National Bank of Rwanda

# ANNUAL FINANCIAL STABILITY REPORT

## June 2014 – June 2015


NOVEMBER
2015

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## ACRONYMS

| | |
|---|---|
| **ATMs** | : Automated Teller Machines |
| **BNR** | : National Bank of Rwanda |
| **CAR** | : Capital Adequacy Ratios |
| **CRB** | : Credit Reference Bureau |
| **CSD** | : Central Securities Depository |
| **EAC** | : East African Community |
| **EAPS** | : East African Payment System |
| **FOREX** | : Foreign Exchange |
| **FRW** | : Rwandan Francs |
| **FSR** | : Financial Stability Report |
| **GBP** | : British Pound |
| **GDP** | : Gross Domestic Products |
| **HHI** | : Hirschman-Herfindahl Index |
| **IMF** | : International Monetary Fund |
| **KES** | : Kenyan Shilling |
| **KRR** | : Key Repo Rate |
| **MFIs** | : Microfinance Institutions |
| **MNOs** | : Mobile Network Operators |
| **NBFIs** | : Non-Bank Financial Institutions |
| **NPLs** | : Non-Performing Loans |
| **POS** | : Point Of Sales |
| **PPE** | : Property, Plant and Equipment |
| **RIPPS** | : Rwanda Integrated Payment Processing Systems |
| **ROA** | : Return On Asset |
| **ROE** | : Return On Equity |
| **RTGS** | : Real Time Gross Settlement |
| **SACCOs** | : Saving Cooperatives |
| **TZS** | : Tanzanian Shilling |
| **UGS** | : Ugandan Shilling |
| **USA** | : United States of America |
| **USD** | : US Dollar |

# Foreword

Fostering Financial Stability is a mandate of the National Bank of Rwanda. The bank achieves this objective through regularly monitoring performance of the financial system (i.e the banking system, insurance sector, the pension, the micro-finance institutions and; the payment system) and adopting appropriate policy measures. Financial Stability Reports (FSR) are among key financial sector policy guiding analytical tools. They synthesize recent developments in Rwanda's financial system, analyze both exogenous and endogenous risks to the sector; assess resilience of the sector to adverse shocks, and unveil key constraints to development of the financial sector.

In this FSR, key risks to Rwanda's economy and the financial sector in particular is current tepid global economic growth and generally uncertain global economic outlook. Global economic growth stagnated at 3.4 percent in 2013 and 2014, and the IMF projects it to decelerate to 3.3 percent in 2015. This slowdown of global economy is likely to cause further decline in commodity prices, and consequently constraining growth in commodity exporting countries. As experienced in first half of 2015, the strengthening of US dollar also sparked exchange rate pressures in many emerging and developing countries, Rwanda inclusive. Further strengthening of the US dollar would offer macroeconomic management challenges. Exposure of Rwandan banks to foreign exchange pressures is however moderate. Apparently, Rwandan banks hold only 6 percent of their loan portfolio in foreign currency and foreign currency liabilities makeup only 23 percent of total liabilities of banks.

Despite the global risks mentioned above, similar to previous FSR, we are pleased to observe that Rwandan financial system remain sound and stable. Banking system lending has been accelerating since third quarter of 2013 (September 2013), mainly benefiting the private sector and contributing to economic growth of the country. Banks and non-bank financial institutions capital levels remain adequate, above the prudential limit, and enough to absorb any shock. All financial institutions continue to hold sufficient liquidity levels which are significantly above prudential limits. The asset quality of banks and MFs continued to improve.

Going forward, financial stability will remain an integral element of BNR's financial sector development goals. We are happy to note that the rapid financial innovation and development observed in the last 10 years did not come at the expense of financial stability. BNR will continue fostering financial stability through both micro-prudential and macro-prudential tools.

**John RWANGOMBWA**
**Governor**

# I. Global Economic and Financial Development

**Global economic growth remains moderate, with uneven growth prospects across main countries and regions**. The IMF projects that after global growth stagnated at 3.4 percent in 2013 and 2014, the global economy is expected to moderately grow by 3.5 and 3.8 percent in 2015 and 2016 respectively (**Figure 1**). A slightly growth rebound in 2015 and 2016 is expected to be attributable to a positive growth outlook for advanced economies. Growth in emerging market and developing economies is projected to be low, primarily reflecting weaker growth prospects for large emerging market countries (e.g China) and oil exporting countries.

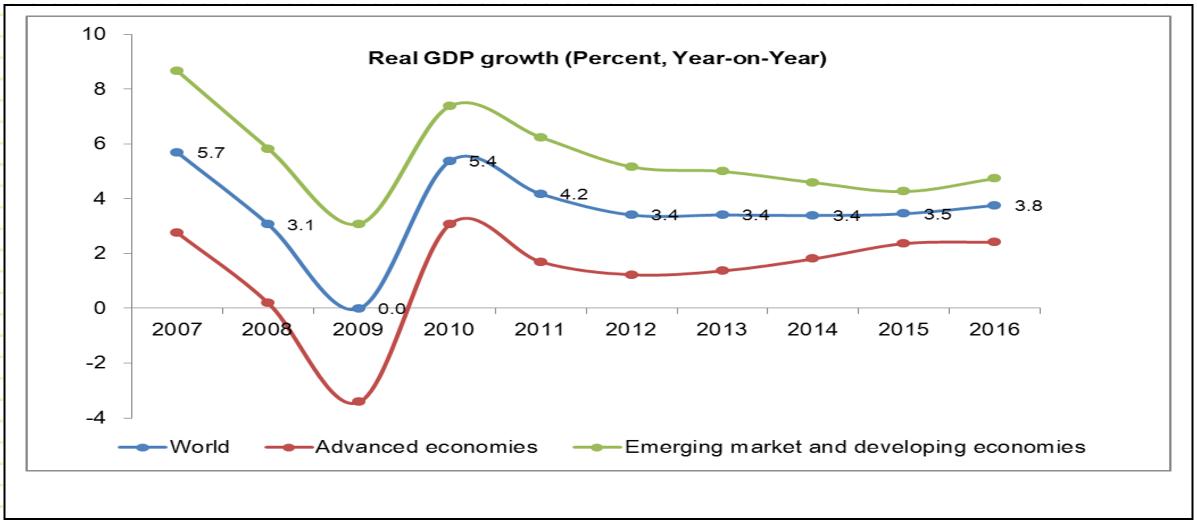
**According to the IMF, the distribution of global growth is more balanced, but is still titled to the downside.** Two main upside risks to global growth outlook are: (1) a greater boost to demand from lower and commodity prices and (2) demand boost from expanded monetary accommodation, especially in emerging economies.  The most salient down side risks are:  geopolitical tensions, disruptive asset price shifts in financial markets, and, in advanced economies, stagnation and low inflation.

**Disinflationary forces have strengthened in both developed and emerging economies.** According to IMF Financial stability report (April 2015), the number of countries with low or negative rates of headline inflation, and their share of global output, increased significantly through 2014. Inflation rate in many advanced economies fell below inflation objectives. In emerging countries falling commodity prices, particularly oil prices, have amplified this disinflation pressure, of course with the exception of countries suffering sizable exchange rate depreciations like Russia.

Expansionary monetary policy actions have been taken in both disinflationary pressures and to stimulate growth. For example, the ECB launched its Quantitative Easing program in March 2015, with monthly asset purchases of 60 billion euro until at least September 2016, contributing to maintaining favorable financing conditions globally; and the Bank of Japan has maintained its commitment to aggressive policy easing.

In contrast, the US started its interest rate normalization policy. This divergence in monetary policy stances across the main advanced economies is expected to continue widening long-term interest rate differentials, consequently causing exchange rate volatility in emerging and developing countries, especially those with developed and highly integrated financial system.

**Figure 1: Global Economic Growth**




**Source:** BNR staff based on IMF data (WEO, 2015)

**Although global interest rates are at historical low levels, the divergence in interest rates and expectations of further divergent monetary policy has already led to significant appreciation of the US dollar vis-à-vis other major currencies.** According to IMF WEO (April 2015), by February 2015, the U.S. dollar had appreciated by about 10 percent in real effective terms relative to the values used in the October 2014 WEO, with a particularly marked real appreciation (14 percent) against the currencies of major advanced economies. Among other major currencies, the euro and the yen had both depreciated by about 7 percent. With divergent monetary policy, and related widening interest rate differentials, increased volatility in financial markets is a high risk to emerging and developing economies.

**Exchange rate volatility (or depreciation in some countries) is already bearing negative results to firms in emerging economies**. Although it is possible that the stronger dollar can help improve competitiveness in emerging market economies in general, and lead to higher growth, the dramatic movements in commodity prices and in the exchange rates of many emerging market economies during the past six months have already had a significant impact on firms' market valuations in these economies. Many companies borrowed heavily in international markets— substituting international borrowings in dollars for local currency borrowing from banks—potentially leading to balance sheet pressures (IMF Financial stability Report)

**Old problems like high debt levels in private sector continue to hinder growth and financial stability, especially in the euro area**. In advanced economies, macroeconomic deleveraging through accommodative monetary policy has helped scale down private sector debt by supporting inflation and growth. However, given continued strengthening of deflationary forces and uncertain growth, private sector debts are likely to remain high in major advanced countries.

Indeed this high debt levels is an indicator that financial crisis legacies are not fully unresolved, and indeed a great risk to global economic growth and financial stability. The IMF projects gross corporate debt in France, Italy, Portugal and Spain to remain above 70 percent of GDP by 2020. High debt levels is problematic in a sense that it raises the sensitivity of borrowers to adverse shocks, and relatedly make induce higher nonperforming loans and corporate bankruptcies , which increases risks of banks asset quality.

## II. Regional Economic and Financial Sector Development: Sub-Saharan Africa (SSA) and East African Community

### 2.1. Macroeconomic Performance in SSA

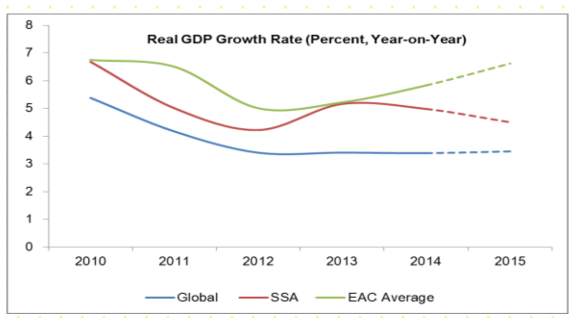
**In Sub-Saharan Africa (SSA), although economic growth (average) slightly improved in 2014, it remains below recent performance (2002-2008).** Real GDP growth was 4.5 percent in 2014, up from 4.2 percent in 2013, supported by continuing infrastructure investment, increased agricultural production, and buoyant services. Although the economy picked up in 2014, it remains weak compared to a peak average rate of 6.4 percent during 2002-08, which indicates SSA economy is punching below its weight. Growth was uneven amongst large Sub-Saharan economies. Stellar growth in Nigeria was offset by sluggish growth in South Africa and a slowdown in growth in Angola.

**Economic activity in SSA is greatly weighed down (compared to stellar growth between 2002 and 2008) by sharp fall in commodity prices (Figure 2).** Between December 2014 and August 2015, all commodities prices declined by 20 percent, crude oil prices declined by 24 percent, prices of metals declined 19.8 percent, while that of agricultural raw materials declined by 16.3 percent. As a net exporter of oil and other commodities, Sub-Saharan Africa is vulnerable to the adverse commodity price shock.

Falling commodity prices have and will continue weighing heavily on exporters of these commodities, putting pressure on the current account and fiscal balances. Conflicts and civil wars, acts of terrorism threats, especially in West Africa and the horn of Africa, also constrain growth take off in SSA through halting economic activities, especially tourism.

### 2.2. Macroeconomic Performance in EAC

**Figure 2: EAC GDP growth**

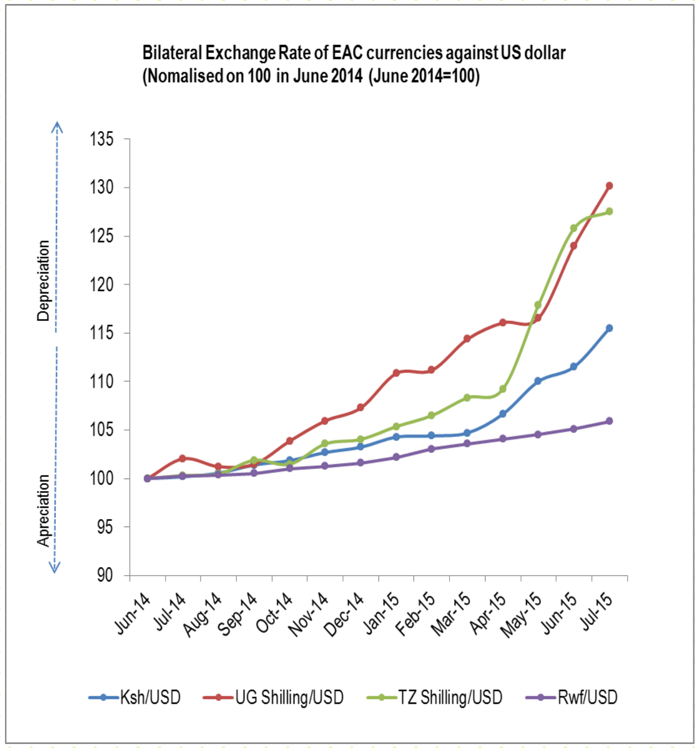



**Source:** BNR staff based on IMF data (WEO, 2015)

**Economic growth strengthened in the EAC regional block in 2014 and is forecasted to strengthen further in 2015 (Figure 2).** Average real GDP growth in the EAC was 6.3 percent in 2014, up from 5.8 percent in 2013 and significantly higher than Sub-Saharan growth at 5 percent (**Figure 2**). Economic growth strongly rebounded in Rwanda and Uganda, although Tanzania and Rwanda hold the highest growth rates at 7.2 percent and 7 percent respectively.

