

Central Bank of Seychelles

MONTHLY REVIEW

December 2016

1.0 Key Economic Developments

The positive performance of the tourism sector in terms of visitor arrivals continued in December 2016. For the year as a whole, the total number of tourists to the country was at a new record of 303,177, a growth of 9.8 per cent over the result for 2015. Such outcome also translated into an increase in tourism income, with the cumulative figure estimated at 5.3 per cent higher than that for 2015 in US dollar terms. The stock of international reserves ended the year at US\$523 million or equivalent to 4.1 months of total imports. As regard to price developments, the 12-month average inflation rate continued its downward trend to end the year at *negative* 1.0% following a month-on-month price change of *negative* 0.2%.

In the foreign exchange market, there was a growth in both the demand and supply of foreign exchange compared to the previous month. The Seychelles rupee (SCR) depreciated by 0.4 per cent against the US dollar (USD) but appreciated by 2.3 per cent vis-à-vis the euro (EUR). Monetary statistics showed an increase in the effective savings rate by 5.0 basis points from the previous month to reach 2.92% or its highest level since October 2009. The lending rate rose by 6.5 basis points to stand at 12.42% and consequently, the interest rate spread expanded to 9.50%. There was also an increase in the yield on treasury bills across all maturities in December 2016.

1.1 Tourism

A total of 28,841 tourists arrived in Seychelles during December 2016, which was 11 per cent more than in the previous month as well as a growth of 8.4 per cent relative to December 2015.

Europe remained the top performer, contributing 57 per cent of the total number of tourists for the month under review. The top three European countries in terms of share of total visitors were France, Germany and Italy, supplying 17 per cent, 16 per cent and 12 per cent of the period's total figure, respectively. Asia represented 22 per cent of the aggregate market share, while Africa contributed 16 per cent.

In total, 303,177 tourists visited Seychelles during 2016 which was a new record following annual growth of 9.8 per cent. In terms of growth rate by continent, the best performer was Asia with a rate of 17 per cent. Tourists from the traditional European markets rose by 11 per cent. The year also saw France consolidate its position as the leading European market, recording a 23 per cent increase in its contribution to visitor arrivals. Germany followed closely in second place after a rise of 21 per cent.

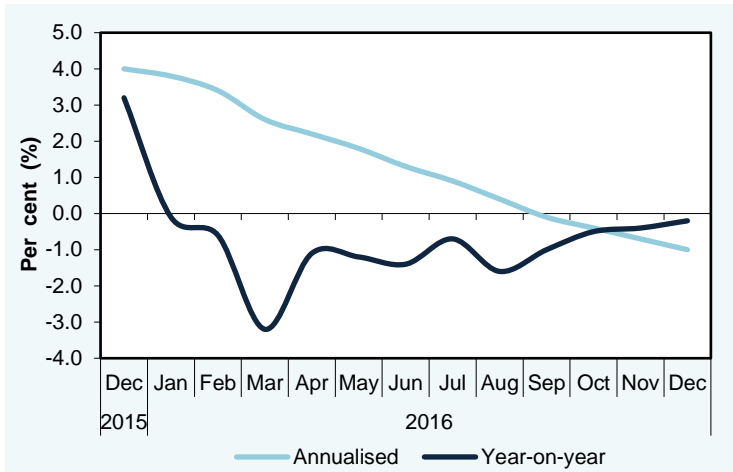
1.2 Inflation

The consumer price index (CPI) for December 2016 fell by 0.2% compared to the previous month which exhibited no change in the month-on-month figure. This was induced by a 19 per cent fall in the price of 'Fish'. There was no change in the price of the 'Non-Food Items' whilst a 0.4 per cent increase in the price of items in the 'Other Food' category was recorded.

The rise in the index for the 'Other Food' category was influenced by an increase in the price of 'Sugar, jam, honey and confectionery' (2.9 per cent), 'Vegetables' (1.5 per cent) and 'Meat (Fresh, chilled, frozen)' (1.0 per cent).

Conversely, a reduction in the price of 'Bread and Cereals' (0.5 per cent) was registered. For the third month in a row, the index for 'Non-Food Items' remained unchanged. There was an increase in the CPI for items under the categories 'Miscellaneous goods and services' (0.8 per cent), 'Health' (0.2 per cent) and 'Tobacco' (0.2 per cent). By contrast, the price of 'Alcoholic beverages' fell by 0.8 per cent.

Chart 01: Inflation



Year-on-year inflation was *negative* 0.2% but also an increase of 0.2 percentage point relative to November 2016. The price of 'Fish' and 'Non-Food Items' declined by 13 per cent and 0.1 per cent, respectively. On the other hand, the price of 'Other Food' rose by 0.3 per cent.

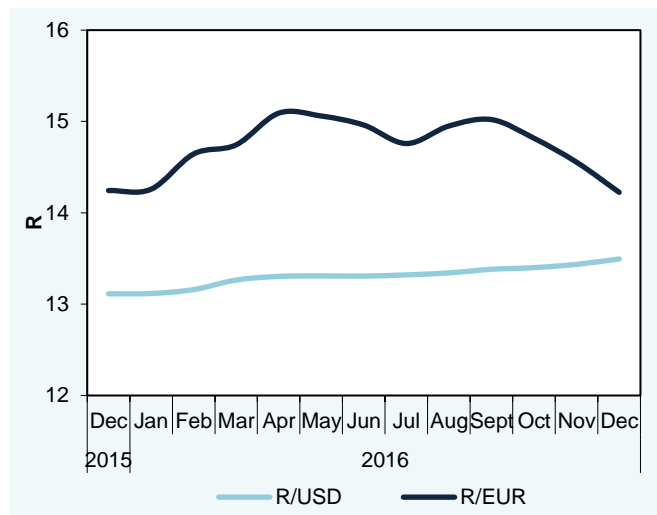
The downward trend of the 12-month average inflation rate persisted for the twelfth consecutive month to stand at *negative* 1.0%.

1.3 Exchange Rates

On average, the Seychelles Rupee (SCR) traded at 13.4891 against the US dollar (USD) and 14.2243 vis-à-vis the euro (EUR). In comparison to the previous month, the SCR depreciated by 0.4 per cent against the USD whilst appreciated by 2.3 per cent relative to the EUR.

In relation to the same period in 2015, the rupee has weakened by 2.9 per cent relative to the USD but strengthened by 0.1 per cent against the EUR. The latter outcome was consistent with the weak performance of the EUR against most major currencies in international markets. As for the depreciation of the SCR against the USD, this was due to the strong demand for foreign currency relatively to supply.

Chart 02: Exchange Rates



1.4 Foreign Exchange Transactions

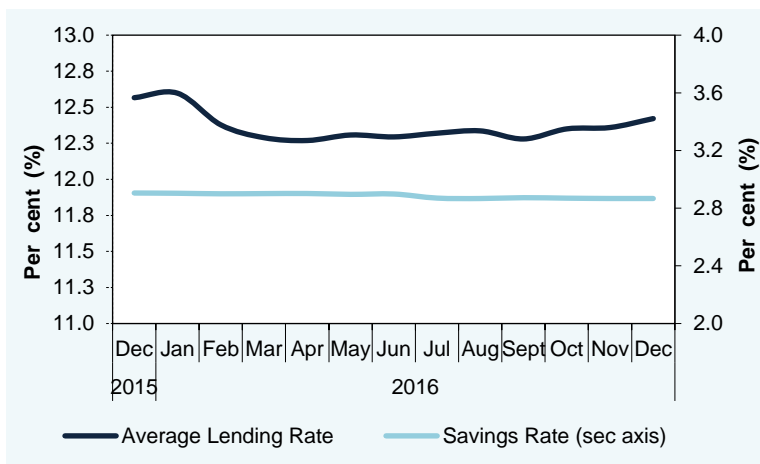
Gross purchases (or supply) of foreign exchange in December 2016 amounted to US\$46 million, an increase of 7.8 per cent in relation to the previous month. Total sales (or demand) of foreign exchange rose by 1.8 per cent to stand at US\$56 million. In net terms, demand exceeded supply by US\$10 million.

As regards to the volume of trade, commercial banks effected the majority of transactions, accounting for 67 per cent and 68 per cent of total purchases and sales, correspondingly.

1.5 Interest Rates

In December 2016, the average effective lending rate of ODCs rose by 7.0 basis points to stand at 12.42%, whilst the average savings rate increased from 2.87% in the previous month to 2.92%, to its highest level since October 2009.

Chart 03: Interest Rate



Subsequently, the interest rate spread widened by 1.5 basis points to 9.50% compared to 9.49% in November 2016.

With regards to the return on fixed-term rupee deposits, this rose from an average of 3.48% in November 2016 to 3.55% in the month under review. Changes within the different maturity profiles varied with increases in interest rate observed on instruments with maturities of 'above 7 days up to 3 months', 'greater than 12 months' and 'up to 7 days' by 40 basis points, 4.0 basis points and 0.9

basis point respectively. In contrast, declines were registered in yields on deposits in the maturity brackets of 'above 3 months up to 6 months' (by 3.1 basis points) and 'above 6 months up to 12 months' (by 6.6 basis points).

