According to the IMF Commodity prices index of August 2017, commodity prices seem to be softening again in the third quarter of 2017 and remains downside growth risk and foreign exchange risk.

Figure 6: Exchange rate pressures eased and commodity prices picked up



Sources: *BNR and IMF, World Economic Outlook*

BOX 1: Macro-financial linkages: Relevance of macroeconomic assessments in FSRs

The macroeconomic conditions elaborated in the first section of this edition of the FSR are key in assessing the stability of the financial sector. Their importance relates to the causal relationship between different economic variables and financial stability. Since the global financial crisis of 2007-2009, plenty of research has been conducted on this topic and the common finding has been that the causal relationship is two way (i.e., shocks to the financial sector affect the real economy, and that shocks to the real economy also affect the financial sector). In what follows below, we elaborate on the nature of linkages between macroeconomic developments (external; fiscal and monetary sectors) and the financial sector.

From the external account, in periods of global economic slowdown, the first shock would be in-form of reversals of capital flows (portfolio flows), which reduces funding for the financial sector. In Rwanda, this channel is not major, as the share of foreign portfolio flows in Rwanda's total financial flows is relatively low (0.3 percent). In addition to this, the share of foreign borrowed funds used by domestic banks is only 12 percent of the total banks liabilities. In this regard, BNR, through its supervisory function monitors the source, the size and nature of external funds reported by supervised entities.

Again from the external account, the dynamics in global economic growth, especially in trading partners of Rwanda, would determine prices of commodities. Experience has proved that in periods of muted global growth, demand for commodities and prices of commodities tend to decline. The direct impact of this channel is negligible in Rwanda, as total loans to export commodities (i.e., coffee, tea and minerals) account for less than 1 percent of total bank loans as at end June 2017. Nevertheless, the indirect impact to the financial sector of this risk relates to the impact of low commodity prices on the exchange rate. Slowdown of commodity prices tends to trigger foreign exchange pressures and reduces the growth momentum, which altogether may reduce investment opportunities of financial institutions and could lead to high loan delinquencies.

From the fiscal account, theory shows that the slowdown of the economy, which may be linked to dynamics in the global economy, constrains domestic revenue mobilization and may trigger increased government arrears. Expenditure arrears can also erode the creditworthiness of key borrowers, leading to higher NPLs and constraining banks' capacity to lend.

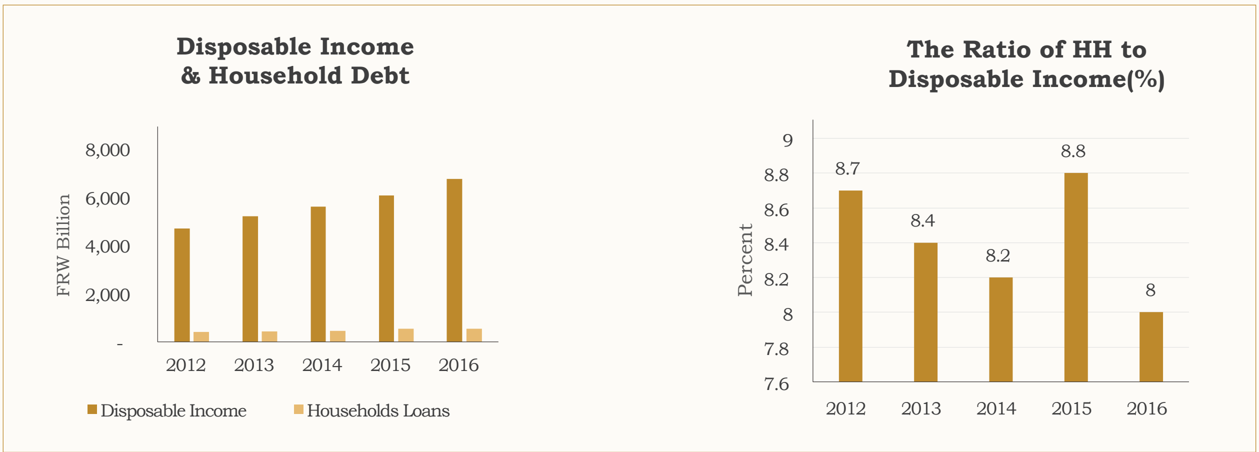
On the monetary sector, the extended period of very low or very high interest rate is a risk to the financial sector as it affects the lending institutions profitability and borrowers capacity to service their loans respectively. Very low interest rates tend to put pressure on the net interest margins and reduces banks' profitability, while very high interest increases the debt burden of borrowers.

ASSESSING SYSTEMIC RISKS

Household Debt Assessment

The indebtedness of Rwandan households remains low and financial stability risks related to household debt are moderate. The ratio of household debt (from banks) to disposable income was 8 percent as at end December 2016 (where data is available), from 8.8 percent as at December 2015 (Figure 7). This decline in the household debt ratio between 2015 and 2016 was caused by the slowdown of growth in household loans, compared to the growth in disposable income. This level of household indebtedness is low compared to the average of emerging countries (21 percent); and developed countries (63 percent)[1]. Of course some of these disparities reflect differences in financial depth and indicates that financial institutions still have ample room to lend to the private sector, without increasing financial vulnerability. BNR will however continue paying considerable attention to the development of household debt and corporate debt. BNR underscores risks related to over-indebtedness of the household and corporate sector, and will continue to monitor the quality of lending, by ensuring that growth of loans doesn't pose future risks to the financial sector and economic growth.

Figure 7: Household Debt



Sources: *BNR, Financial Stability Directorate*

Loans Concentration

Lack of diversification in the loan portfolio remains a risk to the financial system. As mentioned in the previous FSR, the banking sector loans are concentrated in the mortgage, trade and hotel sectors. As at end June 2017, loans to mortgage accounted for 35.1 percent of total loan portfolio of the banking sector; trade accounted for 22.4 percent, while hotels accounted for 9 percent. In addition, loans held by 20 largest borrowers in the banking sectors accounted for 39 percent of the total loan portfolio as at June 2017. BNR continues to assess developments in the level of concentration and will consider introducing the necessary macro-prudential tools in future to mitigate risks related to this concentration.

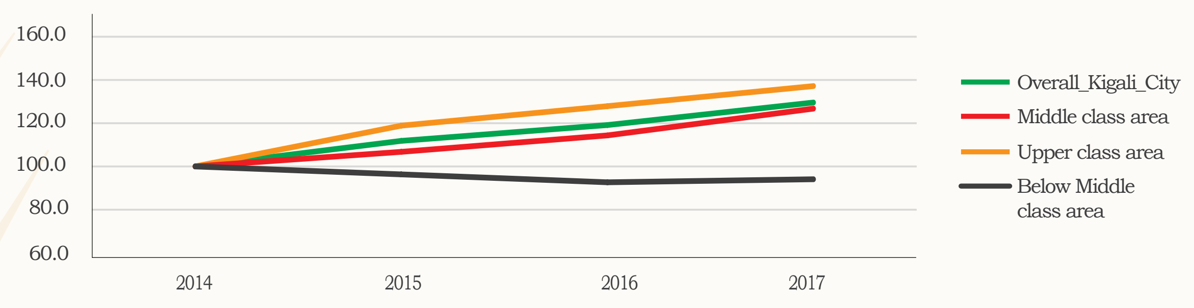
Housing Price Conditions

Experience from around the world has proven that housing market conditions can have an important bearing on the soundness of the financial sector, as houses and mortgages are the predominant assets on household and bank balance sheets. In Rwanda, the mortgage industry is the first highly financed sector (35.1 percent of the entire banks' loan portfolio). This means that abnormal volatility in housing prices would pose serious stress on the banking industry. To measure risks related to housing market, the National Bank of Rwanda started conducting semi-annual surveys on housing prices, out of which a real estate price index is computed and trends monitored overtime. The methodology used in computing the Housing Price Index is elaborated in box 2.

1 Source: IMF Global Financial Stability Report (October, 2017)

Housing property prices have picked up in the last 3 years, especially in Kigali City (Figure 8). Based on the housing property price index, housing prices (residential and commercial) increased by 9 percent in June 2017 (year-on-year), from 7.3 percent and 10.7 percent in 2016 and 2015 respectively. Prices have increased mostly among houses in the upper class strata, reflecting strong demand relative to supply (Figure 8). Price growth over the last 3 years has been underpinned by increase in average income of households and increasing urbanization, which consequently increased demand for houses, especially for first house owners. The on-going efforts by Government and development partners to avail affordable houses is expected, however, to reduce the growth of residential house prices. The National Bank of Rwanda continues to monitor growth of housing loans; the housing prices and quality of housing loans to be able to proactively mitigate risks from this market.

Figure 8: Real Estate Price Indices



Sources: *BNR, Statistics Department*

Banks' investment in residential and commercial properties remains profitable, and risks appear contained at present. Housing property exposure (residential and commercial properties) accounted for 29.7 percent of banks' total lending as at end June 2017, and 86.2 percent of the total lending to mortgage. Credit risk in the housing loans is among the lowest. Non-performing loans ratio in the mortgage sector was 5.8 percent as at end June 2017, significantly lower than 8.2 percent average for all sectors. NPLs in commercial house portfolio stood at 3.1 percent as at June 2017. The high size of the commercial house loan portfolio and low NPLs in this sector indicate that the sector remain profitable.

BOX 2: Methodology for computing the Real Estate Price Index

The Eurostat manual on compilation of residential property price indices suggests four main methodologies to compile the real properties price index (henceforth RPPI) namely stratifications or mix adjustment, Repeat sales methods, hedonic regression methods and assessment based methods. These are designed to allow compilation of constant quality price indices. Given the context of our economy and data currently available, the RPPI is compiled following mix adjustment method.

There are two level of stratification namely location and size. Under location, there are two strata which are Kigali City and Provinces. Under Kigali City, properties are classified into 3 strata namely: A (Upper class area)1; B (Middle class area); and C (Below middle class area) according to their location. In Provinces, housing property are categorized into 2 strata namely B (urban) and C (non-urban).

Under the above mentioned strata, the next level of stratification is based on the size of the property as follows: Size A: from 1001 sq. meters and above; Size B: from 701 sq. meters to 1000 sq. meters; Size C: from 400 sq. meters to 700 sq. meters; Size D: less than 400 sq. meters.

After stratification, the next step is to derive the index by each stratum using weighting and aggregation methods suggested in the Eurostat methodology. The base period chosen is 2014. Data on residential property sold are collected from RNRA.

At the first level of aggregation, the simple mean P by each stratum m is calculated, with N as property sales observed in m, V as selling price per square meter, t as time period.

$$P_m^t = \sum_{n=1}^{N(t,m)} V_n^t \Big/ N(t,m)$$

$$Q_m^t = N(t,m)$$

For the next stage of aggregation, the following formulas are used to calculate Laspeyres, Paasche and Fisher indices. This is applied at location strata level and National level.

$$P^{st} = \frac{\sum_{m=1}^{M} P_m^t\, Q_m^s}{\sum_{m=1}^{M} P_m^s\, Q_m^s}$$

$$P_f = \left(P_l * P_p\right)^{1/2}$$

Soundness of Domestic Systemically Important Banks (DSIBs)

Systemic risks related to the "the too big to fail" institutions are among key areas monitored by the BNR Financial Stability Committee (FSC). BNR has adopted the Basel Committee framework for identifying and supervising SIBs. Using the data of December 2016, two DSIBs were identified. The identified banks will be subjected to a special treatment in accordance with the implementation of the regulation on new capital requirement.

The aggregated indicators show that DSIBs are well capitalized, liquid and held relatively ample quality of assets, thus limiting systemic risks that may disrupt the entire financial sector. At the end of June 2017, the two DSIBs accounted for 36 percent of total bank assets and 38 percent of total bank lending. During the year ended June 2017, indicators show that on aggregate, the financial performance of DSIBs remained sound and profitable. DSIBs' aggregate core capital adequacy ratio stood at 18.9 percent and asset quality remained fairly stable with the average ratio of non-performing loans to total gross loans at 4.9 percent at the end of June 2017.

At the end of June 2017, the liquidity metric results illustrated that each individual DSIB held sufficient liquidity to sustain the bank. The two banks' average liquidity ratio stood at 39.2 percent as at June 2017 (Table 1).

Table 1: Selected financial soundness indicators for DSIBs (percent)

DSIBs Selected Indicators (%)	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
CAR	20.6	20.4	21.4	20.7	18.9
NPL	4.0	4.1	4.3	4.6	4.9
Liquidity Ratio	36.8	35.4	39.3	39.3	39.2
Loan to deposit	82.1	95.3	87.8	93.9	89.5
FX loans/FX deposits[2]	83.2	65.6	48.3	63.8	60.2
ROA	3.3	3.5	3.4	3.2	3.3
ROE	12.0	12.9	12.1	11.2	12.4

Source: *BNR, Financial Stability Directorate*

PERFORMANCE OF THE BANKING SECTOR

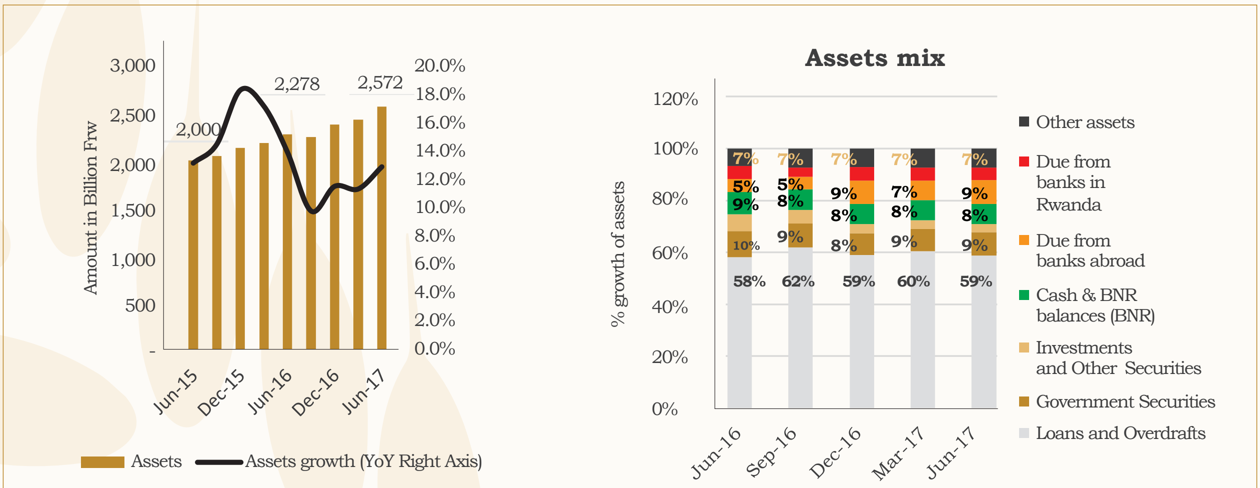
The banking sector continued to play an important role in financial intermediation. As at end June 2017, its share of total financial system assets stood at 66.9 percent. During the period under review, the Rwandan banking sector capital and liquidity ratios remained strong and above regulatory requirements, although differences existed at individual bank level. Asset quality declined as depicted by increase in the ratio of Non-Performing Loans (NPLs) to gross loans and the value of NPLs was concentrated in agriculture and trade loans. Banks' loan loss provisions picked-up in relation to the increased credit risk. Lending to the private sector remained moderate, despite substantial liquidity and significant capital reserves. The structural vulnerabilities of banks' balance sheets signaled in previous reports, such as: (i) the loan and deposits concentration (ii) the maturity mismatch between funds raised and financial assets or (iii) the currency imbalances between bank assets and liabilities, continued to be the main risks to the financial stability. Banks' profits slightly improved between June 2016 and June 2017 on account of decreased operating costs and increased non-interest income.