**EAC currencies significantly depreciated in 2015, in face of strengthening US dollar and declining commodity prices (Figure 3).** Similar to situations in emerging market countries, all EAC currencies depreciated in 2015, of course with varied degree of depreciation from country to country. Heightened depreciation happened in countries with sizable short-term portfolio flows (Uganda, Kenya and Tanzania). Exchange rate pressures in the region resulted from strengthening US dollar, reflecting a change in US policy— away from quantitative easing policy adopted in 2010.

**Figure 3: All EAC currencies depreciated against the US dollar.**




**Source:** BNR staff based on IMF data (WEO, 2015)

**Generally, EAC countries faced inflationary pressures, especially in the first 7 months of 2015.** Between December 2014 and July 2015, headline inflation (Year-on-Year) increased mainly in 4 EAC countries: In Kenya from 6 to 6.6 percent; in Tanzania from 4.8 to 6.4 percent; in Uganda from 1.8 to 5.4 percent; in Burundi from 3.7 to 8 percent.

Rwanda experienced moderate inflation increase from 2.1 to 2.3 percent. Inflationary pressures in the EAC are mainly attributable to higher food prices. Although, generally global prices remain low (and hence this would mean importing cheaply), heightened depreciation of regional currencies also triggered higher import prices.

**To deal with hiking inflationary pressures and heightened depreciation of local currencies, some EAC central banks tightened monetary policy.** For example, Between December 2014 and August 2015, the Central Bank of Kenya (CBK) increased its policy rate by 300 percent basis point (From 8.5 percent to 11.50 percent). Bank of Uganda tightened as well by increasing its policy rate by 100 percent basis points (From 15 to 16 percent). Although inflation remained moderate in Rwanda, the National Bank of Rwanda (BNR) maintained its policy rate at 6.5 mainly to manage exchange rate pressures.

**Despite a positive outlook for EAC countries, key risks to the region include continued decline in commodity prices and strengthening US dollar**. Continued economic growth slowdown in merging market trading partners (mainly china) may continue to hamper demand for EAC commodity exports, widening BOP deficits and weighing on growth. With the interest rate normalization policy in USA taking effect, the US dollar may strengthen further, causing further exchange pressures on EAC currencies. With a dollar strengthening further, EAC countries with significant short-term portfolio investment are at risk of capital reversals, which would further exert more pressure on exchange rate.

### 2.3. Financial Sector Performance in the EAC

**The EAC banking system remains highly capitalized and liquid.** In financial year 2014/15, capital Adequacy Ratio (CAR) remained above the Basel minimum standard of 8 percent in all countries. Rwandan and Ugandan banks hold highest levels of CAR (24.3 percent, 21.3 percent respectively). Burundian Banks reported CAR of 19.5 percent, Kenyan (18.9 percent) and Tanzanian (17.7 percent). The solvent status of Kenyan banks is of particular importance to the regional financial stability, as Kenyan banks have opened branches in the region. Liquidity ratios in the region averaged around 47.0 percent (liquid assets to total deposits), way above the prudential limit of 20 percent.

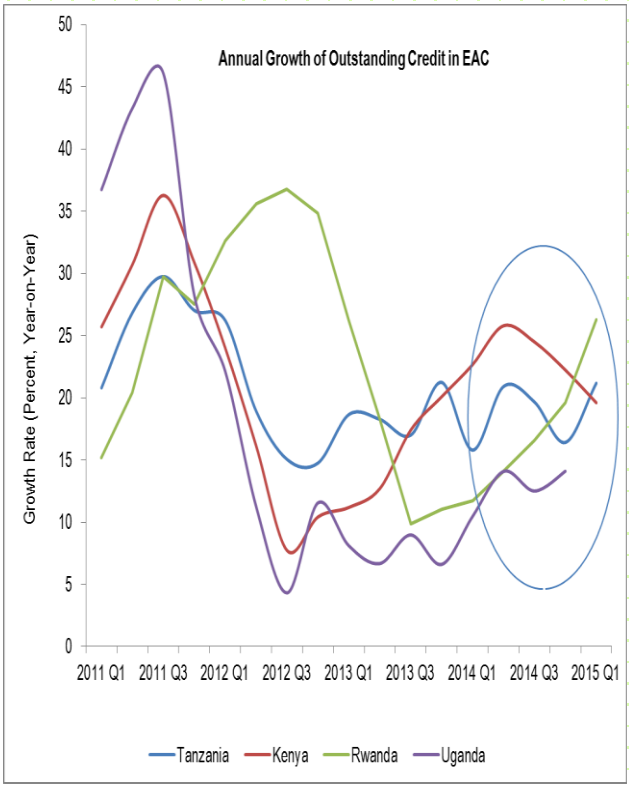
**Table 1: Capital Adequacy Ratios in EAC**

| | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Jun-15 |
|---|---|---|---|---|---|
| Tanzania | 17.8 | 18.1 | 17.7 | 19.1 | 17.7 |
| Kenya | 17.6 | 17.8 | 19.2 | 19.2 | 18.9 |
| Uganda | 22.8 | 22.5 | 22.2 | 23.2 | 21.3 |
| Rwanda | 23.6 | 24.0 | 24.0 | 25.9 | 24.3 |
| Burundi | 21.3 | 18.1 | 17.3 | 20.5 | 19.5 |
| Basel standard | 8 | 8 | 8 | 8 | 8 |

**Source:** EAC Central Banks and Basel framework

**Credit growth varied in EAC countries (Figure 4):** While credit growth accelerated in Rwanda (growing by 26.3 percent in March 2015, up from 11.7 percent in June 2014), it decelerated in Kenya—to 19.6 percent in March 2015, down from 22.7 in March 2014. In Tanzania credit growth accelerated to 21.2 percent in March 2015, up from 15.8 percent in the same period in 2014.

**Figure 4: Growth of Credit to Private Sector in EAC.**




**Source:** BNR staff based on EAC central banks data

**Asset quality of EAC banks improved in financial year 2014/15 (Table 2)**. On average, NPLs in EAC banking system declined to 7.1 percent in June 2015, down from 7.8 percent as at June 2014. NPLs declined mostly in Uganda (by 1.8 percentage points), followed by Tanzania (by 1.5 percentage points), and Rwanda (by 0.7 percentage points), while in Burundi NPLs increased by 0.6 percentage points. In the region, Ugandan banks hold the lowest NPLs (4.0 percent), followed by Kenya (5.7 percent), Rwanda (5.9 percent) and Tanzania (6.7 percent). Burundi banks hold the highest NPLs ratio (13.3 percent). Improving asset quality of regional banking system is indicative of a stable and health regional financial system.

**Table 2: NPLs Ratio in EAC Countries (Percent)**

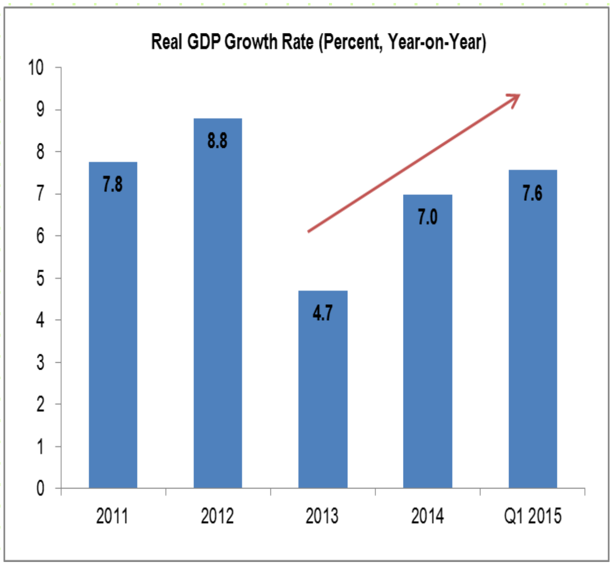
| | June 2014 | September 2014 | December 2014 | March 2015 | June 2015 |
|---|---|---|---|---|---|
| Tanzania | 8.2 | 8.4 | 6.8 | 6.7 | 6.7 |
| Kenya | 5.7 | 5.4 | 5.4 | 5.8 | 5.7 |
| Uganda | 5.8 | 5.3 | 4.1 | 4.3 | 4.0 |
| Rwanda | 6.6 | 6.3 | 6.0 | 6.3 | 5.9 |
| Burundi | 12.7 | 12.5 | 11.1 | 12.4 | 13.3 |
| EAC Average | **7.8** | 7.6 | 6.7 | 7.1 | **7.1** |

**Source:** BNR staff based on EAC Central Banks data

## III. Domestic Macroeconomic Environment

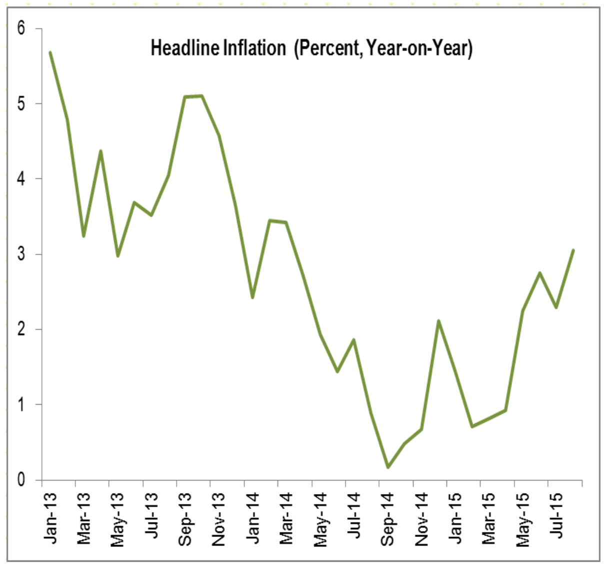
**Rwandan Economy grew strongly in 2014 and in first quarter of 2015.** The economy expanded by 7 percent in 2014 and by 7.6 percent in first quarter of 2015. According to the IMF WEO (April), Rwanda was among the fast 5 growing countries in SSA[1]. This strong growth is mainly attributable to stellar growth in services and agriculture sectors. The service sector, an engine of growth in Rwanda, expanded by 8.9 percent in 2014 and by 8 percent in first quarter of 2015 (up from 5.3 percent 2013). Agriculture growth improved to 5 and 4 percent in 2014 and 2015 Q1 reactively, up from 3 percent in 2013. Improved financing of the economy also played a significant role for improved growth. Economic growth greatly co-moves with growth of credit to private sector (**Figure 5**).

**Figure 5: Rwanda's economy growth (2011 to Q1, 2015)**




**Source:** BNR, Financial Stability Directorate

**Figure 6: Headline Inflation**



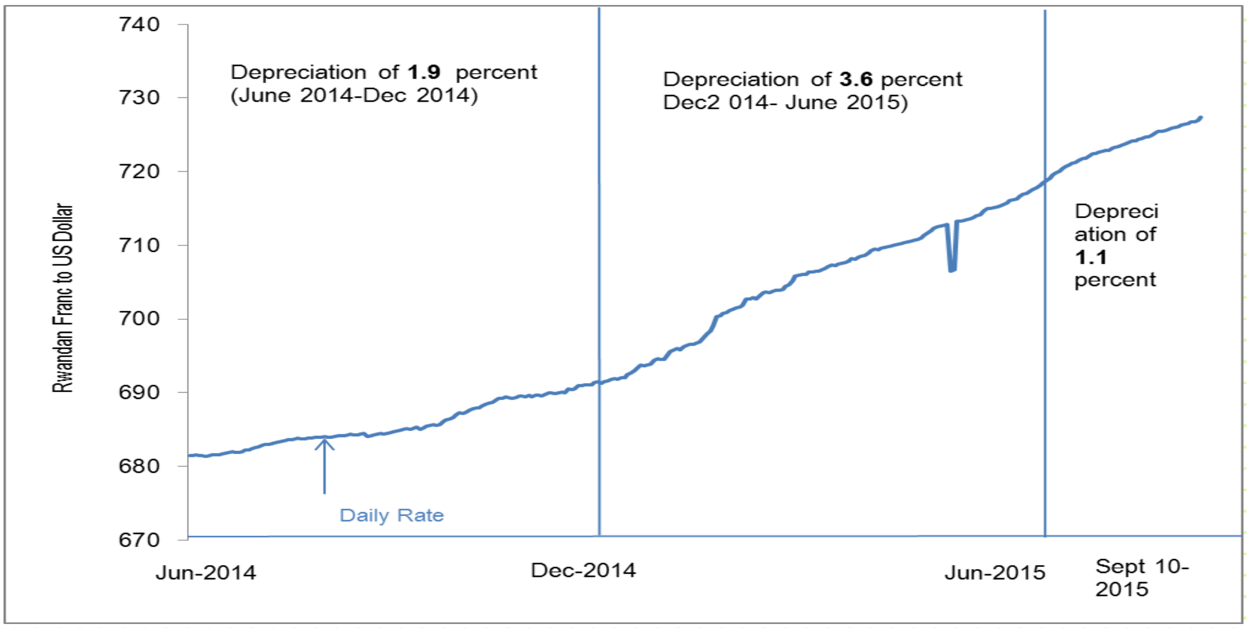

**Source:** BNR, Financial Stability Directorate

**Rwandan Inflation remained moderate throughout FY2014/15 (Figure 6).** Between July 2014 and June 2015, headline inflation averaged at 1.3 percent and was below 3 percent in all months. Low inflation is mainly attributable to lower food prices due to good agricultural harvests and the impact of lower international oil prices which affected local prices through lower pump prices.

