

Central Bank of Seychelles



Annual Report 2015

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Letter of Transmittal

Central Bank of Seychelles
P.O. Box 701
Victoria

March 29, 2016

President J. A. Michel
State House
Victoria

Dear Mr President,

I have the honour to submit the Twelfth Annual Report of the Central Bank in accordance with Section 47 (4) of the Central Bank of Seychelles Act, 2004 as amended, together with a copy of the Financial Statements for the year ended December 31, 2015 certified by the Auditors.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'C. Abel', written over a faint circular stamp or watermark.

C. Abel (Ms)
Governor

CENTRAL BANK OF SEYCHELLES

Board of Directors

(as at December 31, 2015)

Caroline Abel	-	Governor and Chairman
Christophe Edmond	-	First Deputy Governor - Member
Jenifer Sullivan	-	Second Deputy Governor - Member
Errol Dias	-	Director
Wilfred Jackson	-	Director
Ronny Govinden	-	Director
Bertrand Rassool	-	Director
Wendy Pierre	-	Director

Secretary to the Board

Maryse Tambara

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Technical Note

Owing to rounding of figures, the sum of separate items may not always add up to the total shown.

Abbreviations used in this Report are:

<i>R</i>	=	<i>Seychelles Rupee</i>
<i>n.a</i>	=	<i>Figure not available</i>
<i>..</i>	=	<i>Negligible</i>
<i>-/0</i>	=	<i>Nil</i>

Acronyms

AfDB	-	African Development Bank
ADFD	-	Abu Dhabi Fund for Development
AFI	-	Alliance for Financial Inclusion
AG	-	Auditor General
AML	-	Anti-Money Laundering
ARC	-	Audit and Risk Committee
AWF	-	African Water Facility
BADEA	-	Arab Bank for Economic Development in Africa
BDC	-	Bureaux de Change
BMIO	-	Bank Muscat International Offshore
BOP	-	Balance of Payments
CAIM	-	Crown Agents Investment Management
BSD	-	Banking Services Division
CAA	-	Credit Auction Arrangement
CBS	-	Central Bank of Seychelles
CBSITS	-	Central Bank of Seychelles Immediate Transfer Service
CFT	-	Counter Financing of Terrorism
CIS	-	Credit Information System
COMESA	-	Common Market for Eastern and Southern Africa
CORE	-	Centralised Online Real-time Exchange
CPI	-	Consumer Price Index
CPSS-WB	-	Committee on Payment and Settlement Systems World Bank
CSD	-	Central Securities Depository
CSL	-	Company Special License
CSPs	-	Corporate Service Providers
CSR	-	Corporate Social Responsibility Tax
DAA	-	Deposit Auction Arrangement
DBS	-	Development Bank of Seychelles
DTAA	-	Double Taxation Avoidance Agreements
EAC	-	East African Community
ECC	-	Electronic Cheque Clearing
EEZ	-	Exclusive Economic Zone
EFF	-	Extended Fund Facility
ELF	-	Emergency Lending Facility
ESAAMLG	-	Eastern and South Africa Money Laundering Group
EU	-	European Union
EUR	-	Euro
EY	-	Ernst and Young Advisory Services Pty Limited
FAO	-	Food and Agriculture Organisation
FATF	-	Financial Action Task Force
FDI	-	Foreign Direct Investment
FEA	-	Foreign Exchange Auction
FIA	-	Financial Institutions Act
FIU	-	Financial Intelligence Unit
FLA	-	Financial Leasing Act
FL	-	Financial Leasing
FLIs	-	Financial Leasing Institutions
FMD	-	Financial Markets Division
FOB	-	Free On Board
FPA	-	Fisheries Partnership Agreement
FSA	-	Financial Services Authority

<i>FSDIP</i>	- <i>Financial Sector Development Implementation Plan</i>
<i>FSSD</i>	- <i>Financial Services Supervision Division</i>
<i>FSU</i>	- <i>Financial Stability Unit</i>
<i>FTA</i>	- <i>Free Trade Area</i>
<i>GBP</i>	- <i>Pound Sterling</i>
<i>GDP</i>	- <i>Gross Domestic Product</i>
<i>GFR</i>	- <i>Gross Foreign Reserves</i>
<i>GST</i>	- <i>Goods and Services Tax</i>
<i>HFC</i>	- <i>Housing Finance Company</i>
<i>HRC</i>	- <i>Human Resource Committee</i>
<i>HRD</i>	- <i>Human Resources Division</i>
<i>IAD</i>	- <i>Internal Audit Division</i>
<i>IAS</i>	- <i>Insurers Association of Seychelles</i>
<i>IBAN</i>	- <i>International Bank Account Number</i>
<i>IBRD</i>	- <i>International Bank for Reconstruction and Development</i>
<i>IC</i>	- <i>Investment Committee</i>
<i>ICF</i>	- <i>Investment Climate Facility</i>
<i>IEPA</i>	- <i>Interim Economic Partnership Agreement</i>
<i>IFAD</i>	- <i>International Fund for Agriculture Development</i>
<i>IFC</i>	- <i>International Finance Corporation</i>
<i>IFRS</i>	- <i>International Financial Reporting Standards</i>
<i>IIA</i>	- <i>Institute of Internal Auditors</i>
<i>IIP</i>	- <i>International Investment Position</i>
<i>IMF</i>	- <i>International Monetary Fund</i>
<i>IPSDCP</i>	- <i>Inclusive Private Sector Development and Competitiveness Programme</i>
<i>IPTV</i>	- <i>Internet Protocol Television</i>
<i>KPI</i>	- <i>Key Performance Indicators</i>
<i>KYC</i>	- <i>Know Your Customer</i>
<i>LAN</i>	- <i>Local Area Network</i>
<i>MDM</i>	- <i>Münze</i>
<i>MOC</i>	- <i>Monetary Operations Committee</i>
<i>MOFTBE</i>	- <i>Ministry of Finance, Trade and the Blue Economy</i>
<i>MOU</i>	- <i>Memorandum of Understanding</i>
<i>MRR</i>	- <i>Minimum Reserve Requirement</i>
<i>MSMEs</i>	- <i>Micro, Small and Medium Enterprises</i>
<i>MSP</i>	- <i>Marine Spatial Plan</i>
<i>MSWAP</i>	- <i>Mahe Sustainable Water Augmentation Project</i>
<i>MUA</i>	- <i>Mauritius Union Assurance</i>
<i>NBS</i>	- <i>National Bureau of Statistics</i>
<i>NFA</i>	- <i>Net Foreign Assets</i>
<i>NIR</i>	- <i>Net International Reserves</i>
<i>NPC</i>	- <i>National Payment Council</i>
<i>NPSA</i>	- <i>National Payment System Act</i>
<i>NPTF</i>	- <i>National Payment Task Force</i>
<i>NRA</i>	- <i>National Risk Assessment</i>
<i>ODCs</i>	- <i>Other Depository Corporations</i>
<i>OECD</i>	- <i>Organisation for Economic Co-operation and Development</i>
<i>OMO</i>	- <i>Open Market Operations</i>
<i>PIT</i>	- <i>Personal Income Tax</i>
<i>PRS</i>	- <i>Policy and Research Section</i>
<i>PSD</i>	- <i>Payment System Division</i>
<i>POS</i>	- <i>Point of Sale</i>

<i>PUC</i>	- <i>Public Utilities Corporation</i>
<i>QPC</i>	- <i>Quantitative Performance Criteria</i>
<i>RAMP</i>	- <i>Reserves Advisory and Management Program</i>
<i>RAS</i>	- <i>Reimbursable Advisory Service</i>
<i>RECs</i>	- <i>Regional Economic Communities</i>
<i>RISP</i>	- <i>Regional Integration Support Programme</i>
<i>RSD</i>	- <i>Research and Statistics Division</i>
<i>RTGS</i>	- <i>Real Time Gross Settlement</i>
<i>SADC</i>	- <i>South African Development Community</i>
<i>SALS</i>	- <i>School of Advanced Level Studies</i>
<i>SCF</i>	- <i>Standing Credit Facility</i>
<i>SCR</i>	- <i>Seychelles Rupees</i>
<i>SCU</i>	- <i>Seychelles Credit Union</i>
<i>SDDS</i>	- <i>Special Data Dissemination Standards</i>
<i>SDF</i>	- <i>Standing Deposit Facility</i>
<i>SEFT</i>	- <i>Seychelles Electronic Funds Transfer</i>
<i>SEnPA</i>	- <i>Small Enterprise Promotional Agency</i>
<i>SEPA</i>	- <i>Single Euro Payments Area</i>
<i>SFA</i>	- <i>Seychelles Fishing Authority</i>
<i>SFD</i>	- <i>Saudi Fund for Development</i>
<i>SIRESS</i>	- <i>Southern African Development Community Integrated Regional Electronic Settlement System</i>
<i>SMEs</i>	- <i>Small and Medium Enterprise</i>
<i>SPF</i>	- <i>Seychelles Pension Fund</i>
<i>SRC</i>	- <i>Seychelles Revenue Commission</i>
<i>SRS</i>	- <i>System Requirement Specification</i>
<i>SSE</i>	- <i>Seychelles Securities Exchange</i>
<i>STB</i>	- <i>Seychelles Tourism Board</i>
<i>STP</i>	- <i>Straight Through Processing</i>
<i>TFTA</i>	- <i>Tripartite Free Trade Area</i>
<i>TIEA</i>	- <i>Tax Information Exchange Agreements</i>
<i>TSD</i>	- <i>Technical Services Division</i>
<i>UAE</i>	- <i>United Arab Emirates</i>
<i>UHB</i>	- <i>United Helvetic Bank</i>
<i>USD</i>	- <i>US Dollar</i>
<i>VAT</i>	- <i>Value Added Tax</i>
<i>WTO</i>	- <i>World Trade Organisation</i>

SECTION ONE

Overview

1.0 External Developments

The year 2015 remained a challenging one for the global economy. In many regions, economic growth and activity continued to be sluggish; overall productivity was on the low side whilst unemployment level was above normal. Output in advanced and developing economies are estimated to have grown by 4.0% in 2015.

The main challenges were associated with the slowdown in the Chinese economy and therefore its implication on the rest of the world, the prevailing monetary policy stance and associated low or negative interest rates as well as the job market situation in the United States (US).

Across the globe, reports of uncertainty remained prevalent as most analysts agree that global economic activity remained subdued. According to the International Monetary Fund (IMF), growth in emerging markets and developing economies contracted whilst “a modest recovery” continued in advanced economies. In its *World Economic Outlook*, the IMF reported that the “three key transitions” that continued to impact global growth prospects were “(1) the gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services, (2) lower prices for energy and other commodities, and (3) a gradual tightening in monetary policy in the US in the context of a resilient US recovery as several other major advanced economy central banks continue to ease monetary policy”.

In the commodities market, the main development was the weak or falling prices which included that of oil. The dampened price of oil was primarily associated with over-supply relative to demand. Whilst such occurrence was welcomed in oil importing countries, oil exporters experienced huge losses in revenue.

1.1 Domestic Economic Developments

Having successfully emerged from the challenges experienced in 2014, further evidence that the basic macroeconomic fundamentals of the economy are well anchored to withstand potential shocks compared to the 2008 pre-crisis period was again evident in 2015. Given the openness of the country as a small island economy, Seychelles also benefited from the external developments of 2015 since their domestic effects were overall positive. Important of which was the weak or falling international commodity prices including that of oil which has a direct impact on other costs such as transportation and utilities. Consequently, the overall value of imports declined in comparison to the previous year. Such development resulted in an improvement in the country's terms of trade given that the overall fall in import prices outweighed that of exports. Moreover, notwithstanding the generally weak state of the global economy, Seychelles managed to attract a new record in the annual number of visitors.

Throughout the year, the Central Bank ensured that the implemented policy mix does not compromise domestic price stability, the soundness of the financial system as well as growth prospects. The episodes of 2014 when the equilibrium in the foreign exchange market happened with delays were not repeated and there was no report of unmet demand. As for the challenges faced by the Bank in monetary policy implementation in terms of absorbing its targeted level of liquidity, these proved to be smooth during 2015 and therefore, overall, the economy was able to make further progress on many fronts.

The Bank's early assessment of economic conditions concluded an improved external position through a narrowing of the current account deficit. The reduced domestic demand for foreign exchange created opportunities for the Bank to accumulate international reserves through purchases from the market. At the end of December, gross official reserves had grown from US\$464 million (3.8 months of imports) in the previous year to US\$536 million (4.9 months of imports). As a result, the country's external resilience has strengthened further, notwithstanding previous assessments in 2013 by the IMF which concluded that the levels of official reserves were already at "a desirable range". Going forward and when conditions permit, the Bank is expected to further consolidate its reserves position.

In addition to the higher level of official reserves, preliminary estimates show a reduction in the current account deficit from 22 per cent of GDP in 2014 to 17 per cent of GDP in 2015. Such outcome was attributed to the aforementioned reduction in the value of imported commodities which led to an improvement in the trade balance. Moreover, gross inflows of foreign direct investment (FDI) remained strong at 19 per cent of GDP, noting that its import-related components are self-financed.

The Bank's assessment also showed some risks of inflationary pressures. Such impulses were predicted to originate from the second round effects of the depreciated local currency experienced towards the end of 2014, and from the high, double digit expansion in credit to the private sector which reached an annual rate of 25 per cent at the end of 2014. The strong growth in credit was expected to prolong through 2015 before eventually slowing down towards the end of the year. Such development followed an increase in disposable income subsequent to the revision in the salary grid of the public sector coupled with a 20 per cent increase in minimum wage introduced at the start of 2014. The potential inflationary risk of such growth in credit was related to the fact that a significant proportion of these facilities were going towards the financing of consumer goods rather than to the productive sectors.

Against the above backdrop, the Bank maintained a tight monetary policy up to September in order not to compromise its primary objective of promoting domestic price stability. Consistently, the growth in credit to the private sector fell as the year unfolded to reach 6.9 per cent in December.

Having evaluated the market conditions in the third quarter, a cautious loosening of monetary policy was effected as of October. This was after the projected inflation was expected to reach its peak at the end of the year; a result

that took into consideration the stability of the domestic currency whilst no price pressure was anticipated from imported commodities.

Based on the annual rate of inflation as measured by the consumer price index (CPI) produced by the National Bureau of Statistics (NBS), the increase in the general price level in 2015 was by 4.0% compared to 1.4% in 2014. However, it should be noted that the inflation figures for 2015 were calculated based on a revised CPI basket which incorporated the outcome of the most recent household budget survey. In addition to the re-basing effect, data coverage also improved in 2015. To note, the fact that Seychelles relies heavily on foreign goods, the weak global commodity prices have helped to contain domestic inflationary pressures during 2015.

In terms of interest rates developments, an overall increase was observed, consistent with the implemented policy stance. The average savings rate rose from 2.31% end-2014 to 2.91% in 2015; its highest level since August 2013. As for the effective lending rate, the increase over the corresponding period was from 12.05% to 12.56% which resulted in a slight narrowing of the interest rate spread. Nevertheless, the spread between the effective lending and savings rates remained close to 10 per cent and is considered as being on the high side.

As regards to exchange rate movements, from just above R14 against the US dollar at the start of the year, the domestic currency strengthened to trade at around R13 against the greenback for most part of the year. However, for the year as a whole, the rupee was on average 4.4 per cent weaker against the US dollar but appreciated against most other major currencies. The appreciation of the domestic currency relative to the euro was by 13 per cent; an outcome that was also consistent with the depreciation of the euro against most other major currencies, particularly vis-à-vis the US dollar.

Whilst the stable domestic currency and depreciation of the euro may suggest no threat to the country's external competitiveness, the weaker euro had a direct impact on the country's earnings which are mostly denominated in euro whilst most foreign payments continued to be in US dollar. Based on preliminary estimates, the direct earnings from the tourism industry, which remained an important source of the country's foreign exchange inflows, are estimated at 1.4 per cent lower than in 2014 in US dollar terms. This was despite the achieved record growth in visitor arrivals.

Investor confidence in the Seychelles economy remained generally high in consideration that gross inflows of FDI remained strong, supported by the country's sovereign credit rating which was upgraded by Fitch Ratings in July to 'BB-/Stable from 'B+/Stable.

Overall, the Seychelles economy is estimated to have grown by 4.3% which was at a slower pace compared to 6.2% growth in real GDP achieved in 2014. Services remained the key drivers of growth and the overall outcome reflected the modest increase in the direct value-added contribution from the tourism sector; an outcome that was consistent with the concerns expressed over yield although positive growth in activity was recorded. Similar to recent years, the primary industries remained the sector that faced the most challenges during 2015.

Consistent with international trends in central banking, a Financial Stability Unit (FSU) was set up within the Bank in November. One of the objectives of the Unit is to develop a macro-prudential framework for the purpose of evaluating the stability of the financial sector. A Financial Stability Committee, comprising of members from other stakeholders such as the ministry that is responsible for finance and the Financial Services Authority (FSA) under the chairmanship of the Bank will also be set up and will work in close collaboration with FSU.

The re-assessment and reviewing of its risk appetite led Barclays bank to close accounts in its offshore banking portfolio as of October 31. The decision was consistent with the global tightening in banking regulations which requires banks to undertake appropriate due diligence on their clients to limit the risk of assisting with illicit transactions that can damage the reputation of the bank.

During the year, the Seychelles authorities continued its engagement with the IMF as formalised in the 3-year programme under the Extended Fund Facility (EFF) agreed in 2014. The policy focus under the EFF was to “reduce the high debt levels, improve external buffers and sustainability in the face of emergent balance of payments pressures, and strengthen the economy through sustained and inclusive growth”.

On the fiscal front, in terms of policies, these mainly concentrated on the broadening of the tax base with the aim of increasing revenue through reforms to the tax system. Amongst some key measures introduced in January was an upward revision in excise and road taxes. There was also an increase in excise tax on all alcoholic drinks with an alcohol content that exceeds 16 per cent and that on all tobacco products with the objective to discourage excessive consumption of these products and reduce the associated adverse effects that these can have on society. In addition, the mandatory registration threshold of value-added tax (VAT) was lowered to a turnover of R2.0 million which resulted in an increase in the number of VAT registered businesses. As for the budget outcome, this remained positive in consideration that a surplus was once again achieved and that was also consistent with the medium-term debt strategy. The primary surplus for 2015 stood at 3.9 per cent of GDP which was a better outcome compared to the targeted 3.5 per cent of GDP. Additionally, a further reduction in public debt was recorded; from 65 per cent of GDP in 2014 to 60 per cent of GDP in 2015.

During 2015, the authorities managed to successfully meet all set targets as illustrated in Table 1.1.

Table 1.1: Quantitative Performance Criteria

	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
Reserve Money ¹	R million								
Target	2288	2659	2731	2721	2515	2529	2529	2552	2781
Actual	2085	2417	2646	2539	2523	2495	2490	2522	2710
Net International Reserves ²	USD million								
Target	312	312	340	350	350	356	367	364	409
Actual	331	363	368	369	366	373	398	417	423
Primary Fiscal Balance ³	R million								
Target	785	2	310	593	721	21	342	592	720
Actual	790	309	657	854	844	218	498	827	769

¹ The stated target is a ceiling. As of the second quarter of 2014, the target is the average of daily reserve money levels over the quarter rather than the outcome on the last day of the quarter

² The stated target is a floor, based on programme rate

³ The stated target is a cumulative floor

In terms of outlook for 2016, the economic landscape is expected to be influenced by policy choices that are consistent with the sentiment expressed by the general population and deduced from the outcome of the presidential election that took place in December; Key of which would include measures to address constraints in the social sector. Such policies have fiscal implications but are anticipated to be implemented in a manner that does not derail the government's medium-term debt strategy and the arrangement under the EFF. From the Bank's perspective, any measure that impacts disposable income has the potential to influence changes in the money supply, hence the general price level; either through credit growth, or, ceteris paribus, the exchange rate channel. Hence, the Bank will ensure its policies remain coordinated with that of fiscal in addition to focusing on improving interest rate transmissions. Inflationary impulses from international commodity prices are expected to be benign, particularly given the weak oil prices internationally. Whilst the government is likely to extend further support to the fisheries sector through its agenda for the development of the blue economy, services are expected to remain the key economic sector for Seychelles. Importantly, the tourism industry has the ability to improve on its performance in terms of visitor arrivals achieved in 2015. However, the available scope to maximise yield while simultaneously being competitive, remains challenging. The Bank will continue with its reserves accumulation objective through purchases of foreign exchange from the market whenever such opportunity arise although there is a high probability that such purchases would be significantly less than in 2015 given the achieved import coverage. Overall, growth in real GDP is forecasted at 3.3%, slightly lower than the outcome estimated for the year 2015, but in line with the long run path.

SECTION TWO

Real Sector: Production, Labour and Prices

2.0 Overview

The increased activity from the previous year and the early signs that the exchange rate was fast recovering from the depreciated episodes experienced towards the end of 2014 supported sentiment of a further expansion in the Seychelles' economy in 2015. Given the openness of the country, the general conditions for growth were also facilitated by the prevailing global economic environment, particularly the decline in international commodity prices, key of which was a double digit drop in that of oil.

The annual rate of growth in real GDP is estimated at 4.3% which was 1.9 percentage points lower than the previous year. This outcome predominantly mirrored modest growth in value-added contribution from the tourism sector, which in turn impacted the overall outcome in the services sector as a whole.

The preliminary estimates show that direct earnings from the tourism sector contracted by 1.4 per cent relative to the previous year in US dollar terms, a result influenced by the relatively weaker euro. Such outcome was also consistent with the concerns raised over the fact that increases in visitor arrivals were not being translated into higher yields which added to the challenge of increased competition in the sector. On a positive note, the tourism industry was during 2015 given a boost through improved air access, including the resumption of direct flights to Paris by Air Seychelles in July. Moreover, major airlines increased the frequency of their flights. By end-December, the annual growth in the number of tourists to the country was 19 per cent supported by the performance of the traditional markets, namely Europe as well as that of emerging markets consistent with the policy of improving market diversification. Overall, the sector is estimated to have grown by 3.0 per cent.