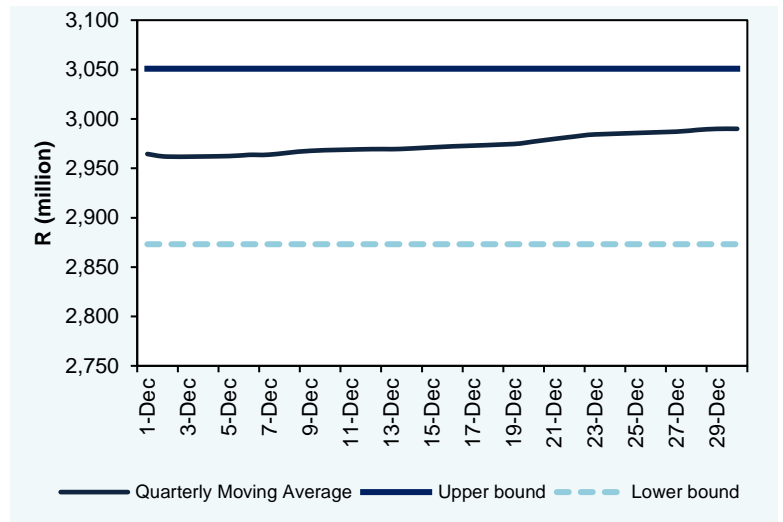
In December 2016, the yield on treasury bills increased across all three maturities in comparison to the preceding month. The average return on the 365-days, 182-days and 91-days instruments grew by 114 basis points, 130 basis points and 99 basis points, respectively. As a result, the interest rates on the 91-days, 182-days and 365-days treasury bills stood at 6.50%, 7.11% and 7.33%, correspondingly.

1.6 Monetary Aggregates

1.6.1 Reserve Money¹

The average stock of reserve money for the quarter ending December 2016 stood at R2,990 million. This was R61 million or 2.0 per cent below the upper bound of R 3,051 million. This implies that the Bank successfully met its reserve money target for the quarter as approved by its Board.

Chart 04: Reserve Money

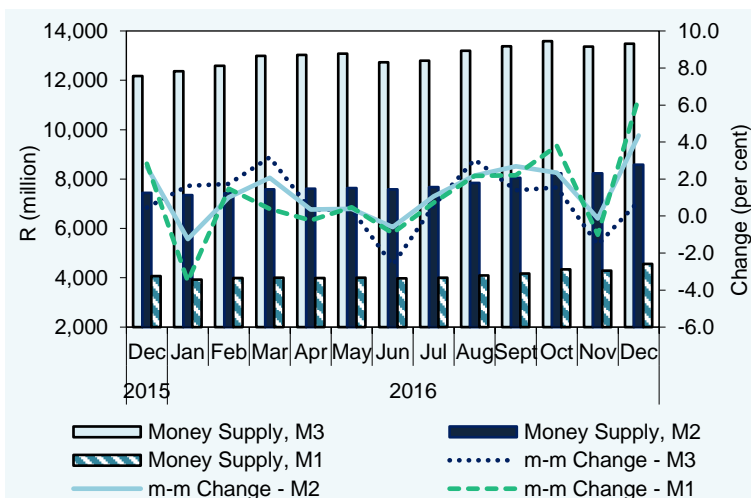


1.6.2 Money Supply

At the end of December 2016, net foreign assets (NFA) of the Bank and that of Other Depository Corporations (ODCs) stood at R9,916 million or declined by 2.6 per cent from the outcome of the previous month. This was brought about by a decrease of R217 million to R6,550 million in the position of the Central Bank while that of ODCs fell by R51 million to R3,366 million. Compared to the December 2015, the NFA of the Central Bank and ODCs have increased by 0.7 per cent and 15 per cent, respectively.

1

Chart 05: Money Supply



At the end of the month under review, domestic assets stood at R7,578 million, which was a growth of 8.1 per cent relative to last month. The expansion was primarily driven by a 40 per cent (R520 million) rise in net claims on government. Claims on private sector also increased, and this was by R53 million (1.1 per cent). On the other hand, claims on public entities fell by R6.6 million (1.0 per cent).

Analysis of the components of the money supply showed month-on-growth of 1.9 per cent in the broadest monetary aggregate, M3,

to stand at R13,648 million. M2 rose by 4.5 per cent, attributed to a 2.1 per cent increase in quasi money and 6.5

¹ Reserve money is equivalent to currency issued and deposits held by other depository corporations at the Bank, including those denominated in foreign currencies. The reserve money targets are the projected daily averages of the quarter preceding the test date, surrounded by a symmetrical band of three per cent in both directions. The upper bound of the band serves as performance criterion or indicative target (ceiling).

per cent growth in M1. The expansion in quasi money (by R83 million) was due to an increase in fixed-term deposits by 1.6 per cent and savings deposits by 2.3 per cent. The growth (by R280 million) in M1 was driven a rise in both currency with public and transferable deposits, by 4.8 per cent and 7.0 per cent, respectively.

With reference to the preceding month, foreign currency deposits contracted by R117 million (2.3 per cent) to stand at R5,029 million. In US dollar terms, the stock of foreign currency deposits stood at US\$372 million which was a decline of US\$11 million compared to November 2016.

On a year-on-year basis, M3 grew by 12 per cent, following an expansion of 16 per cent in M2, influenced by a 19 per cent increase in quasi money and 13 per cent rise in M1. There was also growth of 6.3 per cent in foreign currency deposits. In US dollar terms, the stock of foreign currency deposits increased by 3.5 per cent compared to December 2015.

1.7 Credit

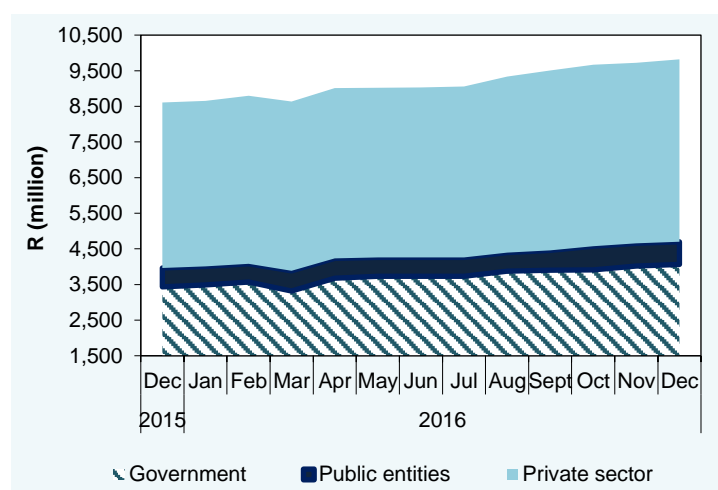
For the month under review, the aggregate stock of outstanding credit of ODCs grew by 1.0 per cent (R93 million) with reference to the previous month to stand at R9,843 million. This growth was largely driven by the R53 million increase in claims on private sector to R5,123 million and a growth of R46 million in gross claims on government to R4,089 million. Conversely, credit extended to public entities by R6.6 million to stand at R631 million.

The month-on-month rise of 1.1 per cent in loans to the private sector was mainly attributed to increases of R22 million and R31 million to the categories 'building and construction' and 'trade' respectively (both representing 7.0 per cent of total credit). The 'Individuals and households' category –

which accounted for 17 per cent of total credit to the private sector – grew by R30 million. Also contributing to the growth was the 'mortgage loans' category – which accounted for 9.0 per cent of total credit – where the expansion was by R9.4 million. In contrast, credit disbursed under 'tourism facilities' (representing 15 per cent of total credit to the private sector) fell by R6.0 million and that under 'real estate' (representing 10 per cent of total credit) contracted by R4.1 million.

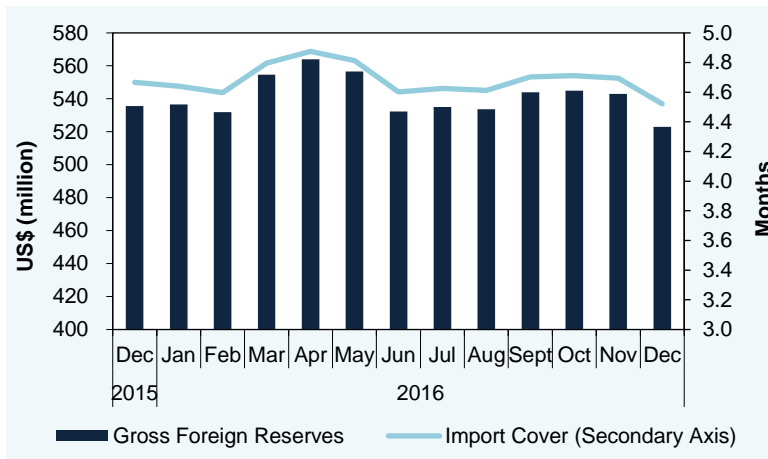
Compared to December 2015, the stock of total credit expanded by 14 per cent. Credit to public entities and to the government registered the highest growth rate of 18 per cent each. As for private sector credit, this rose by 10 per cent relative to the previous year and mainly represented loans to the categories "private households", "wholesale & retail trade", "building & construction" and "mortgages".