[1] Other fast growing countries are: Côte d'Ivoire; Ethiopia; Mozambique; Tanzania; Democratic Republic of the Congo

**In FY 2014/15, the Rwandan franc depreciated against the US dollar, although the pace of depreciation is slowing down.** Between June 2014 and June 2015, Rwandan depreciated by 5.4 percent against the US dollar. In the first half of the year (Between June 2014 and December 2014), the Rwandan franc depreciated by 1.9 percent. More depreciation happened in the second half of the year (i.e between December 2014 and June 2015), where depreciation reached 4.3 percent against the U.S. Since June pressures declined (Depreciation was only 1.1 percent between June 2015 and September 10, 2015). Exchange rate pressures emanate from strengthening US dollar.

**Figure 7: Depreciation of Rwandan Francs**




**Source:** BNR, Financial Stability Directorate

# IV. Domestic Financial Sector Development

## 4.1. Rwanda's Financial Sector Landscape

**The Rwanda financial sector is largely dominated by banking sector which hold around 66.9 percent of the total financial sector assets**. The pension sub-sector comes second, with 17.1 percent of the total financial sector assets. Insurance institutions hold 9.7 percent of the total financial sector's assets. Microfinance institutions account for 6.3 percent of total financial sector assets. The National Bank of Rwanda (BNR) is the sole regulator of the above mentioned financial sector sub-sectors. Other integral components of the financial sector in Rwanda are: forex bureaus; capital market and; payment system.

**Table 3: Market share in the financial system**

| | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Jun-15 |
|---|---|---|---|---|---|
| Banking sector | 67.6 | 67.1 | 66.6 | 66.4 | 66.9 |
| Insurance | 9.4 | 9.5 | 9.8 | 10.2 | 9.7 |
| Pension | 17.4 | 17.7 | 17.8 | 17.5 | 17.1 |
| MFIs | 5.6 | 5.8 | 5.9 | 5.9 | 6.3 |

**Source:** BNR, Financial Stability Directorate

**Between June 2014 and June 2015, the number of banks increased from 14 in June 2014 to 17 in June 2015.** Three banks: AB Bank, Crane Bank and BRD commercial joined the Rwandan banking industry. In total, the Current Rwandan banking system is composed of 11 commercial banks, 4 microfinance banks, 1 development bank and 1 cooperative bank. Microfinances sub-sector constitutes 13 limited companies, 64 SACCOs and 416 UMURENGE SACCOs. There are also 88 foreign exchange bureaus. Non-Bank Financial Institutions include: 10 private insurers, 2 public insurers, 8 loss adjusters, 6 brokers, 155 insurance agents and 1 public pension fund and 54 private funds.

**Rwandan banking system is more privately and domestically owned.** As of June 2015, close to 61 percent of banking assets were domestically owned. Foreign assets were 39 percent. Private ownership stood at 55 percent of the total banking system assets. Three of the foreign banks are subsidiaries of Kenyan big banks which were ranked among top 100 banks by return on assets in Africa[2].

[2] The banker (http://www.thebanker.com)

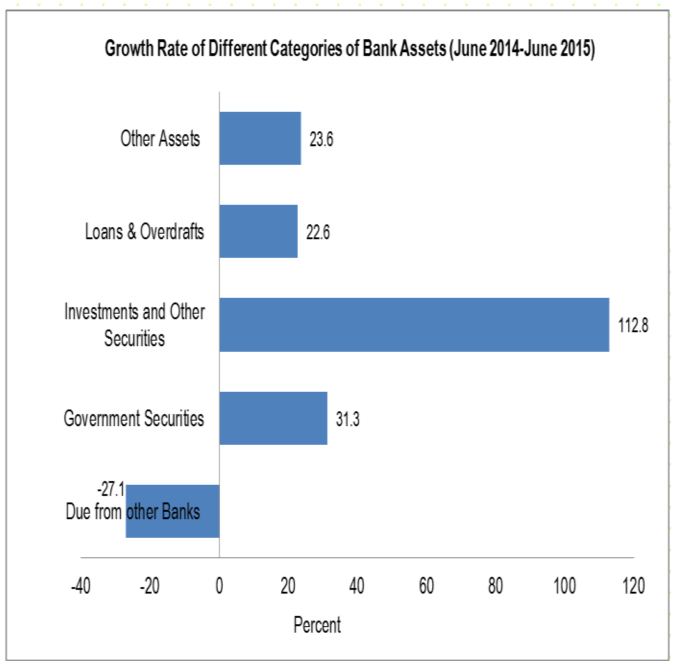
## 4.2. Performance of the Rwandan Banking System

*The banking sector holds around 66.9 percent of the total financial sector assets. During the year ended June 2015, the system constituted 17 institutions from 14 institutions in June 2014. The current structure includes 11 commercial banks, 4 microfinance banks, 1 development bank and 1 cooperative bank. In FY2014/15, the banking system assets continued to grow; capital remained adequate and significantly above the prudential limit; the asset quality of banks improved as well; exchange rate exposure remained moderate (net open position remain within prudential limits); and profitability of banks improved.*

**Banking sector assets continued to expand in FY2014/15:** Between June 2014 and June 2015, total assets of banking system increased by 13.5 percent (from FRW 1,768 billion to FRW 2,000 billion), down from 27.9 percent growth registered in the previous year.

**Growth happened to all major components of banks assets in FY 2014/15 (Figure 8).** Cash loans and advances, which constitute over 55 percent of total assets, was the main driver of growth in total banking assets— rising by 22.6 percent (from FRW 904 billion to FRW 1,109 billion). Investment in government securities also increased by 31.3 percent. Another contribution to asset growth came from significant growth of investments in other securities—assets in this category expanded by 112.8 percent. A strong growth in "investment and other assets" was due to higher investments in government treasury bonds

**Figure 8: Growth Rate of Components of Banks' Assets**



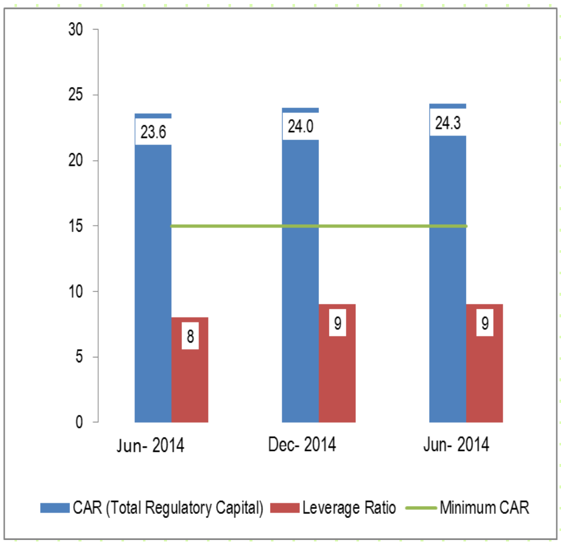

**Source:** BNR, Financial Stability Directorate

and equity. As a result of accelerated investment in other securities, the share of banks' investment in other securities (bonds &equity) in total banks' assets increased from 14.2 percent in June 2014 to 26.6 percent in June 2015.

## Capital Position of Banks

**During the financial year 2014/15, Rwandan banking sector remained adequately capitalized,** Between June 2014 and June 2015, total capital adequacy ratio (CAR) improved from 23.6 percent to 24.3 percent **(Figure 9).** The CAR remains significantly above the regulatory floor of 15 percent. In the same period, tier-1 risk-based capital ratio (core capital) rose from 21.2 percent to 21.6 percent—significantly above regulatory floor of 10 percent. The leverage ratio[3], another indicator of the banking system exposure, also improved from 8 percent in June 2014 to 9 percent in June 2015— significantly above Basel II/III threshold of 3 percent. In summary, Rwandan banks are well capitalized; they hold adequate capital buffers capable of withstanding any financial sector loss from either credit or market risks.

**Figure 9: Capital Adequacy Ratios**

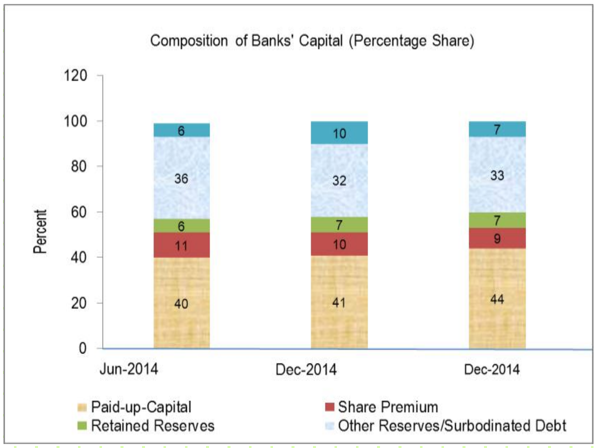



**Source:** BNR, Financial Stability Directorate

**The increase in capital adequacy levels is mainly attributable to increased capital**—for example total equity increased by 24 percent (FRW 291 billion to FRW 360 billion). "Paid up capital" increased by 37 percent (FRW 117 billion to FRW 160 billion)[4]. Retained reserves increased by 38 percent, other reserves by 12 percent, and profits by 37 percent. The capital composition shows that the quality of banks' capital improved—for example, the share of "paid up capital" increased from 40 percent in June 2014 to 44 percent in June 2015 (**Figure 10**).

[3] Leverage ratio defined as a ratio of core capital to all assets, including off-balance sheet assets.
[4] Increase in paid up capital was due to two new banks that joined. BRD commercial and AB bank

Figure 10: Composition of Banks' Capital



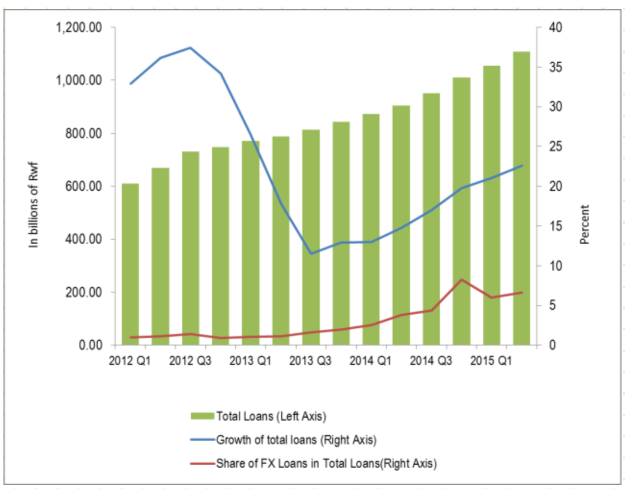

**Source:** BNR, Financial Stability Directorate

**Lending connection to off-the- balance sheet items increased.** Between June 2014 and June 2015, off balance sheet items increased by 18 percent to FRW 1,129 billion from FRW 957 billion. This lending is monitored through the leverage ratio, a ratio which combines both on-the-balance sheet items and off-the-balance sheet items, in a bid to curb the over leveraging by Banks (see Figure 9).

## Banks' Lending Development

**Bank lending has been accelerating since third quarter of 2013 (September 2013), mainly benefiting the private sector:** In June 2015, total credit by banks increased by 22.3 (Year-on-Year), up from 14.3 percent in the same period in 2014. Most of this credit increase went to private sector— credit to private sector increased by 27 percent—credit to government (with a share of 9 percent in total bank's loans) declined by 12 percent.

Figure 11: Developments in Banks' lending

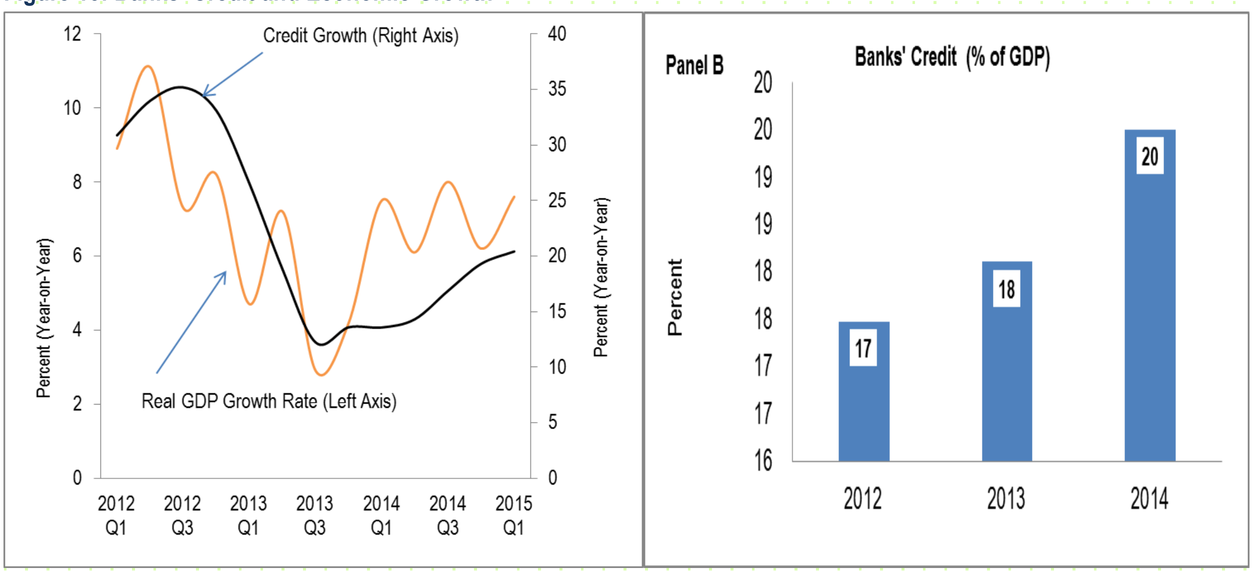



**Source:** BNR, Financial Stability Directorate

**The fact that more than 90 percent of total loans granted were in Rwandan Francs, limits exposure to foreign exchange risks.** Between June 2014 and June 2015, Rwandan francs loans increased by 22.2 percent (to FRW 1,263 billion). In the same period, foreign currency loans significantly increased by 117 percent. However, despite the sharp increase in foreign currency loans, its share in total banks' loans is only 6 percent. BNR regulation requires banks to make foreign currency loans to only companies or individuals with foreign currency incomes (revenues). The fact that share of FX loans in total loans is small, makes the Rwandan banking system better protected against negative impacts from recent depreciation of Rwanda Franc.