Telecommunications continued to record a high growth. In 2015, its value-added contribution expanded by an additional 14 per cent, which was the sixth consecutive year of double digit growth achieved by this sector. The year's performance was due to improved data usage as well as new services offered by the companies.

The primary industries registered a further increase in investment to maintain the trend of recent years. Improved value-added contribution of the sector was supported by enhanced access to funding. However, stakeholders continued to face significant challenges. For instance, in the fisheries sector, this included interruption in the supply of ice and the adverse effect on output of the algal bloom in the final quarter. As for the agricultural sector, its challenges continued to include fierce competition from imported substitutes. On a positive note, sustained infrastructural development and a focus on increasing value-added products from the sector is expected to have long term gains. Nonetheless, from the perspective of consumers, the main concerns raised relate to the increase in the price of local fish, which also explained the increasing shift in preference for meat despite the health benefits associated with the consumption of fish.

In the manufacturing sector, most indicators suggested improved performance, notably in reference to output of beverages and canned tuna. Conditions within the sector was supported by relatively lower energy costs. The lower cost of energy also positively impacted the construction sector which was experiencing a decline in implementation of large-scale projects.

In the labour market, the unemployment rate remained low at around 4.0 per cent with the majority of the workforce employed in the private sector. A major challenge, particularly faced by labour-intensive and specialised businesses continued to be the inability to recruit from the local market. Consequently, many businesses remained dependent on expatriate labour.

Against the above backdrop, price developments based on the official measure of changes in the CPI published by NBS showed a rate of inflation of 4.0% compared to 1.4% in 2014. Whilst this suggests increased inflationary pressures in 2015 compared to 2014, the figures for 2015 are based on a revised CPI that became effective as of January. The new index was constructed using the outcome of the most recent household budget survey and employed improved collection practice.

2.1 Primary Sector

The primary sector comprises of agriculture and fishing which in past years have recorded contractions in activities. In 2014 for instance, statistics showed a 19 per cent decline in fisheries output. However, its fortune was somewhat mixed in 2015, albeit the primary sector as a whole recorded a growth of 2.0 per cent. The performance in fisheries activity was supported by previous investments including Seychelles Fishing Authority (SFA)'s fish processing facility that became operational in the second half of 2014.

In the first quarter of 2015, a historic policy shift in the fisheries sector occurred following the Paris Club's endorsement for the Nature Conservancy to buy back US\$30 million of the Paris Club debt. This coincided with the development of the Marine Spatial Plan (MSP), which aims at dividing the country's oceanic resources into economic and ecological zones which is expected to impact the overall output within the sector in the long run. In addition, several projects were announced by SFA with the aim of facilitating the development of the sector, including plans to address the ice shortage experienced sporadically during the year. However, the most newsworthy development of the year was the impact of the algal bloom phenomena – which resulted in a temporary cessation of fishing in the artisanal sector for a few days in the last quarter of the year – that severely affected certain types of output. Nevertheless by the end of November, the responsible authorities declared fish consumption to be safe again.

With regards to agriculture, the sector started the year on a negative note following a severe shortage of animal feed on the local market. Whilst this was due to external factors, it highlighted the vulnerabilities the country faces when it comes to food security. Nevertheless, the sector continued to attract external funding, including a grant of US\$432,000 from the Food and Agriculture Organisation (FAO) for two technical cooperation projects aimed at boosting agricultural development and increasing productions and yields. There were also other projects funded

by the International Fund for Agricultural Development (IFAD) that were being implemented, one of which was the Competitive Local Innovations for Small Scale Agriculture (CLISSA), which was financed by IFAD through a loan facility as well as the government.

2.1.1 Fisheries

The sector is estimated to have grown by 2.0 per cent in 2015. This outcome was supported by the continuation of infrastructural developments, which included fish processing facilities, the installation of an ice plant and the four-stage extension project of the fishing port. The processing facilities were funded by the European Union under the Seychelles Fisheries Partnership Agreement (FPA), while the ice plant was a donation to SFA.

Notwithstanding the estimated positive growth, statistics¹ up to September showed an annual decline of 3.7 per cent in total fish catch. Moreover, partly as a result of the algal bloom phenomena, artisanal fish catch is expected to have fallen in the final month of the year. With regards to credit allocated to the sector by banks, an increase of 3.0 per cent was recorded.

2.1.2 Agriculture

Agriculture accounted for 1.2 per cent of GDP in 2015 and whilst growth is estimated at 2.0 per cent, the sector continued to face significant challenges. Nevertheless, contrary to recent years, positive indicators have emerged from the sector. For instance, the slaughtering of chicken and egg production grew by 56 per cent and 15 per cent respectively. Moreover, the reduction of 0.1 per cent in the number of pigs slaughtered was not as pronounced as in previous years. Nonetheless, the sector remained vulnerable to competition from cheaper imports, notwithstanding the improvements made in relevant infrastructure since many consumers opt for price over quality.

Notwithstanding government's previous commitment to increase resources to the sector, key stakeholders are of the view that the sector is being underfunded and that government is offering protection for supposedly inferior imports substitutes.

¹ Data sourced from NBS Production Indicators

Table 2.1: Gross Domestic Product by kind of Economic Activity (2011 - 2015)
at constant market prices

	2011	2012(1)	2013(1)	2014(1)	2015(2)
GDP at 2006 constant market prices	6,693.1	6,939.2	7,289.2	7,741.5	8,078.0
Change	5.4%	3.7%	5.0%	6.2%	4.3%
Agriculture	93.1	99.3	105.3	106.7	108.8
Fishing	52.0	46.4	73.3	59.2	60.4
Manufacture of food	194.8	286.9	196.9	173.3	176.8
Manufacture of beverages and tobacco	156.4	156.3	162.8	153.7	162.9
Manufacture of concrete, rock products, glass etc.	54.4	47.0	42.6	44.5	46.7
Manufacturing, other	90.5	93.4	105.0	103.7	106.8
Electricity, gas, steam and air conditioning supply	90.8	82.0	62.4	63.7	66.9
Water supply; sewerage, waste management and remediation activities	32.8	28.9	33.0	33.7	34.3
Construction	410.4	295.5	210.3	240.0	247.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	445.7	448.1	515.3	539.0	555.2
Transportation and storage	525.8	524.2	498.7	577.5	594.9
Accommodation and food service activities	795.5	845.7	957.4	970.0	999.1
Information and communication	371.3	415.2	560.2	671.9	766.0
Financial and insurance activities	307.6	343.5	314.6	356.5	367.2
Real estate activities	355.6	420.4	459.3	469.3	488.1
Owner Occupied dwellings	599.4	611.8	660.4	697.4	725.3
Professional, scientific and technical activities	176.9	183.9	240.6	263.4	270.0
Administrative and support service activities	192.6	202.1	219.8	226.4	244.5
Public administration and defence; compulsory social security	384.0	418.2	476.5	510.0	522.7
Education	241.3	234.4	229.5	234.7	241.7
Human health and social work activities	136.6	147.2	162.3	172.4	177.5
Arts, entertainment and recreation	42.9	48.2	46.5	46.6	48.0
Other service activities	44.3	51.6	51.1	58.4	59.5
Allocation of FISIM to Nominal Sector	-107.9	-134.8	-119.9	-130.8	-137.4
Value Added at basic prices	5,686.7	5,895.4	6,264.0	6,641.0	6,933.1
Taxes Less subsidies	1,006.5	1,043.9	1,025.2	1,100.6	1,144.9

Notes:

¹ Provisional Estimates- National Bureau of Statistics

² Provisional Estimates- Seychelles Macroeconomic Framework Working Group and Central Bank of Seychelles

Table 2.2: Gross Domestic Product by Kind of Economic Activity (2011-2015)
at current market prices

	2011	2012(1)	2013(1)	2014(1)	2015(2)
GDP at current market value	12,609.2	14,519.4	15,864.1	17,198.9	18,351.8
Change	7.7%	15.1%	9.3%	8.4%	6.7%
Agriculture	171.5	185.9	215.2	222.7	232.3
Fishing	114.4	111.0	212.0	183.0	190.8
Manufacture of food	401.9	621.4	496.9	465.5	485.5
Manufacture of beverages and tobacco	317.5	341.7	372.3	355.3	385.2
Manufacture of concrete, rock products, glass etc.	87.0	78.1	75.0	79.5	79.7
Manufacturing, other	164.0	182.3	211.3	212.6	223.9
Electricity, gas, steam and air conditioning supply	-5.9	146.5	335.2	347.6	373.2
Water supply; sewerage, waste management and remediation activities	62.7	63.2	74.0	76.3	79.6
Construction	787.6	634.5	456.7	543.8	567.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	847.9	913.0	1095.4	1162.1	1224.0
Transportation and storage	1,132.8	1240.9	1189.2	1391.3	1465.4
Accommodation and Food service activities	1,574.2	1884.7	2219.1	2277.0	2514.7
Information and communication	486.6	546.3	737.4	886.7	970.2
Financial and insurance activities	585.2	699.9	668.9	768.6	809.6
Real estate activities	680.8	920.6	1029.7	1063.9	1131.5
Owner Occupied dwellings	1,147.5	1339.8	1480.7	1580.8	1681.2
Professional, scientific and technical activities	265.9	289.5	388.7	439.8	461.0
Administrative and support service activities	321.8	364.2	413.2	439.7	485.6
Public administration and defence; compulsory social security	730.5	852.2	1013.0	1099.5	1152.5
Education	305.3	341.5	360.9	369.1	388.7
Human health and social work activities	208.2	237.5	272.1	295.9	311.7
Arts, entertainment and recreation	77.9	95.0	96.7	105.1	110.7
Other service activities	66.5	81.2	82.6	97.4	101.6
Allocation of FISIM to Nominal Sector	-205.3	-274.7	-254.9	-282.1	-296.2
Value Added at basic prices	10,326.7	11,896.2	13,241.3	14,181.1	15,129.6
Taxes Less subsidies	2,282.5	2,623.1	2,622.8	3,017.9	3,222.2

Notes:

¹ Provisional Estimates- National Bureau of Statistics

² Provisional Estimates- Seychelles Macroeconomic Framework Working Group and Central Bank of Seychelles

2.2 Industries

The share of the industrial sector (which comprises of the construction and the manufacturing segments) is estimated to have remained broadly unchanged, representing 9.5 per cent of GDP. The combined growth in value-added contribution of the industrial sector was 2.8 per cent. A strong rebound was recorded in the growth of the *'manufacturing of beverages and tobacco'* sector. In addition, the construction sector experienced another annual expansion in activity following sharp contractions in 2012 and 2013.

2.2.1 Construction

The construction sector has now recorded two consecutive years of growth following an expansion of 3.0 per cent in 2015, albeit this was 12 percentage points below the outcome of the previous year. From the period between 2008 and 2011, the sector had experienced significant growth that was linked with implementation of large-scale FDI projects as well as government housing projects. However, significant declines have been experienced thereafter.

The year saw the continuation of the H Resort, Carana, Eden Island and Felicity Island projects. In addition, infrastructural projects such as for the fisheries sector continued with additional external funding sourced by a key parastatal, ensuring that energy demand is met in the medium term. Developments in the sector were supported by production statistics which showed increases of 68 per cent, 11 per cent, 4.4 per cent and 2.3 per cent in production of aggregate, crusher dust, block and plastering dust respectively. However, output of crusher waste declined by 9.4 per cent².

2.2.2 Manufacturing

In 2015, the manufacturing sector accounted for 6.4 per cent of GDP which was a decline from the previous year's contribution of 6.5 per cent. Whilst the sector benefited from lower production costs, confirmed by the 21 per cent decline in the Producer Price Index for Manufacturing (PPIM), lower prices externally implied increased competition from imports. Nevertheless, manufacturing activity was given a boost from new financing facilities, inclusive of loans under the Small and Medium Enterprises (SMEs) scheme.

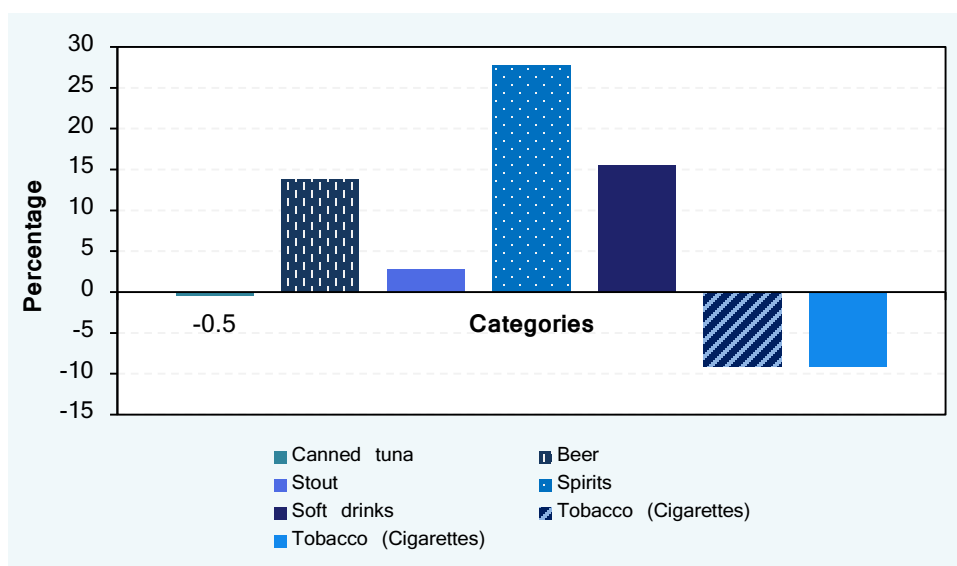
The performance of alcohol and non-alcoholic beverage producers were positive. The growth in output of beer, stout and soft drinks were by 14 per cent, 2.7 per cent, 28 per cent and 15 per cent respectively. In addition, the production of mineral water increased by 14 per cent, an outcome that benefited from the record increase in visitor arrivals. However, the production of cigarettes contracted by 9.2 per cent, the output of which was possibly impacted adversely by the increased level of tax on the industry.

As for *'manufacture of food'*, following two years of double digit contractions, a growth of 2.0 per cent was recorded, despite a decline of 0.5 per cent in the production of canned tuna. Key developments during the year included the drive by government to act as facilitator, with the private sector as innovator in value-added products in the fisheries

² Based on NBS Production Statistics for the first three quarters of 2015 in comparison to 2014.

sector. However, whilst the sector benefited from the decline in energy prices, labour constraints remained the major impediment to production activity across the labour intensive industry.

Chart 2.1: Changes in production indicators (2015)



Source: National Bureau of Statistics

With regards to 'other manufacturing activities', output in the category 'paint & paint products' and 'toilet paper' grew by 4.6 per cent and 20 per cent respectively whilst that of 'soaps' declined by 40 per cent. Overall, the sector is estimated to have grown by 3.0 per cent.

2.3 Services

The services sector accounted for 80 per cent of GDP in 2015, which was 0.1 percentage point higher than in 2014. Overall, growth in value-added from services is estimated at 4.4 per cent in 2015, which was 1.9 percentage points below the level of 2014. This was driven by growth of 15 per cent, 6.0 per cent and 5.0 per cent in the components 'information and communication', 'manufacture of beverages and tobacco' and 'electricity, gas, steam and air conditioning supply' respectively. The telecommunications sector has now recorded six consecutive years of double digits growth, with spill-over effects that provided for support platforms for growth in other sectors.

2.3.1 Tourism

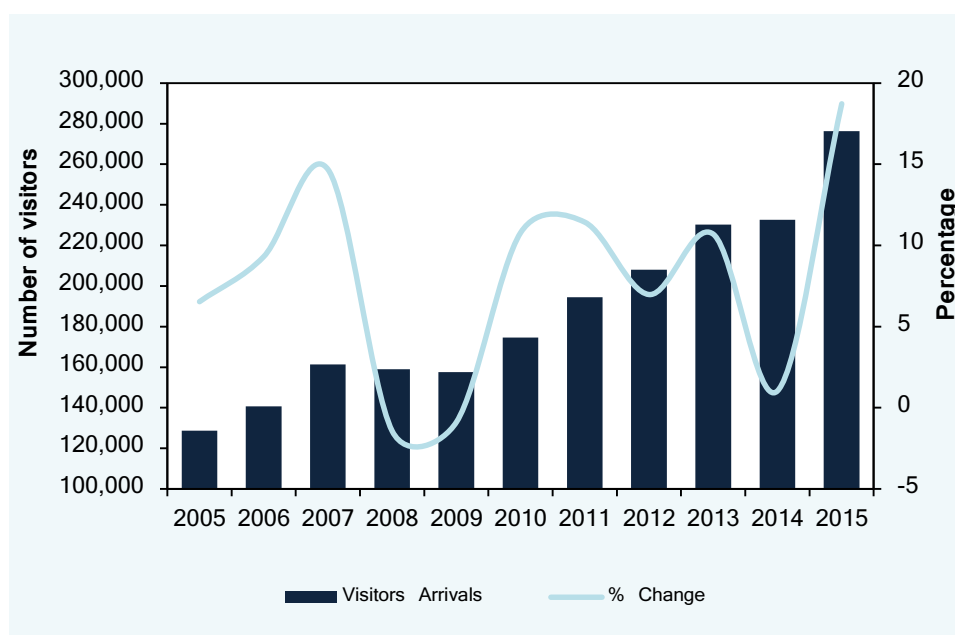
Following a near flat outcome in 2014, the number of tourists to Seychelles increased by 19 per cent in 2015 due to robust performances from several markets, key of which were the Italian, French as well as emerging markets. Nevertheless, tourism earnings did not grow in line with visitor arrivals, an outcome which was to a large extent influenced by the relatively weaker euro.

In 2014, visitor arrivals were believed to have been adversely affected by the loss of air connectivity. However, the situation was somewhat alleviated when Emirates increased flights from 12 to 14 per week in October and

Ethiopian Airlines resumed flights in September. To further boost connectivity, in 2015, the national airline introduced codeshare flights with Etihad Airways to Amman, Casablanca, as well as with Air Madagascar, Air France and Jet Airways. In addition, Etihad Airways increased its flights to Abu Dhabi to twice daily effective July 1. Other key developments included an increase in the frequencies of Air Seychelles weekly flights on its regional network from April as well as the launch of the airline's three-times a week non-stop Paris flights from July, which replaced the twice-weekly service to the French capital via Abu Dhabi. The latter was in a bid to improve visitor arrivals from the core markets.

For the year 2015 as a whole, the total number of visitors amounted to 276,233. Consistent with past trends, Europe accounted for the majority of visitors (62 per cent) albeit lower than the previous year's level (66 per cent). Nevertheless, the number of tourists from this continent totalled 170,619 which was 11 per cent above the previous year's figures. The main markets were led by France, supplying a total of 37,356 visitors, followed by Germany (35,895) and Italy (21,704). As a result, France regained its position as market leader after achieving growth of 15 per cent whilst the number of German tourists declined by 0.1 per cent.

Chart 2.2: Visitor Arrivals (2005 – 2015)



Source: National Bureau of Statistics

The emerging markets once again achieved robust growth figures, with India, the United Arab Emirates and China recording growth of 182 per cent, 53 per cent and 4.4 per cent respectively. On the whole, the annual increase in visitor arrivals from Asia was 40 per cent.

The Seychelles Tourism Board's (STB) strategy of hosting select calendar events to improve international exposure was once again at the forefront of its agenda. Activities either hosted or promoted in 2015 included the 5th edition of the *Carnaval International de Victoria*, SUBIOS – Seychelles Festival of the Sea – Tourism week, *Festival Kreol* and the Seychelles Eco-Friendly Marathon amongst others.

In terms of earnings, preliminary estimates amounted to US\$393 million; a decline of 1.4 per cent relative to the previous year. The outcome was heavily influenced by a weaker euro, with the domestic euro-dollar cross rate at 17 per cent lower than the 2014's level in the domestic market. In euro terms, tourism earnings is estimated to have grown in excess of 10 per cent.

The '*accommodation and food service activities*' category continued to account for the largest share of GDP, equivalent to 14 per cent. Accommodation statistics³ showed occupancy rates at 59 per cent for beds and 61 per cent for rooms. In comparison, the data for 2014 was 54 per cent for beds and 55 per cent for rooms. With regards to average length of stay, as at end September, visitors stayed for 9.9 nights in comparison to 10.3 nights last year. The average spending per day was R1,918, which was a decline of 9.7 per cent relative to 2014. In terms of capacity, the year also witnessed the opening of the H Resort on Mahe as well as the Oasis Hotel on Praslin.

Table 2.3: Tourism Indicators (2011- 2015)

	2011	2012	2013	2014	2015
Visitors arrivals	194,476	208,034	230,272	232,667	276,233
Average length of stay (nights)	10.0	9.9	10.2	10.2	9.9
Tourism Earnings (US\$ million)	291	310	430	398	393
Memorandum					
Hotel bed occupancy rate (%)	59	58	64	54	59 ¹

¹ YTD Hotel bed occupancy rate as at September 2015

Sources: National Bureau of Statistics, (except tourism foreign exchange earnings which are from Central Bank of Seychelles)

³ Statistics from the National Bureau of Statistics' Hotel Statistics Bulletin (Q3 2015).

2.3.2 Telecommunications

The telecommunications sector continued to provide technological services to various segments of the economy. It is estimated that the sector has grown by 14 per cent in 2015 compared to 2014 whilst its contribution to GDP rose from 5.2 per cent to 5.3 per cent over the same period. The main driver of this growth was the internet and data services market which expanded following increased availability and competition amongst the operators. The World Economic Forum ranking puts Seychelles 2nd best in Africa for the second year in a row in the Networked Readiness Index for 2015.