Banks Assets Growth

During the period under review, the banking sector's balance sheet grew broadly in line with GDP (Figure 9). Banking sector assets grew by 12.9 per cent as at end-June 2017 to FRW 2.6 trillion compared to an increase of 13.9 percent in the corresponding period in 2016, while GDP grew at 2.9 percent in the first half of 2017. Stronger growth happened in the banking system foreign assets (at 36 percent). Domestic assets increased by 8 percent. The slowdown of economic activities, especially in the first quarter of 2017, constrained the investment opportunities for banks and caused assets to increase at a moderate pace. Related to the slowdown of economic activities, impaired loans increased, causing banks to scale down lending.

The composition of banks assets has not greatly changed since the previous report (Figure 9). Lending remains the main component of assets with over 59 percent of total assets as at June 2017. Amongst the other components of banks' assets, bank balances held abroad increased by 104 percent to FRW 234 billion between June 2016 and June 2017. This high increase is attributable to the increased deposits in corresponding banks abroad (nostro accounts), to facilitate international trade and foreign exchange operations. The stock of government securities held by banks account for 9 percent of total banking sector's assets and decreased by 1 percent to 228 billion, down from a growth rate of 6 percent recorded in the corresponding period in 2016. The reduction of the growth rate of government securities is attributed to a reduction in excess liquidity for investment and increased competition from other non-bank investors.

Figure 9: Assets growth recovered since September 2016



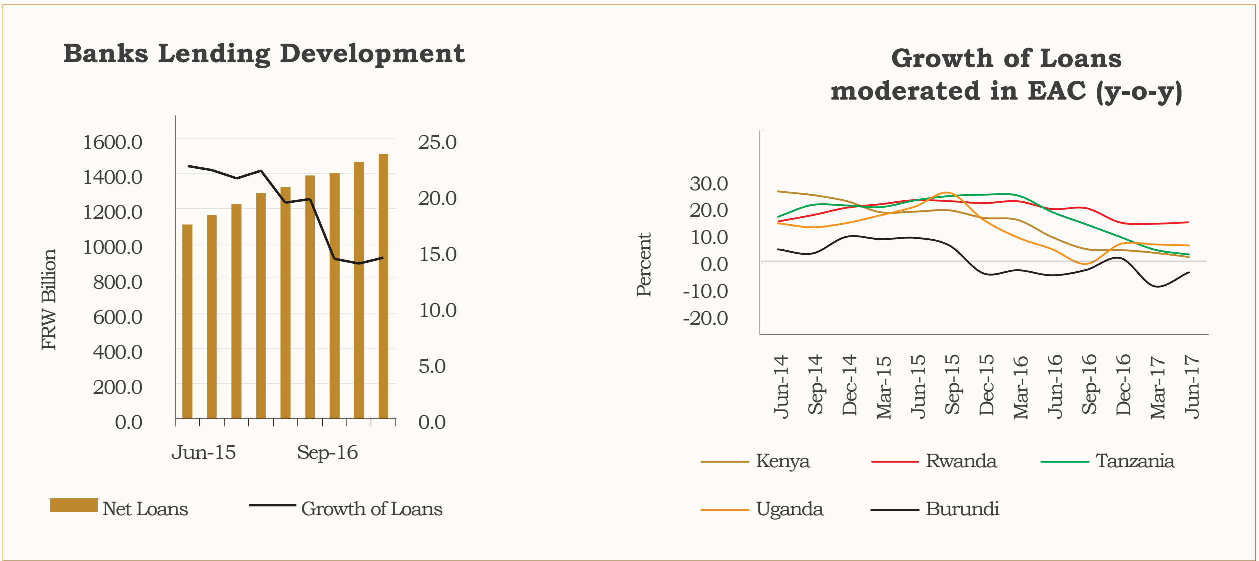
Sources: *BNR, Financial Stability Directorate*

Banks' Lending Development

Banks' lending continued to moderate since June 2016 due to weak credit demand linked to the slowdown of economic activities. The stock of banks' loans grew by 14 percent (Year-on-Year) at end June 2017, compared to 19.3 percent in the corresponding period of 2016. Credit growth declined across five sectors: trade; mortgage; agriculture and manufacturing (Figure 10). Weak credit demand, linked to the slowdown of economic activities in the first half of 2017, was the main cause of the reduced pace of lending. In the period under review, the volume of new loan applications grew by 1 percent, against 7 percent registered in corresponding period of last year (i.e., between January 2016 and June 2017). During the same period, the value of loan applications grew by 3 percent compared to 7 percent recorded in the corresponding period of 2016. The increase of credit risk (rising NPLs) in 2017 also caused some banks to tighten their credit underwriting standards which also weighed down growth of loans (see section on assets quality).

Results for the BNR's credit survey of August 2017 revealed that credit demand started increasing in the third quarter of 2017 and banks expect lending to pick up in the last quarter of the year. Banks' projections are based on stronger government domestic spending planned in the budget for FY2017/18; and related to this, strong economic activities in the third quarter of 2017 and 2018.

Figure 10: Banks' lending moderated across the EAC region

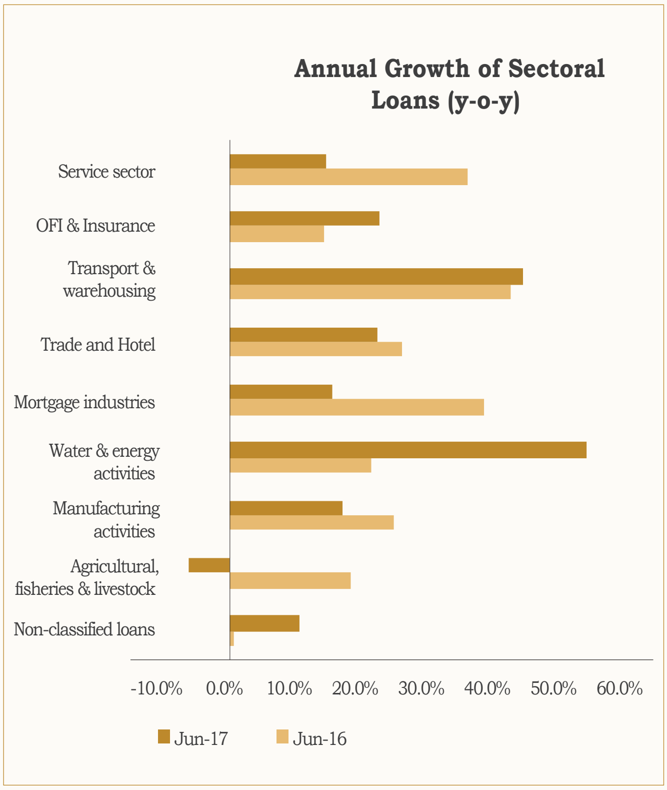


***Sources:** BNR, Financial Stability Directorate*

Mortgage and trade sectors remain the top financed sectors, despite their share declining in June 2017. The share of mortgage loans declined from 36.6 percent in June 2016 to 35.1 percent in June 2017, and remained the highest financed sector. In second place, the share of trade loans dropped from 22.9 percent to 22.4 percent. Together the share of, "mortgage loans" and "loans to trade" declined from 59.6 percent in June 2016 to 57.5 percent in June 2017 (Figure 11). Lending to agriculture has been decelerating and is still low. The sectoral distribution of loans reflects the national structure of the economy. For example, the high share of trade loans reflects the larger and increasing size of the service sector, especially the "wholesale and retail trade components". The high share of mortgage loans also reflects the strong growth of the construction sector. Although Agriculture remains the main sector in Rwanda's GDP structure (with 35 percent share in GDP), financial institutions consider it risky, and consequently its share of total loans has remained low (1.6 percent). Government efforts are underway to de-risk the agriculture sector.

Figure 11: Sectoral Distribution of Loans

Activity Sector	Sectoral Distribution of Loans (% of total loans)		
	Jun-15	Jun-16	Jun-17
Non-classified loans	9.8	7.7	7.1
Agricultural, fisheries& livestock	2.3	2.1	1.6
Mining activities	0	0.1	0.1
Manufacturing activities	9.4	9.1	9
Water & energy activities	2.3	2.2	2.8
Mortgage industries	33.9	36.6	35.1
Trade	21	19.6	21.9
Hotel	10.4	11.2	9.7
Transport & warehousing	6.1	6.7	8.1
OFI &Insurance	1.7	1.5	1.6
Service sector	3.1	3.2	3.1

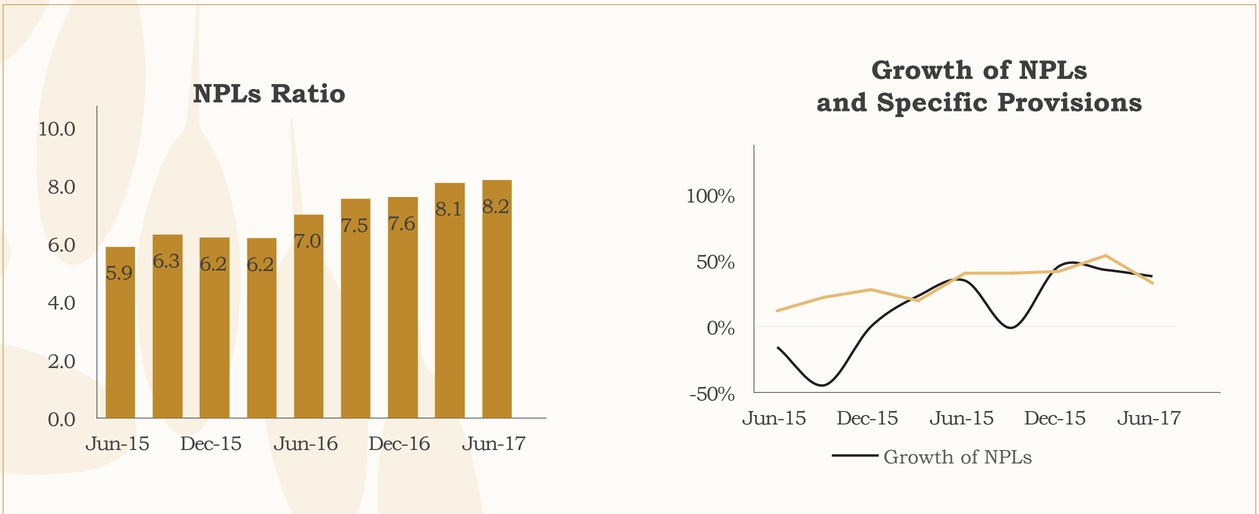


Sources: *BNR, Financial Stability Directorate*

Banks' Asset Quality

Non-Performing Loans (NPLs) in the banking sector edged up from FRW 112 billion in June 2016 to FRW 149 billion as at end-June 2017, indicating a deterioration in asset quality. Measured as a ratio of total loans, NPLs ratio rose from 7 percent as at end June 2016 to 8.2 percent as at end-June 2017 (Figure 12). The increase in the NPL ratio was mainly due to impairment of a few large loans in banks. Causes of these impairments were multiple but can be summarized as some cases of poor project management by owners as well as weak underwriting standards and poor project monitoring by banks. The slowdown of economic activities compounded the impairment of some assets.

Figure 12: Loan loss coverage ratio and securitization levels



Sources: *BNR, Financial Stability Directorate*

On the sectoral level, the NPL ratio in the Agriculture sector remained the highest at 18.2 percent as at end June 2017, increasing from 14.9 percent (Table 2). Second to agriculture is the service sector with the NPLs ratio of 10.7 percent (from 4.5 percent); third is the hotel sector, with 9.8 percent (from 9 percent); fourth is trade and manufacturing, with 8.8 percent NPLs ratio each. Mortgage, the highest financed sector (with 35.5 percent of total loans) holds one of the lowest NPLs at 5.8 percent (from 5.1 percent). The higher NPLs in the agriculture sector reflect challenges still facing this sector, like dependency on weather conditions. Banking system exposure to agriculture is still moderate as loans to this sector make-up only 1.6 percent of total outstanding loans as at end June 2017. On-going government efforts to de-risk the sector are an important step that would provide investment opportunities for banks, as well as improve the quality of their asset portfolios.

Table 2: NPLs Ratio for Selected Sectors (Percent)

Activity Sectors	NPLs per total loans of the sector (%)			% share in Total NPLs
	Jun-15	Jun-16	Jun-17	
Non-classified activities	7.2	6.4	7.8	7.6
Agricultural& livestock	14.9	16.9	18.2	4.1
Mining activities	2.8	0.9	0	0
Manufacturing	1.1	6	8.8	10.9
Water & energy	2.6	0.2	0.1	0
Mortgage industries	4.5	5.1	5.8	28
Trade	7.1	6.9	8.8	30
Hotel	6.1	9	9.8	11
Transport & warehousing	4	3.1	3	3.4
OFI &Insurance	4.2	4.2	0.4	0.1
Service sector	6.5	4.5	10.7	4.6

Sources: *BNR, Financial Stability Directorate*

The coverage of non-performing loans by specific provisions improved from 27 percent to 32 per cent, during the referred period. The evolution in the level of specific provisioning during the period under review mirrored the evolution of impaired credit and demonstrates banks preparedness to absorb credit risks. Based on BNR regulation, provisioning levels are computed after deducting the value of collaterals. Therefore, the coverage ratios have varied with the size of secured loans and the value of collaterals. As at end June 2017 secured loans accounted for 65.9 percent of total stock of banks' loans. The current BNR regulation of loan classification and provisioning stipulates a haircut of 30 percent of the market value of the duly registered residential mortgage and a haircut of 50 percent of the market value of the commercial mortgage in provisioning.