**Improved growth of credit remains among key drivers of economic growth (Figure 12).** Credit growth stimulates domestic demand—it triggers more private investment and consumption. Although growth of credit has been strengthening, and supporting economic growth, however, its level as a percentage of GDP remains small—Banks' total credit as a percentage of GDP was 20 percent in December 2014, lower than Kenya (36.8), but slightly higher than in Uganda (19 Percent). Despite being low, Credit (Percent GDP) has been steadily rising (**Figure 12, Panel B**) —from 17 percent in 2012 to 18 percent, and to 20 percent in 2013, and 2014 respectively.

Figure 13: Banks' Credit and Economic Growth




**Source:** BNR, Financial Stability Directorate

## Banks' Sectoral Lending

**Banks' concentrated lending is a key concern in the sector.** Similar to previous observation, bank's lending is concentrated in mortgage and hotels and trade sectors **(Table 4)**. The share of mortgage loans in total loans was 33 percent in June 2015, up from 29.6 percent in June 2014. This shows that banks accelerated their lending to mortgage sector. In second place, trade and hotels loans was 31 percent of total loans in June 2015. Together, mortgage and “trade and hotels” held up to 64 percent of banking system loans in Rwanda.

Concentrated lending to these sectors implicitly means high exposure to these sectors. On a positive note, however, loans in these sectors are performing. For example, the NPLs ratio in mortgage was only 4 percent in June 2015—which is lower than total NPLs ratio for all sectors and even lower than BNR NPLs target of 5 percent. NPLs ratio in “trade and hotels” stood at 6 percent in June 2015, almost equal to the overall NPLs ratio of 5.9 percent (**Table 4**).

**Table 4: Developments in Sectoral loans**

| **Total system** | **Percent Share of Sector Loans in Total Loans** | | **Annual Growth Rate of Sector Loans (Percent)** |
|---|---|---|---|
| | **June -14** | **June-15** | |
| Non-classified activities | 14 | 12 | -4 |
| Agricultural, fisheries& livestock | 3 | 2 | 0 |
| Mining activities | 0 | 0 | 812 |
| Manufacturing activities | 9 | 9 | 17 |
| Water & energy activities | 3 | 2 | 2 |
| **Mortgage industries** | **30** | **33** | **34** |
| **Trade & hotel activities** | **32** | **31** | **14** |
| Transport & warehousing | 5 | 6 | 32 |
| OFI &Insurance | 1 | 2 | 120 |
| Service sector | 3 | 3 | 23 |

**Source:** BNR, Bank Supervision Department

**Although access to loans has been increasing, the women and youth access levels remain low**. In FY 2014/15, the total number of individuals who accessed loans from the banking sector increased by 10 percent (from 110,482 to 122,005). Despite this increase, women accounted for only 34 percent (41,756) of total number of people that accessed loans. In terms of total amount (value) of loans distributed, in the first six months of 2015, the total new authorized loans amounted 147.14 billion— women accounted for 23 percent (33.81 billion Frw), the youth (age below 35 years) accounted for 31 percent (45.0 billion Frw).

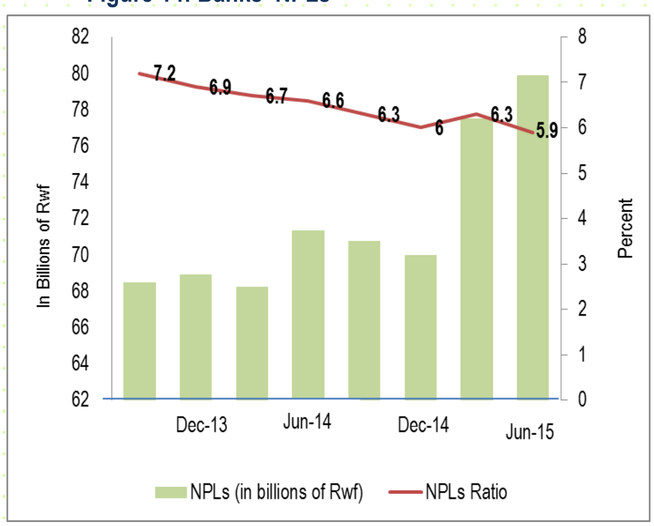
**Risks of falling mineral prices on international markets is moderate on Rwandan banks as mining loans make up only less than 1 percent of banks' loan portfolio.** Falling commodity prices is currently causing stress on balance sheet of emerging market mining firms, ultimately affecting banks that lent to these firms. Observing this, raises questions like: how is the Rwandan banking system impacted/or likely to be impacted by falling mineral prices? Considering the current low levels of mining loans in Rwandan banks' loan portfolio, the impact is expected to be moderate. Loans to mining industry make up less than 1 percent of total loan portfolio of banks (**Table 4**). Despite the lower share in total loans, however, mining loans increased by 812 percent (from FRW 38million to FRW 350 million). Mortgage loans increased by 34 percent, while loans to trade and hotels increased by 14 percent.

## Banking System Asset Quality

**The asset quality of Rwandan banks improved in FY2014/15.** Between June 2014 and June 2015, the non-performing loans ratio[5] declined by 0.7 percentage points (i.e from 6.6 to 5.9 percent). In fact, NPLs ratio has been declining since March 2013 **(Figure 13).** In nominal terms, non-performing loans was FRW 80 billion in June 2015. Declining NPLs ratio is a good indicator that credit risk is declining, and a good sign that credit growth will not compromise financial stability.

Despite the decline in NLPs ratio, it is worth noting that watch loans, an indicator of future loan losses started picking up since December 2014 **(Figure 13).** Between June 2014 and June 2015, watch loans increased by 12.7 percent to reach FRW 157.6 billion.

**Figure 14: Banks' NPLs**

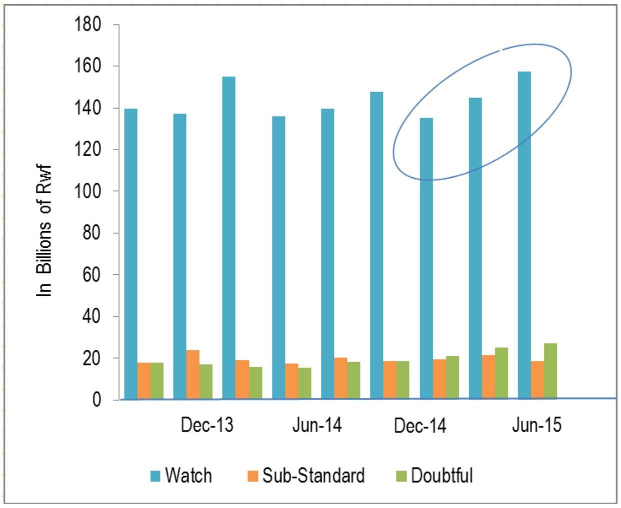



**Source:** BNR, Financial Stability Directorate

[5] NPL ratio is defined as: Total non-performing loans (loss, doubtful and substandard)/gross loans

**Despite the decline in NLPs ratio, Watch loans (indicator of future losses) is picking up**. Watch loans, an indicator of future loan losses started picking up since December 2014 **(Figure 14).** Between June 2014 and June 2015, watch loans increased by 12.7 percent to reach FRW 157.6 billion.

**Figure 15: Developments in Different Categories of NPLs**




**Source:** BNR. Financial Stability Directorate

## Development of Asset Quality by Sector

**Agriculture sector holds the highest level of NPLs, and mortgage sector, despite holding the highest level of loans; it has one of the lowest NPLs (Table 5).** The NPLs ratio in agriculture sector stood at 14 percent in June 2015, significantly higher than total NPLs ratio for all sectors (5.9 percent). The risk of high NPLs ratio in agriculture is however minimized by a small share of total banks' loans to this sector—at 2 percent. Manufacturing sector has the lowest NPLs ratio—at 1Percent. This simply means less credit risks in manufacturing, as opposed to agriculture. It is important to note a positive asset quality of mortgage loans—which stood at 4 percent, lower than the total NPLs ratio (for all sectors) at 5.9 percent. Risks from high concentration of banks' loans in mortgage sector are therefore minimized by the highest level of performing loans in this sector (good asset quality). Nevertheless, exposure to the mortgage industry remains.

**Table 5: NPLs Ratio for Selected Sectors (Percent)**

| | Sector NPLs (NPLs of sector/Sector gross loans) | | |
|---|---|---|---|
| | **Jun-14 (A)** | **Jun-15 (B)** | **B-A** |
| Non-classified activities | 5% | 6% | 1% |
| Agricultural, fisheries& livestock | 15% | 14% | -1% |
| Mining activities | 0% | 3% | 3% |
| Manufacturing | 2% | 1% | -1% |
| Water & energy | 0% | 3% | 3% |
| Mortgage industries | 5% | 4% | -1% |
| Trade & hotel | 5% | 6% | 1% |
| Transport & warehousing | 4% | 4% | 0% |
| OFI &Insurance | 1% | 4% | 3% |
| Service sector | 6% | 6% | 0% |

**Source:** BNR, Financial Stability Directorate

### Banks' Funding Condition

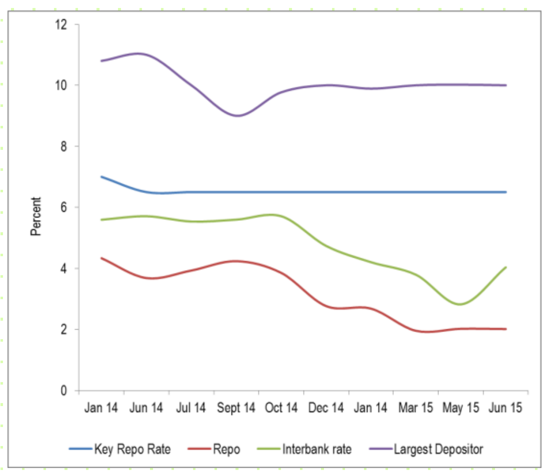
**In financial year 2014/15, deposits remained the main source of funding for Rwandan banking system.** As of June 2015, deposits composed 83 percent of total liabilities of banks. Between June 2014 and June 2015, total deposits increased by 11 percent (to FRW 1, 366 billion), down from 31 percent in previous period. Rwandan franc deposits increased the most (by 20 percent). Foreign currency deposits declined by 15 percent.

**The high dependency on short-term demand deposits remains a challenge for Rwandan banks**. Demand deposits make up 60 percent of total deposits of banks. Between June 2014 and June 2015, demand deposits grew by 14 percent. On the contrary, time deposits increased by only 2 percent. Although Rwandan banks have not faced liquidity problems in recent past, the dependency on short-term funds remains a liquidity risk and even limits long-term development lending.

**Whole sale funds increased in financial year 2014/15**. Whole sale funds in Rwanda are composed of: interbank funds; funds due to financial institutions abroad; and brokered funds from large depositors[6]. Between June 2014 and June 2015, total whole sale funds increased by 14 percent. Interbank funds (due to local banks) increased by 18 percent (to FRW217 billion). Deposits from largest depositors increased by 13 percent.

**Although BNR's policy rate remained unchanged at 6.5 percent since June 2014, other whole sale funds related rates declined in FY2014/15, largely indicating that the cost of whole sale funds for banks dropped (Figure 15).** Interbank rate declined from 5.7 percent in June 2014 to 4 percent in June 2015. In the same period, repo rate declined from 3.7 percent to 2 percent. The average deposit rate given to the largest depositor corporation also declined from 11 percent to 10 percent. All these declining rates indicate that the cost of whole sale funds declined for banks.

**Figure 16: Whole Sale Funding Rates Declined**




**Source:** BNR, Financial Stability Directorate

[6] For large depositors, In Rwanda we considered 20 largest depositors.

## Banks's Liquidity Condition

**Similar to findings in FSR of June 2015, Liquidity risks remain moderate in Rwandan banking system.** The ratio of liquid assets to total deposits (which measures the banks' ability to meet liquidity needs) stood at 49.5 percent as at June 2015, far above the regulatory minimum of 20 percent. Gross loans to total deposits which measure the position of loans which are supported by deposits increased from 76.4 percent to 84.2 percent (**Table 6).**

**Table 6: Indicators of Banking System Liquidity**

| | June-14 | Sept-14 | Dec-15 | Mar- 2015 | Jun- 2015 |
|---|---|---|---|---|---|
| Gross Loans/Total Deposits | 76% | 80% | 85% | 87% | 84% |
| Liquid Assets/Total Deposits | 54% | 54% | 49% | 46% | 50% |
| Liquid Assets/Total Assets | 38% | 38% | 33% | 31% | 34% |

**Source:** BNR, Financial Stability Directorate

## Exposure to exchange rate risk

**Foreign exchange exposure remains within the prudential limits.** During the year end June 2015, the banks' foreign currency assets as a share of their total assets decreased from 19.6 to 15.6 percent in June 2014 (**Table 7**). The ratio of foreign currency loans to foreign currency deposits rose from 12.7 percent in June 2014 to 32.6 percent as at June 2015 implying a high proportion of increase of foreign currency loans when compared to increase of foreign currency deposit. However, the activities of banks in foreign currencies do not pose huge risks to Rwandan financial system as prudential limits are complied with and capital buffers are enough to absorb risks from exchange fluctuation. The net open position ratio (foreign exposure to core capital) of -7.1 percent remained within the regulatory limits of +/- 20 percent. In addition, overall exchange rate risk remains low, with the ratio of foreign currency assets to foreign currency liabilities standing at 82.1 percent in as at end June 2015.