Nonetheless, market indicators for the telecommunications sector showed mixed outcomes. Telephone line subscription declined by 1.4 per cent, with local calls contracting by 2.1 per cent. The performance, coupled with other indicators suggested a continuation of the technological shift in the economy. A growth of 17 per cent was recorded in the number of mobile accounts whilst international calls rose by 19 per cent. In addition, data traffic rose by a significant 82 per cent which suggested that consumers were switching platforms for telecommunication needs.

Competition in the sector continued to be strong which encouraged the introduction of new innovative services. One operator, Airtel, launched its “Mobile Wallet”, known as *Airtel Money* in May. *Airtel Money* is described as a mobile application through which customers undertake financial transactions using their mobile phone, subject to cash being deposited in their accounts. Another key development in the sector was announced by Cable & Wireless in May, whereby the company would offer Internet Protocol Television (IPTV), delivered via a Local Area Network (LAN) or Internet connection. The full launch of the project was timed with the Independence Day celebration on June 29.

2.3.3 Financial Services

The financial services sector is estimated to have grown by 3.0 per cent in 2015. During the year, there were 9 licensed banks, including United Helvetic Bank (UHB) which was licensed in April but yet to commence operations as at end-December.

With regards to the Bank Muscat International Offshore (BMIO) – which the Bank took over management control in November 2014 – the Supreme Court approved its reorganisation plan on June 24 that included reviews of policies and procedures and remediation of clients’ Know Your Customer (KYC) documentation. This followed the appointment of Mr Huns Biltoo, a partner of KPMG Mauritius, as the reorganising agent in line with Schedule 4 of the Financial Institutions Act 2004 (FIA) in the first quarter of 2015.

On a policy front, work under the Financial Sector Development Implementation Plan (FSDIP) – which was approved by the Cabinet of Ministers in November 2014 – continued. The plan contains a set of actions related to the financial sector aimed at ensuring that it maximises its contribution to economic and social development, providing a coherent set of actions and measures for development of an integrated financial sector and assisting government to undertake prioritised and sequenced activities to strengthen and deepen the financial sector. The

latter aim includes identifying the responsible authorities, detailing any issues, challenges and additional work to be done, as well as any key policy decisions to be made by the authorities for implementation. FSDIP focuses on five priority areas for reforms considering their potential high impact on individuals, businesses and government agencies and on the overall efficiency and soundness of the financial sector. It also addresses issues in relation to consumer protection, financial literacy and ongoing training of financial sector professionals as cross-cutting topics.

As for activities of the Seychelles securities exchange, Trop-X, Seychelles Breweries Limited publicly announced its intention to trade on the platform. The decision was taken at the company's Annual General Meeting which was held in November.

2.4 Other Key Segments

Positive growth was recorded across the remaining segments of the services sector. This included a growth of 4.0 per cent in '*owner occupied dwellings*', which has been growing at an average rate of 4.8 per cent since 2008. Such outcome reflected an increase in home ownership including housing on Ile Perseverance as well as non-government housing. The latter development was evidenced by the growth of 7.9 per cent in mortgage loans, which was the highest on record since 2012.

Other notable growth rates were recorded in '*administrative and support service activities*' and '*education*', and these were by 8.0 per cent and 3.0 per cent respectively.

The subsector '*transportation and storage*' grew by 3.0 per cent, anchored by the strong performance of the national airline, Air Seychelles. In March, the company reported a net profit of US \$3.2 million for the year 2014/2015, the third consecutive year that the airline has announced a net profit. Given the improved conditions, the company is projected to achieve an even better performance in the 2015/2016 financial year.

With regards to data on output of utilities, which generally serves as a proxy for estimating changes in economic output, growth of 4.9 per cent and 2.6 per cent were recorded in electricity production and water consumption respectively. Significant investment has been undertaken by the national utility company, the Public Utilities Corporation (PUC) in the areas of infrastructure enhancement. Two loan agreements with PUC worth US\$31 million from the Arab Bank for Economic Development in Africa (Badea) and the Saudi Fund for Development (SFD) to finance a 33KV electricity network project in South Mahé were signed during the year. The aim is to improve the electricity network in the South of Mahé to enable efficient transport of energy to meet the increasing demand of the residential and tourism activities, as well as trade and service centres.

2.5 Labour Market

Composition of the labour market remained broadly unchanged in 2015. The private sector continued to be the dominant source of employment, whilst the services sector accounted for close to a quarter of the labour market. The key challenges highlighted by stakeholders across the various sectors were a general decline in the quality

of the local labour force, high turnover rates as well as the need to outsource specialised labour in certain industries.

2.5.1 Employment

Statistics showed an average of 48,844 employed persons in the third quarter of 2015, which was an increase of 1.9 per cent in comparison to 2014. Of these workers, 69 per cent were employed in the private sector whilst the public and parastatal sectors accounted for 19 per cent and 12 per cent of total employment respectively. Tourism-related activities accounted for 24 per cent of total employment followed by the construction industry with a share of 11 per cent.

Table 2.4: Employment Statistics (2011 – 2015)

	2011	2012	2013	2014	2015
Average Employment	48,892	45,030	46,515	48,810	48,844
Private Sector	35,916	30,593	32,240	33,988	33,743
Parastatals	5,144	5,115	5,272	5,519	5,818
Government	8,831	9,323	9,003	9,302	9,282

Source: National Bureau of Statistics

2.5.2 Unemployment

As at the end of September 2015 and based on statistics compiled by NBS, the unemployment rate stood at 4.2% whilst the labour force participation rate was 71%. With regards to composition, 59% cent of these individuals were females implying an unemployment rate of 4.8% relative to 3.6% amongst males. The age band 'below 25 years' was the sub-group with the highest unemployment rate at 11%. Within this group, the proportion of females was slightly higher at 11% in comparison to 10% for males. A positive development observed during the year was the gradual increase in the number of job-seekers who took steps to start their own business, with the share increasing from 6.7 per cent in the first quarter to 8.2 per cent in the third quarter.

2.5.3 Earnings

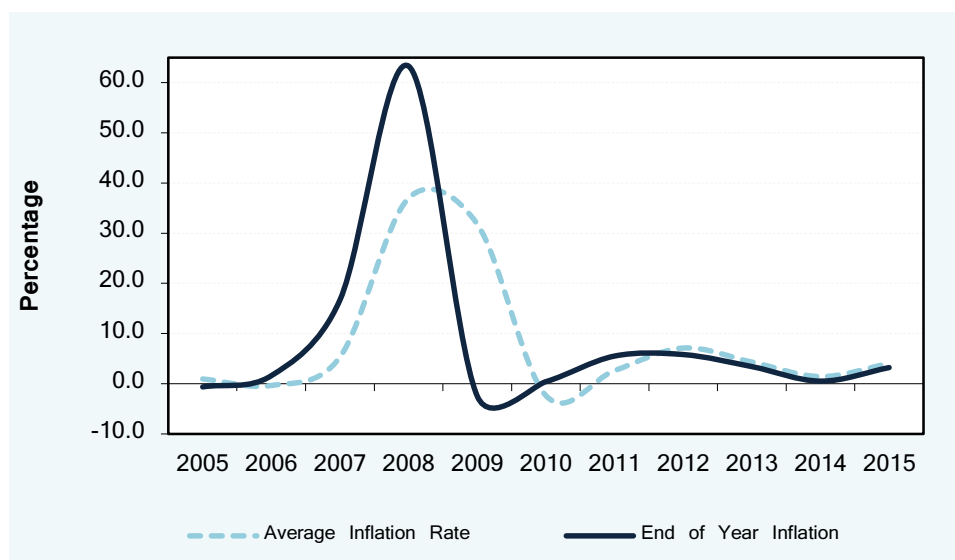
Average earnings across the private, parastatal, and public sectors stood at R9,587, R13,574 and R12,309, respectively. This represented increases in average wages by 5.9 per cent in the private sector, 3.5 per cent in the parastatal sector, and 5.7 per cent in the public sector. The most notable change was in the subsector 'electricity, gas, steam and air conditioning supply' of the private sector, which increased by 25 per cent to stand at R20,152.

Wage growth across all the sectors has declined markedly relative to 2014. This was attributed to the higher base of the previous year which reflected the increase in the minimum wage as well as double digit increments on government and parastatal wages. By contrast, there was no policy revision to the general wage level that became effective in 2015.

2.6 Prices

During 2015, a gradual rise in prices was observed at the start of the year following the rebasing of the CPI in January to incorporate the result of the latest household budget survey. As a result, the year-on-year rate peaked at 5.8% in March although it gradually fell as the year unfolded. At the end of the year, the CPI showed year-on-year price increase of 3.2%. The most notable changes in comparison to December 2014 were a fall of 11 per cent in the price of *'housing, water, electricity, & gas'*, a change driven by revision in tariffs attributed to the decline in global oil prices.

Chart 2.3: Price Movements (2005 - 2015)



Source: National Bureau of Statistics

The 12-month average measure of inflation was 4.0% compared to 1.4% in 2014. The most notable declines were in the price of *'fish'*, *'oil & fats'*, and *'sugar, jam, honey and confectionery'* and these were by 12 per cent, 4.7 per cent and 2.2 per cent respectively.

Table 2.5: Inflation Rates (2011 - 2015)

	2011	2012	2013	2014	2015
<i>Annual Average</i>	Per cent (%)				
All Items	2.6	7.1	4.4	1.4	4.0
Fish	13.7	9.1	20.6	9.0	-12.1
Other Food Items	3.4	5.7	5.3	-0.3	1.8
Non-Food Items	1.8	7.6	3.2	1.8	4.7
<i>Year-on-year</i>					
All Items	5.5	5.8	3.4	0.5	3.2
Fish	20.5	3.5	31.2	-20.3	3.3
Other Food Items	4.8	4.9	3.5	-0.2	1.7
Non-Food Items	5.1	6.3	1.9	2.2	2.7

Source: National Bureau of Statistics

The index for other food items fell by 1.0 per cent, which was consistent with developments in the global commodity markets whereby based on FAO statistics, food prices contracted by 19 per cent relative to 2014. Abundant supplies in the face of a timid world demand and an appreciating US dollar were cited as the main reasons for the general weakness that dominated food prices in 2015.

With regards to non-food items, an increase of 4.7 per cent was recorded. With the exception of '*housing, water, electricity, & gas*' and '*alcoholic beverages*', the index increased for all components. The most significant were under '*education*', '*tobacco*', and '*health*', and these were by 34 per cent, 32 per cent and 14 per cent respectively. Whilst '*tobacco*' prices were to a large extent driven by revision in tax policies, that for '*education*' and '*health*' reflected improved data collection by the NBS. With regards to '*housing, water, electricity, & gas*', its index declined by 1.9 per cent, a result driven by lower electricity tariffs, consistent with the reductions in prices over the year effected by PUC.

The tightening of monetary policy which started in 2014 dampened the impact on prices of the depreciated domestic currency as well as the strong growth in credit. Inflationary pressures were also mitigated by the weak global commodity prices.

SECTION THREE

Monetary and Financial Sector

3.0 Monetary Policy Developments

Consistent with its primary objective, the Bank's operations during 2015 remained principally geared towards maintaining domestic price stability in addition to promoting a sound financial system and acting as advisor to government on banking, monetary and financial matters. In November, the Board approved the setting up of a Financial Stability Unit which has as one of its main objectives to develop a macro-prudential framework to be used as a medium to evaluate the stability of the financial sector.

Monetary targeting with reserve money as the operational target and a focus on short-term liquidity conditions remained the adopted framework. In terms of policy stance, monetary policy was kept tight for most part of the year in consideration of the projected inflationary pressures that were expected to peak around the end of the year. The chosen monetary stance was maintained as a precautionary measure against the second round effect on prices of the depreciated domestic currency experienced towards the end of 2014, the potentially adverse impact of a weaker euro-dollar cross rate on tourism revenue, and importantly because the growth in credit which reached 25 per cent in December 2014 was expected to remain strong for at least the first half of 2015.

Compared to 2014 when the Bank faced some challenges in being able to withdraw its targeted level of liquidity from the market, monetary policy implementation in terms of liquidity withdrawal went generally as planned. Moreover, during 2015, the Bank and MoFTBE also maintained policy coordination efforts through the harmonised issuance of short-term government securities to absorb liquidity from the system.

Deposit Auction Arrangement (DAA) remained the main instrument employed in the Bank's Open Market Operations (OMOs). Having fixed interest rates on this instrument in August 2014 to address the urgent need for guidance to the market, the Bank allowed interest rates on the DAA to float in April.

During the year, commercial banks also made use of the Standing Credit Facility (SCF) and Standing Deposit Facility (SDF) offered by the Bank to assist with their overnight liquidity management.

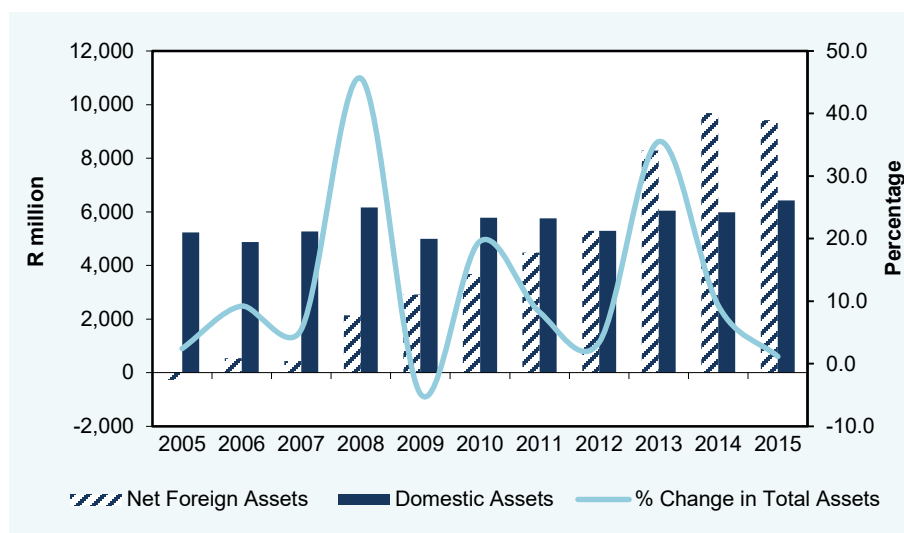
Stability in the external value of the Seychelles rupee, benign external inflationary environment coupled with the sterilisation efforts of the authorities ensured a rather positive monetary outcome and no inflationary threat in the domestic economy. At the end of the year, marked reduction was observed in the year-on-year rate of growth in credit to the private sector to 6.9 per cent from 25 per cent in 2014, thus significantly limiting the potential risk of an increase in the general price level. Such outcome was consistent with the assessment made by the Bank that prompted a cautious loosening of monetary policy in the fourth quarter of the year.

Whilst the Bank was able to achieve all of its main targets for the year, the main challenge remained the transmission of interest rate signals to commercial banks. Consequently, throughout the year, the Bank continued to assess and find ways of how to improve this aspect of its policy effectiveness, an exercise that is expected to run beyond 2015.

3.1 Net Foreign and Domestic Assets

On an aggregated level, the total assets of depository corporations ended the year at 3.1 per cent higher than in 2014.

Chart 3.1: Net Foreign and Domestic Assets (2005-2015)



Source: Central Bank of Seychelles

The total value of net foreign assets declined by 2.7 per cent (or R264 million) to end at R9,422 million, mainly as a result of a fall of 23 per cent (or R864 million) in the position of other depository corporations (ODCs). This was partly attributed to a drop in ODCs' appetite for taking on foreign investments given interest rates remained low or negative in the case of short-term investment in the euro currency internationally.

In contrast, net foreign assets of the Bank rose by 10 per cent, an outcome which continued to be driven by the reserves accumulation policy that aims to build a buffer to safeguard the country against potential external shocks. As at end-2015, net international reserves (NIR) stood at US\$423 million which exceeded the target set under the EFF with the IMF by US\$14 million, and was an increase of US\$59 million over the end-2014 figure.

Table 3.1: Monetary Survey^{1/3} (2011 - 2015)

	2011	2012	2013	2014	2015
(R million)					
Net Foreign Assets ²	4,477.1	5,294.0	8,293.4	9,686.4	9,422.0
Central Bank	3,302.7	3,433.5	4,579.9	5,906.2	6,505.5
Commercial Banks	1,174.4	1,860.5	3,713.5	3,780.2	2,916.5
Domestic Assets	5,755.1	5,286.5	6,044.1	5,980.0	6,422.6
Claims on private sector	2,935.5	3,114.3	3,428.3	4,292.2	4,586.7
Claims on public entities	439.4	386.3	303.8	272.2	531.5
Claims on government (net)	2,380.2	1,785.9	2,312.0	1,415.7	1,304.4
Money Supply, M3	7,595.7	7,421.8	10,344.5	11,754.6	12,106.3
Money Supply, M2	5,189.5	4,981.3	6,392.1	6,861.6	7,426.9
Money Supply, M1	2,697.0	2,485.5	3,189.2	3,586.9	4,058.0
Currency with public	623.5	631.5	756.6	874.7	934.1
Transferable deposits	2,073.5	1,854.0	2,432.6	2,712.2	3,123.9
(of which public entities)	215.5	194.5	280.5	394.3	428.5
Quasi Money	2,492.6	2,495.8	3,202.9	3,274.6	3,368.9
Fixed Term deposits	1,040.4	1,061.1	1,185.0	1,144.7	945.1
(of which public entities)	145.3	169.7	176.0	155.4	169.4
Savings deposits	1,452.2	1,434.7	2,017.9	2,130.0	2,423.8
Foreign Currency Deposits	2,406.1	2,440.5	3,952.4	4,893.0	4,679.4
Other items, net	2,636.5	3,158.7	3,993.1	3,911.9	3,738.3

Figures do not necessarily add up due to rounding off conventions

¹ End of period

² Excludes government balances

³ Changes in previous figures are due to revisions

Source: Central Bank of Seychelles

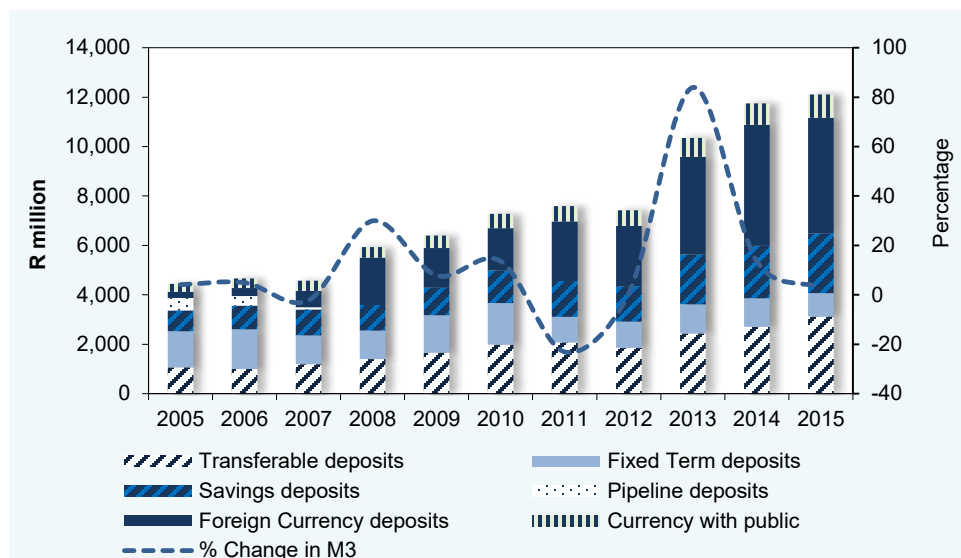
As for domestic assets, the stock stood at R6,423 million which was a growth of 7.4 per cent (or by R443 million) on account of an expansion under two of its main components, namely claims on private sector by 6.9 per cent and that on public entities by 95 per cent. The growth in claims on public entities was predominantly driven by the outstanding balance extended to two organisations for the purpose of financing important capital investments. With regards to net claims on government, this dropped by 7.9 per cent which was consistent with government's aim to gradually reduce its public debt level.

3.2 Money Supply

In 2015, the broadest monetary aggregate, M3, grew by 3.0 per cent to stand at R12,106 million. The expansion in M3 reflected growth under all of its main components with the exception of the stock of residents' foreign currency deposits which contracted by 4.4 per cent; a reversal of the positive growth trend observed since 2009. As indicated above, the generally low interest rate environment abroad has reduced the attractiveness of foreign

currency deposits. The rise in M3 was due to a growth in rupee deposits. The most liquid component of the money supply, M1, expanded by 13 per cent due to an increase of 15 per cent in transferable deposits whilst the total value of currency with the public rose by 6.8 per cent.

Chart 3.2: Money Supply (2005 – 2015)



Source: Central Bank of Seychelles

M2, which comprises of M1 and quasi-money grew by 8.2 per cent. In addition to the afore-mentioned expansion in M1, the stock of quasi-money grew by 2.9 per cent. An expansion of 14 per cent in savings deposits was the reason behind the overall growth in quasi-money given that the stock of fixed-term deposits declined by 17 per cent over the same period.

3.3 Reserve Money

The reserve money⁴ target is one of the quantitative performance criteria (QPC) under the IMF-supported macroeconomic reform programme under the responsibility of the Bank. The average value of reserve money for each quarter serves as a signal for the Bank's monetary policy stance. Through its interventions in the money and foreign exchange markets, the Bank either chooses to absorb or inject liquidity in order to achieve its set objectives.

⁴ Sometimes referred to as base or high-powered money and is comprised of currency in circulation and ODC's deposits held at the Central Bank.

The quarterly reserve money outcome compared to the target is illustrated in Table 3.2 and Chart 3.3 below.