Chart 06: Credit



1.8 International Reserves (Provisional)

Chart 07: International Reserves



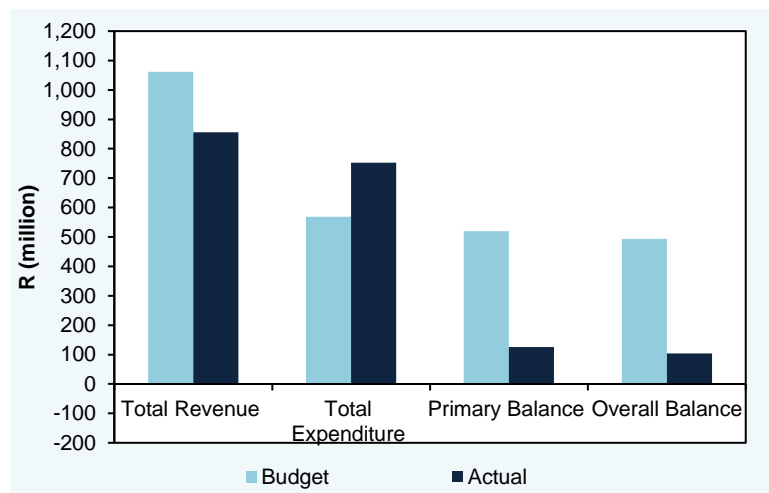
At the end of the month under review, gross official reserves amounted to US\$523 million which translated to 4.1² months of total imports of goods and services.

Net international reserves stood at US\$415 million which was US\$14 million higher than the target of US\$401 million.

1.9 Fiscal Outcome³

In December 2016, total revenue including grants stood at R856 million, falling short of the forecast by 19 per cent. Tax revenue amounted to R633 million, below expectations by R150 million. The main taxes that fell short of projections were 'Trade Tax' and 'Other Tax', by R4.0 million and R242 million, respectively. Revenue from 'Value-added tax' exceeded projections by R62 million. 'Non-tax' revenue summed up to R183 million, and was short of expectations by R57 million. This outcome was mainly due to 'Dividends Income' that were below forecast by R59 million. As such, total revenue (excluding grants) were less than the projected figure by R206 million.

Chart 08: Fiscal Outcome, December 2016



Actual expenditure and net lending stood at R753 million which was 32 per cent above the budgeted figure of R569 million. Current expenditure was R686 million and exceeded the planned amount by 34 per cent. Capital expenditure, which stood at R55 million was 20 per cent above the budgeted figure.

The primary balance – including grants – was a surplus of R165 million (equivalent to 0.8 per cent of GDP), but lower than the budgeted surplus of R559 million (2.9 per cent of the GDP).

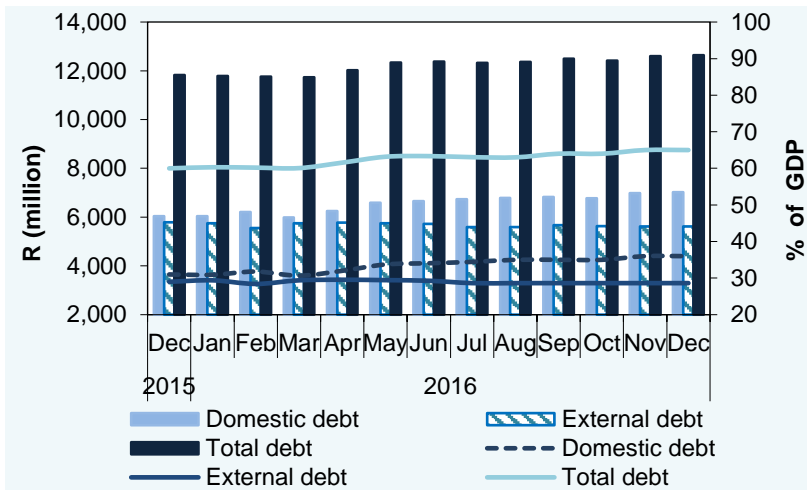
² Based on latest estimated level of imports which may differ from previous publications

³ Provisional fiscal outcome

1.9 Public Debt

The aggregated value of public debt ended December 2016 at R12,639 million (US\$936 million). This was R35 million higher than in the previous month, following growth in domestic debt. However, in US dollar terms, the total value of public debt fell by US\$2.9 million as a result of a contraction in external debt.

Chart 09: Public Debt



The total stock of external debt stood at R5,614.89 million (US\$416 million), a decrease of US\$2.7 million in US dollar terms. The fall in the stock of external debt was mainly caused by a reduction of R16 million in outstanding loans.

As regard to domestic debt, this grew by R38 million relative to November 2016 to stand at R7,024 million. The growth in domestic debt was solely due to an increase of R39 million in the stock of government securities given that the total value of outstanding domestic loans fell by R1.1 million.

A year-on-year comparison of total outstanding public debt showed a rise of R881 million (7.5 per cent) in rupee terms but an increase of US\$42 million (4.1 per cent) in US dollar terms. Compared to 2015, the stock of public debt expanded from 61 to 65 per cent of GDP.

2.0 Money Market Developments

2.1 Open Market Operations

In December 2016, the Central Bank withdrew a total R 2,043 million as liquidity from the system. These were through the Deposit Auction Arrangement (DAA) and in maturities of 2, 3, 4, 5, 6, 7, 14, 21, 28, 35 and 42 days.

2.2 Money Market Interest Rates (DAA)

In terms of the interest rates at which liquidity was withdrawn during December 2016, this is illustrated in Table 1.1 below.

Table 1.1: Weekly Summary of DAA Interest Rates⁴

Week Ending	Two (2) Days	Three (3) Days	Four (4) Days	Five (5) Days	Six (6) Days	Seven (7) Days	Fourteen (14) Days	Twenty One (21) Days	Twenty Eight (28) Days	Thirty Five (35) Days	Forty Two (42) Days
02-Dec-16	-	3.4%	4.0%	-	4.4%	4.7%	4.9%	5.1%	-	-	-
09-Dec-16	3.3%	3.5%	-	4.3%	4.4%	4.5%	4.9%	5.1%	5.3%	-	-
16-Dec-16	3.3%	3.5%	4.0%	4.3%	4.4%	4.5%	4.9%	5.1%	-	5.5%	5.7%
23-Dec-16	3.4%	3.6%	4.0%	4.3%	4.5%	5.7%	4.9%	5.1%	-	5.6%	5.8%
30-Dec-16	-	-	-	-	-	4.7%	4.9%	5.1%	-	5.6%	5.8%

⁴ Latest applicable rates

3.0 Banking Developments

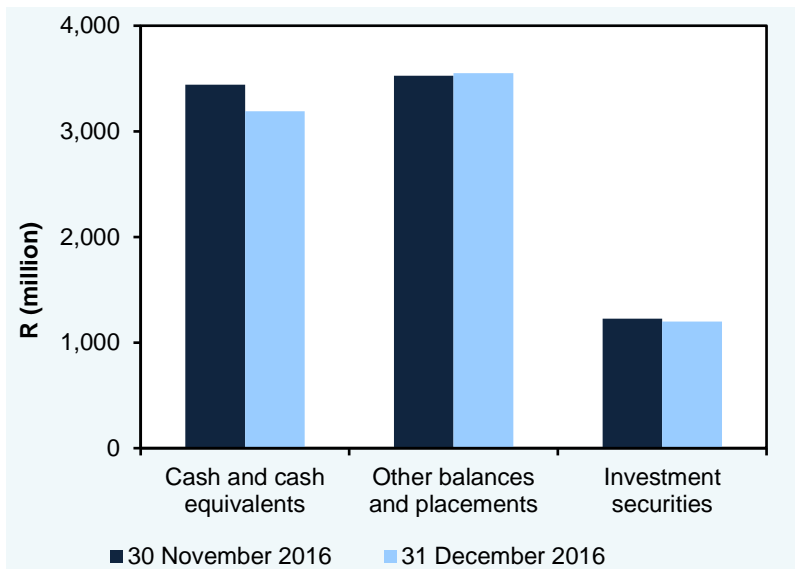
3.1 Central Bank Statement of Financial Position

As at December's month end, the Bank's total assets stood at R8,455 million, total liabilities amounted to R7,794 million whilst total equity stood at R661 million. When compared to the November month end position, these were decreases of 3.1 per cent in assets and 3.6 per cent in liabilities and increase of 3.7 per cent in equity.

3.1.1 Movements in Assets

As at the end of the month under review, the Bank's total assets fell by R271 million compared to the previous month-end balance of R8,726 million.