Banks Funding Development

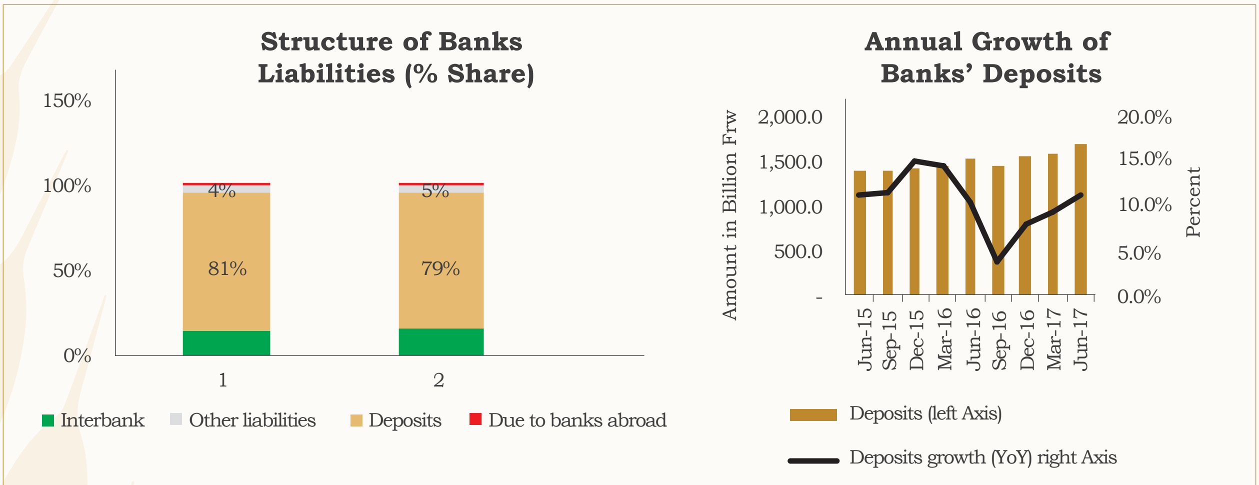
Domestic deposits remain the main source of funds for Rwandan banks. Total deposits accounted for 79 percent of total liabilities as at June 2017. Deposits of residents shared 96.7 percent of total deposits of banks as at June 2017. Interbank funds and lines of credit remain secondary sources of funding for most domestic banks. Reliance on resident deposits (sometimes labelled as stable funds or core funds) is a positive condition as banks are less vulnerable to a period of market disruption and reduces risks of international market liquidity distress.

Following a period of moderate growth since December 2015, growth of deposits has gradually improved since September 2016 (Figure 13). Banking sector deposits grew by 11.1 percent at end-June 2017 (year on-year) to FRW 1,674 billion, lower than 28 percent of the growth posted in June 2016. Although deposits have grown less in 2017 compared to last year, growth has strengthened in the last 3 quarters: from 7.8 percent in December 2016; to 9.3 percent in March 2017; and to 11.1 percent in June 2017. As at end June 2017 banks' deposits were distributed as follows: Individual depositors hold 37.3 percent of total deposits; Government entities and parastatals deposits hold 28.4 percent and; corporate deposits hold 31.5 per cent. The rest of the share (8.9 percent) is distributed between non-profit making organizations and non-residents.

Foreign currency deposits increased in line with improved growth of exports. FX deposits increased by 47.8 percent in June 2017 (year-on-year) compared to 29.8 percent in corresponding period in 2016. This growth of FX deposits is attributable to improved growth of exports during the first half of 2017. Rwanda's exports increased by 39.8 percent in value reflecting the pick-up of international commodity prices, while the volume increased by 32.5 percent. The share of foreign currency deposits increased from 24 percent in June 2016 to 31 percent in June 2017. This has eased the pressures from Rwandan currency depreciation and its associated costs to the banking sector. It is worth to mention that BNR has put in place SWAP facility that allows banks to convert amount of foreign currency in local currency in order to hedge against interest rate risk.

As stated in the previous FSR, banks' deposits remain largely dominated by demand deposits, which limits the lending capacity of banks. As at June 2017, demand deposits represented 60 percent of total deposits, while term deposits constituted of 40 percent. Even with term deposits, short term deposits (with maturity of 1-12 months account for 81 percent of total term deposits, while long-term deposits (with maturity above 12 months) account for 19 percent. From the financial stability and development point of view, this limits the financing capacity of banks and may lead to higher maturity mismatch or liquidity risks. Remedies to this challenge are on-going: The Government established mutual savings scheme (Iterambere fund) to facilitate long-term saving. The capital market is also growing and is expected to offer opportunities for capital mobilization.

Figure 13: Deposits of Banks (Structure and trends)



Sources: *BNR, Financial Stability Directorate*

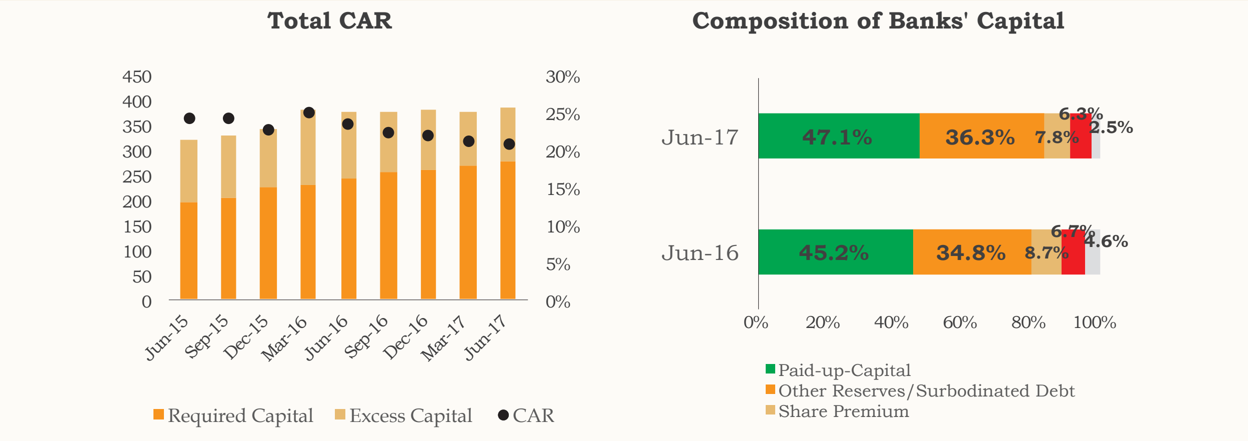
Banks' Capital Adequacy

Capital adequacy indicators of banks remained at comfortable levels during the period under review. The Basel I Capital Adequacy Ratio (CAR) stood at 20.8 percent -of which core capital ratio was 19.2 percent, lower than 23.3 percent held in June 2016. This ratio is above the regulatory requirements of 15 percent. The observed slight reduction in the CAR of banks was due to changes in banks' risk profile and to a greater extent, the role of new banks' lending behavior. In the year ended June 2017, banks' total investment in Government securities (risk free instruments) reduced by 1 percent (from FRW 229.2 billion to 227.7 billion). On the other hand, loans (risk weighted at 100 percent) increased by 14 percent. Capital buffers (capital in excess of the 15% regulatory requirement) act as buffer or shock absorbers in the event of financial stress.

Banks maintained high quality capital. As at June 2017, own capital (Common Equity) which primarily constitutes Tier 1 Capital accounted for up to 65 percent of total capital. Between June 2016 and June 2017, the banking system issued FRW 34.8 billion of new equity. The share of subordinated debt (here defined as less quality capital given their characteristics) accounted for only 35.5 percent banks total capital.

At June 2017, the leverage ratio (the ratio of Tier 1 capital to non-risk-weighted exposures) of the banking sector was 9.4 percent (Figure 14). At individual bank level, all banks held the leverage ratios above the 6 percent minimum requirement set by BNR. The leverage ratio adds to the bank prudential indicators, limiting on- and off-balance sheet exposures relative to Tier 1 capital. Along with adequate solvency ratios, this ratio confirms the large lending potential of most banks.

Figure 14: Banks capital adequacy indicators remained comfortable

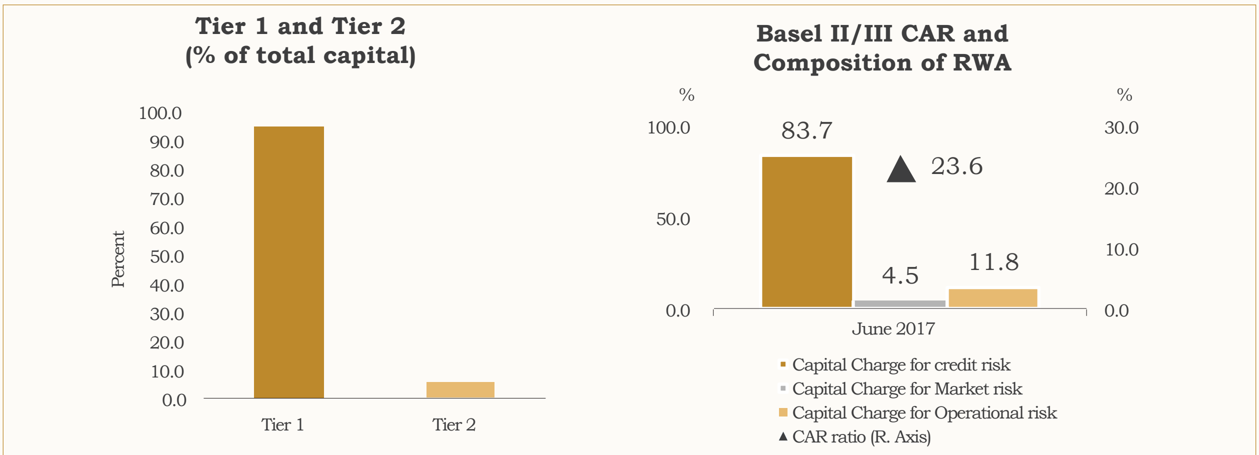


Sources: *BNR, Financial Stability Directorate*

The stress tests performed on the banking sector in June 2017 demonstrated that the banking sector is highly resilient to the adverse shocks. According to stress test results, the banking sector has enough capital buffer to absorb adverse shocks and maintain it's overall capital ratio sufficiently above the regulatory threshold of 15% even under a very adverse scenario. The post stress test Capital Adequacy Ratio (CAR) of banks would reduce from 21.8 percent to 19.7 percent, still above the 15 percent prudential requirement. Only 2 small sized banks would have capital that is slightly below the prudential requirement of 15 percent. The stress tests were based on sensitivity of capital to adverse shocks. Adverse shocks were constructed based on historical shocks to variables. The shock involved an increase of existing NPLs by 11 percent (considered as a mild case scenario). The shock calibration involved computing the mean of quarterly growth of NPLs (amount) from June 2008 to June 2017 (which was 3) and adding a standard deviation of growth in NPLs in this period (which was 8).

Banks capital comply with Basel II/III capital framework. In May 2017, BNR established a regulation implementing the new capital requirements based on Basel II/III. The purpose of this regulation was to strengthen the solvency conditions of banks. The parallel running and reporting have been on-going since May 2017. Full enforcement is expected to commence with the year 2018. As at end June 2017, five months before actual enforcement, all banks met the new capital buffer requirement, thanks to high core capital buffers already held by banks. As at June 2017, all banks complied with the Common Equity Tier 1 of Basel II/III requirements. The aggregated CAR (defined using Basel II /III framework) stood at 23.6 percent as at June 2017 (Figure 15). This is because, as earlier highlighted, common equity accounts for a larger portion of the capital structure, and the RWA declined due to some components of assets that are down weighted (e.g: securities, other than treasury bills, which used to be weighted at 100% have been assigned a weight depending on the credit rating of the issuer from 20% up to 100%). The breakdown of risk-weighted assets by main risks showed that the banks' business model focused on lending. Credit risk contributes most to total capital charges (85 percent), operational risk generates moderate capital charges (11 percent) and market risk takes around 4 percent.

Figure 15: New capital requirements positions



Sources: *BNR, Financial Stability Directorate*

Banks' Profitability

Banking system profits (after tax) improved from FRW 19.4 billion in the first half of 2016 to FRW 21.5 billion in the first half of 2017 (Table 3). In the same period, return on equity (ROE) increased from 9.2 percent to 9.6 percent, while return on assets (ROA) remained unchanged at 1.7 percent. Improved profits reflect growth of non-interest income and moderate growth of expenses. Comparing the first half of 2016 to 2017, non-interest income for the banking sector increased from FRW 40.8 billion to 44.2 billion (i.e. FRW 3.4 billion increase). The increase in non-interest income was mainly in form of fees and commissions. Bank' profits were also boosted by the reduced growth of expenses- total expenses expanded by 7.9 percent in June 2017, against 14.8 percent in June 2016.