**Table 7: Indicators of Foreign Exchange Exposure (Percent)**

| | Jun-14 | Sept-14 | Dec -14 | Mar-15 | Jun-15 |
|---|---|---|---|---|---|
| Forex exposure to core capital | -1.5 | -4.9 | -1.8 | -5.5 | -7.1 |
| Forex deposits to total deposits | 26.3 | 24.1 | 26.4 | 21.4 | 20.1 |
| Forex loans to total loans | 3.8 | 4.3 | 8.3 | 6.0 | 6.6 |
| Forex assets to total assets | 19.6 | 17.7 | 20.9 | 15.9 | 15.7 |
| Forex loans to Forex deposits | 12.7 | 16.2 | 29.5 | 27.1 | 32.6 |

**Source:** BNR, Financial Stability Directorate

### Earning and profitability

Similar to the previous report, the banking sector continued to register good profitability —net profit after tax increased by 36.5 percent (from FRW 17.2 billion by end June 2014 to FRW 23.6 billion by end June 2015). In the same period, the proportional increase of total income of 13.4 percent was higher than the 9.3 percent of total expenses.

Further analysis of the earnings of the bank shows evidence that total income growth was largely driven by interest income on advances and other incomes which rose by 14.3 percent and 31.4 percent from June 2014 to June 2015 respectively. Also, Interest income on government securities increased by 8.1 percent signaling increasing interests to investing excess liquidity in government securities.

In relation to the expense side, interest expenses related to deposits increased by 5.8 percent; Provisions for bad debts increased by 32.1 percent; other interest expenses decreased by 3.2 percent; staff related costs increased by 7.8 percent and premises transport and depreciations increased by 10.6 percent) and other expenses increased by 3.4 percent.

**Table 8: Indicators of Banking System Profitability**

| | Jun-14 | Sept-14 | Dec-14 | Mar-15 | Jun-15 |
|---|---|---|---|---|---|
| Net Profit after tax (FRW billion) | 17.3 | 24.7 | 33.8 | 12.2 | 23.6 |
| ROA (%) | 2.1 | 1.9 | 1.9 | 2.7 | 2.4 |
| ROE (%) | 12.1 | 10.9 | 10.5 | 14.1 | 13.1 |
| Cost to income (%) | 81.5 | 82.2 | 82.1 | 79.4 | 78.6 |

**Source:** BNR, Financial Stability Directorate

## How resilient is the Rwandan Banking System?

### Stress testing results

As at June 2015, stress testing results show that the Rwandan Banking System is resilient with higher capital buffers, liquidity covers, and highly shielded as regards to foreign exchange operations. In addition, the concentration risk was proved to be less impactful to the overall system despite signals of individual institution distress resulting from the test of break even. Therefore, from the history, the shocks that involved the break-even are less plausible since they have never happened in Rwanda.

With regards to the credit and concentration risks, the stress test as at end of June 2015 shows that a shock of 30% in performing loans would cause the first bank to become critically undercapitalized in Rwandan banking system. However, the industry remains well capitalized to withstand the shock as the capital adequacy ratio would reduce from 24.3 percent to 20.2 percent, well above the minimum capitalization required of 15%. In addition, the results show that the maximum probability of default (100%) in mortgage loans would cause the capitalization level to reduce from 24.3 percent to 20.2 percent. The maximum probability of default in trade and hotels loans would cause the capital adequacy ratio to decrease from 24.3 percent to 20.6 percent.

The test of liquidity reveals that a drop of 30% in deposits would cause the first bank in banking system to become illiquid (liquidity ratio <=0) and ten (10) banks would fall below the liquidity requirements level of 20%. The industry liquidity ratio would reduce to 35.7 percent from 49.5 percent and still above the 20 percent required. However, withdraw of 20 largest depositors would cause the decline of liquidity ratio to 18.1 percent from 49.5 percent and one biggest depositor withdraw would reduce the liquidity ratio to 40.3 percent from 49.5 percent.

Further, the foreign exchange risk test found that depreciation of 9% in FX rate would reduce the regulatory capitalization from 24.6 percent to 24.0 percent, and the NOP would fall outside the bands (-21.4).

**Box 1: Stress Testing methodology**

The National Bank of Rwanda (BNR) conducts the stress tests on the banks' balance sheet against extreme shocks on quarterly basis. The stress testing involves examining the impact of key risks, namely capital adjustment, credit, exchange rate, and the liquidity risk on individual and consolidated banks based on June 2015 data. These tests use a framework based on work by Cihak[7], as modified by Rwanda FSAP conducted in 2011, to identify the breaking point for each risk i.e. shocks are applied to selected variables until banks fail to meet a minimum requirement. Note that the full adoption of Cihak model is expected in the near future, as planned in the EAC harmonization process.

**Credit and concentration risks**

In the exercise of shocking the credit and concentration risk, three shocks were conducted to assess the effect of a further deterioration in asset quality on bank capital: (i) the breaking point from a haircut on performing loans, (ii) a haircut on performing loans for two main sectors (mortgage sector and trade and hotels sector), and (iii) a 100% large borrowers default. The method used in the credit sensitivity analysis consisted of estimating the additional provisions that would be required to cover the estimated loss and charging it to capital. The provisioning shortfall was deducted from risk weighted assets and net assets as well as capital. The first two shocks tests the level of break-even that would cause the first bank to become critically undercapitalized (<6%).

**Liquidity risk**

Liquidity risk test simulated the following shocks and their effect on the minimum regulatory liquidity level of 20 percent: (i) drop in deposit and (ii) the largest depositors withdraw.

Under assumption the above assumptions, the first shock involved the break even that would cause the first bank to become illiquid (<0% of liquidity ratio), while the second shock tested the effect of deposits concentration in the banking system.

**Exchange rate risk**

The foreign exchange risk tests measured the impact of shocks on net open position (NOP) and capital. The test simulated the effect on the net open position and on capitalization resulting from the depreciation of Rwandan Francs against USD. The test considered higher depreciation that would cause the NOP to drop outside the regulatory bands (+/-20%).

[7] Cihak, M., (2007), "*Introduction to applied stress testing*", IMF Working Paper Nº WP/07/59, IMF, Washington DC

## 4.3. Performance of the Microfinance Sector

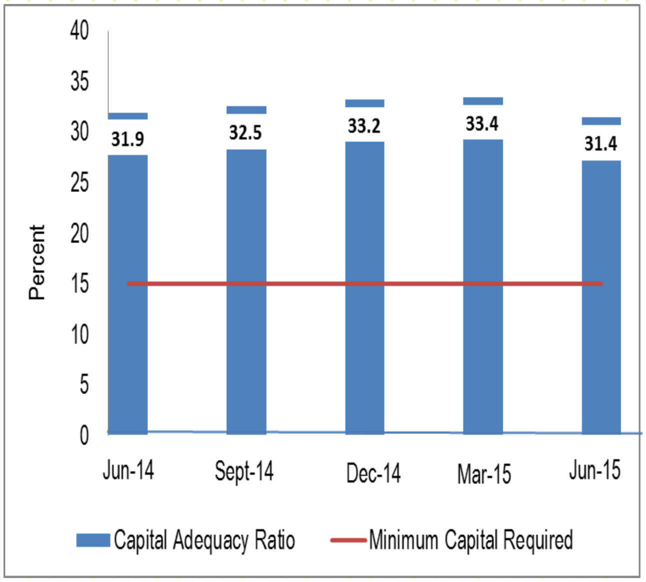
*The microfinance sub- sector is an integral component of Rwanda's financial system. The sector plays a critical role in driving financial inclusion (connecting the rural population and lower income groups to financial services). The size of MFIs relative to Rwanda's financial system is still small, but increasing. As of June 2015, its share in total assets was 6.3 percent, up from 5.6 percent in June 2014. Generally, MFIs financial conditions improved in FY2014/15. Capital adequacy ratio (CAR) remains above the prudential limit, NPLs declined, although still above the prudential limit, profits of MFIs increased and; liquidity conditions continued to improve.*

**The microfinance sector assets continued to grow.** Between June 2014 and June 2015, microfinance assets increased by 27.2 percent (from FRW147.4 billion to FRW 187.5 billion). The Umurenge SACCOs' assets increased by 32 percent (From FRW 69 billion to 91 billion).

### Capital position of MFIs

**Microfinance Institutions remain well capitalized (Figure 16).** As at end June 2015, the capital adequacy ratio of MFIs was 31.4 percent (slightly lower than 31.9 percent of end June 2014), but 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 17: CAR for MFIs as at end June 2015 (in percent)**

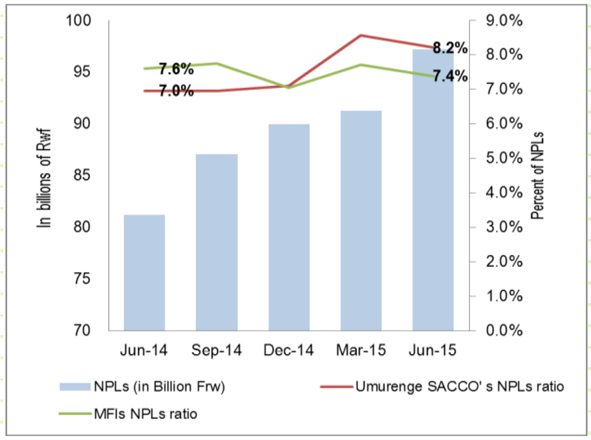



**Source:** BNR, Microfinance Supervision Department

## MFIs Asset quality

**Asset quality of microfinance institutions improved in FY 2014/15**. Between June 2014 and June 2015, The NPLs ratio (Non-performing loans to gross loans) an indicator of asset quality, declined from 7.6 percent to 7.4 percent (**Figure 17).** Despite this decrease, however, this ratio is still above the prudential target of 5 percent. NPLs ratio in UMURENGE SACCO are quite higher than overall NPLs for microfinance sector—Umurenge SACCOS NPLs ratio was 8.2 percent in June 2015, up from 7 percent in June 2014.

**Figure 18: Selected indicators of assets quality**

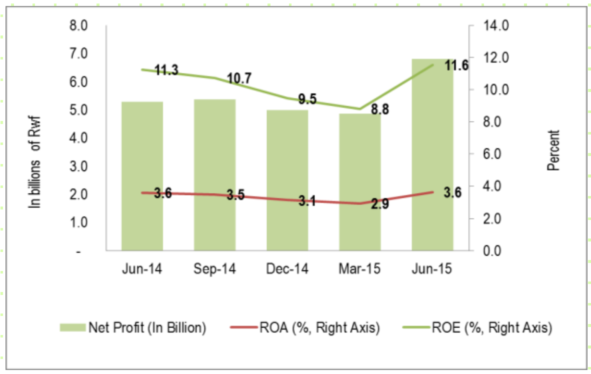



**Source:** BNR, Microfinance Supervision Department

## MFIs Earning and Profitability

**Profitability of MFI's improved in FY2014/15.** Between June 2014 and June 2015**, t**he average ROA and ROE increased from 3.8 percent and 11.6 percent respectively to 3.9 percent and 11.9 percent. In the same period, net profit of MFIs increased by 29 percent. Umurenge Sacco profits increased by 12 percent (which is relatively lower than overall growth of MFI profits).

**Figure 19: Selected indicators of profitability**




**Source:** BNR, Microfinance Supervision Department

## MFI Funding and liquidity

**Over the year from June 2014 to June 2015, the microfinance sector's level of funding from customer deposits increased by 27.7 percent from FRW 82.2 billion end June 2014 to FRW 104.9 billion end June 2015**. As share of total deposits, demand deposits continued to be main source of funds for Microfinance sector at 76 percent while the saving and time deposits account for 24 percent of total deposits. The savings account increased by 41.0 percent from FRW 14.0 billion in June 2014 to FRW 19.8 billion in June 2015.

**Table 9: MFI Liquidity indicators**

| Indicators | Jun-14 | Sep-14 | Dec-14 | Mar-15 | Jun-15 |
|---|---|---|---|---|---|
| Loans/Deposits | 98.8 | 103.0 | 104.4 | 102.8 | 92.6 |
| Quick-Liquidity Ratio | 86.2 | 84.3 | 87.0 | 91.7 | 95.4 |

**Source:** BNR, Microfinance Supervision Department

## 4.4. Performance indicators in Non-Bank Financial institutions

*The Non-Bank Financial Institutions (NBFIs) sub-sector is viewed as an important financial sector player. It's mainly composed of insurance sub-sector and the pension. NBFIs hold up to 26.8 percent of total financial system assets. It is critical to national development in a sense that it mobilizes long-term savings, capable of financing long-term investment project. In a separate perspective, the insurance and pension sub-sector improved in FY2014/15. The insurance system solvency remains above the prudential limit, assets quality improved through prudent investments, and liquidity conditions improved. Further, the pension funds performed well, improving in assets and in investment income while received and paid contributions increased.*

### Insurance market development

**Insurance intermediaries (brokers and agents) increased.** Between June 2014 and June 2015, the number of insurance agents expanded by 16.7 percent (from 276 to 322), and the number of brokers increased from 10 to 14. As of June 2015, the insurance service providers were as follows: 2 public insurers; 4 life insurers; 8 non-life insurers 14 insurance brokers and 322 insurance agents (**Table 10**). Generally, Rwanda's insurance industry is dominated by short term insurance businesses (i.e. non-life), whose share is 83.2 percent of total insurance assets and 89.8 percent of total gross premiums.