Chart 10: Movements in Assets



This was mainly attributed to decreases of R250 million and R27 million under 'cash and cash equivalents' and 'investment securities' respectively, coupled with a growth of R23 million under 'other balances and placements'.

The movement in 'cash and cash equivalents' was mainly due to net settlement of debt commitments and other payments effected during the month whereas the decrease in 'investment securities' was due to numerous maturity of marketable securities that were rolled

over at lower interest rates.

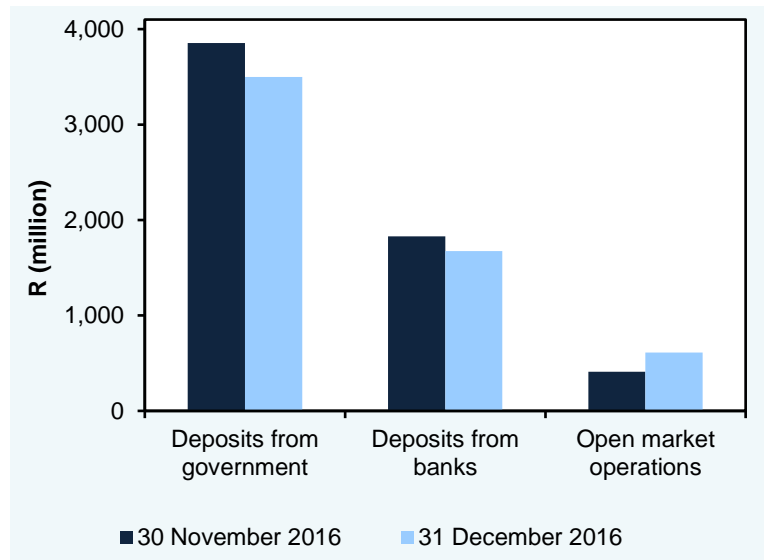
The increase in 'other balances and placements' was mainly due to a depreciated domestic currency coupled with investments rolled over as well as interest earned in December 2016.

3.1.2 Movements in Liabilities

Total liabilities fell by R295 million from the November 2016 closing position to that of December 2016. This was principally attributed to a decrease of R356 million and R157 million in 'deposits from government' and 'deposits from banks' respectively, which was partially offset by an increase of R199 million in 'open market operations'.

The decrease in 'deposits from government' was as a result of a recorded net spending by the government in December 2016 which was principally due to debt settlement. As for the decrease in 'deposits from banks', this was mainly attributed to a net investment in DAAs, consistent with the increase in the period's balance under 'open market operations'.

Chart 11: Movements in Liabilities

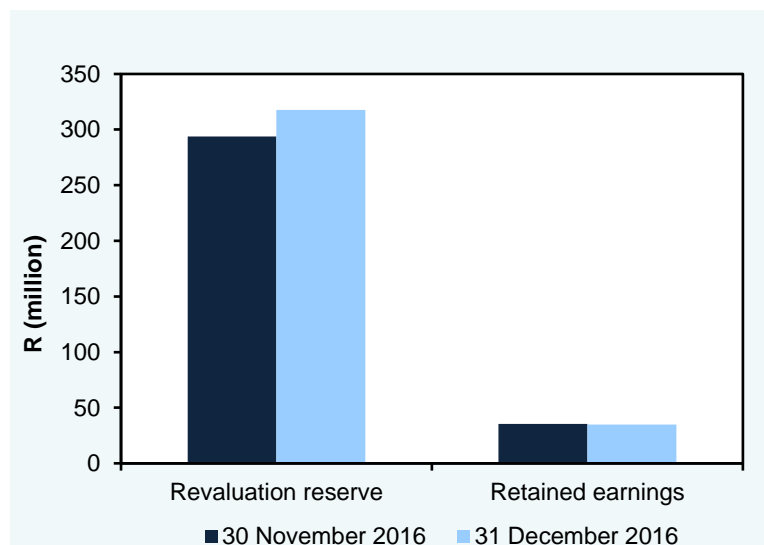


3.1.3 Equity

Total equity for the month under review stood at R661 million, at R23 million higher than in the previous month's end. This was an overall month-on-month growth of 3.7 per cent which was mostly attributed to movement in 'revaluation reserve'. This equity head rose by R8.1 million between the November month-end position and that of December due to movements in exchange rates.

Retained earnings stood at R35 million as at the end of the month under review.

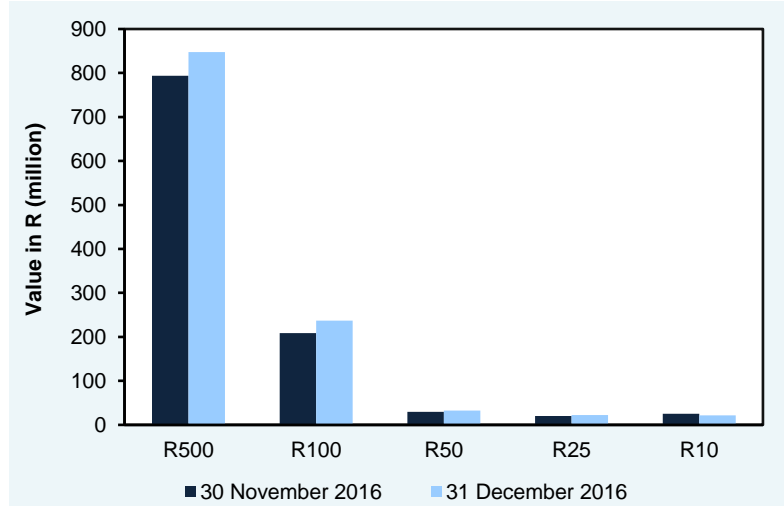
Chart 12: Movements in Equity



3.2 Currency in circulation

The total value of currency in circulation stood at R1, 220 million at the end of December 2016, or at 8.4 per cent higher than the figure for November 2016. This change was mainly influenced by an overall upward movement of 8.4 per cent in banknotes balances, with the highest percentage increase recorded in the R100 denomination, at 14.0 per cent.

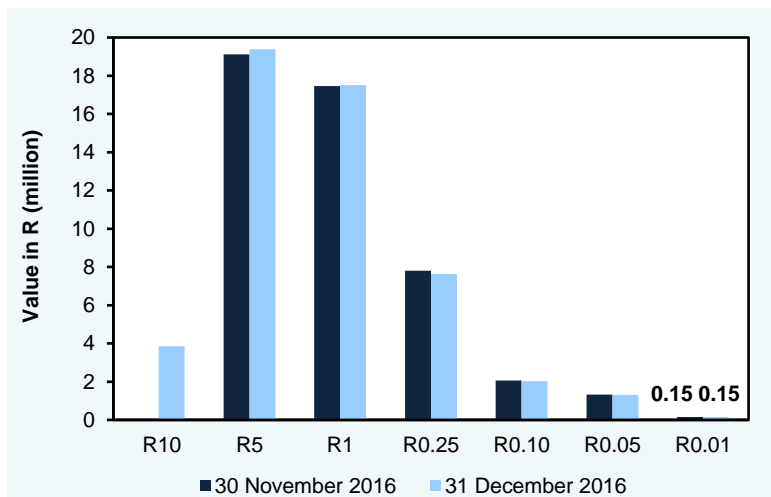
Chart 13: Value of Banknotes in Circulation per Denomination



Coin denominations maintained its usual positive trend. Its total value in circulation rose by 8.5 per cent from the previous month. The highest percentage increase was 1.5 per cent recorded in the R 5 denomination.

In terms of share of total value of currency in circulation, the R500 banknote remained the denomination with the highest at 70 per cent whilst the 1 cent coin continued to represent the lowest share at 0.01 per cent. However, in terms of volume, measured in number of pieces in circulation, the 25 cent coin remains the denomination with the highest share at 25 per cent whilst the newly issued R10 coin had the lowest share at only 0.3 per cent of total volume in circulation.

Chart 14: Value of Coins in Circulation per Denomination

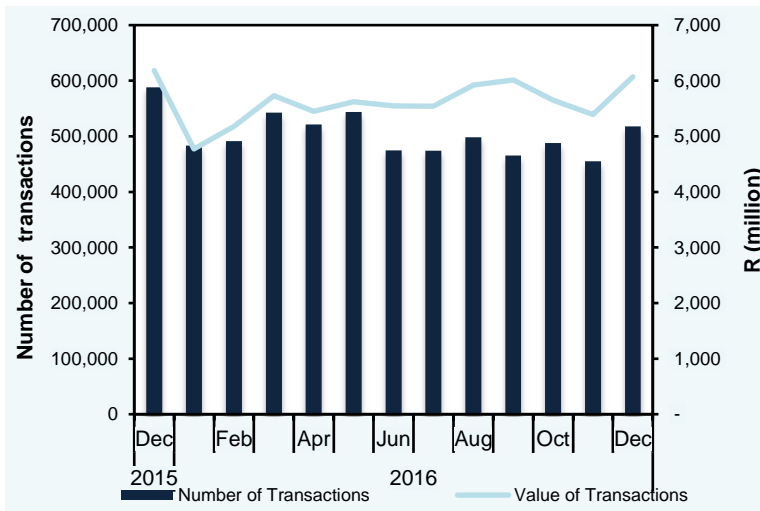


4.0 Payment Systems

4.1 Total payment activities for the month⁵.

In December 2016, the total number of payment activities countrywide stood at 517,886, an increase of 14 per cent compared to November 2016. However, when compared to December 2015, a 12 per cent decrease can be observed.