Table 3: Banks' income structure

Income& Expenses structure (Billion FRW)	Jun-15	Jun-16	Jun-17	% Change (Jun-16/15)	% Change (Jun-17/16)
Interest income	97.8	118.9	129.9	21.6	9.3
Non-interest income	47.2	40.8	44.2	-13.7	8.4
Total income	**145.0**	**159.6**	**174.1**	**10.1**	**9.1**
Interest expenses	28.3	34.0	37.5	19.8	10.5
Provisions	19.0	17.1	19.7	-9.8	14.7
Operating expenses	66.7	79.7	84.0	19.6	5.3
Total expenses	**114.0**	**130.8**	**141.1**	**14.8**	**7.9**
Profit Before Tax	**31.0**	**28.8**	**33.0**	**-7.2**	**14.5**
Profit After Tax	**23.6**	**19.4**	**21.5**	**-18.0**	**11.1**
ROA (%)	***2.4***	***1.7***	***1.7***		
ROE (%)	***13.1***	***9.2***	***9.6***		

Sources: *BNR, Financial Stability Directorate*

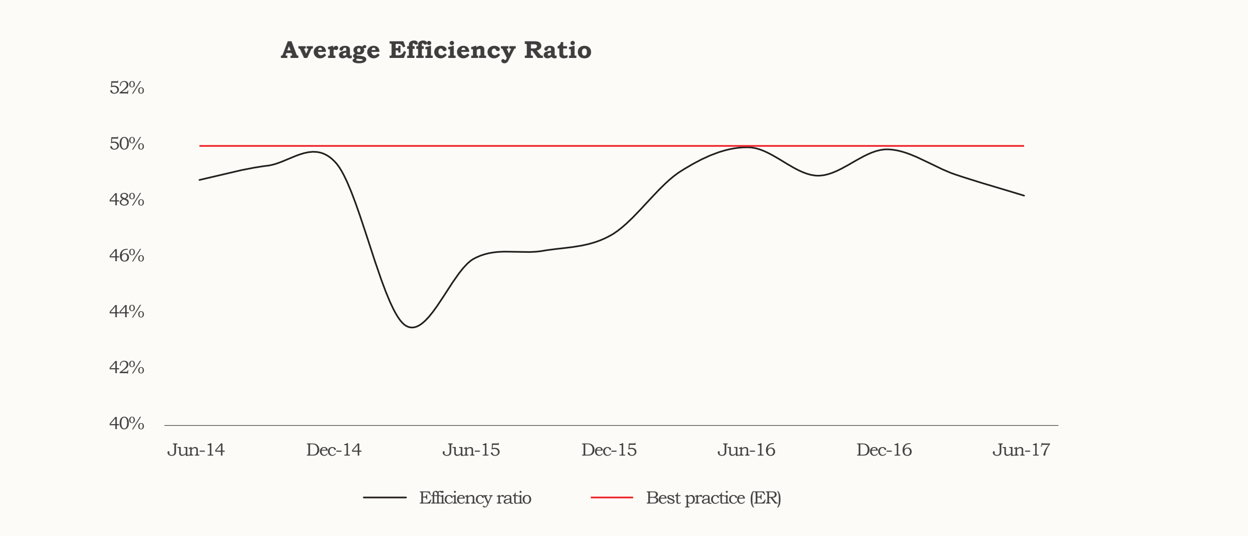
The banking system's lending business continues to be profitable and remains the main source of revenues for banks. As at end June 2017, interest income accounted for over 74.6 percent of total income of banks. Comparing the first half of 2016 and 2017, net interest income for banks increased from FRW 118 billion to FRW 129.9 billion (i.e., 9.3 percent increase). Growth in interest income was underpinned by increase in the stock of credit, 14 percent (volume effect). On the other hand, the interest rate spread (price affect) reduced from 9.01 percent in June 2016 to 8.84 percent in June 2017. The increase of non-performing loans during this period weighed down growth of interest income.

During the period under review, funding costs increased. Deposit pricing has been a major driver of recent changes in funding costs, reflecting increased competition for wholesale deposits[2]. As at June 2017, interbank lending rate pushed up by around 50 basis points over the year to June 2017. To this adds the decrease of non-remunerated deposits (volume effect). Institutions (RSSB, RNIT, Insurance, MFIs) drew on their demand deposits in banks to invest in risk free government securities. As at June 2017, the outstanding amount of demand deposits of these institutional investors in banks declined from FRW 116 billion in June 2016 to FRW 97 billion in June 2017.

The period under review was marked by improved efficiency in the banking sector. Banks' operating costs as a proportion of total income (a measure of operational efficiency) dropped from 49.9 percent in June 2016 to 48.2 percent in June 2017 (Figure 16). This efficiency gain was mainly underpinned by reduction of expenses in several large banks. Due to this effect, total operational costs of banks increased by 5.3 percent as at end June 2017, lower than 19.6 percent growth registered in June 2017. Operational costs of banks are expected to drop further in the medium-term, and support more efficiency gains, as banks complete their capital investment projects.

2 Wholesale deposits are defined here as funds deposited by an institutional investor, a large business, another bank or an investment vehicle such as a mutual fund or pension.

Figure 16: Banking Sector Efficiency Indicator

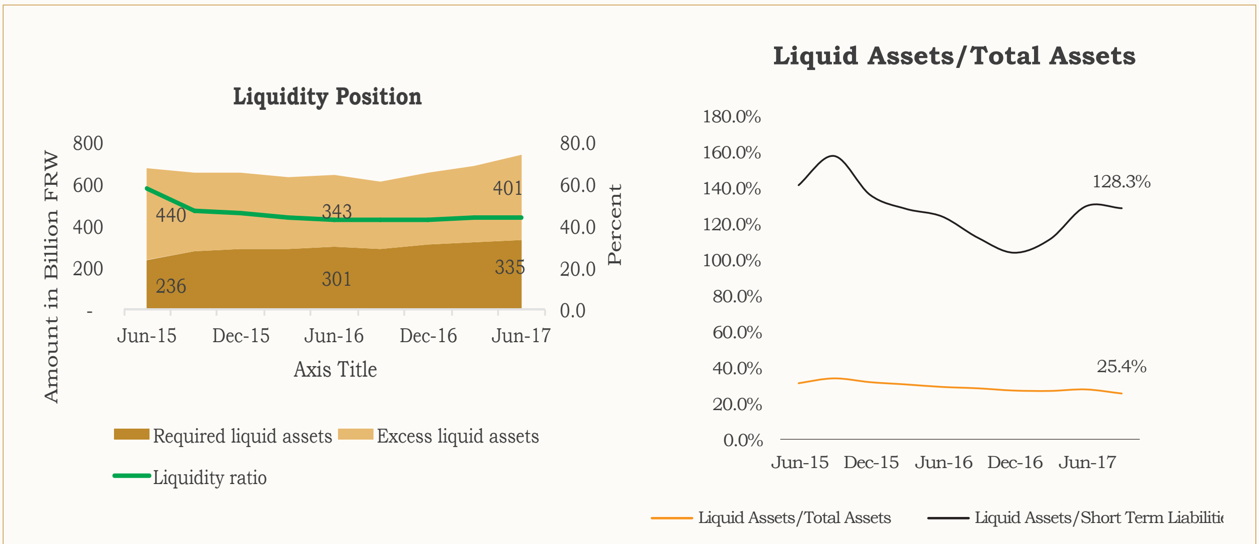


Sources: *BNR, Financial Stability Directorate*

Banks' Liquidity

Banking system liquidity buffers remained robust during the period under review (Figure 17). The current regulation on liquidity requires banks to maintain a ratio of 20 percent of liquid assets to total deposits. In June 2017, liquid assets stood at 44.0 percent of total deposits. This means banks held enough liquid assets to meet any liquidity distress. Liquid assets are defined as cash held in vaults, statutory and excess reserves, treasury bills not exceeding 12 months, other marketable and discountable financial instruments and the net dues from banks (inside and outside).

Figure 17: Banking Sector liquidity indicators



Sources: *BNR, Financial Stability Directorate*

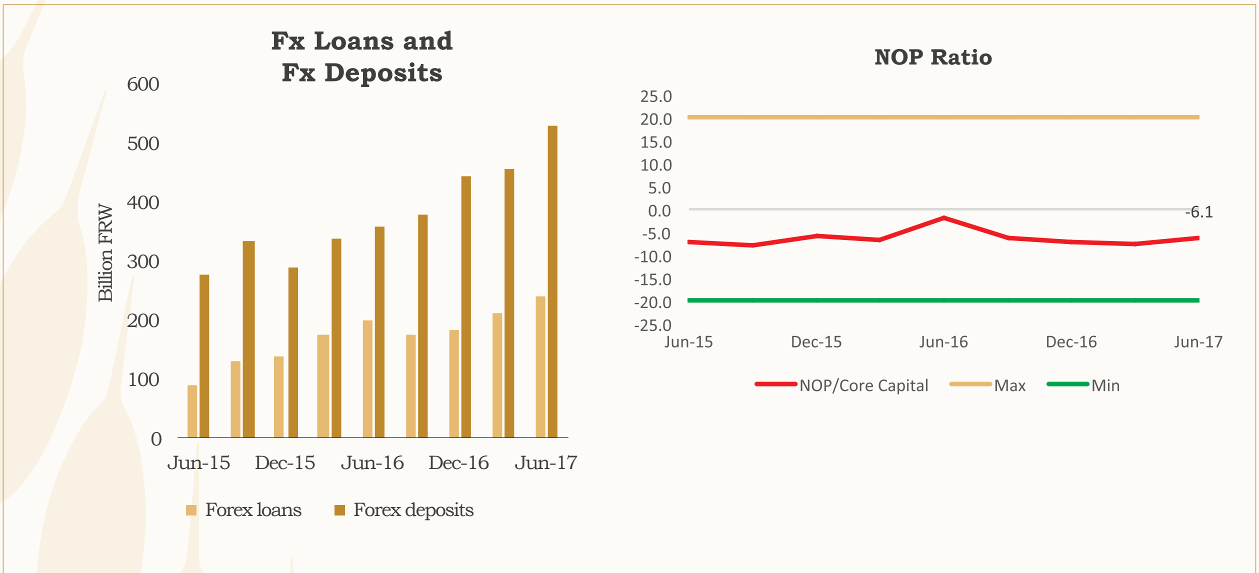
Through a regulation, BNR adopted Basel III liquidity requirements. This new regulation on liquidity introduces new ratios: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). Basel III LCR requires banks to have sufficient liquid assets of a high quality to address any short-term outflows. The NSFR requires banks to have stable long term funds capable of meeting long term obligations. The parallel run period is set to elapse at the end of the year 2017 and full enforcement to start in January 2018.

The liquidity stress test proved the resiliency of banks to adverse shocks. To test the liquidity resiliency of banks, we considered the following shocks: (i) what level of deposit withdrawal would make the first bank to become illiquid (reverse stress test) and (ii) what would happen if 20 largest depositors withdrew their funds in the banking system. According to the stress-test results, it would require 26 percent drop in deposits of banks for the first bank to become illiquid (liquidity ratio ≤0), in that case, five (5) banks would fall below the liquidity requirements level (liquidity ratio of less than 20 percent). However, the highest drop in deposits ever faced by Rwandan banks was 4 percent decline in September 2009. This implicitly means that Rwandan banks are adequately liquid. Results showed that no single bank would fail to meet the regulator liquidity ratio requirement of 20 percent if the largest depositor withdrew his money in each bank.

Banks' Foreign Exchange Exposure

The banking system foreign exchange exposure remained within prudential requirements. The regulation on foreign exchange exposure limit requires banks to maintain their Net Open position (NOP) within a band of +/-20 percent. As at end June 2017, the banking system NOP stood at -6.1 percent, and all banks met the NOP requirements (Figure 18). Additionally, to limit the foreign exchange exposure, the BNR also requires banks to maintain their foreign currency loans at less than 50 percent of their foreign currency deposits plus foreign currency lines of credit. As at end June 2017, foreign currency loans were 42.5 percent of foreign currency deposits plus lines of credits (Figure 18). This ratio declined from 48.5 percent in June 2016 to 42.5 percent in June 2017 and the decrease was due to the strong growth of foreign currency deposits in 2017, bolstered by the increase in commodity prices. At the end of June 2017, foreign currency deposits rose by 48 percent, up from a growth of 30 percent in June 2016.

Figure 18: Banking Sector sensitivity to foreign exchange market



Sources: *BNR, Financial Stability Directorate*

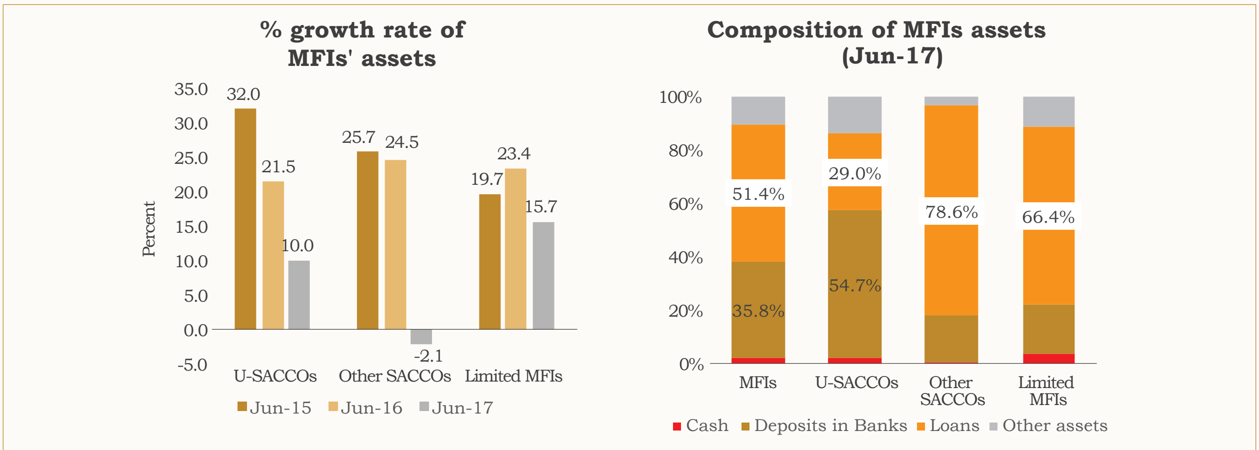
PERFORMANCE OF THE MICROFINANCE SECTOR

The Microfinance sector, an integral component of the financial sector, has played a critical role in driving financial sector development and expansion. The size of MFIs relative to Rwanda's financial system is still small, but increasing. As of June 2017, its share in total assets was 6.3 percent, up from 6.2 percent in June 2016. Generally, MFIs sector remained stable and sound during the period under review despite further deterioration of asset quality. Capital adequacy ratio (CAR) remains above the prudential limit and liquidity conditions continued to improve.

Growth of Assets in MFIs

The balance sheet of the microfinance sector continued to grow although at a lesser pace compared to the previous year. Microfinance assets increased by 7.6 percent as at end June 2017 (year-on-year) to FRW 248 billion, compared to 22.8 percent registered in the corresponding period of last year. The slowdown was most pronounced in loans. The stock of MFIs net loans, the main component of MFIs assets, increased by 6.7 percent (year-on-year), compared to 27.6 percent registered in the corresponding period of last. Despite this slowdown, lending remained the main business of the MFIs sector as loans account for over 51 percent of total MFIs assets (Figure 19). With private lending opportunities slimming, in line with weak agriculture performance, MFIs increased their investment portfolio in other instruments. For example, the stock of MFIs investment in Government securities increased by 86 percent as at end June 2017 (year-on-year) to FRW 1.5 billion.

Figure 19: Growth and composition of MFIs assets



Sources: *BNR, Financial Stability Directorate*

The reduced lending of MFIs during the period under review is attributable to the deterioration of asset quality and slower mobilization of deposits. As at June 2017, MFIs' asset quality declined as shown by the ratio of Non-Performing Loans (NPLs) to gross loans. NPLs increased to 12.3 percent in June 2017 from 7.5 percent registered in June 2016. The weak performance of agriculture in the second half of 2016 and the first quarter of 2017 negatively affected MFIs sector through high NPLs; reduced growth of deposits and constrained credit demand. MFIs loans in agriculture accounts for 15 of total MFIs loans, hence its performance greatly affects the quality of MFIs loans. In addition to the asset quality factor, the slowdown in growth of deposits, the main source of MFIs resources, curtailed the speed of lending. Growth of MFIs sector deposits moderated to 5.9 percent (y-o-y) in June 2017 (from FRW 126 billion to FRW 133 billion, compared to 20 percent registered in corresponding period of the previous year. Growth of MFIs deposits is expected to improve in the last 2 quarters of 2017 in line with projected improvement in agriculture performance. Early signs of this improvement are evident.