Table 3.2: Reserve Money Q4 2014 to Q4 2015

	Q4	Q1	Q2	Q3	Q4
	2014	2015	2015	2015	2015
	(R million)				
Reserve Money (Target)	2,515.3	2,528.7	2,528.7	2,552.3	2,781.0
Reserve money (quarterly average) ¹	2,523.2	2,495.0	2,490.4	2,522.1	2,710.0
Reserve Money (Actual) ¹	2,388.8	2,378.1	2,377.9	2,514.0	2,613.7
<i>Currency in Circulation</i>	1,017.6	973.3	980.6	989.3	1,096.9
<i>Other Depository Corporations' reserves</i>	1,371.2	1,344.8	1,397.2	1,524.8	1,516.8
<i>Standing Deposit Facility</i>	-	60.0	-	-	-

¹ Figures are as at the last day of the quarter

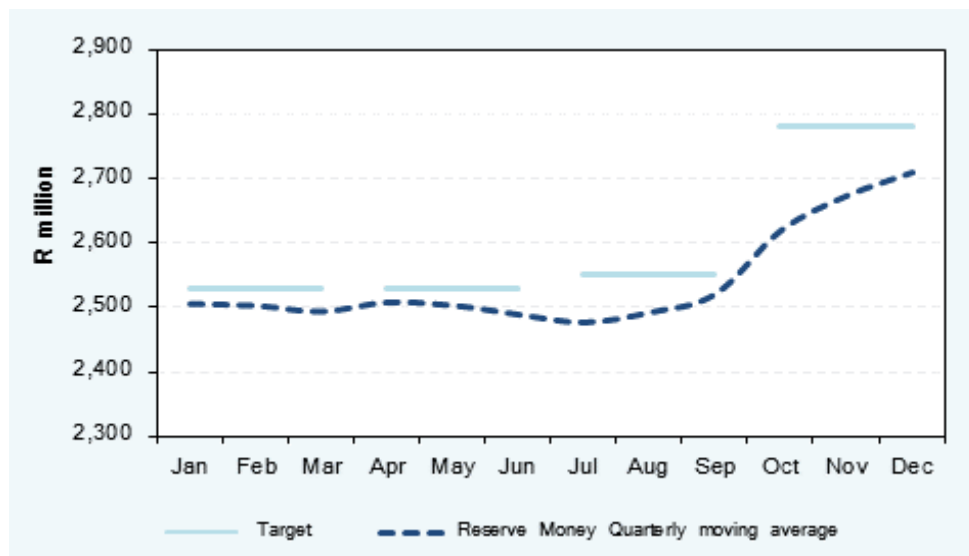
Source: Central Bank of Seychelles

For most of 2015, the Bank maintained a tight monetary policy stance that was adopted since the second half of 2014. This was on the basis that its assessment of the economy which included the depreciated domestic currency towards the end of 2014 coupled with the strong double digit growth in credit expansion that were mainly financing consumer goods, pointed to rising inflationary risks. However, as the year progressed, such threat diminished, an outcome that was partly supported by the general weak or falling commodity prices externally.

As such, the Bank's assessment and forecast for the fourth quarter of 2015 supported a cautious loosening of monetary policy in the final three months of the year. Operationally, this was through an increase in the reserve money target.

As illustrated in the chart below, against the above backdrop, the Bank managed to successfully meet all its quarterly reserve money targets during 2015.

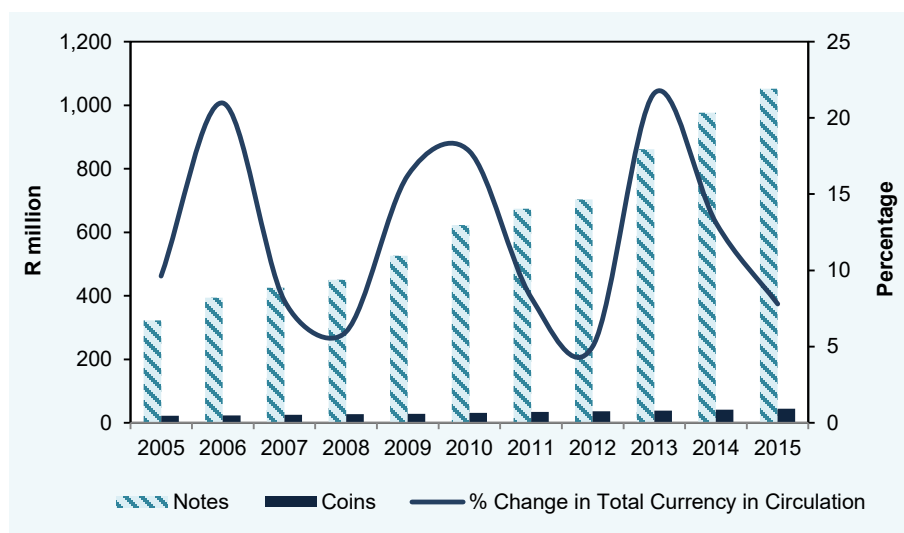
Chart 3.3: Reserve Money (2015)



Source: Central Bank of Seychelles

At the end of 2015, the stock of reserve money stood at R2,614 million which showed an expansion of 9.4 per cent in the monetary base compared to the end-2014 position. Such outcome was attributed to growth in both currency in circulation as well as ODCs' reserves, by 7.8 per cent and 11 per cent, respectively.

Chart 3.4: Notes and coins in circulation (2005 - 2015)



Source: Central Bank of Seychelles

3.4 Domestic Credit

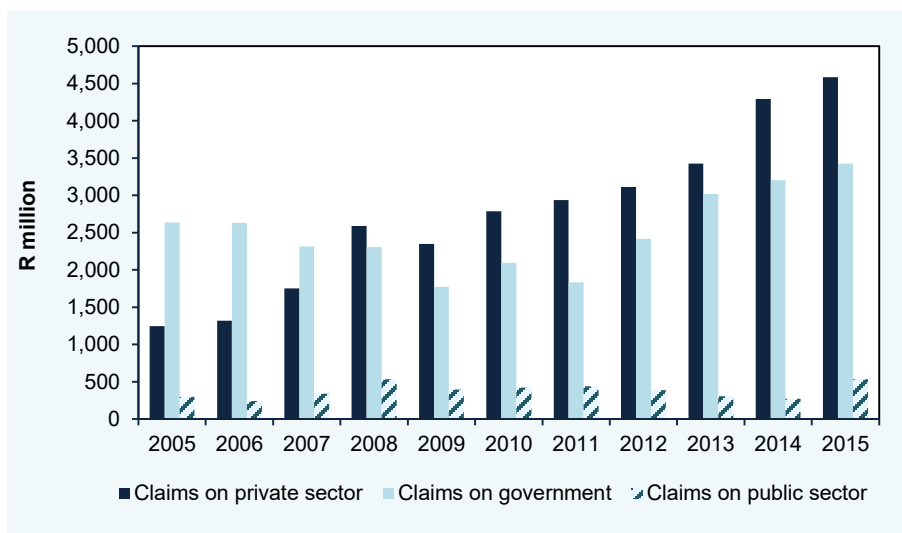
3.4.1 Central Bank and Other Depository Corporations

At the end of 2015, the total stock of outstanding domestic credit⁵ amounted to R9,727 million, which was a growth of 8.7 per cent compared to the previous year. Given that credit from the Bank was unchanged at R1,185 million, such outcome was attributed to an expansion in the stock of outstanding credit of ODCs which grew by 10 per cent.

The growth in the loan portfolio of ODCs reflected an increase in claims on all of the three main segments of the economy. On a percentage basis, the expansion in outstanding credit to public entities was the most significant. As highlighted earlier, the rate was 95 per cent representing loans to key organisation for the purpose of financing important infrastructures in support of growth and economic development. As for claims on government, the increase was by 6.9 per cent, part of which included issuance of short-term securities to assist with the mopping up of excess liquidity in support of monetary policy. Hence, although such issuance increases domestic public debt on a gross basis, its net effect is zero. To note and as highlighted earlier, in 2015, net claims on government fell by 7.9 per cent, an outcome that was consistent with the strategy to reduce debt to below 50 per cent of GDP by 2018.

The annual growth in claims on the private sector was by 6.9 per cent, a result that was partly attributed to an expansion of 26 per cent in foreign currency denominated loans (by 35 per cent in US dollar terms) and growth of 5.2 per cent in rupee loans.

Chart 3.5: Total Domestic Credit (2005 - 2015)



Source: Central Bank of Seychelles

⁵ That of the Bank and deposit-taking institutions.

3.4.2 Sectorial Allocation of Credit to the Private Sector⁶

A breakdown of the sectorial allocation of credit to the private sector showed that ‘*tourism*’ and ‘*private households & non-profit organisations*’ – each accounting for a share of 21 per cent of total private sector credit – represented the largest proportion. In 2015, the stock of outstanding credit to those sectors grew by 5.4 per cent and 21 per cent respectively. ‘*Real estate*’, another prominent sector, recorded a growth of 14 per cent whilst ‘*mortgage loans*’, which accounted for 11 per cent of total outstanding loans, rose by 7.9 per cent. In terms of weighted contribution to the 6.9 per cent growth in credit to the private sector, the three main categories were real estate (1.8 per cent), wholesale & retail trade (1.5 per cent) and manufacturing (1.1 per cent).

Table 3.3: Credit; ^{1/2/3} 2011 – 2015

	2011	2012	2013	2014	2015
	(R million)				
Total Credit	6,394.87	7,101.59	7,921.41	8,951.57	9,727.36
Other Depository Corporations	5,209.81	5,916.54	6,736.36	7,766.52	8,542.31
Claims on private sector	2,935.52	3,114.26	3,412.10	4,292.18	4,586.74
Claims on parastatal sector	439.36	386.27	303.80	272.16	531.48
Claims on government	1,834.93	2,416.00	3,020.46	3,202.17	3,424.09
of which:					
<i>Dev. fund stocks</i>	97.10	97.10	97.10	30.00	30.00
<i>Treasury bonds</i>	50.17	50.17	48.57	659.28	658.93
<i>Treasury bills</i>	1,121.79	1,698.39	2,113.88	1,778.16	2,045.60
Central Bank	1,185.05	1,185.05	1,185.05	1,185.05	1,185.05
Claims on government	1,185.05	1,185.05	1,185.05	1,185.05	1,185.05
of which:					
<i>Treasury bills</i>	1,185.05	1,185.05	1,185.05	1,185.05	1,185.05

Figures do not necessarily add up due to rounding off

¹ End of Period

² All figures for stocks, bonds and bills are at cost value

³ Changes in previous figures are due to revisions

Source: Central Bank of Seychelles

⁶ Effective January 2014, submissions pertaining to sectorial allocation of credit to the private sector were revised to more accurately capture the disaggregated loans portfolio.

Of note, the proportion of outstanding foreign currency denominated loans to the private sector in relation to total loans increased by 3.4 percentage points, from 22 per cent in 2014 to 26 per cent. By contrast, the share of rupee denominated loans fell from 78 to 74 per cent.

**Table 3.4: Other Depository Corporations – Loans and Advances
To Non-Governmental Sector by Economic Sectors¹ 2011 - 2015**

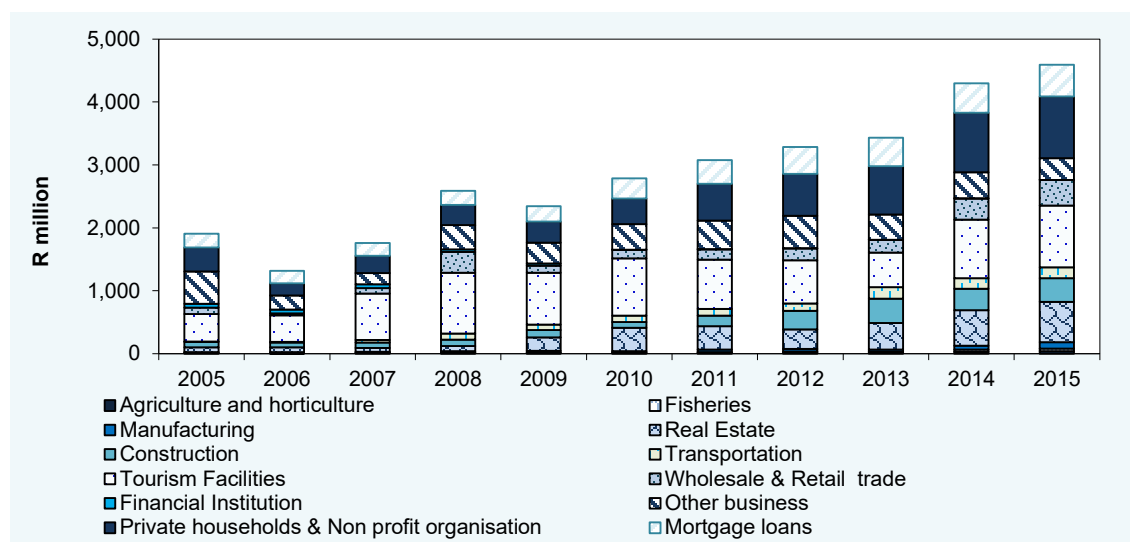
	2011	2012	2013	2014	2015
	(R million)				
Total Advances	3,078.0	3,283.3	3,431.0	4,292.2	4,586.7
<i>of which:</i>					
Foreign Currency Loan	620.4	655.2	646.4	1,124.1	1,145.6
Agriculture and horticulture	16.4	20.1	17.5	31.8	43.7
Fisheries	8.2	17.3	15.0	37.4	38.6
Manufacturing	44.6	37.5	33.8	57.0	102.3
Real Estate	371.0	310.2	423.3	564.8	641.8
Construction	164.7	294.8	388.1	341.8	375.3
Transportation	110.3	119.1	179.7	165.5	173.1
Tourism Facilities	778.5	689.0	548.9	930.8	981.1
Wholesale & Retail trade	166.0	186.2	202.4	338.6	404.8
Financial institutions	2.7	2.7	2.7	2.7	2.7
Other business	453.3	514.1	403.4	415.6	341.8
Private households & Non-profit organisation	582.9	664.7	763.4	945.3	984.1
Mortgage loans	379.5	427.6	452.8	463.5	500.2

Figures do not necessarily add up due to rounding off

¹ Changes in previous figures are due to revisions

Source: Central Bank of Seychelles

Chart 3.6: Loans and Advances to Non-Government Sectors (2005 - 2015)



Source: Central Bank of Seychelles

3.4.3 Development Bank's Credit⁷

The Development Bank of Seychelles (DBS) has a specific mandate to assist in the economic development of the country. DBS provides credit to relatively smaller businesses with less stringent terms and at rates that are relatively lower than industry's norms in several categories of loans.

Table 3.5: Loans by Development Bank by Economic Sectors¹ (2011 - 2015)

	(R million)					(Percentage (%))				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
Total Advances	483.6	467.9	394.5	409.7	522.9	100.0	100.0	100.0	100.0	100.0
Agriculture	25.7	26.7	24.0	25.9	27.3	5.3	5.7	6.1	6.3	5.2
Building and construction	-	-	-	21.3	103.1	-	-	-	5.2	19.7
Fishing	19.1	14.6	9.2	13.1	22.8	3.9	3.1	2.3	3.2	4.4
Industry	18.1	23.2	21.7	29.6	25.0	3.8	5.0	5.5	7.2	4.8
Tourism	135.4	136.0	112.5	108.1	121.6	28.0	29.1	28.5	26.4	23.3
Trade	-	-	-	2.4	3.2	-	-	-	0.6	0.6
Transport	-	-	-	39.9	72.0	-	-	-	9.7	13.8
Other services	285.2	267.5	227.0	169.5	147.8	59.0	57.2	57.5	41.4	28.3

Figures do not necessarily add up due to rounding off

¹ End of period

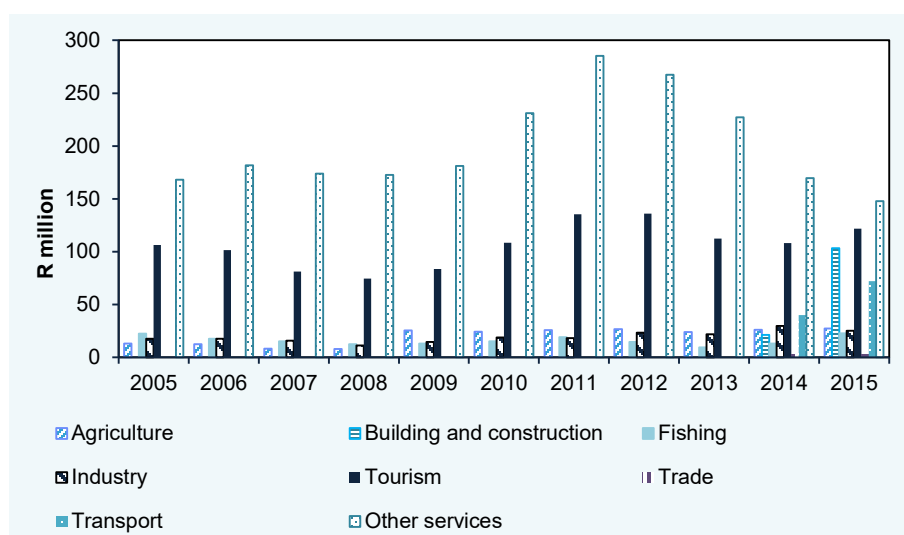
Source: Development Bank of Seychelles

⁷ DBS was established in 1977 under Decree No. 21 as a development financing institution with a specific mandate to assist in the economic development of Seychelles. DBS finances new modernisation and expansion projects in the fields of agriculture, fishery, industry, service and tourism as well as construction of commercial and residential complex. To be eligible for a credit facility, the applicant must be a Seychellois citizen or a company incorporated in Seychelles with at least 51 per cent Seychellois ownership.

In 2015, DBS' total loan portfolio expanded by R113 million (or 28 per cent) to stand at R523 million. The '*building and construction*' category, which accounted for 20 per cent of all loans, recorded the largest increase in absolute terms (R82 million), followed by loans under '*transport*' (R32 million). Loans under the category '*tourism*', which accounted for the largest share of total loans (23 per cent) increased by R14 million in relation to 2014.

Of note, the composition of DBS' loan portfolio was amended in 2015 with the addition of a new sector, namely '*telecommunications, computer & information*'. Notwithstanding this change, the category '*other services*' continued to represent the largest share (28 per cent) of DBS' loan portfolio although its contribution declined by 13 percentage points in relation to 2014. The proportion allocated under '*tourism*' fell from 26 to 23 per cent but remained the second largest category.

Chart 3.7: Total Domestic Credit (2005 - 2015)



Source: Central Bank of Seychelles

3.5 Interest Rates

The tight monetary policy stance of the Bank led to a reduction in the amount of free reserves held by deposit-taking institutions, hence translating to an overall increase in interest rates.

The average yield on fixed-term rupee deposits rose by 78 basis points, from 3.30% at end-2014 to 4.08%. The most significant rise in interest rates was recorded in the maturity brackets of 'above 3 months up to 6 months' and 'above 6 months but less than 12 months', and these were by 1.0 percentage point and 1.2 percentage points respectively. The average return on savings deposits also increased and this was by 59 basis points, from 2.31% to 2.91%.

During the year, government maintained its issuance calendar of Treasury bills and movements in the yields correlating with the prevailing monetary policy stance. By the year-end, yields on the 91-day, 182-day and 365-day bills stood at 5.70%, 6.39% and 7.15% correspondingly. These represented increases of 0.31 percentage

points on the 91-day maturity, 1.52 percentage points on the 182-day maturity and 1.55 percentage points on the 365-day maturity.

Table 3.6: Interest Rates^{1/2} (2011 – 2015)

	2011	2012	2013	2014	2015
Volume-weighted Average Deposits					
	(Per cent %)				
Savings Rate	1.14	1.93	1.45	2.31	2.91
Fixed Term Deposits Rate					
<= 7 days	1.07	1.80	1.24	1.10	1.18
> 7 days <= 3 months	1.90	5.32	2.11	2.45	3.12
> 3 months <= 6 months	3.67	5.39	2.58	3.72	4.73
> 6 months <= 12 months	3.99	7.63	3.56	4.65	5.80
> 12 months	3.46	7.41	4.79	4.56	5.54
Volume-weighted					
Average lending rate	11.41	13.22	11.59	12.05	12.55
91-day treasury bill rate	4.97	8.74	0.93	5.39	5.70
182-day treasury bill rate	5.59	8.60	1.35	4.86	6.39
365-day treasury bill rate	6.79	8.85	1.68	5.60	7.15

¹ All data are taken on an end of period basis

² Changes in previous figures are due to revisions

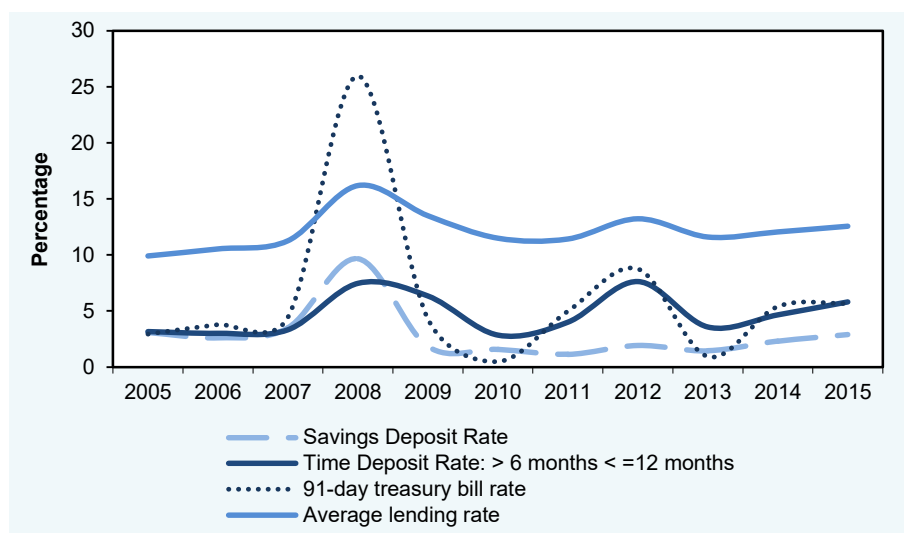
Source: Central Bank of Seychelles

With regards to the effective average lending rate, this rose by 51 basis points, up from 12.05% to 12.55%.