Chart 15: Total payment activities



The total value of payment activities rose by 13 per cent; moving from R5,394 million in November 2016 to R6,071 million in December 2016.

In summary, there has been a general increase observed in total payment activities in December 2016. This has been mainly driven by payments sent through the Central Bank of Seychelles Immediate Transfer Service (CBSITS) for which further details are provided below.

A breakdown of transactions conducted during the month under review for each payment stream is highlighted below:

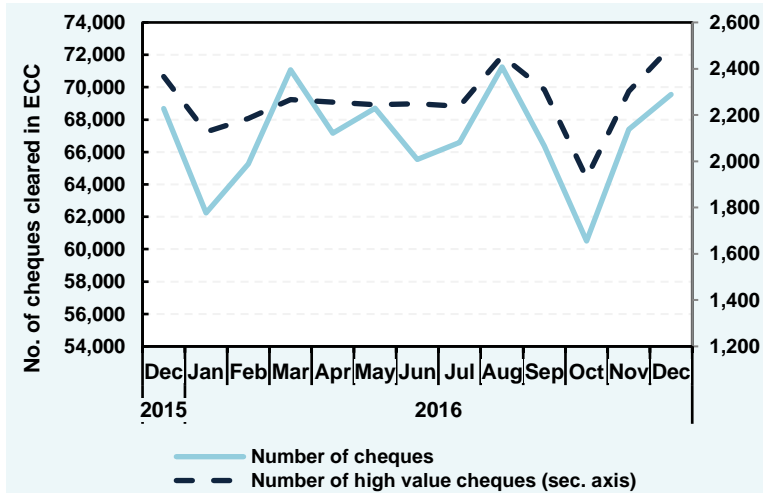
⁵ Includes SWIFT, SEFT, Cheques, ATM and POS transactions, excludes cash transactions

4.2 Cheques Transactions

4.2.1 Electronic Cheque Clearing

The total number of cheques presented⁶ in the clearing system during December 2016 amounted to 69,560 representing a daily average⁷ of 3,478 cheques. This was an increase of 3.2 per cent compared to the statistics of November 2016.

Chart 16: Total number of cheques presented in the cheque clearing system

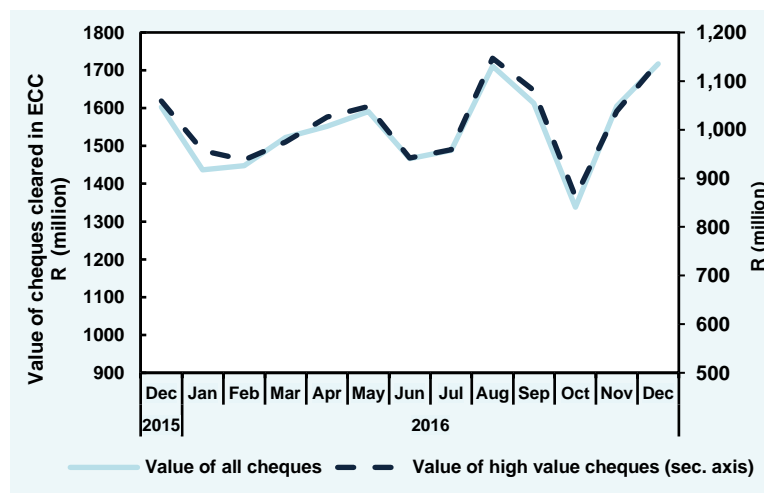


With regards to high value cheques (R100,000 and above), a total of 2,496 were processed in the clearing system in December 2016. This was a growth of 8.4 per cent compared to the previous month. Compared to the same period in 2015, an increase of 5.5 per cent could be observed.

In December 2016, the total value of cheques presented in the cheque clearing system was R1,717 million, representing a daily average of R86 million. This was 7.0 per cent higher than in November 2016.

In addition, the total value of high value cheques amounted to R1,139 million in December 2016 at 10 per cent more than in the previous month.

Chart 17: Total value of cheques presented in the cheque clearing system



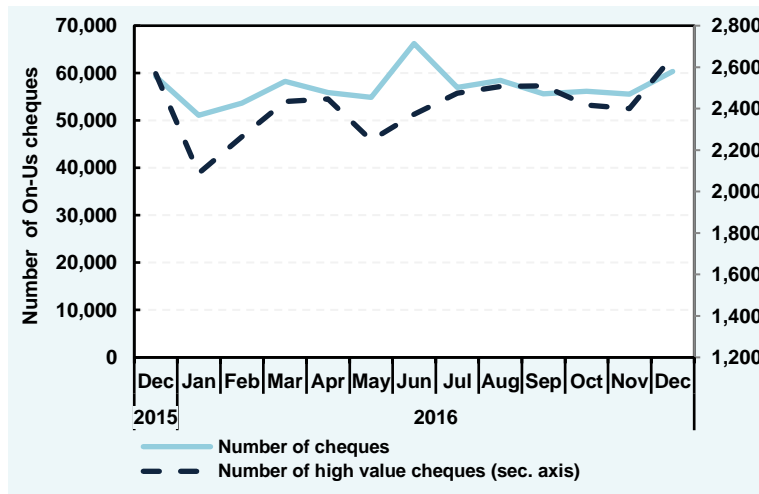
⁶ Inclusive of 4 non-standard cheques

⁷ Covering 20 working days.

4. 2.2 On–Us Cheques⁸

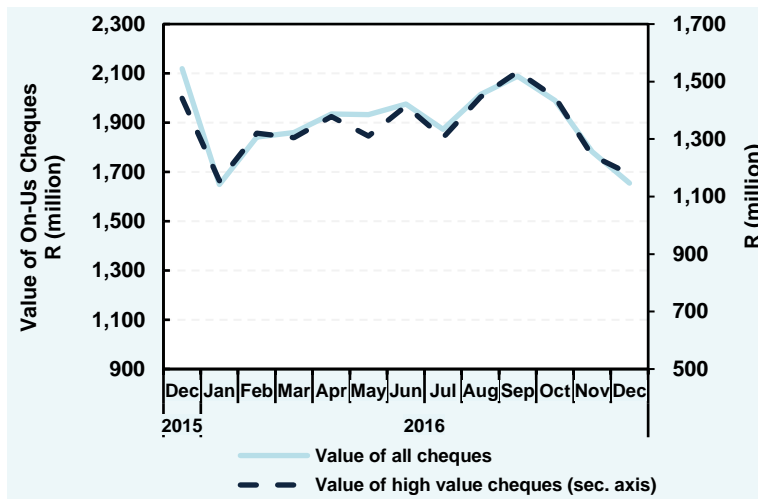
The total number of On-Us cheques cleared by participants during the month under review amounted to 60,340 or an increase of 8.7 per cent compared to the previous month. Out of these cheques, 2,652 were of high-value.

Chart 18: Total number of On-Us cheques presented



In terms of value, a total of R1,655 million was recorded for On-Us cheques in December 2016, representing a daily average of R133 million. This was a decrease of 7.1 per cent compared to November 2016. Furthermore, the total value of high value on-us cheques amounted to R1,179 million in the month under review or a fall of 5.1 per cent compared to the previous month.

Chart 19: Total value of On-Us cheques presented



⁸ On-Us Cheques are cheques drawn on one customer to another customer of the same bank.

4.3 SWIFT

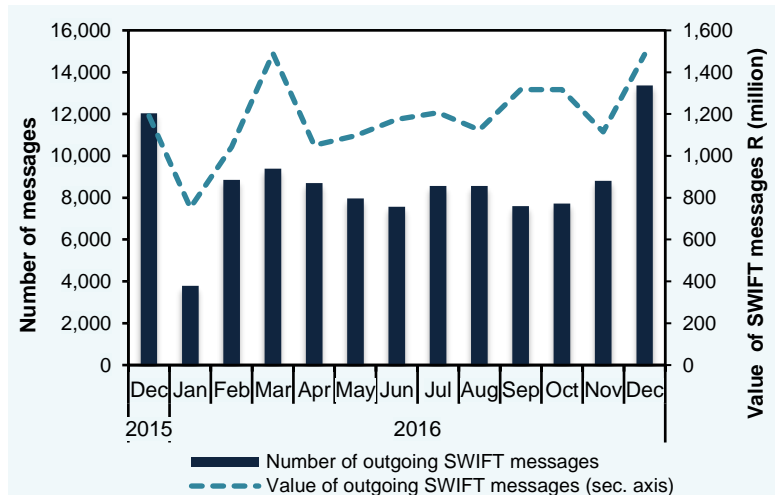
In December 2016, the volume of outgoing SWIFT messages through the Central Bank of Seychelles Immediate Transfer Service rose by 52 per cent; from 8,809 messages in November 2016 to 13,369 messages in the month under review.