Funding Development in MFIs

The short-term nature of MFI deposits is another structural challenge, constraining long-term lending among MFIs. As at June 2017, short term deposits - of less than one year of maturity, accounted for 77 percent of total

MFIs deposits. Of these short term deposits, 93.8 percent are demand deposits. In U-SACCOs, short term deposits constituted 92 percent of total deposits, of which 95.6 percent are demand deposits. MFIs need to create incentives for long term funding, although this is a structural challenge for all deposit taking institutions.

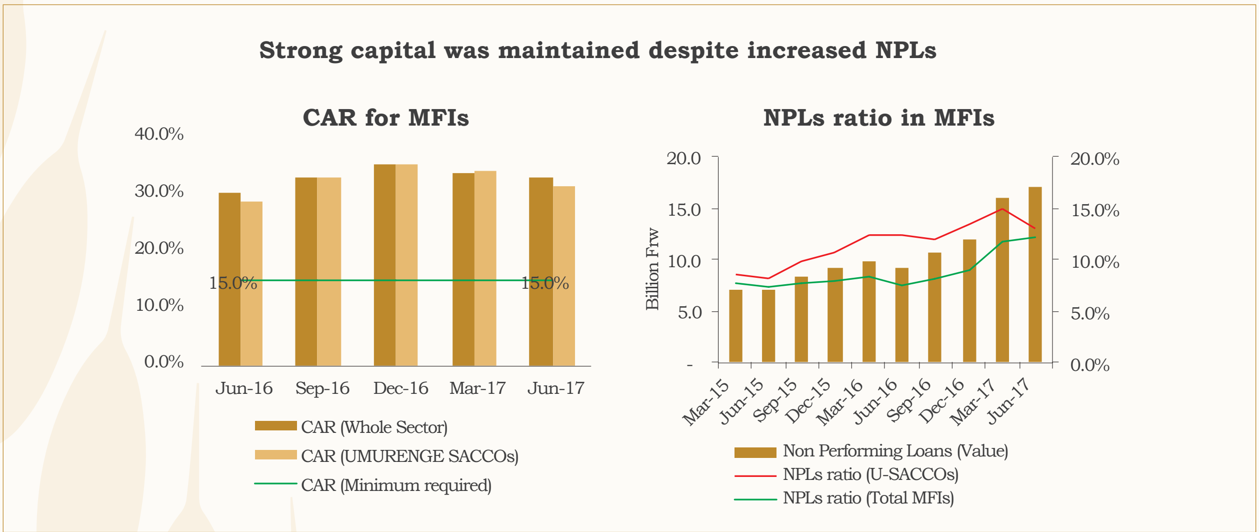
Profitability of MFIs

During the first half of 2017, the microfinance sector registered a loss of FRW 118 million on the back of one large MFI institution that under performed. One large MFI had to downgrade one of its largest loans and increased provisions, which weighed down profits of the sector as this institution accounted for 15 percent of total MFI assets. Excluding this company, other MFIs all together, registered FRW 3.5 billion profits in the first half of 2017. Higher profits in other MFIs were underpinned by higher recoveries from previous write-offs (from FRW 1.5 billion in H1 2016 to FRW 1.7 billion in H1 2017) and increased incomes from investments in Government securities (From FRW 21 million in H1, 2016 to 44 million in H1, 2017). Generally, the MFI profits has been adversely impacted by growing NPLs.

Capital Adequacy in MFIs

The sector however, continues to maintain strong capital buffers well above minimum requirements amid increased NPLs (Figure 20). The capital adequacy ratio (CAR) of MFIs increased from 30.3 percent in June 2016 to 33.3 percent in June 2017. During the period under review, total equity of the MFIs sector increased by FRW 18.3 billion (i.e., 18 percent increase) mainly driven by the new capital injected and the accumulated retained earnings. The MFIs CAR is significantly higher than minimum regulatory ratio of 15 percent. With regard to the composition of capital, microfinance capital is largely composed of paid-up capital, earnings and other equities. The strong capital position of MFIs provides confidence that MFIs can withstand unexpected losses from various shocks/risks.

Figure 20: Strong capital was maintained despite increased NPLs



Sources: *BNR, Financial Stability Directorate*

Liquidity conditions in MFIs

MFIs kept higher liquid assets during the period under review, with liquidity ratios above the statutory minimum of 30 per cent. In MFIs, liquid assets are defined as cash in vaults, deposits in banks and investments in government securities with less than one year maturity. As at June 2017, the ratio of liquid assets to current deposits stood at 99 percent in all MFIs. Liquid assets compose of 39 percent of total assets of MFIs and registered an annual growth of 6 percent in June 2017 (from FRW 90.3 billion to FRW 95.5 billion). The higher excess liquid assets reflects the decline of lending appetite in MFIs as a result of increased credit risk, and the contraction of demand for loans.

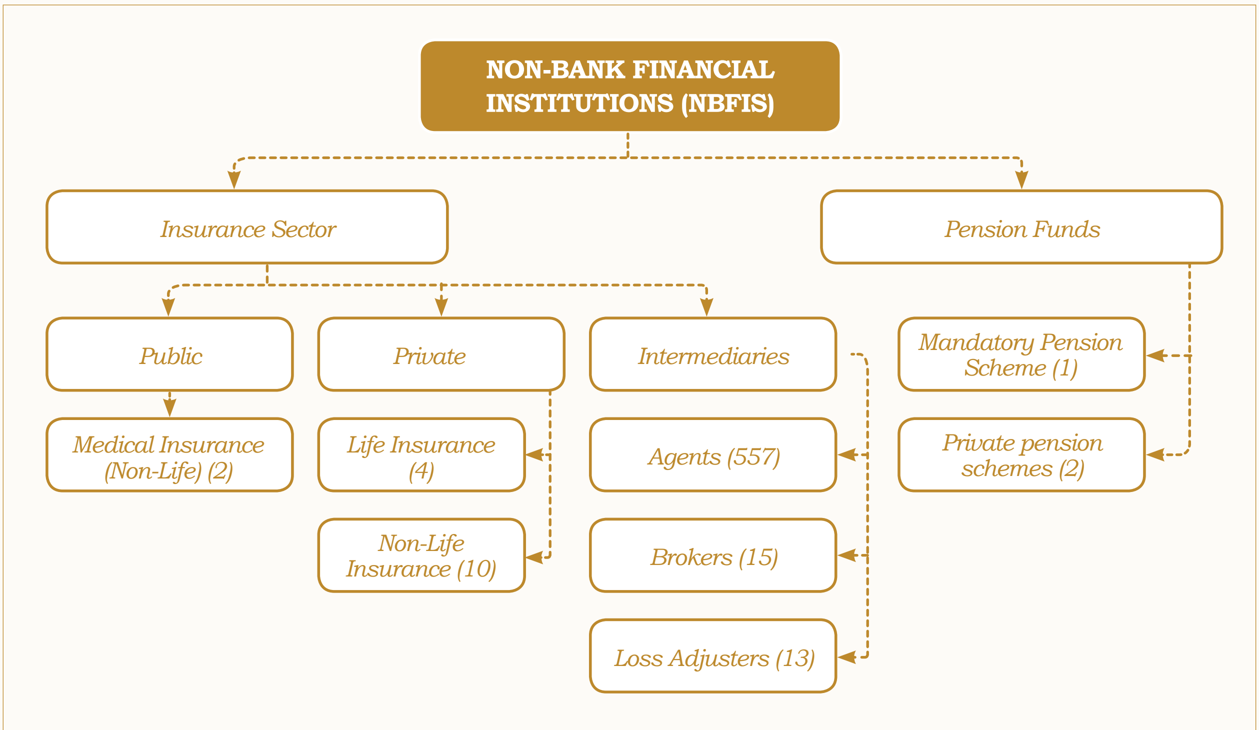
PERFORMANCE OF NON-BANK FINANCIAL INSTITUTIONS SECTOR

Non-Bank Financial Institutions (NBFIs) sector is an integral component of the Rwanda Financial Sector and is regarded as an important source of funds for the banking sector. It accounts for 26.8 percent of the Rwandan financial sector' total assets and its assets make up 14.5 percent of the GDP. The sector is dominated by the pension fund whose assets share 9.3 percent of GDP in June 2017, while the insurance sector represents a share of 5.2 percent in relation to GDP. Overall, the non-bank financial institutions remained stable and robust with its capital, assets quality and liquidity metrics above the prudential limits. Further, the sector has improved on its profitability by enhancing the operational efficiency and improved underwriting of insurance policies.

Structure of Non-Bank Financial Institutions

The Non-Bank Financial Institutions (NBFIs) sector comprises of insurance companies and pension funds (Figure 21). Since June 2016, the insurance sector expanded in terms of number of players, it reached to 16 insurers from 14 insurers (joining insurers were BK insurance and Mayfair Insurance) that contributed to the slight increase of insurance market penetration of 1.7 percent in June 2017 from 1.6 percent in June 2016. The sub-sector also operates a network of 185 branches, 15 brokers, 557 agents and 13 loss adjusters. The mandatory pension fund - Rwanda Social Security Board (RSSB), provides defined pension benefits on a mandatory basis to all employees formally employed in the public and private sector. Since enactment of the new pension law in 2015, which put forward the licensing conditions of private pension schemes, two private pension schemes were licensed and are managed by insurance companies and by employers.

Figure 21: The structure of Non-Bank Financial Institutions



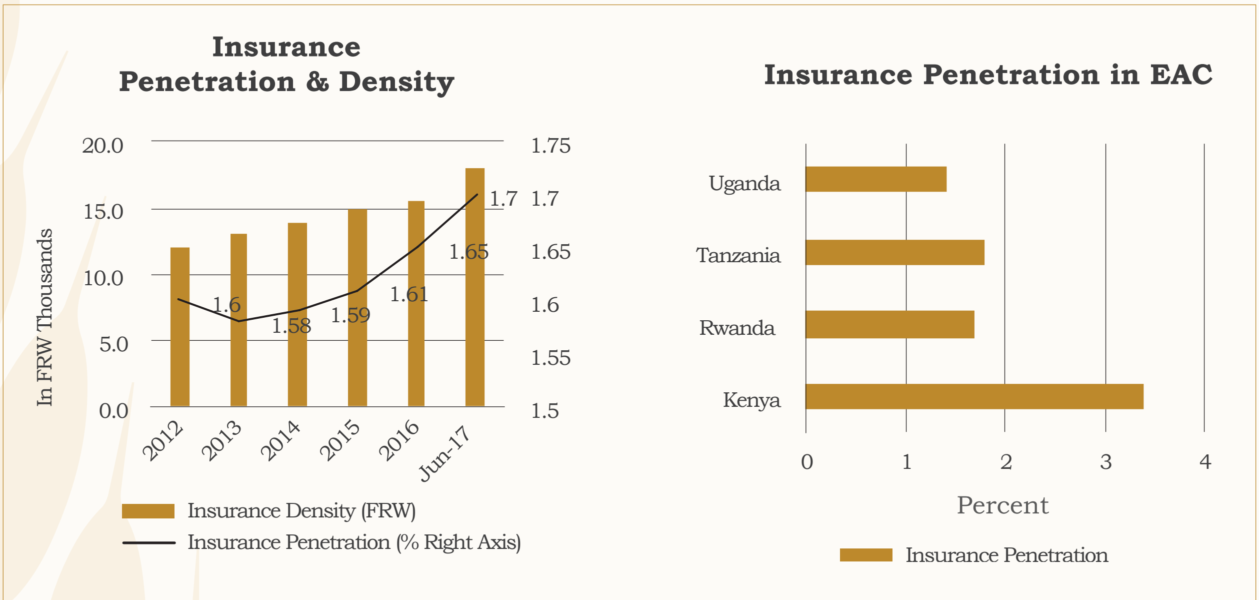
Sources: *BNR, Financial Stability Directorate*

INSURANCE SUB-SECTOR PERFORMANCE

The insurance sector has improved on several fronts as institutions implement new requirements issued by the central bank in the last quarter of 2017. Premium growth generally improved across insurance companies, but most prominently among public medical insurance companies. The underwriting business remains profitable, as insurance companies reduce their operational costs and claims management.

During the period under review, the Insurance sector continued to expand its penetration and density. The insurance sector penetration measured as total premiums in relation to GDP slightly picked up from 1.6 percent to 1.7 percent while insurance spending per capita also improved as at June 2017 to FRW 17,916 from FRW 15,568 in December 2016 (Figure 22). This improvement was supported by improved collection of premiums in the public insurance companies as predominant players in the overall insurance sector with 15.5 percent growth rate while the private non-life insurance companies grew by 10.7 percent and 11 percent for private life insurance companies. Although the insurance penetration is still low compared to the African average of 2.8 percent (2016), and Kenya's penetration of 3.4 percent (Q1, 2017). This is however expected that the micro-insurance regulatory framework being developed will improve this penetration.

Figure 22: Insurance Market Growth and Penetration in Q1, 2017

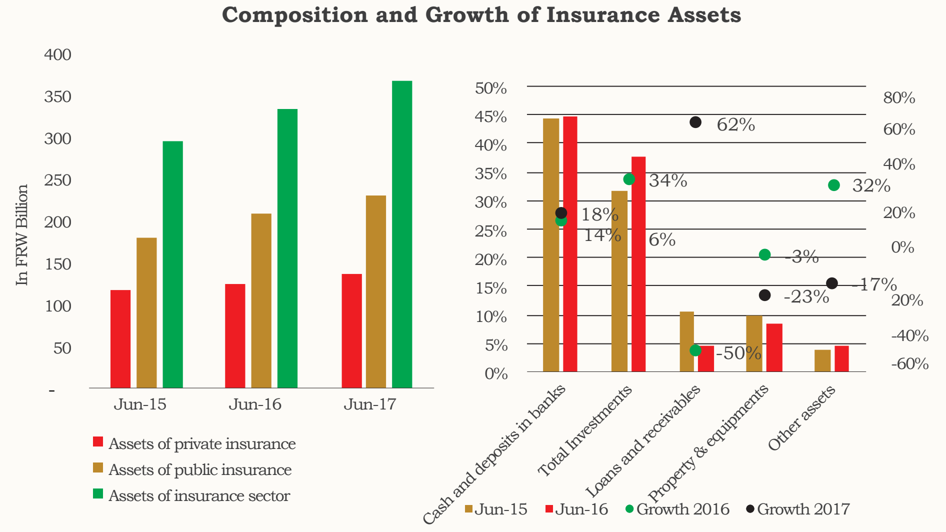


***Source:** BNR, Financial Stability Directorate & EAC insurance regulators*

Assets Growth

Assets of insurance companies continued to grow. Between June 2016 and June 2017, assets of insurance companies grew by 14 percent to FRW 366.5 billion. Assets of public insurers (RSSB-Medical scheme and MMI) increased the most, by 11 percent to FRW 230 billion in June 2017 while assets of private insurers increased by 9 percent to FRW 136.4 billion in June 2017 (Figure 23). The growth in total assets of insurance sector is broadly linked to the recapitalization in most of the private insurance companies in order to meet the prudential solvency level and 85 percent growth of net profits of the insurance sector during the period under review.