**Table 10: Evolution of Insurance market players**

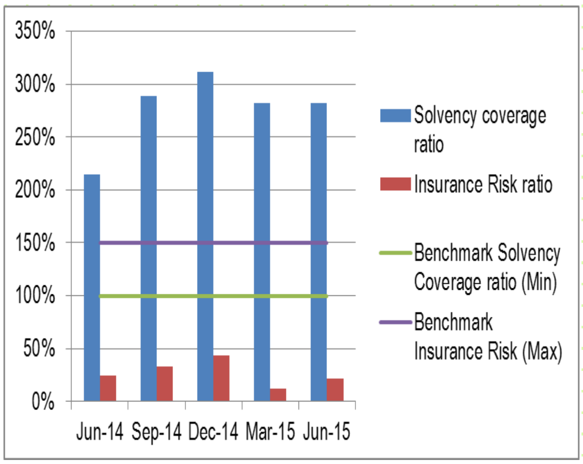
| In numbers | | Jun 2014 | Jun 2015 |
|---|---|---|---|
| Public insurers | Public insurers | 2 | 2 |
| Private Insurers | Life insurers | 4 | 4 |
| | Non- life insurers | 8 | 8 |
| Insurance Intermediaries | Brokers | 10 | 14 |
| | Agents | 276 | 322 |
| | Loss adjusters | 11 | 9 |

**Source:** BNR, NBFI Supervision Department

### Capital position of Insurance Sub-sector

**Rwanda's insurance sector in general remains adequately capitalized and in good position to mitigate unforeseen risks**. As at end June 2015, the consolidated solvency margin ratio stood at 282 percent against the minimum prudential requirement ratio of 100 percent. This implies the sector has more room to take risks, increase products expansion. The adequate solvency coverage ratio demonstrates insurers' capital strength to withstand shocks.

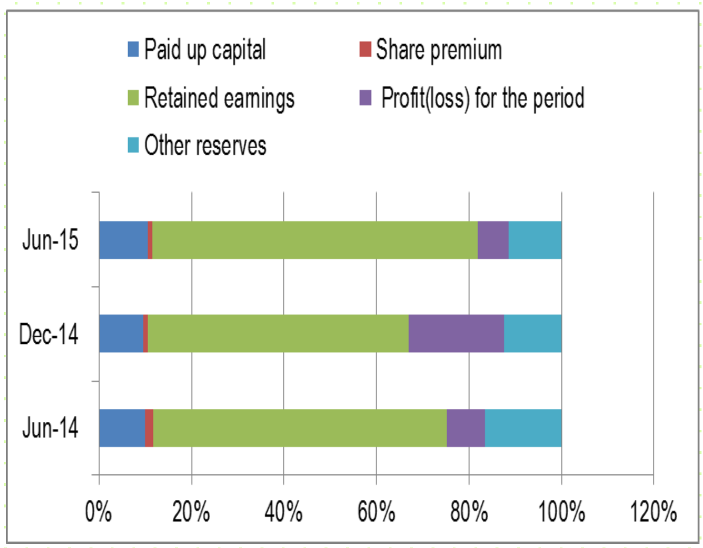
**Figure 20: Selected indicators of capital position (June 2015)**




**Source:** BNR, NBFI Supervision Department

**The insurance risk ratio (net premiums/ capital) remained strong.** It stood at 20 percent in June 2015, down from 22 percent in June 2014, and significantly lower than maximum prudential limit of 300 percent (**Figure 19**). Low insurance risk ratio implies that the capital is sufficient enough to cover all the insurance risks.

**Figure 21: Composition of insurers' shareholders' funds as at June 2015**




**Source:** BNR, NBFI Supervision Department

**Quantity and quality of Insurance capital continued to grow.** In absolute terms, capital and reserves grew by 21.4 percent (from FRW 180.5 billion in June 2014 to FRW 219.1 billion in June 2015) .More than 70.5 percent of insurance industry is retained earnings (**Figure 20**). This means that insurance shareholders are keen to increase capital of their institutions by retaining their earnings. Therefore, the sector's capital build-ups or creation of capital buffers remains dependent on profitability.

## Asset quality of Insurers

**In FY2014/15, Insurance investments slightly increased and remained within the prudential limit.** Between June 2014 and June 2015, the ratio of real estate investments to total assets increased from 13.9 percent to 14.5 percent, and still below the maximum prudential requirement of 30 percent. In the same period, the ratio of equity investments to total assets also increased from 12.8 percent in June 2014 to 16.7 percent (**Table 11**)

**Table 11: Asset quality ratios for Insurance sector (in percent)**

| Indicators | Jun-14 | Jun-15 |
|---|---|---|
| **Overall Insurance sector** | | |
| Real estate investments to total assets | 13.9 | 14.5 |
| Equity investments to total assets | 12.8 | 16.7 |
| PPE to Capital | 14.7 | 13.1 |
| **Private Insurance sector** | | |
| Real estate investments to total assets | 26.0 | 25.6 |
| Equity investments to total assets | 15.2 | 18.1 |
| PPE to Capital | 16.3 | 17.9 |
| **Public Insurance sector** | | |
| Real estate investments to total assets | 5.2 | 7.2 |
| Equity investments to total assets | 11.0 | 15.8 |
| PPE to Capital | 14.3 | 12.9 |

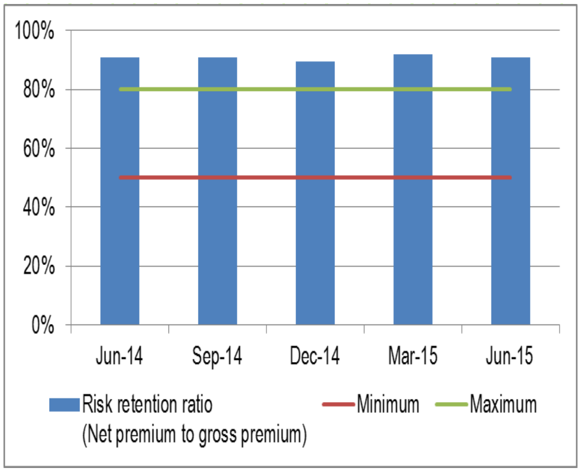
**Source:** BNR, NBFI Supervision Department

As evident from the above table, insurance companies are wisely diversifying investments. However, going forward, risks from these investment should be closely monitored since most of these investments remain connected to real sector and any shocks to the macroeconomic environment is likely to spillover to the insurance business through their investments. In addition, the insurance sector is interlinked to the banking sector through the deposits and cash at balance held in banks. Volatilities of deposit rate on the deposits is likely to impact the sectors assets value and profitability.

### Reinsurance and actuarial liabilities

**Rwanda's insurance sector's risk retention decreased.** Between June 2014 and June 2015, the risk retention ratio decreased to 91 percent from 93 percent. BNR is committed to bringing the ratio within the required bands of 70 percent (minimum) and 90 percent (maximum) (**Figure 21**).

**Figure 22: Retention ratio for insurance sector**




**Source:** BNR, NBFI Supervision Department

**As mentioned above, Rwandan ceded premiums to foreign market were reducing, thus limiting risks connected to foreign markets.** The ceded premium to foreign markets links the Rwanda's insurance sector to foreign markets and ultimately to foreign shocks. For instance, if reinsurance companies' face challenges, e.g., in terms of low profitability, low capital, strategic risks, etc., it is likely to spill over to local insurers through claim settlement.

**In FY2014/15, reinsurers' participation or intervention on claim settlement increased by 57.4 percent.** Between June 2014 and June 2015, reinsurers claim settlement increased from FRW 2.3 billion to FRW 2.4 billion. In the period, outstanding claims to be cleared by reinsurers rose by 70.3 percent. On the other hand, ceded premiums rose by 5.1 percent (**Table 12**)

**Table 12: Reinsurance performance overview (in billions of FRW unless otherwise indicated)**

| Indicators | Jun -14 | Jun-15 | % change |
|---|---|---|---|
| Ceded Premium to reinsurers (& coinsurers) | 4.2 | 4.4 | 5.1% |
| Reinsurance (& coinsurers) intervention on claims paid | 2.3 | 2.4 | 2.4% |
| Outstanding reinsurance/ Co-insurance intervention on claims settlement | 3.6 | 6.2 | 70.3% |

**Source:** BNR, NBFI Supervision Department

### Earning and profitability of Insurers

**In FY 2014/15, profits of insurance companies increased marginally by 0.5 percent**. Between June 2014 and June 2015, net profit increased from FRW 14.5 billion in June 2014 to FRW 14.7 billion. Increased costs (expenses) explain this small increase in profits. For instance, the combined ratio (claims ratio + expenses ratio) increased from 81 percent in June 2014 to 84 percent in June 2015, though, still within prudential benchmarks (≥ 50 percent and ≤ 100 percent).

**Table 13: Changes in income and expense items (in millions of FRW unless otherwise indicated)**

| Indicators | Jun-14 | Jun-15 | % change |
|---|---|---|---|
| Net premiums earned | 38.2 | 40.3 | 5.5% |
| Claims incurred | (18.7) | (21.4) | 14.1% |
| Commissions paid to agents(brokers) | (1.3) | (1.4) | 6.3% |
| Management expenses | (11.4) | (11.4) | 0.3% |
| Other Expenses | (0.5) | (0.5) | 3.7% |
| Total Expenses | (34.7) | (31.9) | -8.0% |
| Net underwriting profit (loss) | 6.3 | 5.6 | -10.8% |
| Investment income | 7.0 | 7.7 | 9.1% |
| Other income | 1.9 | 2.0 | 8.2% |
| Extraordinary charges/income | - | (0.1) | - |
| Net income from operations | 15.2 | 15.3 | 0.5% |
| Net profit after tax | 14.6 | 14.7 | 0.5% |

**Source:** BNR, NBFI Supervision Department

**The slight increase in net profit for insurance weighed down ROA and ROE**. For example, between June 2014 and June 2015, the return on equity (ROE) decreased from 16 percent to 13 percent. In the same period, ROA decreased from 12 percent to 10 percent (**Table 14**)

**Table 14: Selected indicators of earnings and profitability**

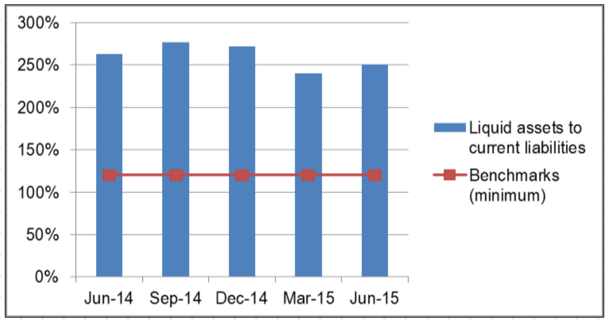
| Indicator (%) | Jun-14 | Jun-15 |
|---|---|---|
| ROE | 16 | 13 |
| ROA | 12 | 10 |
| Combined ratio | 81 | 84 |

**Source:** BNR, NBFI Supervision Department

## Insurance Industry liquidity

**In FY2014/15, the insurance industry remained well liquid, capable of supporting business growth and paying-off liabilities.** Between June 2014 and June 2015, overall liquid assets to current liabilities —an indicator of liquidity— declined from 263 percent in June 2014 to 251 percent in June 2015, well above the minimum requirement of 120 percent (**Figure 22**).

**Figure 23: Indicator of Insurance sector liquidity**




**Source:** BNR, NBFI Supervision Department

## Performance indicators in Pension funds

As mentioned, the pension is largely made-up of the public pension scheme and about 54 informal private fund managers. In the past, BNR regulated the public pension scheme only. However, in May 2015, the new pension law was gazette, giving a broader mandate to BNR to regulate and supervise private pension schemes. Like the insurance sector, the sector remains at its nascent stage of development. The sector is also equally important to economic development through mobilizing long-term savings, needed for long-term investment projects.

**In FY2014/15, the pension sector assets continued to expand (Table 15)**. Between June 2014 and June 2015, the pension sector assets[8], increased by 13% (from FRW 455.1 billion to FRW 512.1 billion). In this period, total contributions increased by 8% (from FRW 55.5 billion to FRW 60 billion); total benefits paid increased by 22% (from FRW 12.1 billion to FRW 14.8 billion); while investment income increased by 7% (from FRW 22.1billion to FRW 23.4 billion).

**Table 15: Public pension sector financial indicators (in billions of FRW unless otherwise indicated)**

| Indicator | Jun-2014 | Jun-2015 | % Change Jun-15/Jun-14 |
|---|---|---|---|
| Total assets | 455.1 | 512.1 | 13% |
| Contributions Received | 55.5 | 60.0 | 8% |
| Benefits paid | 12.1 | 14.8 | 22% |
| Investment income | 22.1 | 23.6 | 7% |

**Source:** BNR, Non-Bank Financial Institutions Supervision Department

[8] Data presented here are for public pension scheme.

## 4.5. Financial System Infrastructure and Development

*Financial system infrastructure plays a critical role in ensuring smooth monetary policy implementation, financial stability and economic efficiency. The Rwanda payment System has improved in the period under review as witnessed by the operations of Rwanda Integrated Payments Processing System (RIPPS). Significant progress has been observed in the retail payment system especially Mobile Financial Services (MFS) and internet banking services. The credit registry also played a critical role to improve reliable lending database.*

### Payment system

**The RIPPS continued to operate smoothly in the FY 2014/2015**. RIPPS is Rwanda's integrated payment system comprising of Real Time Gross Settlement System (RTGS), Automated Clearing House (ACH) and Central Securities Depository (CSD). Comparing the FY 2013/2014 with the FY 2014/2015 customer transfers have increased by 7% whereas cheque and interbank transfers have reduced by 5% and 16% respectively in terms of volume of instructions. In terms of values, customer transfers and cheques have increased by 18% and 0.2% respectively whereas interbank transfers have reduced by 1%.On CSD side, equities increased by 89% and 18% in terms of number of securities traded and turnover respectively between 2013/14 and 2014/15.