Chart 20: Total number and value of Swift messages sent from CBS to participants

The corresponding increase in the total value of these messages was by 33 per cent, from R1,115 million in November 2016 to R1,485 million in December 2016.

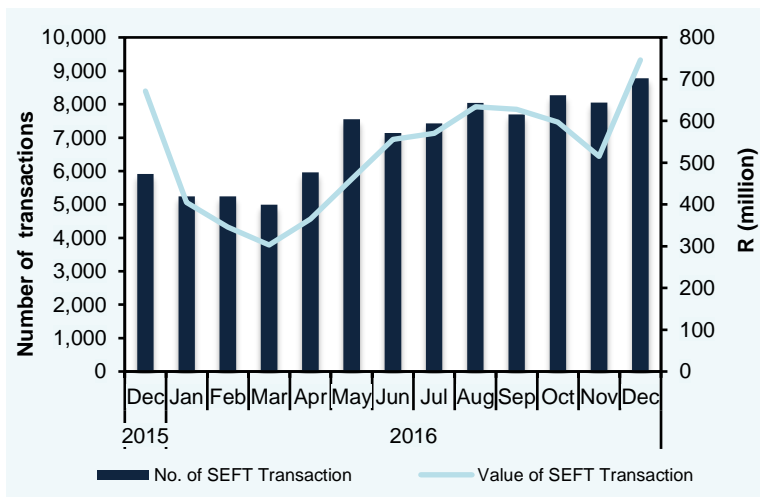
When compared to December 2015, an 11 per cent growth in volume and 25 per cent increase in value was observed.

This expansion in volume and value was mostly due to the fact that SWIFT was mainly being used for high value transactions, especially during the festive seasons in December and close of government budget at year end.



4.4 Seychelles Electronic Funds Transfer (SEFT)

Chart 21: Total number and value of SEFT transactions processed



The total number of SEFT transactions processed during December 2016 amounted to 8,778, which was an increase of 9.0 per cent compared to November 2016.

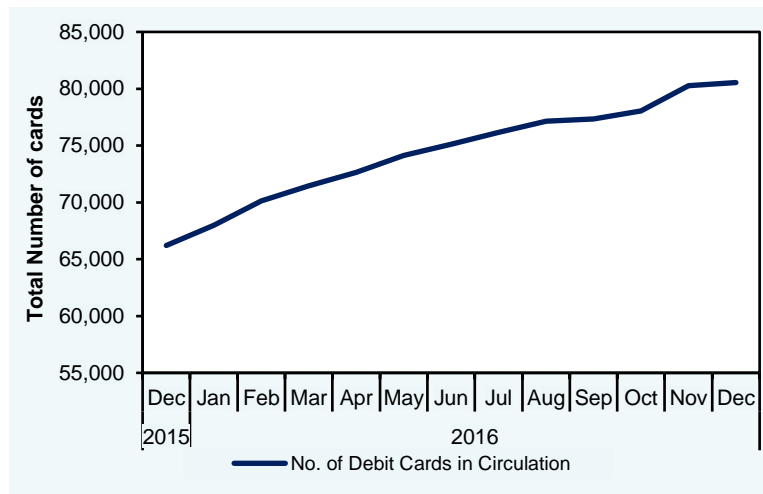
In terms of value of these transactions, an increase of 45 per cent was recorded, moving from R515 million in November 2016 to R746 million in December 2016.

Moreover, compared to the same period in 2015, an increase of 48 per cent in volume and 11 per cent in value could be observed. Similar to previous observations, this depicted further adoption of more electronic means of payment in the country compared to the year 2015.

4.4 Debit cards in circulation

At the end of December 2016, the total number of debit cards in circulation stood at 80,544. This was a slight increase of 0.3 per cent in comparison to the previous month.

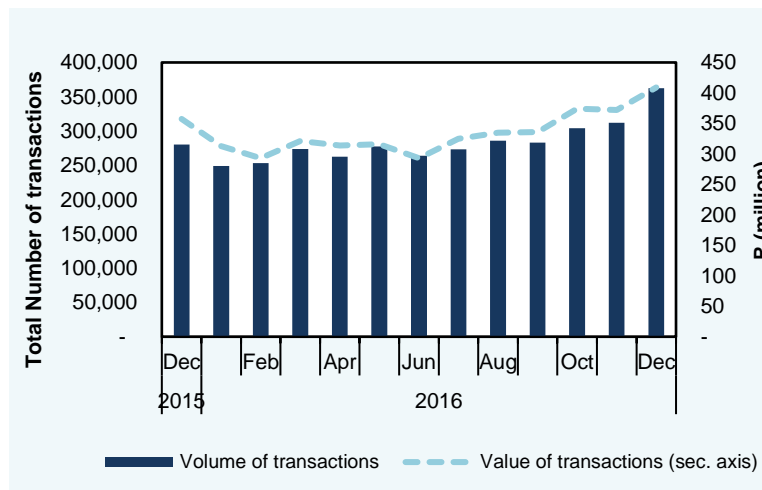
Chart 22: Total number of debit cards in circulation



With regards to the volume and value of debit card transactions, a total volume of 362,329 transactions were recorded which were 16 per cent more than in the previous month.

In terms of value of debit card transactions, the total was R409 million, representing a daily average of R20 million. This outcome was a growth of 10 per cent compared to the preceding month.

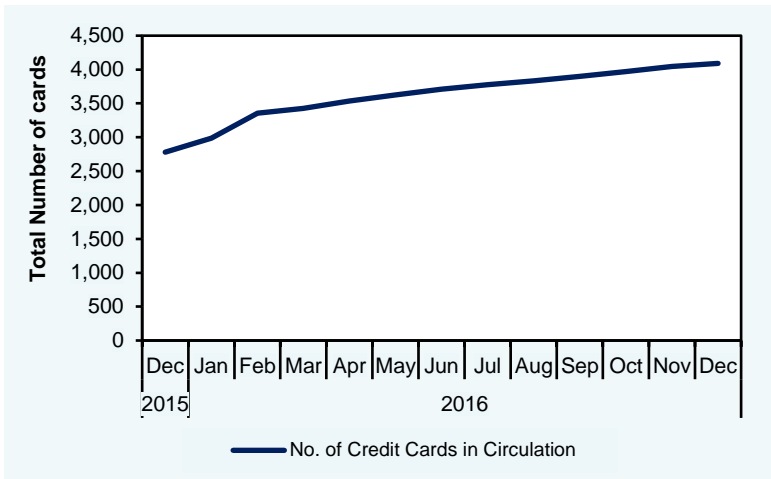
Chart 23: Total volume and value of debit card transactions⁹



⁹ Inclusive of only SCR transactions at local ATM and POS using locally issued cards.

4.5 Credit cards in circulation

Chart 24: Total number of credit cards in circulation

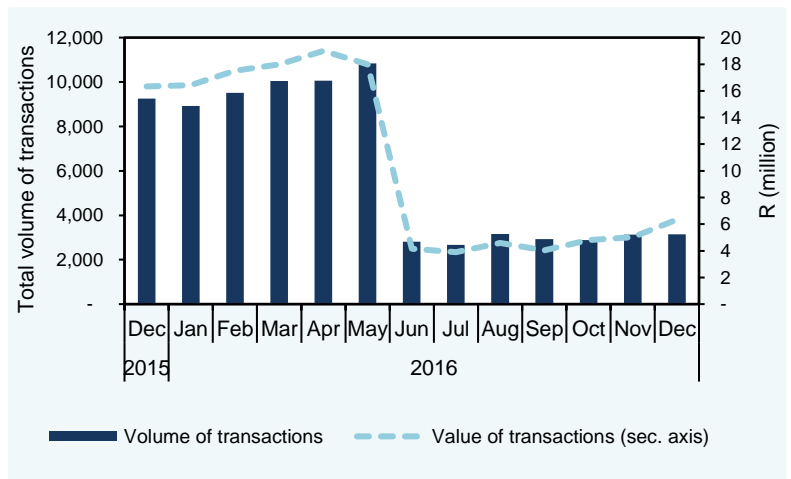


As at the end of December 2016, there was a total of 4,091 credit cards in circulation, an increase of 1.2 per cent compared to November 2016.

Chart 25: Total volume and value of credit card transactions ¹⁰

In terms of volume and value of credit card transactions, December 2016 recorded a total of 3,150 transactions for an aggregate value of R6.0 million.

The total volume of these transactions rose by 0.7 per cent whilst the total value increased by 26 per cent.