Figure 23: Composition and growth of insurance assets



Source: *BNR, Financial stability Directorate*

Liabilities of the Insurance Sector

As at June 2017, the liabilities continued to move in line with the underwritten insurance risks. The liabilities of insurance companies are mainly composed of technical provisions, which make up 80 percent of total liabilities. Technical provisions are meant to cover the amount the insurance company would have to pay for an immediate transfer of its obligations to a third party. During the period under review, technical provisions grew by 9 percent to FRW 80.6 billion representing 74 percent of gross written premiums, 260 percent of net claims incurred as at June 2017.

The technical reserves of private non-life continued to be adequate during the review period. Between June 2016 and June 2017, the private non-life insurance liabilities increased by 5 percent from FRW 60.2 billion to FRW 63.4 billion in line with insurance risks (premiums). The large part of insurance liabilities constitutes the unearned premiums and outstanding claims reported during the period ended June 2017. Net technical reserves represent 4 times of net claims paid in last 3 years, which indicates the sufficient capacity of non-life insurance to meet financial obligations arising from insurance contracts. The current regulation requires non-life insurers to set aside the equivalent provisions of unearned premiums, unexpired risks, outstanding claims reported, while claims Incurred But Not Reported (IBNR) are provisioned at more than 15 percent of the outstanding claims of the end of the previous reporting period. Further, technical reserves to capital ratio of the private insurance stood at 203 percent as at June 2017, slightly higher than the threshold of 200 percent (international best practice by the International Association of Insurance Supervision-IAIS). The recapitalization process which is ongoing for few undercapitalized private insurers is expected to bring down this ratio.

Private life insurance technical provisions are also in line with the risks undertaken as at June 2017. Between June 2016 and June 2017, technical reserves grew by 11.5 percent from FRW 27.9 billion to FRW 31.1 billion in line with the growth of net premiums written. Technical provisions of life insurance are mainly dominated by actuarial reserves[3] which constitute over 83 percent of total life insurance technical reserves. The net technical reserves represent 588 percent of the total capital as at June 2017.

Capital Adequacy

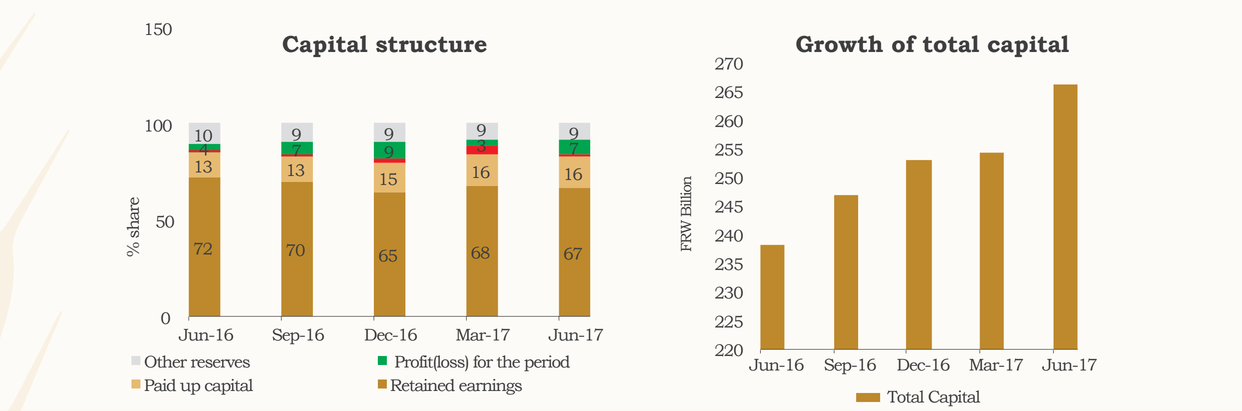
Total capital continued to grow mainly driven by recapitalization of some insurance companies and retained profits. Between June 2016 and June 2017, the total capital of the insurance sector grew (year-on year) by 12 percent to FRW 266 billion in June 2017 from FRW 238 billion in June 2016. This growth was mainly backed by FRW 10 billion of fresh capital injection and FRW 18 billion of retained reserves. This capital growth reflects the continued move by insurers to meet the required regulatory capital.

3 Actuarial reserve is the present value of the future cash flows of life insurance policy.

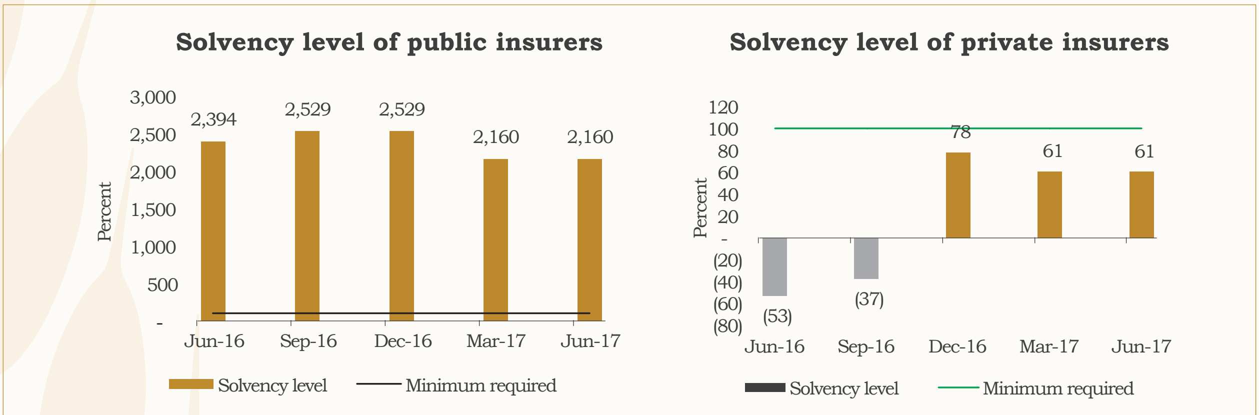
The solvency position of the insurance sector improved significantly compared to last year. As at end June 2017, the solvency ratio of the insurance sector stood at 1034 percent against 991 percent in 2016, above the BNR regulatory minimum requirement of 100 percent. The solvency margin of private insurers significantly improved during the period under review from -53 percent in June 2016 to 61 percent in June 2017, on account of improved solvency position across several private insurance companies in 2017. For instance, the number of private companies meeting the prudential solvency requirement of 100 percent increased from 5 in June 2016 to 11 in June 2017. The solvency margins are particularly high among the 2 public insurers (See Figure 24).

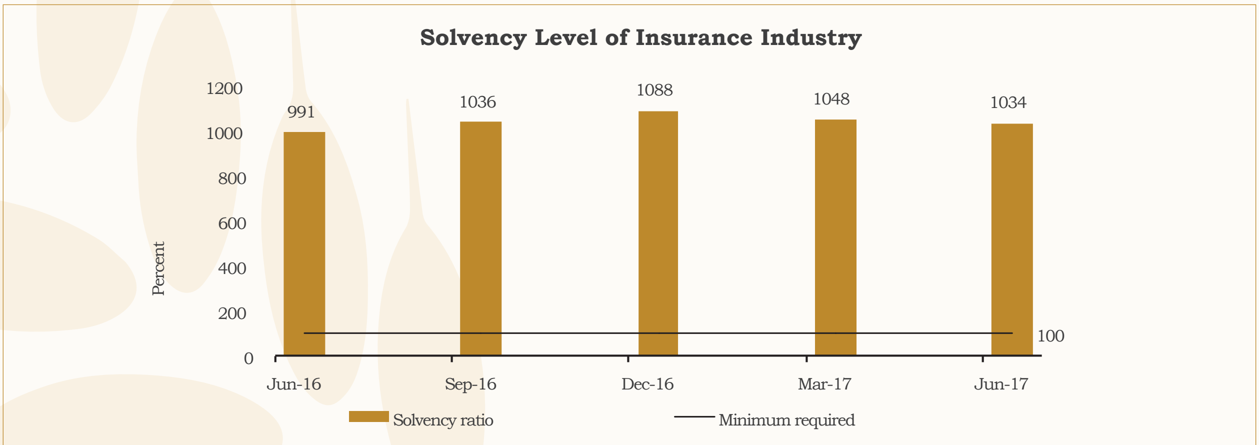
As a result of improved capital, the insurance risk continued to be low as the net written premiums to capital stood at 21 percent, below 300 percent best maximum level (IAIS). This continues to reflect the capacity level of the insurance sector to hold the sufficient capital covering insurance risks. However, this further indicates that the insurance sector has more room to collect premiums.

Figure 24: Composition of total capital and growth



...the solvency position remained highly adequate in public insurers





***Source:** BNR, Financial stability Directorate*

Assets quality

Generally, assets of the insurance sector are well diversified and are maintained within the required prudential benchmarks (Table 4). Between June 2016 and June 2017, the insurance sector continued to maintain risky investment assets (equity and property investments) under the prudential investment ceilings of 30 percent as depicted in Table 4. Equity investments as a percentage of total assets slightly picked up to 25 percent while property investments reduced to 11 percent. The insurance investment portfolio is concentrated in various investment assets in the banking system. For instance, the share of cash and deposits in banks continued to remain the largest part of total assets and increased to 48 percent in June 2017. However, the share of loans and receivables as a percentage of total assets, moderately increased by 2 percentage points between June 2016 and June 2017. Loans and receivables increased in form of reinsurance receivables and premium receivables which qualifies for a period of 60 days to be recovered. Investment in government securities as a percentage of total assets also increase from 9 percent in June 2016 to 12 percent in June 2017 on the back of increased appetite brought about by higher yields on government securities during the period under review.

Table 4: Assets quality ratios of Insurance sector (%)

Indicators	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Benchmark
Insurance sector						
Investments in properties to total assets	14	13	14	11	11	≤30%
Equity securities to total assets	24	26	25	25	25	≤30%
PPE to total capital	12	8	8	8	8	N/A
Cash and deposits/total assets	45	42	48	50	48	≤100%
Loans & receivables/total assets	5	6	3	4	7	N/A
Government securities to total assets	9	7	12	12	12	≤100%
Non-life Insurance						
Investments in properties to total assets	9	9	9	8	8	≤30%
Equity securities to total assets	13	13	13	13	13	≤30%
PPE to total capital	10	10	7	8	8	N/A
Cash and deposits/total assets	41	39	47	50	49	≤100%
Loans & receivables/total assets	4	6	3	3	7	N/A
Government securities to total assets	9	7	12	12	13	≤100%
Life Insurance						
Investments in properties to total assets	43	43	44	33	33	≤30%
Equity securities to total assets	11	11	10	10	10	≤30%
PPE to total capital	24	24	23	23	23	N/A
Cash and deposits/total assets	38	39	39	40	39	≤100%
Loans & receivables/total assets	2	2	2	3	2	N/A
Government securities to total assets	6	6	6	6	8	≤100%

Source: *BNR, Financial stability Directorate*

Profitability of Insurance Industry

The consolidated profits (after tax) of the insurance sector witnessed robust annual growth during the period under review. As at end June 2017, total profits of the insurance sector increased by 86 percent (year-on-year) to FRW 18.6 billion. This growth resulted from good performance of public insurers (MMI and RAMA) whose profit after tax increased from FRW 14.1 billion in June 2016 to FRW 17.9 billion in June 2017, thanks to increased growth of medical premiums and reduction of costs. The performance of private insurers also made a significant improvement as their profits after taxes reached FRW 0.6 billion from a net loss of FRW 4.1 billion registered in the first half of 2016.

Growth of the insurance sector premiums improved due to increased enrolment to public health insurance schemes. Total insurance sector premiums rose by 13 percent as at end June 2017, after growing at 11.4 percent in the corresponding period of 2016. Strong growth of premiums happened in public medical insurance sub-sector (15.5 percent), compared to private insurance companies (11 percent). The strong growth of public insurers' premiums was due to increased numbers of contributing employers in public medical insurance from 2,643 in June 2016 to 2,809 in June 2017.

In the private insurance, premiums in life insurance grew significantly despite its low share relative to premiums collected by non-life insurance. Between June 2016 and June 2017, private insurance reaped to FRW 33.8 billion of premiums growing at 11 percent from the growth of 10 percent recorded in the corresponding period of 2016. Life insurances' gross premiums written grew by 11 percent to FRW 5.6 billion, higher than the growth of 5 percent registered between June 2015 and June 2016, while the growth of gross premiums written in the non-life insurance business also grew by 11 percent in June 2017, the same as in the corresponding period of 2016.

Overall, the underwriting results of private insurers significantly improved on account of reduced claims and operational cost. A directive on insurance business conduct issued in August 2016, sought to improve the performance of the insurance sector through improving underwriting standards, pricing mechanisms and claims management. Implementation of this directive is providing positive results in the first half of 2017. For example, between June 2016 and June 2017, total claims of private insurers grew by 0.1 percent to FRW 18.4 billion, compared to the growth rate of 35.8 percent registered in the corresponding period of 2016. This slowdown of growth of claims is mainly underpinned by: (1) introduction of biometrics technology in medical claims settlement, (2) restructuring non-performing products, and (3) decline in motor claims due to the Rwandan police intervention by introducing the speed governors in most of public transport vehicles. In addition, management expenses of private insurers declined by 7 percent to 12.3 billion during the period under review. Consequently, the net underwriting returns of private insurers improved from a loss of FRW 8 billion registered in June 2016 to a loss of FRW 4.2 billion in June 2017.