In consideration of the aforementioned developments, the interest rate spread – the difference between the lending and savings rates – narrowed by 8 basis points in comparison to 2014 to stand at 9.65%. As such, the interest rate spread remained on the high side.

The challenge which continued to be experienced during the year was the ineffective transmission of monetary policy through the interest rate channel. Hence, despite the increase in interest on the Bank's instruments in OMO coupled with the higher yield on short-term government securities, the extent of the transmission to the market, especially on deposits remained very weak. The Bank will continue to find ways to improve interest rate transmission which will positively impact the effectiveness of its monetary policy.

Chart 3.8: Interest Rates (2005 - 2015)



Source: Central Bank of Seychelles

3.6 Monetary Policy Instruments

As has generally been the case over past years, in 2015, the Bank's interventions in the money market were primarily to reduce the level of liquidity in the system with the use of liquidity absorbing instruments through interventions in the open market.

3.6.1 Minimum Reserve Requirement (MRR)

MRR applicable on average residents' deposit liabilities remained at 13 per cent throughout 2015. In general, institutions liable to MRR held reserves above the prescribed requirement throughout the year.

As regards to the interest on MRR, this remained at zero per cent as has been the case since July 15, 2011. At the end of the year, MRR applicable on rupee-denominated liabilities stood at R930 million, whilst that on the US dollar⁸ and euro deposit liabilities was US\$33 million and EUR15 million respectively.

3.6.2 Deposit Auction Arrangement (DAA)

DAA was the main monetary policy instrument utilised throughout the year to absorb liquidity. During the first quarter, the Bank – mindful of interest rate stability – primarily used both standard and non-standard operations to withdraw liquidity from the market, with all auctions being quantity based. Standard operations in this instance are defined as sequenced interventions around the MRR schedule using 7 and 28 day DAAs whilst non-standard operations were usually of longer maturities and used on an ad-hoc basis. As of April 1, the Bank switched to offering price-based auctions for DAA. By the end of 2015, the stock of outstanding DAA stood at R1,180 million compared to R885 million in 2014.

⁸ Foreign currency liabilities denoted in other currencies other than the euro are converted and classified as US dollar deposits.

The table below shows the interest rates on standard DAA offered during 2015.

Table 3.7: Weighted Average Deposit Auction Arrangement Rates¹ (2015)

	Q1	Q2	Q3	Q4
Maturity Period	Per cent (%)			
7 Days	4.50	5.99	5.66	4.02
28 Days	4.60	6.50	6.50	6.50

¹ End-of-month data

Source: Central Bank of Seychelles

3.6.3 Credit Auction Arrangement (CAA)

Owing to the fact that money market operations were only geared towards withdrawing liquidity from the system, the CAA, which is a liquidity-injecting instrument was not utilised in 2015.

3.6.4 Repurchase Operations

Two other instruments used in liquidity management are the reverse repurchase and repurchase agreements, which involve the use of government Treasury bills as underlying securities. The agreements are in the process of being amended and therefore were not employed in the Bank's OMOs in 2015.

3.6.5 Standing Facilities

Standing facilities are instruments that some central banks make available to assist ODCs with the management of their short-term liquidity on an overnight basis by offering deposit and lending arrangements.

3.6.5.1 Standing Deposit Facility (SDF)

The SDF allows ODCs to place their end-of-day excess funds in an overnight deposit at an interest rate set by the Bank. The rate applicable on this facility stood at 0.25%, unchanged from when it was last revised in August 2014.

3.6.5.2 Standing Credit Facility (SCF)

The SCF provides credit to ODCs on an overnight basis when funding is unavailable on the interbank market. The rate charged on this facility also remained unchanged at 1.75%.

During 2015, the Bank received 8 requests for this facility, predominantly during the third quarter of the year.

3.6.6 Emergency Lending Facility (ELF)

In addition to the standing facilities, the Bank also offers emergency liquidity support through the ELF⁹, in its capacity as lender of last resort if a bank encounters severe financial difficulties. This collateralised facility was not requested by any institution in 2015.

3.6.7 Foreign Exchange Auction (FEA)

The FEA is a tool which the Bank can use for both liquidity and reserve management purposes. Purchases from the market add liquidity and increase international reserves; a sale has the opposite effect. During 2015, the Bank opportunistically purchased US\$86 million from the market with the strategic aim of accumulating international reserves.

3.6.8 Foreign Exchange Swaps

Foreign exchange swaps are intended for the fine-tuning of liquidity in the system but may also be employed to manage external reserves. The Bank has yet to make use of this instrument since its introduction in 2010.

⁹ The facility is offered for duration of 60 days extendable to a maximum of 180 days.

SECTION FOUR

Government Finance

4.0 Overview

The 2015's budget outcome continued to reflect government's commitment towards sustained fiscal discipline which is consistent to meeting the medium-term debt strategy. Notwithstanding the year's shortfall in receipts of grants and therefore aggregate revenue collection, total expenditures were lower than planned. The resulted primary surplus stood at 3.9 per cent of GDP compared to the targeted 3.5 per cent.

On the policy front, additional measures under the tax reform agenda were introduced in an effort to further broaden the tax base and generate higher revenues. In addition to the upward revisions in excise and road taxes, new exemptions under VAT were introduced in order to address concerns raised regarding the cost of living in the country. The former policy actions were consistent with government's commitment to ensure that its fiscal policies remained sustainable.

4.1 Policy changes

Fiscal policy changes effected in 2015 focused mainly on broadening the tax base in a bid to generate higher revenues, namely through the introduction of supplementary measures to reform the tax system. Most measures became applicable as of January. An important element was the upward revisions in excise and road taxes. In a bid to curb the excessive alcohol and tobacco consumption and the associated effects that these can have on society, the excise tax on all alcoholic drinks with an alcohol content exceeding 16 per cent was increased by 20 per cent whilst that on all tobacco products was raised by 50 per cent. As for the road tax, it was raised to R2.50 per cc for privately-registered vehicles and trucks above 5 tonnes, and R2.0 per cc for all other vehicles.

The threshold for mandatory registration for VAT was lowered to R2.0 million, and this is expected to increase both the number of VAT registered businesses as well as revenue collection. In addition, the VAT deferred payment facility was extended to cover all imports to be used in construction projects, which aims at reducing the initial cost of such projects, particularly in the tourism sector. VAT exemptions implemented during the year included that on transportation of cargo to all inner islands, lease payments and residential construction projects amongst others.

Measures were also put in place to boost tax compliance given the high level of tax from businesses in arrears. In January, the Seychelles Revenue Commission executed an arrears recovery plan which included an amnesty on penalties due on tax payments that have passed their due dates. Moreover, consistent with the government's policy of promoting clean and renewable energy, duty on all electric vehicles was eliminated and subsidies became applicable for the installation of solar panels.

Table 4.1: Government Budget Summary¹
(2014 - 2015)

	2014 Budget	2014 Actual ¹	2015 Budget	2015 Actual ¹
SCR('000)				
Total revenue and grants	6,199,979	6,398,246	6,579,756	6,357,477
Total revenue	5,716,495	5,887,217	6,181,949	6,213,124
of which:				
Tax	5,050,826	5,160,709	5,466,884	5,539,347
Personal Income Tax	864,695	893,429	929,827	947,285
Trade Tax	198,334	353,484	277,328	326,256
Excise Tax	840,918	843,138	894,402	961,753
GST	-	5,326	-	4,372
Value Added Tax	1,652,843	1,764,735	1,821,371	1,791,779
Business tax	912,676	766,009	849,512	747,720
Corporate Responsibility Tax	56,934	75,554	67,702	79,437
Tourism Marketing Tax	21,998	49,848	53,102	45,359
Other Tax	502,428	409,185	573,639	635,387
Non-tax	665,668	726,508	715,065	673,777
Fee and Charges	267,499	357,876	331,605	327,109
Dividends Income	225,535	212,907	261,659	236,981
Other Non-tax	172,634	155,726	121,800	109,687
Grants	483,484	511,028	397,808	144,353
Expenditure and net lending	6,077,819	5,982,898	6,534,774	6,128,603
Current expenditure	4,755,458	4,850,219	5,159,896	5,192,262
Primary Current Expenditure	4,189,839	4,465,221	4,514,409	4,652,236
Interest due	565,619	384,997	645,486	540,026
Transfers	1,913,279	1,939,440	2,359,271	2,441,316
Capital expenditure	1,190,598	965,109	1,181,503	800,757
Net lending	86,762	122,571	148,374	87,043
Contingency	45,000	45,000	45,000	48,541
Primary balance, Accrual basis (GFS)²				
Including grants	687,779	800,345	690,469	768,900
In percent of GDP	3.7%	4.4%	3.5%	3.9%
Excluding grants	204,295	289,317	292,661	624,547
In percent of GDP	1.1%	1.6%	1.5%	3.2%
Overall balance, Accrual basis (GFS)	122,160	415,348	44,983	228,874
In percent of GDP	0.7%	2.3%	0.2%	1.2%
Overall balance, cash basis (after grants)	122,160	294,850	44,983	228,874
Financing	-122,160	-294,850	-44,983	-228,874
Foreign Financing (accrual basis, net)	227,035	174,562	-115,895	-85,307
Domestic Financing , net	-413,887	-544,650	38,453	82,044
Bank Financing	-391,537	-614,501	42,642	-213,239
Non-Bank Financing	-22,351	69,851	-4,189	295,283

Figures do not necessarily add up due to rounding.

¹ These series are subject to audit and might be revised accordingly.

² The primary balance is obtained by excluding interest payments from the overall balance.

Source: Ministry of Finance, Trade and Blue Economy

4.2 Public Debt

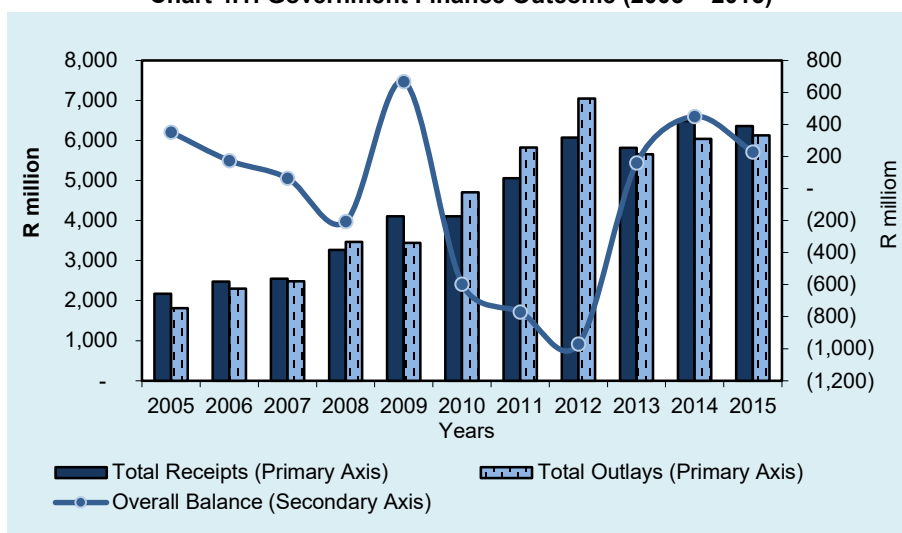
Throughout the year, the government remained on track with its debt reduction strategy as reflected in developments in public debt dynamics. As per the strategy, the total stock of public debt is to be reduced to 50 per cent of GDP by 2018.

At the end of December 2015, the aggregated stock of public debt stood at R11,758 million, which was a decline compared to R11,839 million in the previous year. In terms of GDP, the total value of public debt fell to 60 per cent from 65 per cent at the end of 2014.

4.3 Outcome for 2015

The fiscal outcome for 2015 remained positive. The government accounts achieved another annual surplus due to savings materialised on the expenditure side despite the fact that total revenue was below forecasts.

Chart 4.1: Government Finance Outcome (2005 – 2015)



Source: Ministry of Finance, Trade and Blue Economy

4.4 Revenue

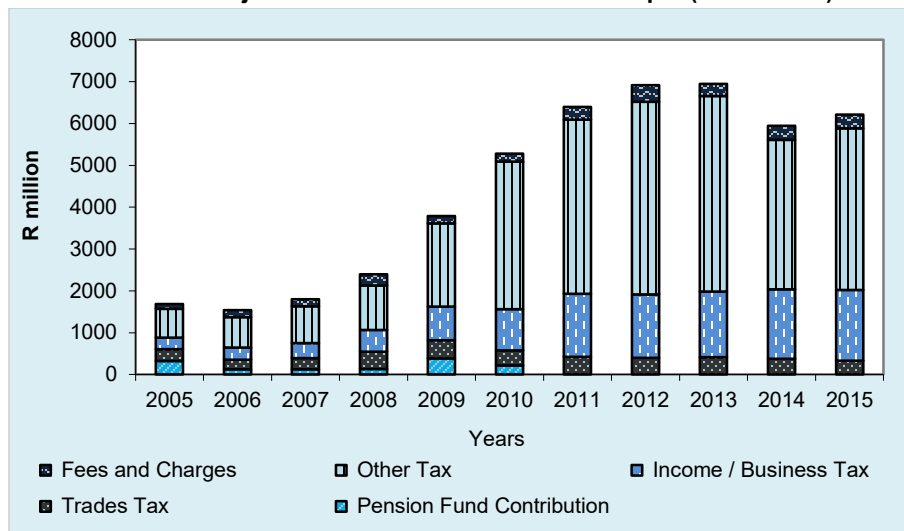
Total revenue (including grants) stood at R6,357 million which was 3.4 per cent below forecasts. The under-performance on the revenue side was as a result of less-than-expected receipts under non-tax and to a larger extent received grants; total receipts of grants were below forecast by 64 per cent.

As a share of GDP, total revenue declined to 33 per cent from 35 per cent in the previous year.

The amount collected as tax revenue stood at R5,539 million compared to the forecasted R5,467 million. This outcome was as a result of the over-performance in receipts of trades tax, corporate social responsibility (CSR) and 'other tax' by 18 per cent, 17 per cent and 11 per cent respectively. By contrast, receipts from the tourism marketing tax was 15 per cent below expectation whilst revenue from business tax was 12 per cent less than its projected amount.

With regards to non-tax revenue, this stood at R674 million which was a shortfall of 5.8 per cent against the budget. The under-performance was driven by the lower-than-expected receipts across all of its components.

Chart 4.2: Major Revenue Flows in Current Receipts (2005 - 2015)

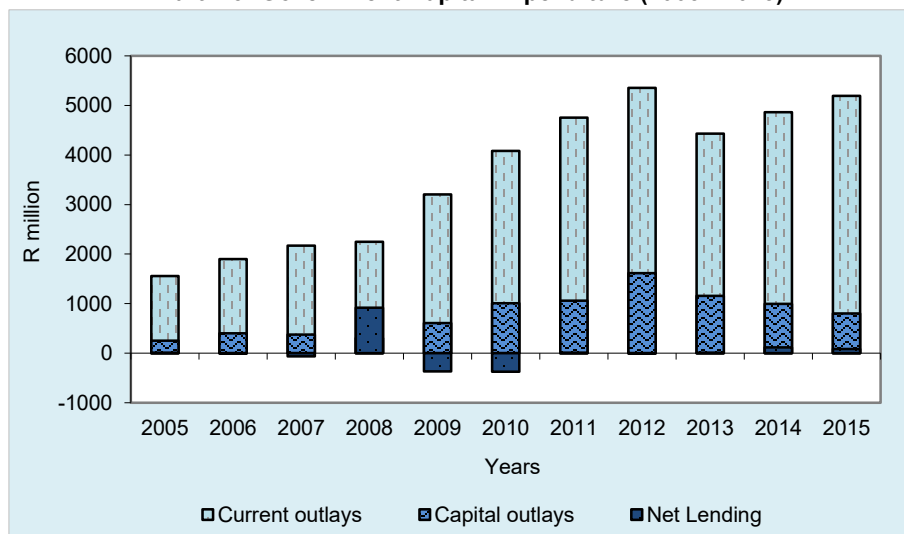


Source: Ministry of Finance, Trade and Blue Economy

4.5 Expenditure and Net Lending

The year's total expenditure of the public sector inclusive of net lending amounted to R6,129 million compared to the budgeted R6,535 million. The government has budgeted R148 million as net lending and as at December 2015, the actual total value was R87 million or R61 million lower than allocated.

Chart 4.3: Government Capital Expenditure (2005 - 2015)



Source: Ministry of Finance, Trade and Blue Economy

4.5.1 Current Outlays

At R5,192 million, the aggregate current expenditure in 2015 was more than budgeted by 0.6 per cent. This was primarily as a result of overspending to finance social programmes of central government, goods and services as well as ‘transfers to the public sector’ by 16 per cent, 3.3 per cent and 2.6 per cent, respectively.

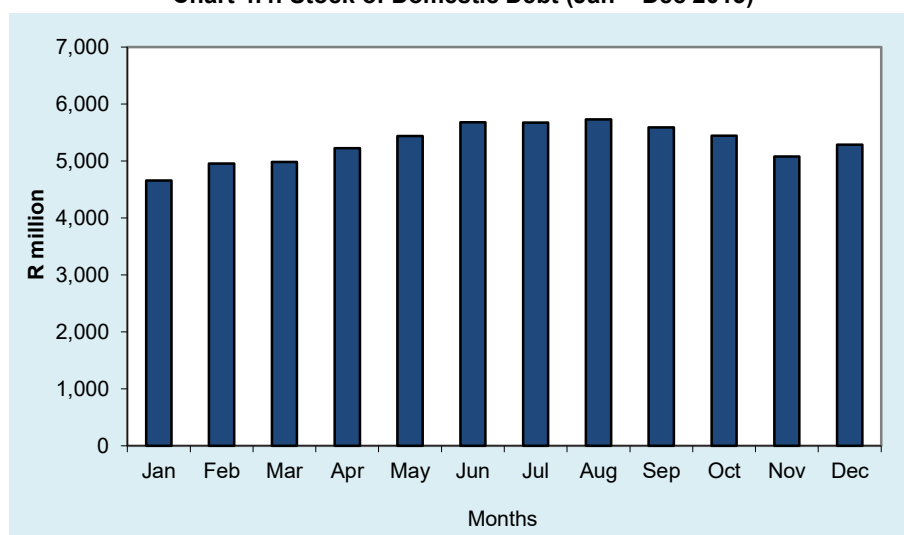
4.5.2 Capital Outlays

The aggregate capital outlays for the year stood at R801 million, which was R381 million or 32 per cent less than the planned amount. The bulk of capital expenses went towards the financing of capital projects, for which the total value stood at R695 million. The sum spent as development grants amounted to R90 million, and was appropriated to PUC (R80 million) and SPTC (R9.7 million).

4.6 Financing

Given the overall budget surplus which was also above expectation, the actual financing requirement of the government for the year was *negative* R229 million compared to the forecasted *negative* R45 million.

Chart 4.4: Stock of Domestic Debt (Jan – Dec 2015)



Source: Ministry of Finance, Trade and Blue Economy, Central Bank of Seychelles

4.6.1 Treasury Bills

Treasury bills continued to be the main short-term instrument used to meet the domestic financing needs of the government during 2015. The total stock of outstanding Treasury bills ended the year at 22 per cent higher than the balance for end-2014. This outcome, which represented the face value balance on a gross basis, was mainly attributed to issuances of such instruments for monetary policy purposes which has no net effect on the total value of outstanding domestic debt.

In terms of yield on these short-term government securities, the average for the year increased across all three maturities although an overall gradual decline was observed in the last quarter of the year. As at end-December

2015, the yield on the 91-day, 182-day and 365-day bills stood at 5.70%, 6.39% and 7.15% respectively. The corresponding average interest rates on the aforementioned instruments ended the previous year at 5.39%, 4.86% and 5.60%, respectively.

Table 4.2: Treasury Bills ^{1/2/3/} (2011 – 2015)

	2011	2012	2013	2014	2015
	R (million)				
Stock outstanding ^{1/3/4}	1,303.8	2,084.4	2,196.7	2,215.4	2,857.3
91-day bills (tender issue)	156.9	167.6	330.0	279.7	404.4
182-day bills (tender issue)	458.5	435.2	642.3	535.8	524.9
365-day bills (tender issue)	688.5	1,481.6	1,224.4	1,399.8	1,927.9
Stock outstanding ^{2/3/4}	2,822.4	3,945.7	2,256.2	2,312.8	3,096.9
91-day bills (tender issue)	2,568.0	3,676.3	331.3	284.6	410.8
182-day bills (tender issue)	0.0	0.0	649.6	551.3	549.4
365-day bills (tender issue)	254.4	269.4	1,275.2	1,476.9	2,136.7
Held By ^{3/}					
Commercial banks	1,153.9	1,822.2	2,173.6	1,841.5	2,186.5
Other financial institutions	51.6	26.7	10.0	152.4	289.0
Others	150.8	468.6	72.5	319.0	621.4

¹ At cost value

² At face value

³ End of period data

⁴ Balances exclude stock of bills held by the Central Bank and includes stock issued for monetary policy purposes

Source: Central Bank of Seychelles

4.6.2 Treasury Bonds

No new government bonds were issued in 2015. As at December, the outstanding stock of bonds stood at R815 million, which due to maturities during the year was a decline of 11 per cent in the outstanding balance compared to R911 million in 2014.