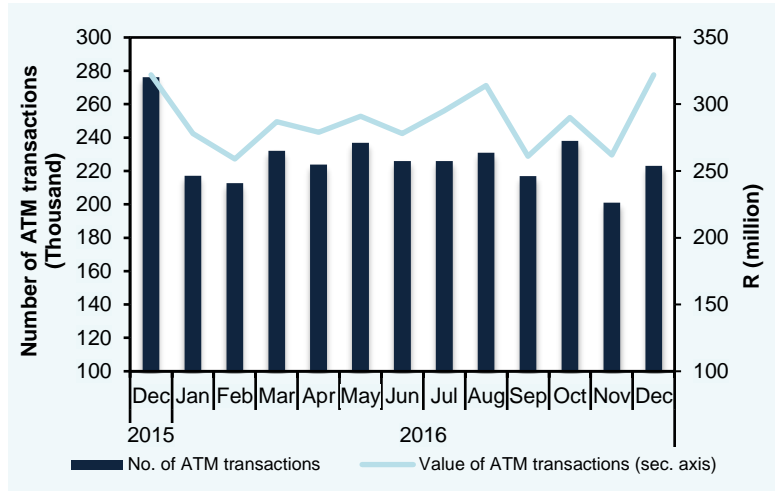
¹⁰ Inclusive of only SR transactions at local ATM and POS using locally issued cards.

4.6 Automated Teller Machines (ATMs)

As at the end of December 2016, the total number of ATMs in the country increased from 52 to 53 following installation of one new machine by a participant at Club Liberte, Baie Lazare.

In terms of the number of ATM transactions, December 2016 recorded a total of 223,473 which was an increase of 11 per cent compared to November 2016. In addition, the total value of ATM transactions amounted to R322 million, an increase of 23 per cent from the previous month.

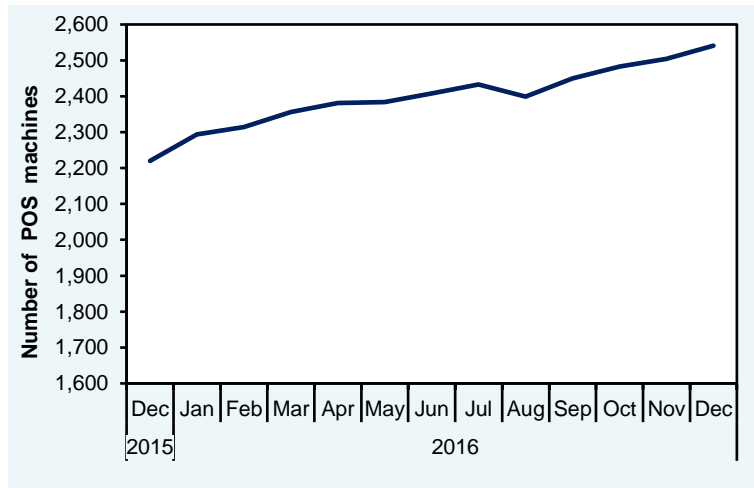
Chart 26: Total number and value of ATM transactions



4.7 Point of Sales (POS)

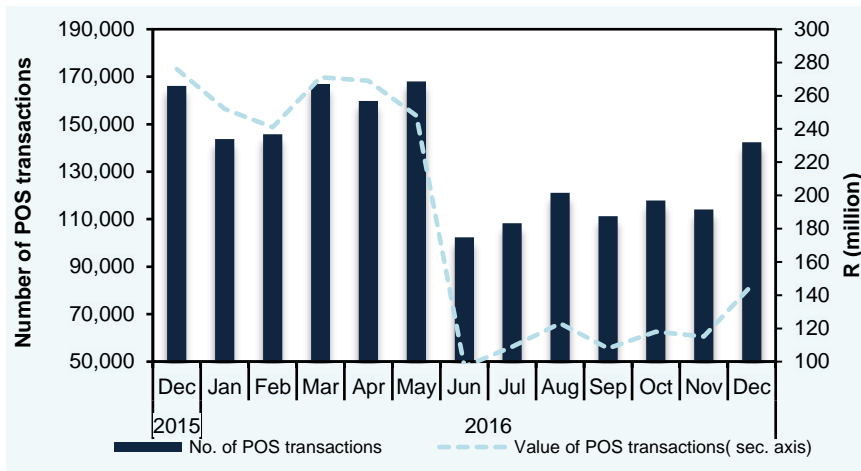
The total number of POS terminals stood at 2,541 as at the end of December 2016 compared to 2,504 in November 2016, an increase of 1.5 per cent compared to the previous month.

Chart 27: Total number of POS



The number of POS transactions rose by 25 per cent during the month under review. Moreover, an increase of 27 per cent was also recorded in terms of value of these transactions, moving from R115 million to R146 million.

Chart 28: Total number and value of POS Transactions



5.0 Key Financial Sector Developments¹¹

5.1 General Financial Soundness Indicators

Chart 29: General Financial Soundness Indicators

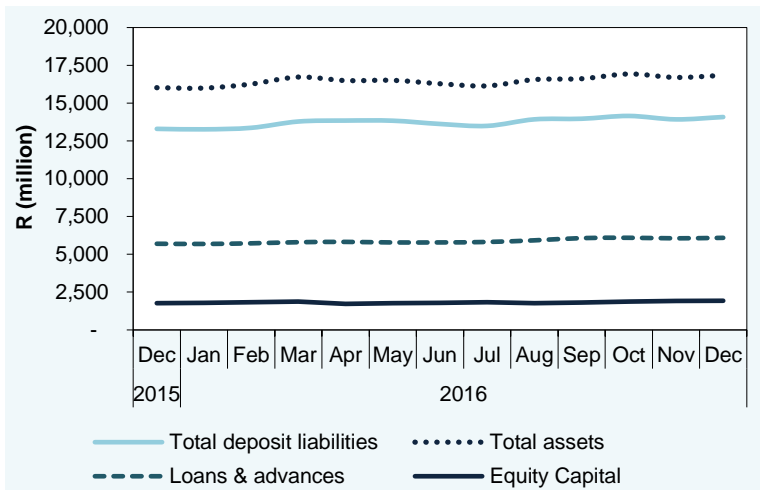


Chart 29 illustrates the trend in the banking industry's general financial soundness indicators for the period December 2015 to December 2016.

The industry's total assets increased by R137 million in December 2016 or by 0.8 per cent from the previous month. Such outcome was mainly driven by a growth of R78 million (2.3 per cent) in local investments. Other components which added to the overall increase in the

industry's total assets included cash, Balances with CBS and loans & advances, which collectively grew by R125 million. The rise in total assets was mitigated by declines in the amount due from financial institutions in Seychelles by R30 million, 'other assets'¹² by R22 million and external assets by R19 million. At the end of December 2016, the banking industry's total assets stood at R16,838 million.

Total deposit liabilities also observed a rise during the review period and this was by R156 million to settle at R14,082 million. Increases were noted in checkable and savings deposits by R99 million and R72 million, respectively. However, other deposits and time deposits declined by R12 million and R3.2 million, respectively, driving down the growth in the industry's deposit liabilities.

Loans & advances grew by R31 million to settle at R6,092 million at the end of December 2016. With the exception of those denominated in foreign currency which decreased by R66 million, there was an increase in all of the other loan categories. To note, the drop in loans & advances denominated in foreign currency was primarily driven by one particular bank.

The industry's equity capital increased by R6.5 million to settle at R1,930 million in December 2016. Such growth was mainly attributed to a net profit after tax of R12 million for the period under review. However, this increase was reduced by the amount of dividend payment effected by one bank.

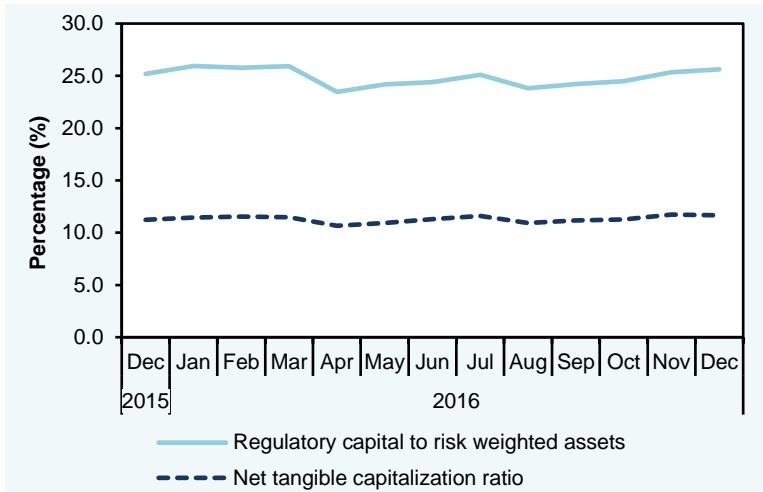
On a year-on-year basis, the industry observed increases in its total assets (5.2 per cent), total deposit liabilities (5.9 per cent), equity capital (9.7 per cent) and loans and advances (6.9 per cent).

¹¹ The Statistics in Section 5 are compiled for prudential purposes and therefore follow different conventions to that in Section 1.

¹²This item consist of all other components of assets that are not captured.