Table 5: Key indicators on profitability

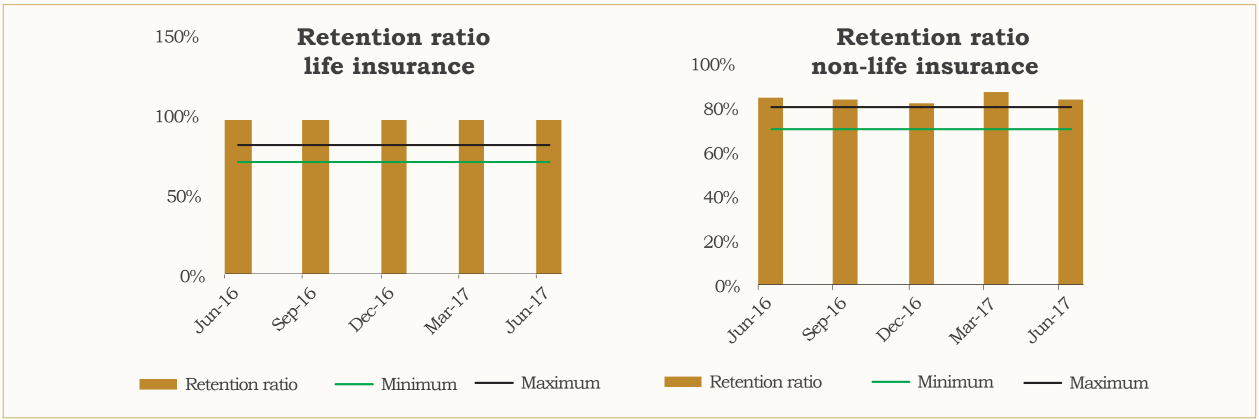
Key ratios (%)	Jun-15	Jun-16	Jun-17
Non-life Insurance			
Claims ratio (max.60%)	63	83	71
Expenses ratio (max. 30%)	47	50	41
ROA (min. 4%)	-1	-40	2
ROE (min. 16%)	-3	-11	1
Life Insurance			
Claims ratio (max.60%)	63	59	66
Expenses ratio (max. 30%)	45	54	47
ROA (min. 4%)	4	2	2
ROE (min. 16%)	13	7	14
Public Insurance			
Claims ratio (max.60%)	43	53	48
Expenses ratio (max. 30%)	13	18	11
ROA (min. 4%)	16	14	16
ROE (min. 16%)	16	14	16

Source: *BNR, Financial stability Directorate*

Reinsurance

The sector's risk retention slightly dropped over the period under review. The retention ratio indicates the amount of insurance risk that an insurance company retains rather than ceded to reinsurers, and is much more practical to non-life business whose products expose more insurance risks than life insurance business (Figure 25). As at June 2017, the retention ratio stood at 83 percent, slightly lower than 84 percent in June 2016. However, the industry slightly exceeded the required prudential benchmark bands of 70 percent (minimum) and 80 percent (maximum).

Figure 25: Ceded amounts are important in non-life insurance than life insurance



Source: *BNR, Financial stability Directorate*

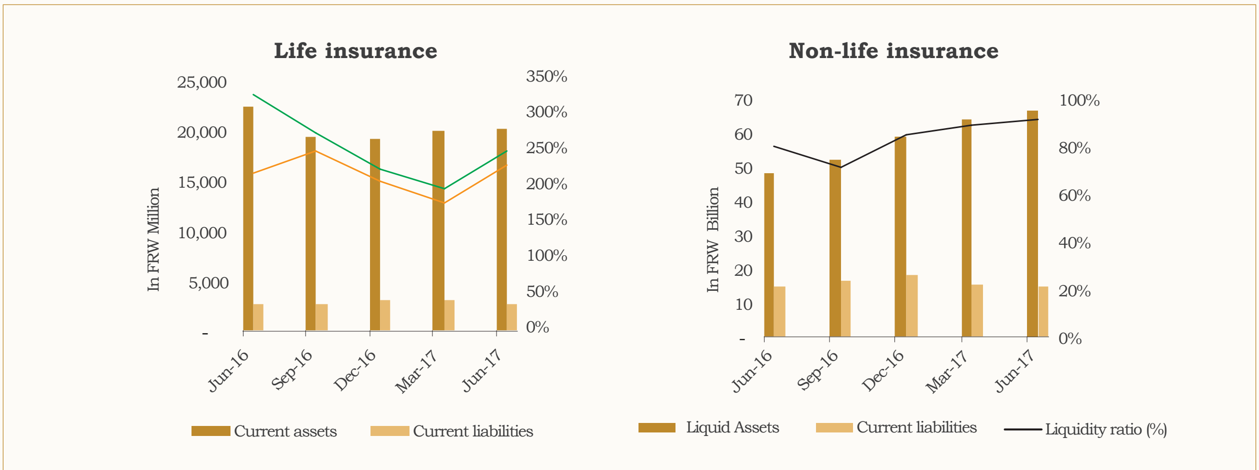
Although the portion of policies which are ceded to foreign market is relatively meager, it could expose Rwandan insurers to reinsurance risks. As at June 2017, Rwandan insurers hold 49 percent of the total ceded premiums in East African Community region (EAC region). Shocks that affects reinsurance companies' profitability or strategic orientations are likely to spill over to local insurers through claim settlement. It is worth to mention that Rwanda has not yet established a reinsurance company.

Liquidity position

Generally, the insurance industry had adequate liquidity to meet short term obligations. In June 2017, the current liquidity position stood at 333 percent, 12 percentage points lower compared to the corresponding period in 2016. This liquidity position is above the regulatory limit of 120 percent.

The liquidity is significantly more important for non-life insurance than life insurance (Figure 26). Non-life insurance, referred to as short term insurance, hold contracts and issue policies for the maximum period of one year and are exposed to unforeseen risks with unknown liabilities. Contrary to the non-life insurance business, life insurers covers the payouts in case the death of policyholders with known liabilities. This allows the life insurance companies to establish a proper asset-liabilities management for future liquidity needs. Therefore, the liquidity of life insurance sector continued to be adequate as measured by current ratio and quick ratio. As at June 2017, the liquidity ratio stood at 251 percent and 231 percent respectively for current ratio and quick ratio, above the prudential benchmark of 120 percent and 150 percent. In non-life insurance, the liquidity position improved but it is still lower than the prudential limits. In June 2017, the current liquidity position improved and stood at 92 percent, 12 percentage points higher compared to the corresponding period in 2016. However, BNR and the industry association (ASSAR) are working towards the improvement of liquidity position in private insurers to meet the current regulatory limits.

Figure 26: Liquidity for non-life insurance recovered since June 2016



Source: *BNR, Financial stability Directorate*

The Performance of Pension Funds

During the period under review, the pension sub-sector grew on account of increased contributions and investment income. As at June 2017, assets of the pension sector grew by 13 percent to FRW 661.3 billion, slightly lower than 14 percent registered in the corresponding period of 2016. Total contributions increased by 4 percent from FRW 74.5 billion in June 2016 to FRW 77.6 billion in June 2017, while income on investments increased by 14 percent to FRW 26.4 billion to FRW 23.1 billion (Table 6).

Table 6: Key highlights of pension performance

Description (In FRW Billion)	Jun-14	Jun-15	Jun-16	Jun-17	% change Jun 16/15	% change Jun 17/16
Total assets	455.9	512.1	584.5	661.3	**14**	**13**
Total contributions	55.5	59.7	74.5	77.6	**25**	**4**
Total benefits paid	11.9	14.9	15.8	17.7	**6**	**12**
Total operating expenses	5.7	5.4	4.7	4.5	**-13**	**-4**
Total investment income	20.2	21	23.1	26.4	**10**	**14**

Source: *BNR, Financial stability Directorate*

The large part of pension's total assets is mostly invested in equities. As at June 2017, the investment in equities represented the highest share of pension fund assets that account for 38 percent, followed by cash and deposits in banks (28 percent), Immovable property (18 percent), government securities (15 percent) and corporate bonds (1 percent). The pension fund continued to maintain long-term investments available on the market in order to lessen the maturity mismatch of assets and liabilities.

During the period under review, the investment income continued to grow mostly backed by growing interest yields from deposits and dividend income. As at June 2017, both income from deposits in banks and dividends income constituted the largest portion of investment income. The income from deposits in banks grew the most by 15 percent to FRW 11.2 billion with a share of 53 percent of total investment income reflecting mainly the increased remuneration of deposits by banks during the period under review. Dividends income, which represented 28 percent of the total investment income, grew by 9 percent to FRW 6.8 billion (Table 7).

Table 7: Investment allocation & distribution of investment income as at June 2017

Particular	Share of assets	Share of income
T-Bills/T-Bonds	15%	12%
Cash and deposits in banks	28%	53%
Corporate Bonds	1%	7%
Property	18%	7%
Equities	38%	28%

Source: *BNR, Financial stability Directorate*

PAYMENT SYSTEMS INFRASTRUCTURE

Rwanda's Integrated Payment Processing System (RIPPS) is comprised of 2 sub-components: The Automatic Transfer System (ATS) - which routes higher value transactions through the Real Times Gross Settlement (RTGS) and low value transactions through Automated Clearing House (ACH) - and the Central Securities Depository (CSD) that facilitates securities storage and transfer. This payment system plays an important role in the performance of the Rwandan financial system and supports economic performance through expediting transactions. Its continuous performance is therefore a financial stability indicator greatly monitored by the National Bank of Rwanda.

During the period under review, no outages or disruptions happened in the payment systems and transactions continued to increase. The RIPPS remained adequately reliable during the last 12 months with no disruption to the normal operation of the system. There were no cases of queued payments due to liquidity shortages as participating financial institutions in the RTGS held sufficient liquidity to settle their transactions. Comparing the first half of 2017 with the first half of 2016, customers' transactions increased by 11 percent in volume from 1,374,887 transactions to 1,538,408 transactions and increased in value by 7 percent from FRW 2,115 billion to FRW 2,274 billion. While a large proportion of these are on account of ATS, the share of retail electronic payments is increasing fast. As at June 2017, the retail electronic payment stood at 25 percent of the national output (GDP) compared to 16 percent of GDP recorded in June 2016. All these transactions were settled without delay or loss, portraying the capacity of the payment system infrastructure.

The Rwandan Payment System was assessed complaint in accordance with the internationally accepted best practices on payment system infrastructure. In 2015, BNR, supported by the World Bank, conducted an assessment on Real Time Gross Settlement (RTGS), Central Securities Depository (CSD) and Securities Settlement System (SSS) with the overall purpose of mitigating the systemic risk that may arise from the disruption of one of these components of Rwanda Integrated Payment Processing System (RIPPS). Using the internationally accepted benchmarks grouped into "24 principles", RTGS, CSD and SSS were observant on almost all principles applicable in Rwanda. One principle "principle 23 related to the disclosure of rules, key procedures, and market data" was partly observed.

High growth is mainly happening in the retail digital payments space due to high mobile money uptake. As at June 2017, the registered mobile financial services accounts increased from 8.3 million in June 2016 to 8.6 million. In the same period usage of mobile money services has increased as well: For example, the volume of mobile money transactions has increased by 26 percent from FRW 94 to 119 million; while the value increased by 33 percent from FRW 469 billion to FRW 622 billion. Mobile money transactions were mainly boosted by digitalized payment for government services. As at end June 2017, the volume of mobile money payment for Government services (P2G) grew by 355 percent (year-on-year) to 326,210 transactions. In terms of value it increased by 315 percent to FRW 2 billion.

To safe guard stability of mobile money transactions, BNR issued a regulation on e-money. In December 2016, the BNR issued a regulation on electronic money issuance. This regulation contains two main requirements: (1) it requires that all e-money created by MNOs must be backed by an equivalent balance held in a trust or escrow account in banks; (2) it stipulates that the sum total of e-money accounts held with any one bank on behalf of a given non-bank e-money issuer shall not exceed 25 percent of the core capital of the bank. As at June 2017, trust accounts held within banks averaged at 9 percent of the total core capital of banks, a bank with the highest amounts held in an escrow account had 17 percent of the core capital of that banks. BNR will continue to ensure that e-money operators are protected from the distress that may happen in the banking sector.

CONCLUSION

In the face of a challenging macroeconomic environment, the Rwandan financial sector continued to be sound and stable. Banks and MFIs remained well capitalized, liquid and resilient to shocks. The asset quality of banks and MFIs deteriorated during the period under review and this was followed by increased loan loss provisions compared to last year. In a move to curb the issue of escalating credit risk in banks and MFIs, BNR is, among other quick wins policies, conducting a research on the determinants of NPLs and findings from this study will guide in policy formulation at all levels. The foreign exchange exposure of Rwandan banks remain in check and within the regulatory prudential limits. The insurance sector improved during the year ended June 2017. Assets of insurers grew as a result of fresh capital injected and improved profits. The regulation on insurance business conduct was on the back of reduced claims and expenses during the period under review.

The financial sector is supported by a robust and vibrant payment system. The payment system infrastructure continue to operate smoothly with moderate liquidity and operational risks. Electronic transactions continued to boost access to finance and BNR has put in place legal instrument which limit risks related to e-money.

Going forward, more improvements in all sub-sectors of the financial sector are expected in this fiscal year 2017/2018 owing to improvement of both local and international economic performance. Specifically, improvement in Rwanda's external account and foreign direct investments inflows are anticipated to continue playing a paramount role in easing inflation and exchange rate pressures.

Apart from above prospects in the economic environment, BNR will continue to implement key regulatory reforms in line with FSDP II and other national and international reform agenda in a bid to ensure the financial sector is stable and inclusive. Further, BNR will also continue to enhance both onsite and offsite inspection of financial institutions to ensure enforcement and compliance with prudential policies and regulatory frameworks.