Table 4.3: Treasury Bonds ¹ (2011 - 2015)

	2011	2012	2013	2014	2015
	R (million)				
Stock outstanding	393.6	293.6	193.8	911.0	814.6
4.0%, 2-yr	-	-	-	300.0	300
4.5%, 3-yr	-	-	-	262.6	262.6
5.5%, 5-yr	-	-	-	250.0	250.0
16%, 10-yr (8%)	293.6	293.6	193.8	98.4	2.0
20%, 5-yr (10%)	100.0	-	-	-	-
Held by :					
Commercial banks	4.9	4.9	3.3	614.0	610.9
Other financial institutions	195.6	196.4	165.1	159.2	91.4
Others	193.1	0.0	25.4	139.1	112.2

¹ End of period data

Source: Central Bank of Seychelles

4.6.3 Government Stocks

The outstanding balance of government stocks remained unchanged at R30 million. With no new issuance expected, these securities will be phased out upon maturity in 2017.

Table 4.4: Government Stocks ^{1/2} (2011 – 2015)

	2011	2012	2013	2014	2015
	R (million)				
Stock outstanding	100.0	100.0	100.0	30.0	30.0
8%, 2014	70.0	70.0	70.0	-	-
8.50%, 2017	30.0	30.0	30.0	30.0	30.0
Held by					
Commercial banks	97.1	97.1	97.1	30.0	30.0
Others	2.9	2.9	2.9	-	-

¹ End of period data

² At cost value

Source: Ministry of Finance, Trade and Blue Economy, Central Bank of Seychelles

SECTION FIVE

External Sector¹⁰

5.0 Overview

As a small open economy, the outcome of the external sector gives a portrait of Seychelles' position based on its transactions with the rest of the world. Whilst the influence of the external environment has the potential to shock the domestic economy with adverse consequences, the 2015's episode can be viewed as generally positive. This particularly takes into consideration the generally low or declining commodity prices observed for most part of the year in view of sluggish global demand as the world economy remained in a fragile state.

Nonetheless, as a net importer, Seychelles has benefited from the lower cost of foreign goods, particularly that of oil. However, by contrast, the country was adversely affected by relatively lower export prices. Moreover, whilst the tourism sector performed well in terms of a 19 per cent increase in visitor arrivals to a new annual record, such outcome was not matched by higher earnings and the ability of the sector to achieve increasing yield and simultaneously remaining competitive continued to be an important challenge for the main stakeholders in the industry. On the whole, an overall improvement in the country's current account balance was recorded as the deficit narrowed from 22 per cent of GDP in 2014 to 17 per cent in 2015.

Moreover, in spite of the uncertain global economic environment, Seychelles continued to attract FDI which managed to maintain an increasing trend in 2015. Domestic development including the appropriate policy mix supported an appreciation of the Seychelles rupee (SCR) against the major international currencies with the exception of its value against the USD which weakened compared to the average of 2014. The overall stability of the domestic currency was supported by relatively lower demand in the foreign exchange market compared to the previous year, an outcome that was in part driven by the weaker international commodity prices.

Against the above backdrop, the Bank continued to accumulate foreign reserves through opportunistic purchases from the market. As a result, the country's gross official reserves increased to US\$536 million in 2015 from US\$464 million the previous year, which was equivalent to 4.9 months of imports of goods and services¹¹. Such outcome implied the actual NIR result outperformed its target by US\$14 million to stand at US\$423 million.

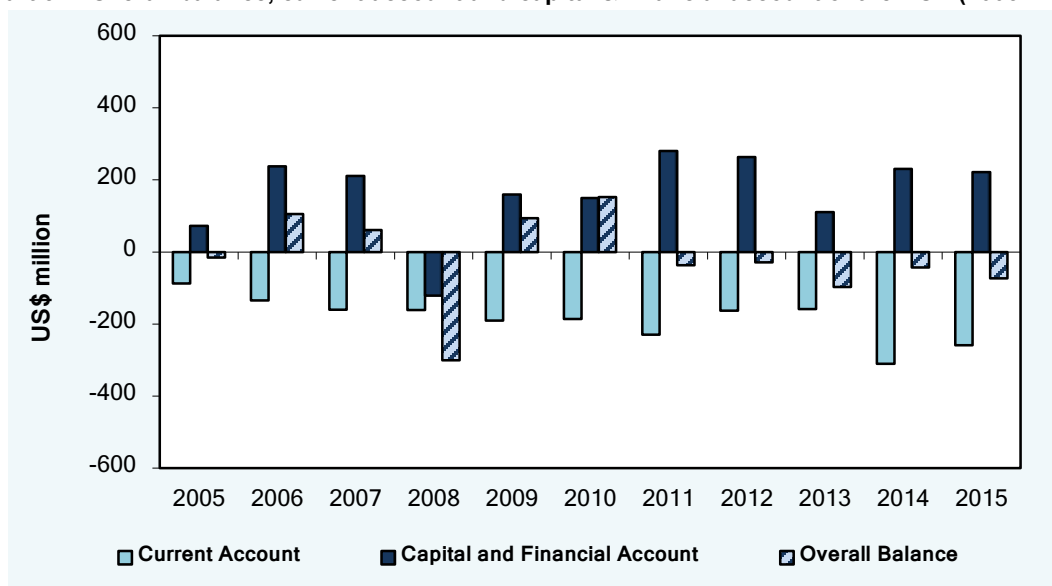
¹⁰ Since 2015 the Bank has started to include offshore sector data, particularly the activities of entities registered as Company Special Licence (CSLs), in the Balance of Payments (BOP). This was a prerequisite for the country's subscription to the IMF Special Data Dissemination Standards (SDDS). The new offshore data has significantly altered the country's BOP in particular the capital and financial account. To note that the BOP has been revised as far back as 2012 in order to include the offshore sector data.

¹¹ Based on estimated imports of US\$1,309 million.

5.1 Current account

As a net importer, Seychelles' current account is inherently in deficit. Preliminary estimates indicate that the deficit narrowed to US\$259 million in 2015 or 17 per cent of GDP. This was an improvement of US\$52 million relative to the preceding year mainly due to a reduction in the value of imports, attributed to lower prices, particularly that of energy.

Chart 5.1: Overall balance, current account and capital & financial account of the BOP (2005 - 2015)

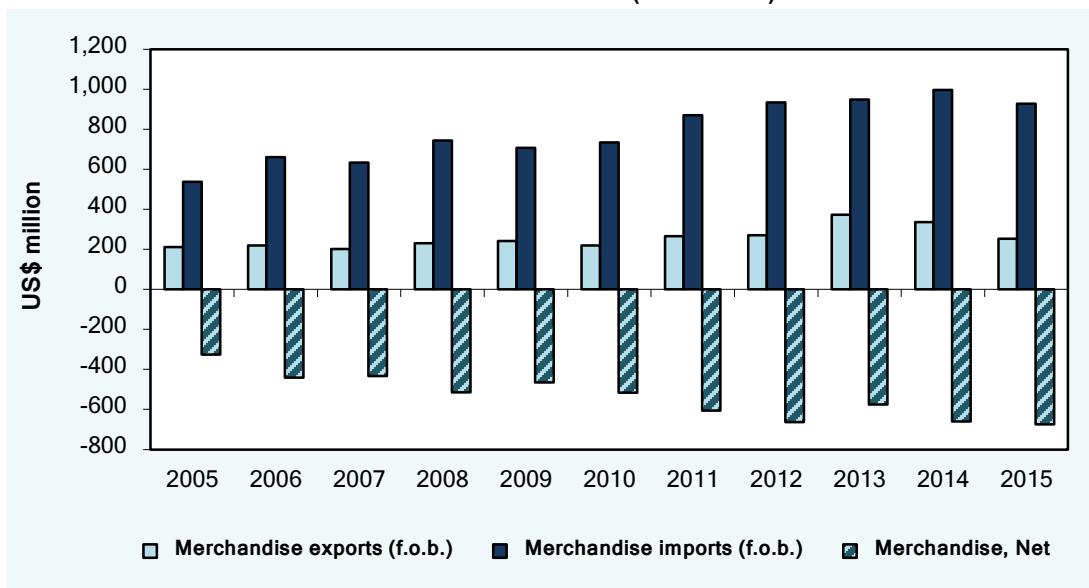


Source: Central Bank of Seychelles

5.1.1 Trade in goods

In 2015, the country's trade deficit declined to US\$479 million or by 12 per cent relative to 2014. As highlighted above, such outcome was due to a reduction in the total value of imports on account of declining international commodity prices especially oil. This was despite the contraction in exports earnings in 2015 compared to 2014.

Chart 5.2: Trade in Goods (2005 - 2015)



Source: National Bureau of Statistics & Central Bank of Seychelles

Table 5.1: Seychelles Balance of Payments¹ (2011 - 2015)

	2011	2012	2013	2014	2015 Prov.
CURRENT ACCOUNT (USD million)	-230	-163	-159	-310	-279
Goods,	-438	-469	-445	-542	-479
Credits (of which:)	477	559	629	539	449
Merchandise exports (f.o.b.)	265	272	374	337	253
Debits (of which:)	915	1,028	1,075	1,081	928
Merchandise imports (f.o.b.)	871	934	950	997	848
Services, net	272	286	354	331	322
Credits (of which:)	544	674	827	834	805
Tourism Earnings	364	388	430	398	392
Debits	272	388	472	504	484
Primary Income, net	-70	-4.0	-82	-102	-120
Compensation of employees	-2.1	-8.8	-11	-7.2	-16.2
Credit	0.9	0.9	0.9	0.9	4.2
Debit	3.0	9.7	12	8.2	20
Investment income	-68	3.6	-72	-95	-104
Credits	2.0	118	34	12	7.0
Debits	50	114	106	106	111
Secondary Income, net	6.6	25	15	2.8	-1.0
General government	29	55	52	38	43
Credits	29	55	52	38	43
Fishing licence fees	3.9	12	10	7.6	3.6
Other grants	26	43	42	31	39
Debits	0.0	0.0	0.0	0.0	0.0
Other sectors	-23	-30	-38	-35	-40
Credits	24	17	12	14	12
Debits	47	47	50	49	53
CAPITAL AND FINANCIAL ACCOUNT	280	263	111	231	222
CAPITAL ACCOUNT	61	64	71	39	37
FINANCIAL ACCOUNT	-220	-199	-40	-192	-185
Direct investment	-199	-426	-125	-185	-199
Abroad	7.9	188	-68	-77	-85
In Seychelles	207	613	57	108	114
Portfolio investment	35	55	18	13	-31
Assets	35	68	39	-8.0	-10
Liabilities	0.0	13	21	-21	21
Other investment	-91	143	-29	-63	-28
Assets	-68	318	-57	-46	-168
Liabilities	24	175	-28	16	-140
Net errors and omissions	-50	-100	48	80	-16
OVERALL BALANCE	-37	-28	-97	-43	-73
Financing of overall balance	44	30	97	43	73
Reserve assets	37	28	97	43	73
Arrears	7.9	1.1	0.0	0.0	0.0
Memorandum items:					
Current account (percentage of GDP)	-22	-14	-11	-22	-17
Trade Balance (f.o.b.). (merchandise exports less imports)	-606	-663	-576	-660	-595
Stock of Reserves (Gross) (US\$ million)	279	307	425	464	536
Stock of Reserves (Gross) (Months of cif imports)	2.8	2.6	3.2	3.9	4.9
Exchange Rate (Rupee/US\$; period average)	12.3800	13.6944	12.0577	12.7527	13.3096

¹Data series may differ from previous publications due to revisions.

Source: Central Bank of Seychelles

5.1.2 Merchandise exports

In 2015, the aggregate value of merchandise exports (fob)¹² amounted to US\$253 million, which was a decline of 25 per cent relative to 2014 (US\$337 million). The main reason for this performance was the decrease in canned tuna exports from US\$318 million the year before to US\$239 million. This was primarily due to price rather than volume effects and was associated with the relatively weaker euro relative to the US dollar in 2015.

5.1.3 Merchandise imports

Total payments for imported merchandise (fob) stood at US\$848 million in 2015, which was a decrease of US\$149 million compared to US\$997 million in 2014. In terms of its composition, although '*machinery & transport equipment*' (30 per cent) and '*food, live animals and vegetables*' (23 per cent) remained in the top three main categories of imports, '*mineral fuels*' (18 per cent) has been replaced by '*manufactured goods & misc. manufactured articles*' (20 per cent) for the first time in five years. Such outcome reflected the reduction in the value of imported mineral fuel.

Table 5.2: Imports (c.i.f.) - by HS¹ Sections (2011 - 2015)

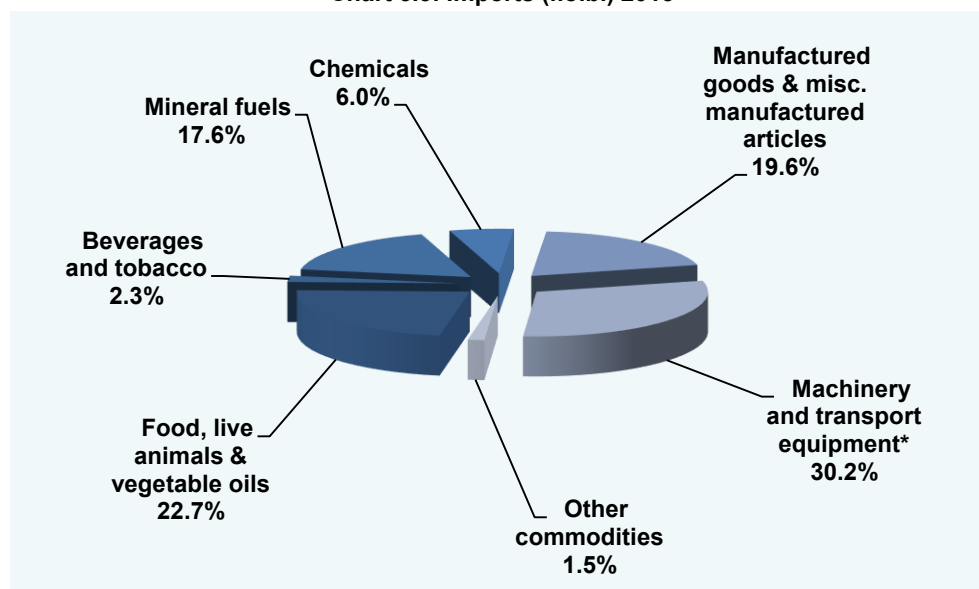
	2011	2012	2013	2014	2015
Description	(US\$ million)				
Total Imports	1,049	1,070	1,083	1,143	987
Food, live animals & vegetable oils	235.1	258	295	257	224.5
Beverages and tobacco	15.4	16	19	23	22
Mineral fuels	260	308	274	288	174
Chemicals	51	67	46	51	59
Manufactured goods & misc. manufactured articles	212	186	176	217	194
Machinery and transport equipment	258	218	239	288	298
Other commodities	18	18	32	19	15

¹ Harmonised System

Source: National Bureau of Statistics & Central Bank of Seychelles

¹² "Free On Board" (FOB) means what it costs to get the goods to the boat (or equivalent). The alternative is CIF which means "Cost, Insurance, Freight", and includes additional costs to get the good to the foreign customer.

Chart 5.3: Imports (f.o.b.) 2015



Source: National Bureau of Statistics

5.2 Services

Consistent with past trend, the country's services account remained in surplus in 2015. Exports of services however, declined by US\$9.1 million or 3.5 per cent to stand at US\$805 million. Although the tourism industry, the country's main export of services, recorded a 19 per cent increase in visitor arrivals, earnings from the sector is estimated to have declined by 1.4 per cent to US\$392 million. To a large extent, such outcome was influenced by the depreciation of the euro against the US dollar observed during the year. In euro terms, tourism earnings is estimated to have achieved an annual growth rate in excess of 10 per cent.

A drop was also recorded in the value of services acquired from non-residents and this was US\$20 million or 4.0 per cent to stand at US\$484 million. As a result of the aforementioned developments, the net value of the country's exports of services stood at US\$322 million in 2015, a 2.7 per cent drop relative to the 2014's level.

Notable, the tourism sector saw a resurgence in visitor arrivals from the traditional European markets, namely France and Italy, with the former's performance enhanced by the resumption of direct flights to Paris. Nonetheless and despite sustained growth in visitor arrivals from emerging markets (e.g. China), the average spending per visitor was below that of previous years, a concern that was raised by the industry during the year.

5.3 Primary Income

In 2015, the balance under the primary income account remained in deficit at US\$120 million, or US\$19 million above that of the previous year's level. Higher investment income outflows, namely interest and dividend payments as well as payments of management fees were the determinants of the widening primary income account deficit.

5.4 Secondary Income

The country's net secondary income account recorded a deficit. This was associated with the estimated increased remittances by foreign workers in Seychelles, namely from the tourism and construction industries. In terms of official transfers, the cumulative amount for the year – which mainly represented grants for budget support – increased to US\$43 million compared to US\$38 million in 2014.

5.5 Capital and financial accounts

In 2015, the capital and financial accounts remained in surplus although its value decreased from US\$231 million the year before to US\$222 million.

5.5.1 Capital account

A surplus of US\$37 million was recorded in the capital account, which was a decline of US\$2.2 million or by 5.6 per cent in comparison to 2014. Official capital transfers remained the main component of this account. Inward official capital transfers comprised of a number of projects financed by the country's bilateral partners, budget support and donations of high-value capital goods.

5.5.2 Financial account

According to preliminary estimates, the financial account for the year was a deficit of US\$199 million, a decrease of US\$14 million compared to the previous year. Its main component is foreign direct investment, the gross inflows of which were estimated at US\$114 million, an increase of US\$5.6 million compared to 2014. Although the tourism industry continued to attract the bulk of foreign investments followed by the fisheries sector, the increased liabilities of offshore companies – namely entities registered under companies special licences – also influenced the FDI level.

5.6 External reserves

The Bank continued to pursue its reserves accumulation objective during 2015 aimed at improving the sustainability of the country's external position, thus to act as a buffer against potential external shocks. In line with its policy of opportunistic purchases of foreign exchange from the local market, the Bank was able to buy a total of US\$86 million during 2015 compared to US\$47 million in 2014. This was achieved due to the relatively lower demand for foreign exchange on the domestic market whilst the domestic currency simultaneously remained stable.

The country's gross official reserves stood at US\$536 million as at the end of December 2015, an increase of US\$72 million or 15 per cent in comparison to the previous year. The aforementioned level of reserves was equivalent to 4.9 months of the country's total imports of goods and services compared to 4.1 months in the preceding year. At year's end, the NIR outperformed its target by US\$14 million to stand at US\$423 million.

Table 5.3: External Reserves¹ (2011 - 2015)

	2011	2012	2013	2014	2015
	(US\$ million)				
Gross official reserves	279	308	426	465	536
Central Bank	279	307	425	464	536
Government	0.5	0.5	0.8	0.7	0.6
Central Bank's External liabilities	36	42	44	42	42
Net official Reserves (include blocked deposits)	243	243	266	423	494
Net official Reserves (exclude blocked deposits)	217	235	334	364	423

¹ End of period data

Source: Central Bank of Seychelles

5.7 Exchange rates

The Seychelles rupee (SCR) appreciated vis-à-vis the major international currencies in 2015 except against the USD. Lower net outflows of foreign exchange was recorded implying less demand relative to supply which has supported the performance of the local currency.

On average, the rupee traded at R13.3096 against the USD, R14.7554 relative to the EUR and R20.2793 vis-à-vis the GBP. This represented a depreciation vis-à-vis the USD by 4.4 per cent but an appreciation against both the EUR and the GBP, and this was by 13 per cent and 2.9 per cent respectively.

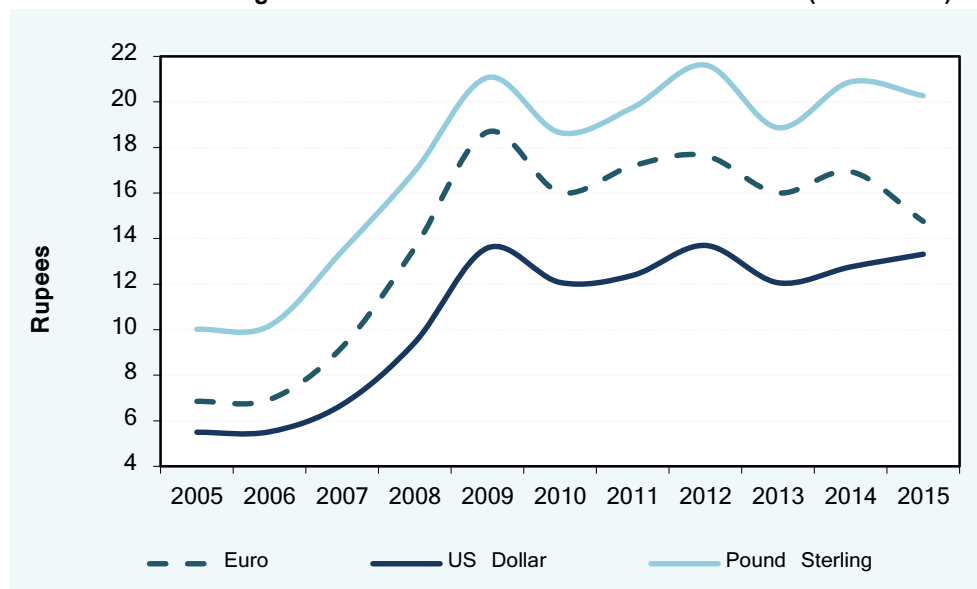
Table 5.4: Exchange Rates¹ (2011 – 2015)

	2011	2012	2013	2014	2015
	(Seychelles Rupees per currency unit)				
Euro	17.1984	17.6398	16.0064	16.9395	14.7554
US Dollar	12.3800	13.6944	12.0577	12.7527	13.3096
Pound Sterling	19.7572	21.6281	18.8724	20.8874	20.2793
Japanese Yen	0.1555	0.1718	0.1239	0.1205	0.1100
South African Rand	1.7106	1.6745	1.2558	1.1752	1.0506
Singapore Dollar	9.8412	10.9616	9.6419	10.0595	9.6840

¹ Period Averages

Source: Central Bank of Seychelles

Chart 5.4: Exchange rate movements of the three main currencies (2005 - 2015)



Source: Central Bank of Seychelles

5.8 Developments in Financial Services

Following a phase 2 review in 2013, Seychelles was rated as non-compliant overall by the Global Forum on Transparency and Exchange of Information for Tax Purposes of the Organisation for Economic Co-operation and Development (OECD). The rating was based on two main areas of concern relating to the availability of ownership and accounting information.