### *Card-Based Payment System Development*

Between FY 2013/14 and 2014/15 the number of ATMs increased by 5% (from 343 to 361) and 16.9 % in volume of transactions (from 6,316,274 to 7,385,971) while the number of POS devices increased by 27% (from 1,057 to 1,339) and the volume of transactions at merchants level increased tremendously by 123.9% (from 93,056 to 208,357 transactions) The number of debit cards increased by 23% from 532,157 to 654,349 while the number of credit cards increased by 135% from 1,561 to 3,675 between June 2014 and June 2015.

In line with the development, it is worth to mention that 97% and 100% respectively for Smartcash cardholders and Visa cardholders can pay at merchants POS in the country. One additional bank started acquiring cards on POS as well. The international cards issuing and acquiring has also been active. Six banks issue VISA cards and two banks introduced the issuance of MasterCard cards. Rswitch has been certified by Union Pay International (UPI) for acquiring, issuing and processing e-commerce transactions.

### *Mobile Financial Services and Internet banking*

With regard to mobile financial services, between 2013/14 and 2014/15 Mobile Payment subscribers and transactions volume increased respectively by 76.7% ( from 3,826,997 to 6,763,467) and 163% (from 79,577,837 to 209,132,834) while number of Mobile Banking subscribers and transactions volume increased respectively by 37.6% (from 552,027 to 769,497) and 132.6% (from 3,579,084 to 8,326,257). With regards to the number of agents for mobile payments all over the country, the number was 35,863 at the end of June 2015 comparing with 13,671 agents at the end of June 2014. It is important to highlight that mobile network operators (MNOs) have introduced innovative products that promote financial inclusion and increase the cashless payments. Those products include mobile saving in partnership with banks, whereby within two months as end June 2015, 16,000 customers opened bank accounts using mobile payment channel and saved FRW 277 million. Other products include payments of water bills, tax, fuel at petrol stations, school fees, etc.

Regarding the usage of internet banking, the number of subscribed remained almost the same with an increase of 4% (from 32,460 to 33,750) while the number of transactions registered a significant increase of 194% (from 222,867 to 656,309) between the years 2013/14 and 2014/15.

### *Regional Payment system Integration Initiative*

**Since December 2014, the Rwanda market has joined the East Africa Payment System but the usage is still low.** Today, only 132 transactions were settled on Rwanda side and 3,473 cross border mobile transactions amounted at 149 million FRW were carried out between January and June 2015.

In this respect, BNR, together with all stakeholders, is planning to carry out a sensitization campaign in order to promote the usage of electronic payments and EAPS system.

**Table 16: EAPS Transactions (December 2014 - July 2015)**

| Currency | Inward messages | | Outward messages | |
|---|---|---|---|---|
| | Volume | Value | Volume | Value |
| FRW | 12 | 181,601,612 | 20 | 274,524,012 |
| UGX | 16 | 391,849,474 | 34 | 322,630,372 |
| KES | 14 | 22,901,888.64 | 30 | 21,896,208 |
| TZS | 6 | 4,400,000 | 0 | 0 |

**Source:** BNR, Payment System Department

### *Interoperability*

**The interoperability policy was adopted by BNR Board of Directors in June 2014.** The stakeholders in payment system area are working together to operationalize the interoperability policy and the following are the developments:

- mVisa product allows mobile banking services interoperability and 3 banks are on this platform.
- In addition to cash in/cash out, the following services are provided through mVisa:
  1. Pay pension to retired/pensioners;
  2. Electronic disbursement of fertilizer subsidies;
  3. Refugees are receiving food aid digitized cash disbursements directly to their phones.
- Bank Account to e-wallet transfers or vice versa have been enabled by all MNOs and some banks;
- ATM cash out service is being offered by MNOs through some banks ATMs;
- Integration between UOB and TIGO to facilitate Tigo cash subscribers to have mobile saving accounts;
- One MNO and one bank are currently integrated to facilitate account-to-mobile and mobile-to-account transactions between different customers' accounts. Other MNOs and some financial institutions are in process of joining as well.

### *Cheque Truncation system (CTS)*

The National Bank of Rwanda has embarked on the implementation of cheque truncation system in October 2014, and the system installation will be finalized by end of 2015.

The system is expected to speed up cheque exchange between banks while also reducing errors.

## Credit Reference Bureau Usage

**The usage of credit information has been increasing.** The FY2014/15 saw an upward trend of the usage of credit information provided by the private credit bureau as the number of data counts (searches of credit information in credit bureau database) rose by 11.29 percent from 37,054 in June 2014 to 41,236 in June 2015. However, the number of data hits (data found compared to the searches made in credit bureau database) decreased by 20 percent from 33,078 in June 2014 to 26,460 in June 2015. This reduction was caused by the change of IT system of the credit information bureau in course of rebranding to TransUnion in May-June 2015.

**The information provided by credit reference bureau is continuously enhanced.** The credit reference bureau has designed and implemented the credit score which is now accessed online by all subscribers. The credit score maps the credit risk and uses past credit information to scrutinize the repayment position of a borrower.

The number of individuals and corporates listed in the private credit bureau increased from 1,480,403 in December 2014 to 1,528,611 in May 2015 and the coverage improved from 22.6 percent in December 2014 to 23.06 percent of adult population in May 2015.

# V. Conclusion

Rwanda's macroeconomic environment remains conducive for financial sector growth. The strong economic growth creates investment opportunities for banks, and increases the ability of households and companies to service their loans (hence lower NPLs). The low and stable inflation is an incentive for long-term investment, by households, companies and banks. The pace of exchange rate pressures experienced since first half of 2015 started slowing down in third quarter of 2015. This generally stable macroeconomic environment and strong micro prudential supervisory activities of BNR, explains why Rwandan financial system remains sound and stable. In FY2014/15, Rwanda's financial sector remained sound, well capitalized, with adequate liquidity and quality of assets improved. Despite this financial health status, risks from lackluster global economic growth and related falling commodity prices are worth monitoring. Further still, long-term structural bottlenecks in Rwandan financial system still remain. These include: concentrated lending in some sector, Banks' high dependence on short-term deposits and; high interest rate spreads. We note that strategies to address some of these structural bottlenecks are implemented under Rwanda's broad second financial Sector Development Program (FSDP-2). Based on findings of this FSR, the BNR commits to address some challenges identified in this report through the following actions:

- Close monitoring of the mortgage sector performance: This will include formulating and monitoring real estate price index.
- Continue monitoring assets quality of MFIs especially Umurenge SACCOs.
- Close monitoring of private insurers: encouraging them to enhance their pricing mechanisms.
- Continuous engagement & monitoring of large depositors. To avoid systemic liquidity issues: and price distortions.
- Make specific monitoring of institutional FX exposure.

To advance financial depth, through implementing the second Financial Sector Development Program, BNR will continue to partner with other institutions to advance financial inclusion, broaden financial literacy programs to reach more people, strengthen the legal and regulatory environment for financial sector development.

# VI. Appendices

**Appendix 1: Banking Sector – Balance Sheet (In billions of Rwandan Francs)**

| | 2014 | | 2015 |
|---|---|---|---|
| | **June- 2014** | **Dec- 2014** | **June-2015** |
| **A.ASSETS** | | | |
| Cash (domestic notes and coins) | 48.8 | 65.2 | 57.8 |
| BNR with Balances | 80.6 | 95.2 | 106.6 |
| Due from banks in Rwanda | 170.2 | 131.2 | 151.1 |
| Due from with Banks Abroad | 245.4 | 158.0 | 151.8 |
| Government Securities | 165.1 | 176.9 | 216.8 |
| Investments and Other Securities | 25.2 | 39.4 | 53.5 |
| Loans & Overdrafts (gross) | 940.1 | 1,050.6 | 1,150.0 |
| *Less: Provisions* | *35.7* | 39.8 | 41.2 |
| Loans & Overdrafts (Net) | 904.5 | 1,010.8 | 1,108.8 |
| Fixed Assets (net) | 78.6 | 88.2 | 93.7 |
| Other Assets | 49.2 | 37.8 | 60.0 |
| **Total Assets(net)** | **1,767.6** | **1,802.7** | **2,000.0** |
| **B.LIABILITIES** | | | |
| Due to banks in Rwanda | 184.1 | 174.6 | 217.4 |
| Borrowings from BNR | 0.01 | 0 | 0 |
| Deposits | 1,230.8 | 1,233.2 | 1,366.5 |
| Due to Banks Abroad | 1.0 | 1.8 | 3.0 |
| Bills Payable | 0.8 | 2.2 | 0.6 |
| Other Liabilities | 57.7 | 59.4 | 43.3 |
| **Total Liabilities** | **1,476.3** | **1,471.3** | **1,630.8** |

| | 2014 | | 2015 |
|---|---|---|---|
| | June- 2014 | Dec- 2014 | June-2015 |
| **C. CAPITAL** | | | |
| Paid-up-Capital | 116.7 | 135.8 | 160.0 |
| Share Premium | 33.3 | 33.5 | 33.0 |
| Retained Reserves | 17.8 | 23.0 | 24.4 |
| Other Reserves/Subordinated Debt | 106.2 | 105.4 | 118.8 |
| Profit/loss | 17.3 | 33.8 | 23.6 |
| **Total Shareholders' funds** | **291.3** | **331.4** | **359.9** |
| **Total equity and liabilities** | **1,767.6** | **1,802.7** | **2,000.0** |
| **D. OFF BALANCE SHEET ITEMS** | | | |
| Guarantees and Performance Bonds | 680.9 | 620.3 | 790.5 |
| Unused Loans/Overdrafts commitment | 92.6 | 93.3 | 125.0 |
| Other off balance sheet items | 183.5 | 195.9 | 213.3 |
| **Total** | **957.0** | **909.5** | **1,128.8** |

**Source: BNR, Bank Supervision Department**

**Appendix 2: Banking Sector – Income Statement (In billions of Rwandan Francs)**

| | 2014 | | 2015 |
|---|---|---|---|
| | **June- 2014** | **Dec- 2014** | **June-2015** |
| **A.INCOME** | | | |
| Interest Income/ Advances | 76.9 | 160.8 | 87.9 |
| Interest Income/ Government Securities | 5.1 | 10.9 | 5.5 |
| Interest Income on placement | 4.5 | 8.7 | 4.4 |
| Commissions | 14.5 | 28.5 | 15.3 |
| Foreign Exchange Income | 11.4 | 21.1 | 10.9 |
| Other Income | 15.5 | 32.7 | 20.3 |
| **Total Income** | **127.9** | **262.5** | **145.0** |
| **B.EXPENSES** | | | |
| Interest Expense – Deposits | 19.2 | 40.6 | 20.3 |
| Other Interest Expenses | 8.3 | 15.0 | 8.0 |
| Provisions for Bad Debts | 14.4 | 30.3 | 19.0 |
| Salaries, Wages, staff costs | 29.3 | 61.0 | 31.6 |
| Premises, Depreciation, Transport | 11.3 | 24.0 | 12.5 |
| Other Expenses | 21.8 | 44.6 | 22.5 |
| **Total Expenses** | **104.3** | **215.6** | **114.0** |
| Net Profit Before Tax | 23.6 | 46.9 | 31.0 |
| Corporation Tax | 6.3 | 13.2 | 7.4 |
| **Net Profit After Tax** | **17.3** | **33.8** | **23.6** |

**Source: BNR, Bank Supervision Department**

**Appendix 3: Banking Sector – Financial Soundness Indicators**

| PERFORMANCE INDICATORS | | June- 2014 | Dec- 2014 | June-2015 |
|---|---|---|---|---|
| **GROWTH RATES (Quarter-on-Quarter)** | | | | |
| Total Assets | | 12.4% | 0.8% | 7.3% |
| Total loans | | 3.7% | 6.2% | 5.0% |
| Deposits | | 16.3% | -0.8% | 8.0% |
| Due from banks in Rwanda | | 73.0% | -11.3% | 13.4% |
| Due from banks abroad | | 38.8% | -19.6% | 8.4% |
| Government securities | | 2.7% | 2.1% | 18.1% |
| **MEASURES OF CAPITAL ADEQUACY/ STANDARD RATES** | | | | |
| Core Capital / RWA | (MIN 10%) | 21.2% | 21.3% | 21.6% |
| Total Qualifying Capital / RWA | (MIN 15%) | 23.6% | 24.0% | 24.3% |
| Off Balance Sheet Items / Total Qualifying Capital | | 379.4% | 327.3% | 352.5% |
| Insider Loans / Core Capital | (MAX 25%) | 4.3% | 3.4% | 2.8% |
| NPLs – Provisions / Core Capital | | 15.7% | 12.2% | 13.6% |
| **MEASURES OF ASSET QUALITY** | | | | |
| NPLs / Gross Loans | | 6.6% | 6.0% | 5.9% |
| NPLs net of interests/Gross loans | | 5.5% | 5.1% | 4.9% |
| Provisions / NPLs | | 50.0% | 56.9% | 51.5% |
| Earning Assets / Total Asset | | 80.6% | 93.1% | 81.8% |
| Fixed Assets / Core Capital | | 34.6% | 35.8% | 33.0% |
| Large Exposures / Gross Loans | | 15.8% | 17.7% | 22.5% |

| PERFORMANCE INDICATORS | June- 2014 | Dec- 2014 | June-2015 |
|---|---|---|---|
| | | | |
| **MEASURES OF EARNINGS (ANNUALISED)** | | | |
| Return on Average Assets | 2.1% | 1.9% | 2.4% |
| Return on Average Equity | 12.1% | 10.5% | 13.1% |
| Net Interest Margin | 8.7% | 7.9% | 8.9% |
| Yield on Advances | 16.6% | 15.7% | 15.7% |
| Cost of Deposits | 3.4% | 3.3% | 3.1% |
| Cost to Income | 81.5% | 82.1% | 78.6% |
| Overhead to Income | 48.8% | 49.4% | 46.0% |
| **MEASURES OF LIQUIDITY** | | | |
| Short term Gap | 11.0% | 5.2% | 11.6% |
| Liquid Assets / Total Deposits (MIN 20%) | 51.4% | 48.7% | 49.5% |
| Interbank Borrowings / Total Deposits | 15.0% | 14.2% | 15.9% |
| BNR Borrowings / Total Deposits | 0.1% | 0.0% | 0.0% |
| Gross Loans / Total Deposits | 76.4% | 85.2% | 84.2% |
| **MEASURES OF MARKET SENSITIVITY** | | | |
| Forex Exposure / Core Capital | -1.5% | -1.8% | -7.1% |
| Forex Loans / Forex Deposits | 12.7% | 29.5% | 32.6% |
| Forex Assets / Forex Liabilities | 84.8% | 84.7% | 82.1% |