-END-

ANNEX 1:

Banking Sector - Balance Sheet (In billions of FRW)

PERFORMANCE INDICATORS	2015			2016				2017	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
A. ASSETS									
Cash	58	57	63	61	64	71	65	67	65
BNR with Balances	107	117	116	121	134	105	122	120	137
Due from banks in Rwanda	151	118	128	108	114	84	122	123	125
Due from with Banks Abroad	152	156	119	98	115	107	216	181	234
Government Securities	217	231	240	247	229	207	188	209	228
Investments and Other Securities	54	57	93	118	148	119	84	82	81
Loans & Overdrafts (gross)	1,150	1,205	1,269	1,332	1,371	1,445	1,457	1,532	1,580
Less: Provisions	41	42	41	43	48	52	54	63	67
Loans & Overdrafts (Net)	1,109	1,164	1,228	1,290	1,323	1,392	1,403	1,468	1,513
Fixed Assets (net)	94	97	97	97	98	98	116	115	115
Other Assets	60	51	48	44	53	65	55	66	75
Total Assets (net)	**2,000**	**2,047**	**2,133**	**2,184**	**2,278**	**2,247**	**2,380**	**2,431**	**2,572**
B. LIABILITIES									
Due to banks in Rwanda	217	228	256	246	265	300	313	303	335
Borrowings from BNR	-	-	-	-	-	-	-	-	-
Deposits	1,367	1,386	1,426	1,445	1,507	1,437	1,530	1,580	1,674
Due to Banks Abroad	3	5	3	2	6	6	8	5	5
Bills Payable	1	1	1	0	0	0	1	0	4
Other Liabilities	43	54	59	71	81	73	86	101	100
Total Liabilities	**1,631**	**1,673**	**1,743**	**1,764**	**1,859**	**1,816**	**1,938**	**1,988**	**2,118**
C. CAPITAL									
Paid-up-Capital	160	160	166	185	189	189	190	199	209
Share Premium	33	33	35	37	37	37	37	36	35
Retained Reserves	24	25	30	31	28	29	33	34	28
Other Reserves/Subordinated Debt	119	123	123	157	146	145	144	163	161
Profit/loss	24	33	43	10	19	32	38	11	22
Total Shareholders' funds	**360**	**374**	**397**	**420**	**419**	**431**	**441**	**442**	**454**
Total equity and liabilities	**2,000**	**2,047**	**2,133**	**2,184**	**2,278**	**2,247**	**2,380**	**2,431**	**2,572**
D. OFF BALANCE SHEET ITEMS									
Guarantees and Performance Bonds	791	646	628	626	641	609	748	761	757
Unused Loans/Overdrafts commitment	125	94	198	150	97	120	147	143	131
Other off balance sheet items	213	207	204	227	253	255	263	258	276
Total	**1,129**	**947**	**1,030**	**1,003**	**990**	**984**	**1,158**	**1,162**	**1,164**

Source: *BNR, Financial stability Directorate*

ANNEX 2:

Banking Sector - Income Statement (In billions of FRW)

INCOME STATEMENT	2015			2016				2017	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
A. INCOME									
Interest Income/ Loans and advances	88	136	186	50	103	156	207	55	113
Interest Income/ Government Securities	6	9	12	5	10	17	26	5	10
Interest Income/ Placements	4	7	10	3	6	10	11	3	6
Commissions	15	23	32	8	16	26	38	11	22
Foreign Exchange Income	11	17	22	5	11	16	20	5	10
Other Income	20	31	41	7	13	25	32	7	13
Total Income	**145**	**223**	**303**	**79**	**160**	**250**	**335**	**86**	**174**
B. EXPENSES									
Interest Expense - Deposits	20	32	45	13	27	40	55	14	28
Other Interest Expenses	8	13	16	3	7	11	14	5	9
Provisions for Bad Debts	19	32	43	9	17	28	42	9	20
Salaries, Wages, staff costs	32	48	65	18	36	54	70	19	39
Premises, Depreciation, Transport	13	19	26	7	14	21	29	7	15
Other Expenses	23	35	51	14	30	49	69	15	30
Total Expenses	**114**	**179**	**245**	**64**	**131**	**203**	**278**	**69**	**141**
Net Profit Before Tax	31	43	57	15	29	47	57	17	33
Corporation Tax	7	9	14	5	10	15	18	5	12
Net Profit After Tax	**24**	**35**	**43**	**10**	**19**	**32**	**38**	**11**	**22**

Source: *BNR, Financial stability Directorate*

ANNEX 3:

Banking Sector - Financial Soundness Indicators (in %)

SOUNDNESS INDICATORS (%)	2015			2016				2017	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
CAPITAL ADEQUACY									
Core Capital / RWA	21.6	21.3	19.9	22.3	20.7	20.0	20.0	19.6	19.2
Total Qualifying Capital /RWA	24.3	24.2	22.5	24.9	23.3	22.2	21.9	21.2	20.8
Off Balance Sheet Items / Total Regulatory Capital	352.5	290.9	302.7	263.8	262.5	260.2	304.9	307.5	303.7
Insider Loans / Core Capital	2.8	3.0	4.0	3.1	3.5	3.6	2.4	4.4	5.2
Large Exposures / Core Capital	107.2	98.6	112.6	99.2	122.7	141.0	149.5	161.1	172.2
NPLs – Provisions / Core Capital	13.6	15.5	16.0	14.5	19.2	20.1	21.0	22.7	23.3
ASSET QUALITY									
NPLs / Gross Loans	5.9	6.3	6.2	6.1	7.0	7.5	7.6	8.1	8.2
NPLs net of interests/Gross loans	4.9	5.1	5.2	5.2	5.9	6.0	5.7	6.4	6.4
Provisions / NPLs	51.5	48.2	46.2	46.4	42.7	43.4	42.7	44.4	44.9
Earning Assets / Total Asset	81.8	83.1	83.1	82.9	81.9	82.6	82.4	81.4	81.9
Fixed Assets / Core Capital	33.0	33.4	32.3	28.4	29.3	28.7	33.4	32.8	32.5
Large Exposures / Gross Loans	22.5	20.9	23.4	22.6	25.6	29.9	31.0	32.1	33.6
EARNINGS (ANNUALISED)									
Return on Average Assets	2.4	2.2	2.1	1.9	1.7	1.9	1.7	1.8	1.7
Return on Average Equity	13.1	12.0	11.2	9.8	9.2	10.0	8.8	10.1	9.6
Net Interest Margin	9.1	8.6	9.2	10.3	10.3	10.2	10.4	10.1	9.9
Yield on Advances	15.7	15.4	15.0	15.4	15.2	14.8	14.3	14.7	14.6
Cost of Deposits	3.6	3.3	3.2	3.7	3.6	3.6	3.7	3.6	3.5
Cost to Income	78.6	80.5	81.1	80.9	82.0	81.1	83.1	80.7	81.1
Overhead to Income	46.0	46.2	46.8	49.1	49.9	48.9	49.9	49.0	48.2
LIQUIDITY									
Short term Gap	11.6	6.0	8.1	9.1	10.4	3.6	2.3	5.7	6.8
Liquid Assets / Total Deposits	57.3	46.8	45.8	43.9	42.8	42.3	42.5	43.3	44.0
Interbank Borrowings / Total Deposits	18.4	16.4	18.1	17.0	17.6	20.9	20.4	19.1	20.0
BNR Borrowings / Total Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Loans / Total Deposits	114.5	98.5	101.7	103.4	106.2	112.3	109.1	110.8	108.4
MARKET SENSITIVITY									
Forex Exposure / Core Capital	-7.1	-7.9	-5.7	-6.7	-1.8	-6.3	-7.0	-7.4	-6.1
Forex Loans / Forex Deposits	32.6	38.7	47.7	51.0	55.7	46.1	38.8	43.5	42.5
Forex Assets / Forex Liabilities	82.1	86.1	81.7	81.1	82.3	81.6	81.6	82.3	82.6

Source: *BNR, Financial stability Directorate*

ANNEX 4:

Microfinance Sector - Balance Sheet (In billions of FRW)

PERFORMANCE INDICATORS	2015			2016				2017	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
A. ASSETS									
Cash in Vaults	4	5	3	4	5	4	3	5	5
Cash in Banks	72	69	74	64	85	70	67	70	89
Treasury Bills & Placements	0	0	1	1	1	1	1	1	2
Loan Portfolio (Net of Provisions)	94	102	112	112	120	125	128	126	127
Gross Loans	97	107	117	117	125	131	134	136	139
Non-Performing Loans	7	8	9	10	9	11	12	16	17
Provisions	4	4	5	5	5	6	6	10	11
Other Assets	18	19	19	21	21	22	23	24	25
Total assets	**188**	**195**	**209**	**202**	**230**	**222**	**223**	**226**	**248**
B. LIABILITIES									
Total deposits	**105**	**110**	**117**	**107**	**126**	**116**	**115**	**118**	**133**
Current Accounts	80	83	87	77	95	82	80	83	96
Saving Accounts	20	21	25	24	25	26	26	27	29
Short Term Deposits	5	5	5	6	6	7	7	6	6
Long Term Deposits	0	0	1	1	1	1	1	3	2
Borrowings & Short Term Liabilities	14	15	17	18	19	20	18	18	14
Other Liabilities	10	10	9	11	16	12	12	13	18
Total Liabilities	**129**	**134**	**144**	**137**	**161**	**148**	**144**	**150**	**165**
EQUITY									
Earnings	14	15	17	17	18	21	23	19	18
Retained Earnings/Losses	10	10	10	15	14	14	13	20	18
Net Profit/Loss	3	5	7	2	4	7	10	(1)	(0)
Paid up Capital	24	24	25	25	27	28	29	30	34
Other Equity	22	22	23	23	25	25	26	28	32
Total Equity	**59**	**61**	**65**	**65**	**70**	**74**	**79**	**76**	**83**
TOTAL LIABILITIES & EQUITY	**188**	**195**	**209**	**202**	**230**	**222**	**223**	**226**	**248**

Source: *BNR, Financial stability Directorate*

ANNEX 5:

Microfinance Sector - Income Statement (In billions of FRW)

INCOME STATEMENT	2015			2016				2017	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
Financial Revenue	16	25	35	10	20	31	42	10	21
Less: Financial Expenses	1	2	3	1	2	2	3	1	1
Net Financial Income before Provisions	15	23	32	9	18	28	39	10	20
Less: Net Provision Expenses/Gains	1	2	3	1	2	2	3	4	6
Financial Revenue (After Net Provisions)	14	21	30	8	17	26	36	6	14
Less: Operating Expenses	11	16	23	6	12	19	26	7	14
Net Operating Income	3	5	7	2	5	8	10	(1)	1
Net Non-Operating Income/Expense	-	-	-	(0)	(0)	(0)	(0)	(0)	(0)
Net Income (Before Taxes & Donations)	3	5	7	2	4	7	10	(1)	0
Net Income (After Taxes)	3	5	6	2	4	7	10	(1)	(0)
Donations	0	0	0	0	0	0	0	-	0
Net Income after Taxes and Donations	**3**	**5**	**7**	**2**	**4**	**7**	**10**	**(1)**	**(0)**

Source: *BNR, Financial stability Directorate*

ANNEX 6:

Insurance Sector - Balance Sheet (In billions of FRW)

PERFORMANCE INDICATORS	2015			2016				2017	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
A. ASSETS									
Cash and deposits in banks	131	133	133	141	158	143	168	178	175
Loans and receivables	31	35	35	34	15	21	12	13	25
Investment in securities/equities	51	47	50	62	71	90	88	89	93
Investments in affiliates	-	-	-	-	-	0	0	0	0
Investment in property	43	44	43	46	46	46	47	39	39
Property and equipment	29	29	31	28	28	28	20	22	22
Intangible assets	1	1	1	1	1	1	1	1	1
Other assets	11	11	11	12	14	13	11	11	12
Total assets	295	299	305	323	333	342	347	353	367
B. LIABILITIES									
Unearned premiums	17	17	17	18	20	20	18	21	21
Unexpired risk provision	1	1	1	1	1	1	2	2	0
Claims reported outstanding	15	16	20	17	24	22	21	22	24
IBNR	2	2	3	3	3	4	4	6	7
Other Provisions (+actuarial)	24	25	26	26	27	26	27	29	29
Technical provisions	59	61	66	64	74	73	70	80	81
Borrowings	-	0	-	0	0	0	0	0	-
Due to parent/affiliates companies	1	1	1	0	1	1	1	1	1
Dividend Payable	-	-	-	-	-	-	1	1	0
Other liabilities	17	16	18	14	19	21	23	19	19
Total liabilities	76	77	85	79	95	95	94	99	100
C. CAPITAL									
Paid up capital	23	27	28	29	32	32	37	41	42
Share premium	2	0	0	0	0	0	5	5	5
Retained earnings	154	153	148	182	171	174	164	177	178
Profit(loss) for the period	15	21	22	7	10	18	24	9	19
Other reserves	25	22	22	24	25	23	23	23	23
Total Shareholders' funds (equity)	219	222	221	245	238	247	253	254	266
Total capital and liabilities	295	299	305	323	333	342	347	353	367

Source: *BNR, Financial stability Directorate*

ANNEX 7:

Insurance Sector - Income Statement (In billions of FRW)

INCOME STATEMENT	2015			2016				2017	
	Jun.	Sept.	Dec.	Mar.	Jun.	Sept.	Dec.	Mar.	Jun.
Gross premium written net of cancelation	47.5	70.6	91.4	26.9	52.9	78.1	104.2	30.3	59.7
Less: premium ceded to reinsurers (& coinsurers)	4.4	5.3	8.6	2.6	4.2	6.3	8.9	2.2	4.8
Net premiums written	43.1	65.3	82.8	24.3	48.7	71.8	95.3	28.2	54.9
Less: variations in unearned premiums	2	2.4	1.8	3.4	2.6	2.7	0.3	2.9	2.5
A. Net Premiums Earned	**41.1**	**62.9**	**81**	**20.9**	**46.1**	**69**	**95**	**25.2**	**52.4**
Claims incurred	22	33.3	45.7	13.3	30.2	41.1	54.7	14.1	31
Commissions paid to agents & brokers	1.4	2.4	3.6	0.8	1.9	3.5	4	0.8	1.7
Management expenses	11.6	18.7	27.1	7.8	14.7	21.3	31.2	6.1	12.9
Other Expenses	0.5	0.7	0.8	0.1	0.6	0.7	1.1	0.3	0.6
B. Total Expenses	**35.5**	**55.2**	**77.2**	**22.1**	**47.4**	**66.7**	**91.1**	**21.4**	**46.2**
C. Net Underwriting Profit/Loss (A-B)	**5.6**	**7.7**	**3.8**	**-1.2**	**-1.4**	**2.4**	**3.9**	**3.9**	**6.3**
Investment income	7.8	10.5	16.8	4.1	9.3	12.9	16.7	4.5	11
Other income	2	2.9	4.8	1.5	2.3	3.4	4.5	0.7	1.8
Finance costs	0	0	0	0	0	0	0	0	0
Extraordinary charges/income	0	-0.2	-0.2	0	0.2	0.2	0.1	0	0.1
D. Net Income from Operations (C+D)	15.3	20.9	22.7	4.4	10.2	18.9	25.1	9.1	19.1
Less: provision for tax (income tax expenses)	0.5	0.4	0.9	0.1	0.2	0.7	1.3	0.4	0.5
Net Income After Tax	**14.7**	**20.5**	**21.9**	**4.3**	**10**	**18.2**	**23.8**	**8.7**	**18.6**

Source: *BNR, Financial stability Directorate*

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