Further to the Global Forum's recommendations, the Financial Services Authority (FSA) introduced appropriate mechanisms to ensure that ownership and accounting information is available in Seychelles. These measures are reflected through amendments to the relevant legislations as well as increased supervision of entities under the purview of the FSA.

In 2015, the Global Forum conducted a supplementary review of the legal and regulatory frameworks in place in Seychelles and subsequently upgraded the country's overall rating to 'largely compliant'.

The country's equity market maintained its growing trend. The year saw increased activities on the Seychelles Securities Exchange (SSE) with a new company listed under the name DMA Angara Limited.

With regards to the insurance sector, in March, Insurers Association of Seychelles (IAS) was officially registered by the Registrar of Associations. The association, the first of its kind in Seychelles, comprises of representatives from the following insurers H. Savy Insurance, MUA Seychelles, SACOS Insurance Co. Ltd and Falcon Insurance. The purpose of the IAS is to represent the collective interest of the local insurance industry and promote acceptable business ethics standards and professional integrity amongst all stakeholders.

With the enactment of the Seychelles Gambling Act 2014, the mandate of the FSA was expanded to include the regulation of certain activities within the gambling sector. The Act which came into force on November 1, 2015 caters for the licensing and regulation of casinos, gaming machines (slot machines) and interactive gambling.

5.9 International Relations

The attainment of the country's developmental objectives is invariably dependent on the support it receives from its multilateral and bilateral partners. Both on the multilateral and bilateral fronts, Seychelles continued to pursue an active diplomatic stance as depicted by the various donations and the signing of a number of agreements.

Regional Economic Communities (RECs) namely the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), maintained the implementation of their respective regional integration programmes throughout 2015.

5.10 Multilateral Institutions

A key platform of Seychelles' economic diplomacy is its interaction with multilateral institutions. The latter continued to make valuable contribution to the country's economic development.

5.10.1 International Monetary Fund (IMF)

During 2015, the IMF conducted an Article IV consultation and two review missions under the EFF arrangement. Following the missions which were conducted in March and September, Seychelles received a sum of approximately US\$4.6 million, bringing total disbursements under the arrangement to SDR 6.540 million (about US\$9.1 million). The EFF was approved on June 4, 2014 for a total sum of SDR 11.445 million (about US\$15.7 million, at the time of approval of the arrangement or 105 percent of Seychelles' quota under the IMF's guidelines), and followed the expiration of the previous EFF in December 2013.

Another important development during the year was Seychelles' subscription to the SDDS of the IMF in May. Seychelles became the 64th country worldwide to subscribe to the SDDS and is only the third sub-Saharan African country after South Africa and Mauritius to have subscribed to this reporting standard. The year also saw the appointment of Mr Ronald Cafrine as the adviser to the Executive Director at the IMF for the Asia-Pacific constituency. The appointment took effect in August.

5.10.2 World Bank

The World Bank Board of Executive Directors approved an International Bank for Reconstruction and Development (IBRD) loan of US\$5.0 million for Seychelles to support on-going reforms promoting inclusive growth aimed at boosting shared prosperity.

The World Bank 2016 Doing Business report, which was released in October, ranked Seychelles 95 out of 189 countries in the *Ease of Doing Business Index*, an improvement of 9 places compared to a ranking of 104 in 2015¹³.

The former Central Bank Governor and Minister of Finance, Trade and Investment, Mr Pierre Laporte assumed the role of the World Bank's Country Director for Côte d'Ivoire, as of November 1. In addition to Côte d'Ivoire, he is also responsible for four other African countries; Guinea, Benin, Burkina Faso and Togo. Mr Pierre Laporte joins another Seychellois, Dr Peter Larose, who was appointed Executive Director of the Africa Group 1 Constituency at the World Bank Group in October 2014.

5.10.3 World Trade Organisation (WTO)

Seychelles became the 161st World Trade Organisation (WTO) member on April 26, ending 20 years of negotiating its accession terms with the members of the multilateral institution. The country's accession to the WTO is seen as a major accomplishment in its integration into the rules-based multilateral trading system and the global economy. This will allow Seychelles access to the markets of the other 160 WTO members and also actively contribute to on-going multilateral trade negotiation whilst preserving the country's interests.

5.10.4 African Development Bank (AfDB)

The African Water Facility (AWF) which is managed by the African Development Bank (AfDB) approved a €1.07 million grant for the development of an Integrated Comprehensive Sanitation Plan for Seychelles. The 10-year plan will follow an integrated approach, looking at the synergies with related sectors such as waste, energy, water supply and storm-water. It will also promote innovative technologies for water recycling.

In April 2015, the AfDB approved funding for the Mahe Sustainable Water Augmentation Project (MSWAP). The project which is estimated to cost about of US\$26 million dollars, seeks to promote the country's economic development by improving water supply capacity and resilience against climate change. The funding comprises a US\$21 million loan and a US\$1.4 million grant from the Bank's Middle Income Country Technical Assistance Fund. The Seychelles' government is expected to contribute the remaining US\$4.0 million.

In addition, the AfDB has approved a US\$10 million loan in support of government's Inclusive Private Sector Development and Competitiveness Programme - phase II (IPSDCP-II). The IPSDCP-II objectives are to achieve inclusive and sustained economic growth through enhanced competitiveness of the Seychelles economy. It will

¹³ The Ease of Doing Business (DB) 2015 ranking shown is not last year's published ranking but a comparable ranking for DB 2015 that captures the effects of such factors as data revisions and the changes in methodology.

also support a series of reforms to address key constraints to private sector development, focusing on domestic SMEs. The loan will be disbursed as budget-support and has been designed to ensure continuity and deepening of reforms supported under the first phase which comprised a US\$20 million loan approved in 2013. The first phase (IPSDCP-I) supported the launch of a financing scheme for Micro, Small and Medium Enterprises (MSMEs) and a financing services authority.

In the third quarter of 2015, AfDB also approved financing to the Government of Seychelles amounting to US\$700,000 towards the Strengthening of the Financial Markets Project, for which the project components relate mainly to certain deliverables outlined in the Financial Sector Development Implementation Plan, which was approved by the Cabinet of Ministers in November 2014. The project components relate to development of the capital market, enhancement of consumer protection and development of the payments system.

Financing towards the FSDIP deliverables was also approved by the Investment Climate Facility (ICF) and the World Bank through the Reimbursable Advisory Service (RAS). The total funding from ICF amounts to US\$1.3 million, directed towards two components, namely the Financial and Regulatory Technical Capacity project (which relates mainly to the FSDIP deliverables) and review of the Companies Act, which is spearheaded by the Ministry of Investment, Entrepreneurship Development and Business Innovation. Whilst ICF and AfDB funding are directed primarily at consultancies and capacity building, the assistance under the World Bank RAS, which amounts to US\$537,000, is mainly from a legal perspective. Of note, World Bank RAS is also financing the National Risk Assessment (NRA), which aims at assisting Seychelles authorities in their self-assessment of money laundering and terrorism financing risks and is preparatory work for the Mutual Evaluation against the Financial Action Task Force (FATF) principles to be conducted by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) during the second half of 2016.

5.11 Bilateral Relations

The continued support that Seychelles receives from its sovereign counterparts is testimony of the prevailing cordial relations.

5.11.1 United Arab Emirates

Seychelles has received a US\$9.0 million grant from the United Arab Emirates (UAE) government through the Abu Dhabi Fund for Development (ADFD) to finance over 100 units of social housing. It is anticipated that the project will take at least 18 months to be completed. Aside from the housing units, the project will also include associated infrastructure such as electricity grids, water and sanitation networks, roads and parks.

5.11.2 China

Further promoting the friendship and cooperation which exist between Seychelles and China, 2015 saw the visit of the Chinese Vice-Foreign Minister, Zhang Ming. The high level visit focused on global and regional issues which are of common interests to the two countries. Seychelles also received a R3.5 million grant from the Chinese government which will go towards funding small projects in the community aimed at improving lives at grass roots levels.

5.11.3 India

The year saw the historic visit of the Indian Prime Minister, Shri Narendra Modi. During the visit, four bilateral agreements in the fields of hydrography, renewable energy and security were signed between India and Seychelles. Moreover, India agreed to donate another Dornier aircraft to Seychelles and a coastal surveillance radar system to strengthen surveillance of the country's Exclusive Economic Zone (EEZ). In addition, it has been agreed that citizens of Seychelles be granted free visas when visiting India for three months or less.

In August, President Michel undertook a state visit to India reciprocating that of its Indian counterpart as head of government. Five agreements, including an information exchange agreement with respect to taxes, a Memorandum of Understanding (MOU) for the supply of the Dornier aircraft, an air services agreement, a protocol on framework of cooperation in the field of the blue economy and an MOU relating to agriculture research and education were signed between the two countries. During the visit, India also agreed to donate an interceptor coastguard boat to Seychelles in addition to the previously agreed Dornier aircraft.

5.11.4 European Union

5.11.4.1 Technical Assistance

The European Union (EU) approved an envelope of €0.76 million to help both the public and private sectors in Seychelles meet the EU's requirements when it comes to the trade liberalisation and free market access. Trade in goods between the EU and the Seychelles is governed by the interim Economic Partnership Agreement (iEPA) signed in 2009, which provisionally came into effect in 2012. The funds will also help the country build its capacity in order to fully meet its commitments as a new member of the WTO.

The funds allocated by the EU under the 19th European Development Fund Regional Integration Support Programme (RISP) will be used for various measures, including helping the Seychelles Bureau of Standards improve its accreditation capabilities, the acquisition of new scanning equipment for the Seychelles Revenue Commission and help to improve sanitary and phytosanitary standards across the food supply chain.

5.11.5 Double Taxation Avoidance Agreements (DTAAs)

The Seychelles' authorities signed a double taxation avoidance agreement (DTAA) with Jersey. During the year, four agreements came into force, namely with Swaziland, Kenya, Belgium, and Singapore. In addition, two Tax Information Exchange Agreements (TIEAs) were signed with India and Georgia whilst the TIEA with the Swiss Confederation officially came into effect.

5.12 Regional Integration

The two RECs which Seychelles is a member of, namely SADC and COMESA, continued to actively pursue their respective programmes albeit with a less ambitious target.

5.12.1 SADC Harmonisation Programme

Seychelles became the newest member of the Southern African Development Community (SADC) Free Trade Area (FTA). Following the endorsement of Seychelles' accession to the SADC FTA by the SADC Summit in 2014, Seychelles ratified the SADC Protocol on Trade in April and formally acceded to the FTA in May. The accession formally provides a pathway for enhanced trade between Seychelles and the Southern African region.

The SADC Protocol on Trade endeavours to promote economic growth and regional integration. The Protocol has been in effect since January 2000. Its objectives are to further liberalise intra-regional trade in goods; ensure efficient production; contribute towards the improvement of the climate for domestic, cross-border and foreign investment; and enhance economic development, diversification and industrialisation of the region.

The Central Bank has initiated the process to on-board the SADC's Integrated Regional Electronic Settlement System (SIRESS). SIRESS is an electronic payment system developed by the SADC member states to settle regional transactions among banks within the SADC region on a gross basis and in real time. The system is aimed at enabling an efficient regional settlement system which promotes cross-border trade and regional integration by increasing the speed and convenience of payments. It is also anticipated that this will improve investments and the pace of economic expansion in the region. On-boarding is expected in the second quarter of 2016.

5.12.2 COMESA Integration Programme

The eighteenth COMESA Summit, held in March 2015 in Addis Abba, Ethiopia saw the appointment of Mr Georges Tirant, Chief Executive Officer of the Seychelles Fair Trading Commission as a commissioner on the COMESA Competition Commission, alongside representatives from Egypt, Uganda and Ethiopia.

The Commission is an international organisation established by COMESA Competition Regulations, which promotes and encourages competition by preventing restrictive business practices and other restrictions that deter the efficient operation of markets, thereby enhancing the welfare of the consumers in the Common Market, and protecting them against offensive conduct by market players. Mr Tirant will serve a term of 3 years, with the possibility of renewal.

At the same meeting, legal practitioner Mr Bernard Georges became the first Seychellois to be appointed Judge to the COMESA Court of Justice. His term of office began in July 2015 and is for a period of 5 years. The Court of Justice is an institution created to uphold the Rule of Law in the interpretation and application of the COMESA Treaty. In particular, the Treaty provides for a dispute settlement mechanism in the framework of international trade. Over the years, litigants from both the public and private sectors of the COMESA region have taken their disputes to the Court of Justice for resolution and settlement.

5.12.3 COMESA-EAC-SADC Tripartite Trade Negotiations

Seychelles signed the Declaration launching the Tripartite Free Trade Area (TFTA) and the Tripartite Free Trade Agreement at the Third COMESA-EAC-SADC Tripartite Summit in Sharm El Sheikh, Egypt. It is anticipated that the TFTA will boost intra-regional trade by creating a wider market, increase flows of goods and services, enhance competitiveness and encourage regional development.

Apart from being able to have access to a larger single regional market for both its exports and imports, Seychelles also stand to benefit from this agreement as it is expected to streamline the import/export process for traders to the region. This in turn is expected to improve the ease of doing business and generally, contribute to economic growth. Notable, the launching of the FTA is limited to goods in the first phase of the COMESA-EAC-SADC Tripartite trade negotiations.

SECTION SIX

Central Bank Operations

6.1 Research and Statistics Division

The Research and Statistics Division (RSD) supports the Bank in achieving its primary objective of domestic price stability through its various functions which include assigned research, policy formulation, compilation and dissemination of data, among others. The Division is responsible for the release of the Statistical Bulletins and coordinates the publication of the Bank's Annual Report and Monthly Reviews. Moreover, RSD is also committed to improving financial literacy among the general public through various means including presentations and discussions with the media.

In view of the country's active memberships in regional blocks as well as international organisations such as IMF, SADC, COMESA and the World Bank, in 2015, the Division was once again tasked in ensuring that relevant commitments were met, which included data submissions, data analysis and participation in various meetings and conferences.

6.1.1 Capacity Building and Development

Improving technical knowledge and efficiency remained a key objective of the Division. As such, staff attended various workshops and training in economics and statistics-related fields during the year. One key development was a series of in-house training with technical assistance from the IMF, focussing on building an additional inflation forecasting model through the use of econometrics.

6.1.2 Policy and Research Section

Throughout 2015, the Policy and Research Section (PRS) continued to work on policy formulation linked to the Bank's primary objective. This included ongoing revisions to the Monetary Policy Framework, conducting research on various topics affecting the Seychelles' economy, formulating monetary policy recommendations for the Board of Directors as well as monthly discussions on inflation outcome with the Monetary Operations Committee (MOC). Moreover, staff also worked on building macroeconomic models notably for 'inflation forecasting' as well as a 'Tourism Earnings Framework' which will be used as additional analytical tools in policy formulation.

Aside from the internal discussions, presentations were also delivered to parties outside the Bank such as the Bankers' Association and students of the School of Advanced Level Studies (SALS). Such presentations were vital in terms of highlighting major aspects of the current economic outcomes as well as outlook and serving as a means to better educate the audience on the monetary policy work being implemented by the Bank in addition to its implications on the economy.

6.1.3 Statistics Section

During 2015, staff from the statistics section increased their efforts in the compilation of statistics to ensure data is up to date and published as per scheduled release dates and therefore ensuring that economic and financial data are available.

In May, Seychelles took a step forward in its effort to ensure availability and transparency in economic data as it joined the vast number of relatively advanced countries to adhere to the SDDS. Statistics personnel therefore stepped up their efforts to ensure the deadlines for data dissemination are met as per the SDDS guidelines.

6.1.3.1 Monetary and Financial Statistics

Compilation of monetary and financial data continued throughout 2015 in accordance with the guidelines outlined in the Monetary and Financial Statistics Manual (2001). Moreover, during the course of the year, much emphasis was placed on compilation of data from the different sectors in the economy in order to improve the statistical coverage notably in the insurance sector. Nonetheless, the banking sector remains the core of monetary and financial statistics.

6.1.3.2 External Sector Statistics

Following on from the progress made in 2014 to further improve coverage of external sector statistics through the inclusion of data from offshore companies, this continued in 2015. The exercise has been a core part of the process of data collection for the compilation of International Investment Position (IIP) throughout 2015. To facilitate ease of data collection, the Division sought the assistance of the Corporate Service Providers (CSPs) through the FSA, which administers the CSLs. The statistics received was incorporated in the external sector statistics in compliance with the SDDS which Seychelles joined earlier during the year. Nonetheless, collection and compilation of the annual Offshore Survey has not been without its challenges and the Statistics Section aims to address the issues going forward to better ensure efficiency of data collection and dissemination.

In a further attempt to collect more accurate and up to date statistics, the Section also conducted visits on the three main islands to collect information for the compilation of BOP and Coordinated Direct Investment Survey (CDIS). While the former is released on a quarterly basis, the CDIS is updated annually and submitted to IMF.

6.2 Financial Services Supervision Division

6.2.1 The Regulatory and Supervisory Portfolio

The promotion of a sound financial system is one of the Bank's core objectives. This is achieved largely through the functions of the Financial Services Supervision Division (FSSD), which is responsible for the prudential regulation and supervision of banks, bureaux de change (BDC) and Seychelles Credit Union (SCU). The Division also regulates and supervises DBS and Housing Finance Company (HFC), which also fall within the oversight of the Public Enterprise Monitoring Commission from a public governance perspective. Additionally, FSSD is responsible for administering the Financial Leasing Act (FLA) and will oversee the regulation and supervision of Financial Leasing Institutions (FLIs) once licensed.

During 2015, there were 9 licensed banks including the newly approved UHB. Of note, UHB was yet to commence operations as at December 2015. As for BDC, this remained at 24 licence holders in 2015, consisting of 12 Class A and 12 Class B.

As regards to financial leasing (FL), work is ongoing on the required regulations and internal procedures providing greater specificity, both for the licensing process and key prudential requirements which are being finalised. The Bank expects to commence accepting financial leasing licence applications within the first half of 2016.

6.2.2 Regulation and Supervision of Institutions within CBS' Portfolio

6.2.2.1 Banks and BDC

Banks are governed by the FIA, 2004 as amended and other subsidiary legislations issued thereunder. To ensure compliance with the aforementioned legislations, FSSD discharges the following four main supervisory functions:

- Licensing of Financial Institutions;
- Policy and Regulatory Affairs;
- Off-Site Surveillance; and
- On-Site Examinations.

The above four functions are carried out within the framework of a risk-based approach to supervision. This entails the identification of risk at an institutional level and thereafter focusing greater supervisory priority to the identified areas posing a greater risk to the institution and the financial system as a whole. FSSD undertakes to continuously enhance its risk-based approach to supervision.

In order to supplement this micro-prudential approach, FSSD initiated work to formally develop a framework for macro-prudential supervision that aims at preventing the macroeconomic costs of systemic financial distress, taking into account the effects that the behaviour of individual financial institutions have on each other, and on the whole economy. Accordingly, the FSU was established in 2015 as an independent unit within the Bank and will commence operation in January 2016. The Unit will be tasked with undertaking macro-prudential supervision with the aim of identifying financial stability concerns and preserving financial stability in the country.

6.2.2.2 Development Bank of Seychelles (DBS)

The Delegation of Statutory Functions (DBS Decree) Order was issued in 2009 in order to delegate to the Bank certain sections of the DBS Decree for which the exercise of powers previously fell under the powers of the President and the Minister for Finance. Accordingly, the Bank currently oversees certain elements of supervision of DBS.

6.2.2.3 Seychelles Credit Union (SCU)

SCU was formed under the Credit Union Act, 2009, as amended. This Act provides a degree of oversight to a regulatory authority to be determined by the Minister responsible for Finance. The Bank has been delegated with

this responsibility via the Credit Union (Designation of Authority) Notice, 2009. Amendments to the Act that was effected in 2015 are summarised in section 6.2.6.1.

6.2.3 Licensing of Financial Institutions & Policy and Regulatory Affairs

These two functions are conducted by the Policy Unit. They include processing licence applications for financial institutions (which consists of banks and BDC¹⁴), as well as keeping abreast with developments on the supervisory front and pushing for implementation of required policies and legislative changes required to achieve such goals.

In 2015, one new banking business licence was granted to UHB although they were yet to commence operations at the close of the year. In conjuncture, 2 other banking licence applications were pending at that point.

As for BDC, the total figure remained 24, comprising of 12 Class A and 12 Class B. It is worth noting that although the distinction in this naming still prevails, the effective responsibility over the money transfer side of this portfolio has been assumed by the Payment Systems Division (PSD). FSSD still maintains oversight in relation to the physical cash exchange element of this operation in addition to the prudential and governance aspects. Legislative amendments are expected in 2017 in relation to BDC to enhance the regulatory framework reflective of market developments.

6.2.4 Off-Site Supervision

Off-site surveillance involves the monitoring and analysis of statistics/financial information which are submitted periodically to the unit, in what is referred to as returns. Some of these returns are used to compile Financial Soundness Indicators, as per definitions issued by the IMF whilst other returns report on prudential requirements set out in the FIA or other regulations/legislations issued by the Bank.