5.2 Capital Adequacy Indicators

Chart 30: Capital Adequacy Indicators



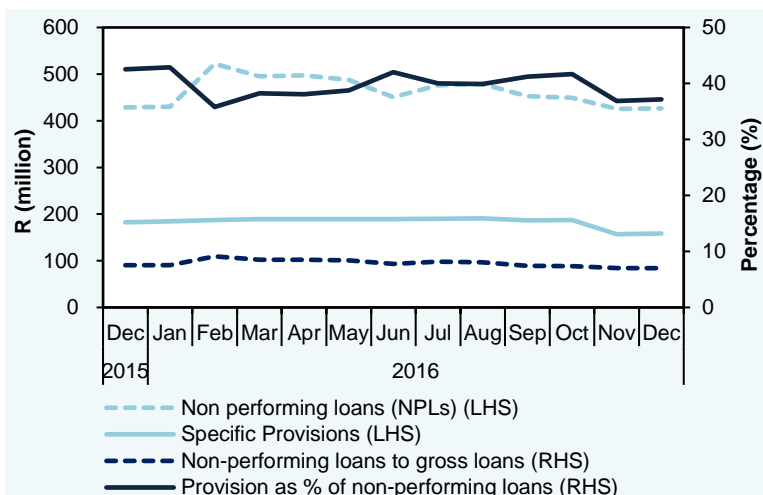
The Financial Institutions (Capital Adequacy) Regulations, 2010 as amended, stipulates a minimum Capital Adequacy Ratio (CAR) of 12 per cent. As illustrated in Chart 30, the industry remained well above the minimum requirement in December 2016.

The banking sector’s CAR rose by 0.3 percentage points to stand at 26 per cent by the end of the review period. The increase in the ratio was brought about by a fall in the industry’s risk weighted assets.

A minor decrease was observed in the industry’s net tangible capitalisation ratio in the month under review. The item dropped by 0.1 percentage points from November 2016 to December 2016, driven by an increase in the industry’s asset base. At the end of December 2016, this ratio stood at 12 per cent which was well above the recommended level of 6.0 per cent. Both ratios shows that the industry was adequately capitalised in case of unexpected future losses.

5.3 Asset Quality Indicators

Chart 31: Asset Quality Indicators



A slight augmentation was observed in the industry’s non-performing loans¹³ (NPLs) and specific provisions¹⁴ in the month under review.

NPLs rose by R1.2 million and this was noted in the doubtful and loss loans category. On the other hand, a fall of R0.9 million was recorded in the substandard loan.

¹³Comprise of credits classified in the substandard, doubtful and loss category in accordance with the Financial Institutions (Credit Classification and Provisioning) Regulations 2010, as amended in 2011.

¹⁴Specific provisions are provisions made on special mention loans and NPLs.

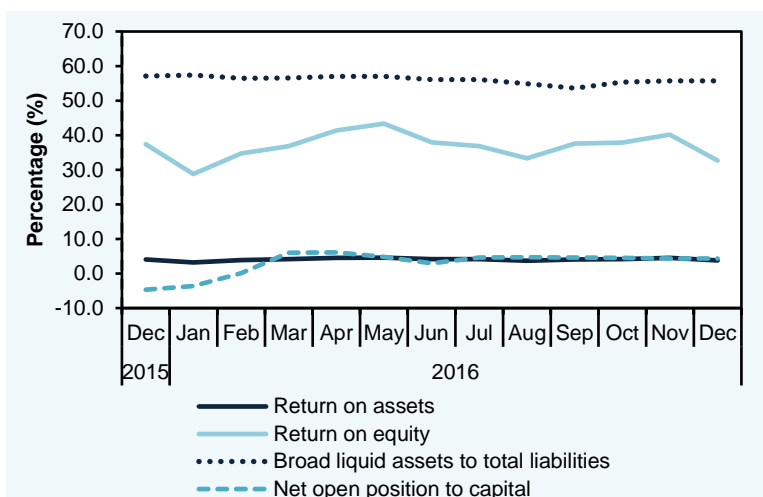
Specific provisions grew by R1.5 million from November 2016 to December 2016. Whilst growth were recorded in provisions on loans classified in the substandard and loss category, declines were noted in provisions on loans classified in special mention and doubtful category. Consequently, the movement in the latter mitigated the growth in the item. At the end of the review period, the industry's specific provisions stood at R158 million.

The industry's ratio of NPLs to gross loans dropped marginally to remain at 7.0 per cent in the month under review. The movement in the ratio was driven by the growth in the industry's total loans & advances from November 2016 to December 2016. As regards to the provisions as a percentage of NPLs, an increase of 0.2 percentage points was observed in the ratio in December 2016, to settle at 37 per cent. The growth in the ratio was attributed to the period's rise in the industry's provisions

5.4 Earnings and Other Indicators

The industry's Return on Assets and Return on Equity decreased in the month under review, causing the ratios to settle at 3.8 per cent and 33 per cent respectively. The movements in both ratios were brought about by a fall in

Chart 32: Earnings and Other Indicators



net income. This was in turn driven by a decrease of R9.8 million in the industry's interest income, following lower income earned on loans & advances and deposits/placements in financial institutions. Moreover, a decline of R4.6 million was also noted in fees, commission and charges, causing the industry's net income to decrease further.

Similar to the previous month, broad liquid assets¹⁵ to total liabilities stood at 56 per cent in December 2016. Although an

increase was noted in the industry's liquid assets, this was offset by an increase in total liabilities, causing the ratio to remain unchanged. The ratio shows that the industry's broad liquid assets could match 56 per cent of its total liabilities¹⁶ as at the end of December 2016.

The ratio of the industry's net open position to capital remained constant at 4.4 per cent in the month under review. At the end of December 2016, the ratio of total long position and total short position to capital settled at 6.5 per cent and -2.1 per cent respectively, which was well within the 30 per cent limit as prescribed by the Financial Institutions (Foreign Currency Exposure) Regulations, 2009 as amended.

¹⁵ Consist of cash, balances with CBS, balances with other banks and Government securities.

¹⁶ This is in line with the Financial Institutions (Liquidity Risk Management) Regulations, 2009 which stipulates that a bank shall maintain liquid assets in an amount which shall not, as a daily average each month, be less than 20 per cent of the bank's total liabilities.

Summary of Financial Indicators (Ratios)

Figures are in SCR'000	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Total deposits liabilities	13,299,486	13,267,793	13,369,767	13,785,377	13,846,579	13,838,787	13,623,168	13,495,261	13,928,290	13,968,344	14,153,665	13,925,952	14,082,237
Total assets	16,023,236	15,995,365	16,263,110	16,726,917	16,493,535	16,510,495	16,283,881	16,142,039	16,559,444	16,615,940	16,929,389	16,701,428	16,838,244
Loans & advances	5,699,971	5,687,655	5,728,038	5,802,709	5,823,505	5,786,205	5,789,122	5,817,607	5,926,062	6,073,454	6,095,169	6,060,539	6,091,627
Equity Capital	1,765,804	1,795,521	1,837,570	1,884,050	1,722,968	1,769,409	1,801,067	1,835,059	1,774,118	1,820,331	1,868,056	1,923,291	1,929,801
Non-performing loans (NPLs), gross	428,968	430,183	522,160	495,556	497,410	487,727	450,526	475,892	478,798	452,412	449,428	425,490	426,729
Actual Provisions (Specific)	182,776	184,476	186,940	189,435	189,347	188,997	189,405	190,298	190,914	186,510	187,263	156,976	158,480

Figures are in percentage (%)	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Capital Adequacy													
Regulatory capital to risk weighted assets	25	26	26	26	23	24	24	25	24	24	24	25	26
Net tangible capitalization ratio	11	11	12	11	11	11	11	12	11	11	11	12	12
Asset Quality													
Non-performing loans to gross loans	7.5	7.6	9.1	8.5	8.5	8.4	7.8	8.2	8.1	7.4	7.4	7.0	7.0
Provision as % of non-performing loans	43	43	36	38	38	39	42	40	40	41	42	37	37
Earnings & Profitability													
Return on assets	4.0	3.2	3.9	4.2	4.5	4.6	4.1	4.1	3.7	4.1	4.2	4.5	3.8
Return on equity	37	29	35	37	41	43	38	37	33	38	38	40	33
Liquidity													
Broad liquid assets to total liabilities	57	57	56	57	57	57	56	56	55	54	55	56	56
Sensitivity to Market Risk													
Total long position in foreign exchange to capital	2.6	1.8	3.0	8.7	8.2	7.1	5.9	6.8	7.1	6.9	6.7	6.5	6.5
Total short position in foreign exchange to capital	-7.3	-5.4	-3.0	-2.6	-2.1	-2.3	-3.0	-2.2	-2.3	-2.3	-2.2	-2.1	-2.1
Net open position to capital	-4.7	-3.6	0.0	6.0	6.1	4.8	3.0	4.6	4.7	4.6	4.5	4.4	4.4