**Source: BNR, Bank Supervision Department**

**Appendix 4: Banking Sector – EAC Comparison Key Performance Indicators (In %)**

| Period | Indicator | Burundi | Kenya | Rwanda | Tanzania | Uganda |
|---|---|---|---|---|---|---|
| Jun-15 | CAR (Capital adequacy ratio) | 19.5 | 18.9 | 24.3 | 17.7 | 21.3 |
| | Total capital to Total Assets | 14.5 | 15.2 | 18.0 | 11.2 | 12.7 |
| | Liquid Assets to Total Assets | 31.7 | 32.2 | 33.8 | 30.4 | 31.1 |
| | Liquid Assets to Total Deposits | 52.7 | 44.7 | 49.5 | 42.1 | 46.4 |
| | Loans to Deposits | 87.7 | 83.5 | 84.2 | 76.2 | 63.8 |
| | ROA | 8.1 | 3.3 | 2.4 | 2.9 | 3.8 |
| | ROE | 1.2 | 28.3 | 13.1 | 15.1 | 24.6 |
| | NPL ratio | 13.3 | 5.7 | 5.9 | 6.7 | 4.0 |
| | Earning Asset to Total Assets | 68.2 | 87.5 | 81.8 | 78.7 | 69.5 |
| Dec-14 | CAR (Capital adequacy ratio) | 17.3 | 19.2 | 24.2 | 17.8 | 22.2 |
| | Total capital to Total Assets | 13.4 | 15.6 | 18.3 | 11.3 | 16.3 |
| | Liquid Assets to Total Assets | 23 | 32.7 | 33.2 | 30.8 | 29.7 |
| | Liquid Assets to Total Deposits | 54.8 | 45.2 | 48.7 | 41.8 | 44.0 |
| | Loans to Deposits | 80.5 | 83.7 | 85.2 | 74.3 | 71.4 |
| | ROA | 1.2 | 3.4 | 1.9 | 2.7 | 2.6 |
| | ROE | 7.8 | 26.6 | 10.8 | 13.9 | 16.1 |
| | NPL ratio | 10.9 | 5.4 | 6.0 | 6.6 | 4.1 |
| | Earning Asset to Total Assets | 66.5 | 88.2 | 93.1 | | 71.5 |
| Jun-14 | CAR (Capital adequacy ratio) | 21.3 | 17.6 | 23.6 | 17.8 | 22.8 |
| | Total capital to Total Assets | 14 | 14.7 | 14.3 | 11.1 | 15.8 |
| | Liquid Assets to Total Assets | 34.7 | 32.3 | 37.7 | 31.5 | 30.9 |
| | Liquid Assets to Total Deposits | 52.3 | 44.4 | 54.2 | 42.6 | 46.5 |
| | Loans to Deposits | 73.1 | 82.6 | 76.4 | 73.5 | 70.8 |
| | ROA | 0.1 | 3.7 | 2.1 | 2.9 | 2.1 |
| | ROE | 1.1 | 30.9 | 12.1 | 15.5 | 12.8 |
| | NPL ratio | 12.7 | 5.7 | 6.6 | 8.2 | 5.8 |
| | Earning Asset to Total Assets | 66 | 88.6 | 80.6 | 80 | 68.9 |

**Source: BNR, Financial Stability Directorate**

**Appendix 5: Insurance Sector – Balance Sheet (In billions of Rwandan Francs)**

| | June- 2014 | Dec- 2014 | June-2015 |
|---|---|---|---|
| **A. ASSETS** | | | |
| Cash and deposits in banks | 127.0 | 121.3 | 132.1 |
| Loans and receivables | 19.1 | 23.0 | 30.9 |
| Investment in securities/equities | 31.6 | 48.6 | 49.5 |
| Investments in affiliates | - | 0.4 | - |
| Investment in property | 34.3 | 39.3 | 42.9 |
| Property and equipment | 26.6 | 31.4 | 28.7 |
| Intangible assets | 0.4 | 0.8 | 0.9 |
| Other assets | 8.2 | 7.3 | 10.6 |
| **Total assets** | **247.2** | **272.0** | **295.7** |
| **B. LIABILITIES** | | | |
| Unearned premiums | 14.7 | 13.8 | 17.0 |
| Unexpired risk provision | 0.1 | 0.1 | 0.5 |
| Claims reported outstanding | 12.8 | 18.5 | 15.1 |
| IBNR | 2.1 | 1.9 | 2.1 |
| Other Provisions (+actuarial / Mathematical) | 18.4 | 23.1 | 24.3 |
| ***Technical provisions*** | **51.1** | **57.4** | **59.0** |
| Borrowings | - | 0.0 | 0.0 |
| Due to parent/affiliates companies | 0.1 | 0.3 | 0.6 |
| Dividend Payable | 0.0 | 0.0 | 0.0 |
| Other liabilities | 15.5 | 19.1 | 17.0 |
| **Total liabilities** | **66.8** | **74.1** | **76.6** |
| **A. CAPITAL AND RESERVES** | - | | |
| Paid up capital | 18.0 | 18.9 | 23.1 |
| Share premium | 3.1 | 2.0 | 2.0 |
| Retained earnings | 124.7 | 111.6 | 154.5 |
| Other reserves | 25.0 | 41.1 | 14.7 |
| Profit(loss) for the period | 9.8 | 24.4 | 24.7 |
| **Total capital and reserves** | **180.5** | **197.9** | **219.1** |
| **D. TOTAL LIABILITIES AND EQUITY** | **247.2** | **272.0** | **295.7** |

**Source: BNR, Non- Bank Financial Institution Supervision Department**

**Appendix 6: Insurance Sector – Income Statement (In billions of Rwandan Francs)**

| | 2014 | | 2015 |
|---|---|---|---|
| | June- 2014 | Dec- 2014 | June-2015 |
| **INCOME** | | | |
| Gross premium written net of cancelation | **44.9** | **82.8** | **46.9** |
| Less: premium ceded to reinsurers (& coinsurers) | (4.2) | (8.6) | (4.4) |
| Net premiums written | 40.7 | 74.2 | 42.5 |
| Variations in unearned premiums | (2.5) | (1.1) | (2.2) |
| **Net premiums earned** | **38.2** | **73.1** | **40.3** |
| **EXPENSES** | | | |
| Claims incurred | (18.7) | (41.4) | (21.4) |
| Commissions paid to agents(brokers) | (1.3) | (6.3) | (1.4) |
| Management expenses | (11.4) | (22.6) | (11.4) |
| Other Expenses | (0.5) | (1.1) | (0.5) |
| **Total Expenses** | **(31.9)** | **(71.4)** | **(34.7)** |
| **Net underwriting profit(loss)** | **6.3** | **1.7** | **5.6** |
| **OTHER REVENUES** | | | |
| Investment income | 7.0 | 34.3 | 7.7 |
| Other income | 1.9 | 5.7 | 2.0 |
| Finance costs | (0.0) | (0.0) | - |
| Extraordinary charges/income | - | - | 0.0 |
| **Net income from operations** | **15.2** | **41.4** | **15.3** |
| Provision for tax (income tax expenses) | (0.5) | (0.3) | (0.5) |
| **NET INCOME AFTER TAXES** | **14.6** | **41.1** | **14.7** |

**Source: BNR, Non- Bank Financial Institution Supervision Department**

**Appendix 7: Insurance Sector – Financial Soundness Indicators (FSIs)**

| INDICATORS | June- 2014 | Dec- 2014 | June-2015 |
|---|---|---|---|
| **CAPITAL ADEQUACY** | | | |
| Solvency coverage ratio | 215% | 312% | 282% |
| Net premium to Capital | 23% | 38.7% | 19.7% |
| Capital to total assets | 73% | 75.1% | 73.9% |
| Capital to Technical reserves (MAX 100%) | 353% | 393% | 370% |
| **ASSET QUALITY** | | | |
| (Real estate+ unquoted equities+ debtors) to total assets (MAX 30%) | 34% | 41% | 42% |
| Loans & Receivables to (Gross premium+ reinsurance recoveries) | 43% | 26% | 65% |
| Equities to total assets (MAX 30%) | 13% | 19% | 17% |
| **REINSURANCE AND ACTUARIAL ISSUES** | | | |
| Risk retention ratio (MAX 90%-MIN 70%) | 93% | 89% | 91% |
| Net technical reserves to average of net claims paid in last three years | 273% | 128% | 268% |
| Net technical reserves to average of net premium (last 3 years) | 117% | 87% | 126% |
| **EARNINGS AND PROFITABILITY** | | | |
| Loss ratio (net claims to net premium) | 49% | 52% | 54% |
| Expense ratio (Expense to net premium) | 33% | 39% | 32% |
| Combined ratio=loss ratio+ expense ratio | 82% | 91% | 85% |
| Investment income to net premium | 18% | 45% | 19% |
| Investment income to investment assets | 4% | 17% | 3% |
| Return on equity (ROE) | 8% | 22% | 7% |
| **LIQUIDITY** | | | |
| Liquid assets to current liabilities (MIN 120%) | 263% | 272% | 251% |

**Source: BNR, Non- Bank Financial Institution Supervision Department**

**Appendix 8: Microfinance Sector – Balance Sheet (In billions of Rwandan Francs)**

| | 2014 | | 2015 |
|---|---|---|---|
| | **June- 2014** | **Dec- 2014** | **June-2015** |
| **A. ASSETS** | | | |
| Cash in Vaults | 3.3 | 2.5 | 4.4 |
| Cash in Banks | 50.0 | 52.7 | 71.5 |
| Treasury Bills& Placements | 0.1 | 0.1 | 0.1 |
| Loan Portfolio (Net of Provisions) | 78.0 | 86.8 | 93.6 |
| Gross Loans | 81.2 | 90.0 | 97.2 |
| Non-Performing Loans | 6.2 | 6.3 | 7.2 |
| Provisions | 3.2 | 3.1 | 3.6 |
| Other Assets | 15.9 | 17.2 | 17.8 |
| **Total assets** | **147.4** | **159.3** | **187.5** |
| **B. LIABILITIES** | | | |
| **Total Deposits** | **82.2** | **86.1** | **104.9** |
| Current Accounts | 62.0 | 63.6 | 79.7 |
| Saving Accounts | 14.0 | 17.6 | 19.8 |
| Short Term Deposits | 2.6 | 3.4 | 5.1 |
| Long Term Deposits | 3.5 | 1.5 | 0.3 |
| Borrowings& Short Term Liabilities | 11.7 | 13.6 | 14.1 |
| Other Liabilities | 6.5 | 6.8 | 9.6 |
| **Total Liabilities** | **100.4** | **106.5** | **128.7** |
| **EQUITY** | | | |
| Earnings | 9.1 | 11.9 | 13.7 |
| Retained Earnings/Accumulated Losses | 6.5 | 6.9 | 10.3 |
| Net Profit/Loss of Period +/- (From January) | 2.6 | 5.0 | 3.4 |
| Paid up Capital | 20.7 | 22.3 | 23.5 |
| Other Equity | 17.1 | 18.7 | 21.7 |
| **Total Equity** | **47.0** | **52.8** | **58.8** |
| **TOTAL LIABILITIES& EQUITY** | **147.4** | **159.3** | **187.5** |

**Source: BNR, Microfinance Institutions Supervision Department**

**Appendix 9: Microfinance Sector – Income Statement (In billions of Rwandan Francs)**

| | 2014 | | 2015 |
|---|---|---|---|
| | June- 2014 | Dec- 2014 | June -2015 |
| Financial Revenue | 13.3 | 28.7 | 16.2 |
| Financial Expenses | 0.8 | 2.1 | 1.3 |
| Net Financial Income before Provisions | 12.4 | 26.6 | 14.9 |
| Net Provision Expenses/Gains | (1.1) | (2.2) | (1.0) |
| Financial Revenue (After Net Provisions) | 11.3 | 24.5 | 13.9 |
| Operating Expenses | 9.1 | 20.0 | 10.6 |
| Personnel Expenses | 5.2 | 10.8 | 6.0 |
| Net Operating Income | 2.3 | 4.6 | 3.4 |
| Net Non-Operating Income/Expense | (0.1) | (0.3) | (0.0) |
| Net Income (Before Taxes& Donations) | 2.2 | 4.3 | 3.3 |
| Net Income (After Taxes & Before Donations) | 2.1 | 4.1 | 3.2 |
| Donations | 0.6 | 0.9 | 0.2 |
| **Net Income after Taxes and after Donations** | 2.6 | 5.0 | 3.4 |

**Source: BNR, Microfinance Institutions Supervision Department**