The information provided by these financial institutions is dependent on submission of accurate, reliable and timely data. This ensures that supervisors can promptly detect any immediate or adverse developments based on the data submitted to the unit. The unit also ensures that financial institutions adhere to prudential requirements of the FIA or other pronouncements, and in the event of violations of these laws, corrective action or penalties can be taken.

The off-site team also carries out periodic analysis of individual institutions or the banking system as a whole, based on the submitted information, such as:

- Analysis upon submission of their three year business plan (submitted annually)¹⁵;

¹⁴ Financial Leasing institutions are not classified as financial institutions as per the strict definition present under section 2 of the FIA. However, the Policy Unit will still be handling the licensing, as well as the policy & regulatory affairs of licensed and proposed financial leasing institutions. Similarly, the on-site and off-site elements will be handled by the other respective units.

¹⁵ As part of the review process, the offsite team has the possibility of enquiring about the said plan with the financial institution's management team or to necessitate that the bank review its projections.

- Stress testing exercise which evaluates the capability of individual institutions and the system as a whole, to withstand major adverse changes in the economy;
- Pre-examination report of financial institutions prior to onsite examination;
- Analysis prior to approval or non-approval for;
 - dividend payments
 - extension of credits to a customer or group of customers for amounts aggregating to more than 25 per cent of the financial institutions' core capital
- Ad-hoc analysis in case of potential or actual breach of legislations that could be harmful to the institution or of a systemic nature.

6.2.5 On-Site Supervision

The on-site team conducts regular on-site examinations of banks pursuant to Section 33 (1) of the Central Bank of Seychelles Act, 2004, as amended. The objectives of on-site examinations are to assess and evaluate the overall condition and financial soundness of institutions within the Bank's supervisory portfolio. On-site examinations also assess compliance with applicable laws and regulations, the quality and effectiveness of governance structures, including internal control environment, an evaluation of the risk management processes present at the supervised institutions, as well as to check the accuracy of statutory reports submitted to the Bank.

During the on-site examination, examiners have direct access to the books and records of the institution being examined. This enables examiners to make a fair and realistic assessment of the financial condition of the institution, as well as an analysis of the various risk exposures and evaluation of risk management practices. In addition, the internal control systems are assessed to determine their effectiveness.

A risk-based approach is adopted for on-site supervision, focusing on problematic areas of institutions. As mentioned in previous reports, examinations are conducted based on the CAMELS bank rating system which assesses the bank's Capital adequacy, Asset quality, Management, Earnings, Liquidity and Sensitivity to market risk¹⁶. During the year under review, the team conducted a full-scope examination of one bank and limited scope inspections of four banks. These limited scope inspections were aimed at assessing banks' compliance to the Anti-Money Laundering (AML) Act, 2006 with respect to money laundering and Financing Terrorism activities. The Bank and the Seychelles Financial Intelligence Unit (FIU) initiated discussion on the mechanism for further collaboration in this area in order to more effectively achieve supervisory objectives. These developments are consistent with increased national focus on money laundering and terrorist-financing risks in light of international developments as explained in section 6.2.8. Recommendations made within the examination reports are closely monitored and further enforcement actions where necessary, are administered.

¹⁶ It is worth noting that a similar approach is also adopted by the Off-site Unit, albeit without the Management. Accordingly, analysis is essentially done on the basis of CA'ELS, as it is not straight-forward to rate Management's performance off-site.

As for SCU, the on-site team's examination is guided by the PEARLS rating system. This focuses on **P**rotection, **E**ffective financial structure, **A**sset quality, **R**ates of return & costs, **L**iquidity and **S**igns of growth (annualised rates). The set of ratios under the PEARLS rating system is the generally recommended basis for assessment of Credit Unions (CUs) the world over. In essence, the set of ratios allows regulators (as well as Management) to use a standardised methodology to assess and compare between financial institutions. It allows the regulator to identify areas of strengths and weaknesses and is aimed at promoting savings-based growth.

6.2.6 Developments in the Supervisory Framework

The year 2015 was the eighth year since the action plan prepared on the basis of Technical Assistance from the IMF was introduced. The plan has over the years been actioned-upon, such that improvements to the regulations and the framework for supervision of institutions within the Bank's supervisory portfolio have been evidenced.

Importantly, the work done each year to boost the banking supervisory framework represents the accumulation of experience and application of knowledge accrued from training to ensure that the supervision of institutions remains robust in light of global and local market changes. Accordingly, this year's achievements further consolidated the work done over the years. In fact, internal discussions have already commenced to lead up to the anticipated legislative amendments which are foreseen to take place in the coming year.

6.2.6.1 Seychelles Credit Union Act Amendment

One of the most prominent changes which came about during the third quarter of the year was the amendments to the SCU Act. The primary intents of the amendments are as follows:

- Ensure that the legislation and supervision are at par with international standards and are effective in relation to CUs' operations;
- Strengthen the supervisory power of the regulatory authority over prudential matters governing CUs;
- Strengthen enforcement action against unsafe conducts and operations of CUs; and
- Provide the regulatory authority with power to issue rules in regards to operations of CUs.

6.2.6.2 Secured Transactions Act, 2015

The Secured Transactions Act was assented by the President of the Republic in September 2015. The aims of this piece of legislation are to:

- modernise the legal and institutional framework for secured transactions in Seychelles guided by international best practices;
- increase access to private sector credit in Seychelles by introducing a simplified, streamlined legal and institutional framework for secured lending that strengthens the rights of creditors in movable collateral, to secure obligations, thus contributing to increased levels of lending to borrowers including MSMEs;
- introduce a centralised, comprehensive, all-electronic and web-based secured transactions registry in the Office of the Registrar General.

Accordingly this Act makes provisions:

- relating to certain transactions to enable lending secured by movable property;
- to repeal the Security on Movables Act (Cap 209);
- to make consequential amendments to the Stamp Duty Act (Cap 226); and
- for matters connected therewith or incidental thereto.

6.2.7 Financial Leasing (FL)

Throughout the year, FSSD has been working on the internal processes to commence licensing of FLIs as well as external processes to enhance the efficiency of such operations, such as the establishment of the Collateral Database Registry (under the Secured Transactions Act, 2015) for which the legal framework has been assented to. This is expected to be fully operational within the first half of 2016.

Training for the Bank's staff in relation to FL has already commenced. Moreover, the Bank, in collaboration with the International Finance Corporation (IFC) and the Small Enterprise Promotional Agency (SEnPA), hosted a training session for SMEs in the third quarter of 2015.

In addition, the Bank has been discussing with several stakeholders to better understand where further improvements can be made. As part of these discussions, the first phase of a review was conducted in the third quarter of 2015 to assess the market potentials under the current framework and to identify where improvements can be made. The second phase of this review is due at the start of 2016 to assess the strong areas for potential benefit under current conditions.

6.2.8 Review of risks related to the offshore financial activities framework in place in Seychelles

A review mission to reassess the risks of supervising offshore banks was hosted within the first half of the year by the IMF. The core objectives of this mission was to assess the current framework and to identify gaps which the Bank along with other relevant local regulatory authorities will be working to improve upon.

On a related note, owing to the growing global significance of money laundering and terrorist financing risks, local authorities have adopted a concerted approach at implementing initiatives with the aim of ensuring that Seychelles adheres to international best practices and keeps such risks in check. A tripartite MOU was signed between the FSA, the FIU and the Bank in October 2015, with the aim of improving the regulatory framework and addressing risks or corporate activities which may affect the international standing and good repute of Seychelles' financial sector. This would be done through the implementation of a system of co-operation between the regulators and the establishment of an overall joint policy in accordance with international best practice.

Additionally, work towards the NRA was initiated in the second half of the year and this will officially commence with World Bank's assistance early in 2016. The NRA seeks to assist the Seychelles authorities in its self-assessment of money laundering and terrorism financing risks with broad participation from various stakeholders. In addition, the project aims to improve the skills and knowledge of government agencies in assessing these risks

and applying a risk-based approach in this area. This is preparatory work for the Mutual Evaluation against the FATF which is expected to be undertaken later in 2016.

6.2.9 Upcoming developments within the supervisory framework

6.2.9.1 Islamic Finance

The findings of a feasibility study which was initiated in September 2014 to explore the viability of introducing Islamic finance in Seychelles were delivered in May 2015. This was being examined as part of the move to develop a more diversified financial service offering.

The findings of the feasibility report was positive, and outlined several opportunities which could be exploited and gaps to be addressed by the main stakeholders. The Bank in conjunction with FSA are expecting technical assistance on the formulation of a policy and strategy on Islamic banking and finance in Seychelles in the first quarter of 2016.

6.2.9.2 Basel II & III

Plans in regards to Basel II & III remain in place. Banks will be consulted on the implementation of the standardised approach to credit risk of Pillar 1 of Basel II during the first quarter of 2016. Work on the other aspects of Basel II and III are also expected to be undertaken during 2016.

6.2.9.3 Additional banking activities

During the year under review, the Bank received an inception mission from a legal expert on amendments to the legal framework to cater for additional banking activities, amongst other aspects. Technical assistance in this area is expected to continue in the coming year. The amendments will follow from policy decisions on the new banking activities that will be introduced in the country, including Islamic banking, investment banking and private banking. Funding obtained from the ICF for Africa and AfDB in 2015 was partly allocated towards capacity building and consultancies for these activities, amongst other financial sector development activities. Capacity building missions to seasoned jurisdictions were initiated during the year and will also continue through 2016. Consultancies will also be solicited in the forthcoming year in relation to these activities. Specifically, the consultancies are expected to assist with the formulation of a policy and strategy on Islamic banking and finance and the conduct of a workshop on investment banking and private banking in the country.

6.2.9.4 Financial Education and Consumer Empowerment

The Bank's strategic plan for 2014 to 2018 highlights the importance of consumer protection to financial stability and thus the connection to one of its strategic objectives, which is to effectively promote a sound financial system. One of the key performance indicators to measure the implementation of this objective is the employment and execution of measures that are intended to protect consumers.

Correspondingly, Seychelles participated in working group meetings and the Global Policy Forum organised by the Alliance for Financial Inclusion (AFI) during the year. In August 2014 Seychelles became a member of AFI

which is a global network of financial policymakers from developing and emerging countries working together to enhance financial inclusion. The Bank has benefitted from the experience of other AFI members which has provided input into the country's endeavours to enhance financial access, financial education and consumer protection in the financial sector.

Of relevance, the FSDIP includes initiatives aimed at promoting consumer protection in the financial sector. This is in view that consumers' expectation that they will receive fair treatment and quality services from financial institutions contributes to increasing confidence in the country's financial sector and is an important element for its development. Actions in this regard include consideration of the institutional and legal framework that will result in more effective consumer protection in the financial sector as well as initiatives to enhance financial education. Moreover, technical assistance will be obtained in the first quarter of 2016 on the conduct of a baseline survey on financial literacy, which will inform the ensuing project for a national strategy on financial education.

6.2.10 BMIO Reorganisation Plan

BMIO remained under the management of the Bank throughout 2015 following the take-over in November 2014. In mid-February 2015, the Bank announced the appointment of Mr Huns Biltoo, a partner of KPMG Mauritius, as the reorganising agent of BMIO. Consistent with the provisions of the FIA, the agent formulated a reorganisation plan, which was circulated to all stakeholders, including the depositors.

As per the law, having not been objected to by the stakeholders, this was submitted for the Supreme Court's approval which was obtained in June 2015. The reorganisation plan includes the definition of a new risk appetite for BMIO, implementation of new policies and procedures, staffing and capacity building, implementation of new IT system, amongst others, the bulk of which had been implemented by the end of the year under review. In December 2015, the Supreme Court extended the reorganisation plan to March 2016 in order to allow more time for the operating model to be aligned to the medium and long term strategic priorities.

6.3 Financial Markets Division

The Financial Markets Division (FMD) has as its primary objective to implement monetary policy of the Bank and also manage the country's foreign exchange reserves. The Division comprises of the Market Analysis, Reserves Management and Money & Securities Market sections.

The main responsibilities of the Market Analysis Section are to conduct market research and analyse developments of prime indicators on both the local and international markets. It also maintains the liquidity management framework of the Bank. The Reserves Management Section is mandated to manage all operations pertaining to the country's external reserves on a daily basis, while the functions of the Money & Securities Market Section are to conduct the Bank's OMOs and primary transactions in government securities, as well as ensure adherence to operational targets for monetary policy implementation.

6.3.1 Open Market Operations

OMOs are transactions conducted in the money market to manage the level of available liquidity in line with the set operating target, making use of the Bank's financial instruments. Similar to 2014 during the year under review, the only instruments used were the DAA and the FEA.

6.3.2 Standing Facilities

During 2015, 169 placements were recorded in the SDF, amounting to R6,171 million. As regards to SCF, 8 requests amounting to R1,030 million were made.

Table 6.1: Standing Facility Placements during 2015

Standing Deposit Facility (SDF)			Standing Credit Facility (SCF)	
	(R million)			
	Deposit	Interest paid	Deposit	Interest earned
Q1	1,516	0.010	-	-
Q2	1,065	0.007	150	0.007
Q3	724	0.005	880	0.042
Q4	2,866	0.020	-	-
Total	6,171	0.042	1,030	0.049

Source: Central Bank of Seychelles

6.3.3 Management of Domestic

6.3.3.1 Treasury Bills

Treasury bills auctions with maturities of 91, 182 and 365 days were held twice a week throughout most of the year. To note, some of the issuances were not directed towards government funding, but were rather conducted for monetary policy purposes. This reflected government's commitment to assist with the withdrawal of excess liquidity from the banking system. The stock of Treasury bills for monetary policy purposes outstanding as at December 31, 2015 stood at R1,564 million.

Table 6.2: Interest rates as at end-2015 compared to end-2014

	2014	2015
91 days	5.39%	5.70%
182 days	4.86%	6.39%
365 days	5.60%	7.15%

Source: Central Bank of Seychelles

6.3.3.2 Treasury Bonds

There were no new issuances of Treasury bonds in 2015. However, the redemption of 10-year Treasury bonds continued throughout the year.

6.3.3.3 Central Bank's Holdings of Treasury Bills

The Bank continued to roll-over the Treasury bills upon maturity as agreed in the MOU with the ministry responsible for finance dated July 30, 2010. Throughout the year, the Bank held a total of R1,185 million in 365 day T-bills.

6.3.4 Management of External Reserves

The country's portfolio of foreign exchange reserves is managed by the Bank - warranted by the Central Bank Act of 2004, as amended - in accordance with the Investment Policy and Guidelines. Investment of reserves broadly underlie the aims to uphold confidence in the exchange rate and domestic monetary policies as well as provide a buffer for anticipated or unforeseen financial obligations of the country.

Operations conducted during 2015 were in line with the Bank's investment policy objectives which includes preserving capital, maintaining liquidity and generating returns. The Bank also geared its effort towards generating the appropriate reserves adequacy thresholds so as to provide the necessary support for the sovereign credit rating, facilitating access by the country to international capital markets and increasing confidence in the domestic economy.

In 2015, the Bank moved into the second year of contract with its only external asset manager, Crown Agents Investment Management (CAIM). The terms of this engagement were aimed at providing specialised asset management services to support return generation from the portfolio of holdings, in addition to a mandate of building internal capacity of staff. As part of its motive to improve the expertise of employees in the field of reserves management, the Bank completed its first year on the Reserves Advisory and Management Programme (RAMP) of the World Bank. This three year programme was initiated at the end of 2014 as per the approval of the Bank's Board of Directors. During the year under review, the programme focused on establishing the action plan for proposed enhancements of reserves management practices and initiated the training strategy.

In terms of performance, gross foreign reserves (GFR) closed at a new end-of-year high of US\$536 million in 2015. This was due to increased efficiency in internal reserves management amid persistent international market uncertainties throughout the period under review. The year's closing GFR position represented a growth of nearly 16 per cent relative to the preceding year's level. Of prominence was the total amount of US\$86 million accumulated through FEAs during the year, made possible by favourable market conditions due to the successful policy mixes adopted by the Bank. The NIR, which is the quantitative performance criteria in reserves management under the IMF programme, closed the year at a level of US\$423 million. This represented an over-performance of the target level by US\$14 million.

6.4 Banking Services Division

The Banking Services Division (BSD) is responsible for domestic and foreign banking, currency and numismatics, and the financial reporting functions of the Bank. BSD is organised into the Banking and Financial Reporting Section and the Currency and Numismatics Section.

6.4.1 Banking and Financial Reporting Section

The Banking and Financial Reporting Section is divided into three operating units with both the Foreign and Domestic Banking Operations existing in an operational capacity as banker to and manager of accounts held with the Bank. These two units are also entrusted with the responsibility of managing the Bank's internal accounts and accounting processes; providing back office support for the reserve management and OMO activities; as well as supporting the local payment systems' infrastructure and acting firstly, as an operator of key systemically important national payment systems and secondly, as a participant and primary settlement agent in the financial system. The preparation of the Bank's annual budget and financial statements in line with the requirements of the Central Bank Act (2004) and in accordance with the International Financial Reporting Standards (IFRS), resides under the responsibility of the Financial Reporting and Control Unit.

6.4.1.1 Foreign Banking Operations

The Unit is responsible for three main functions which include the management of foreign accounts, back office settlement services for foreign financial instruments and accounting of all foreign currency related transactions of the Bank such as the foreign reserves management activities and the Bank's own administrative and operational expenses.

6.4.1.1.1 Foreign Accounts Management

For the year 2015, the majority of foreign currency receipts and payments processed were on behalf of government. Other sources and recipients include the Bank itself, commercial banks and other financial institutions.

6.4.1.1.2 Back Office Settlement and Accounting

During the year, the bulk of transactions conducted related to fixed deposits held with other foreign central banks and commercial banks. Other activities included the foreign currency exchange trades and the purchase of foreign currency through FEAs conducted by the Bank. In 2015, the unit remained consistent with the previous year in the application of the accounting policy for the funds held with the Bank's external fund manager CAIM, based in the UK, as financial assets at fair value through profit or loss.

6.4.1.2 Domestic Banking Operations

The Domestic Banking Operations unit continued to process and manage all local currency denominated payments and receipts on behalf of and for the Bank and its clients such as the Treasury Department, Seychelles Pension Fund (SPF) and other government related entities. It also has the responsibility for providing back office

settlement and accounting services to FMD for financial transactions relating to OMO and government issued securities.

Furthermore, all daily operations relating to the Electronic Cheque Clearing (ECC), SWIFT (CBSITS¹⁷) and Seychelles Electronic Funds Transfer (SEFT) systems remained under the responsibility of the Domestic Banking Operations unit. The unit acts as a participant, the operator and the primary settlement agent of these systems. In addition, the unit acts as the project owner and driver of all projects linked to the development of these systems and other similar payments and settlement systems.

6.4.1.2.1 Seychelles Electronic Funds Transfer (SEFT) System

In 2015, the Bank continued to develop the second phase of the SEFT project. The SEFT system was launched in August 2013 as a platform to facilitate interbank domestic funds transfer and has since its deployment, been accessible to banking institutions only. Under the coordination of the Domestic Banking Operations unit, the second phase of the SEFT project will bring the local currency payment platform closer to the public at the level of the individuals, private and commercial organisations and government or government-related institutions. The SEFT Phase 2 will allow the public, businesses and institutions to register and have the option for making rupee denominated domestic electronic funds transfers online without the need to physically visit their respective banks. The System Requirements Specification (SRS) gathering sessions were completed and further developed with relevant demonstrations provided at each stage by the system's developer.

In preparation for the launching of the project, more efforts were made by at least four out of a total of eight participating institutions to link their respective Core Banking Systems to the SEFT system, hence facilitating straight through processing (STP).

During the year, it was observed that more transactions were being directed to the SEFT especially for bulk uploads and salary payments.

6.4.1.2.2 Electronic Cheque Clearing (ECC) System

With the enactment of the National Payment System Act (NPSA), 2014 and issue of National Payment System (Licensing and Authorisation) Regulations, 2014, the Domestic Banking Operations unit in collaboration with the Payment Systems Division and other participants of the system intensified work on reviewing the existing ECC Rule Book and Operating Rules. These rules governing the ECC system, which established the standards and set parameters within which members operate, was approved by the Board, the commercial banks and SCU at the initial launch of the ECC system. In 2015, the thorough review undertaken was aimed at aligning them to the new NPSA, 2014, addressing recommendations from payment system oversight report and international best practices as well as tackling practical issues that the participants and system operator have experienced since the launching. The review and collation of the rules into a single document was done in consultation with the members

¹⁷ Central Bank of Seychelles Immediate Transfer Service

of the National Payment Task Force (NPTF) and subsequently discussed and agreed at the National Payment Council (NPC) level.

6.4.1.3 Financial Reporting and Control Unit

This unit is responsible for the preparation of management reports, the annual budget and the financial statements, which include the monthly and annual balance sheets published in the Official Gazette; daily, monthly and quarterly income and expenditure reports presented to senior management as well as periodic reports on the budget and financial performance presented at the Board level. The unit also fulfils the role of monitoring the Bank's recurrent and capital budget performance as well as the role of preparing and analysing other financial reports. The financial statements are prepared annually in accordance with IFRS and in line with the Central Bank of Seychelles Act, 2004, as amended, and are audited by the Auditor General (AG) with the assistance of an external auditor. For the year 2015, the external auditor remained unchanged, with KPMG Mauritius taking up the audit work for a third year. To ensure that the financial data is accurate and reliable for the preparation of reports and financial statements, the unit is responsible for maintaining appropriate internal accounting controls.

6.4.2 Currency and Numismatics Section

As part of its mandate under the CBS Act, 2004, as amended, the Bank through its Currency and Numismatics Section, continued to supply local currency to the banking system in the form of banknotes and coins and to withdraw those soiled or unusable so as to maintain good quality of currency in circulation. During the year under review, the Bank also expanded its range of commemorative and collectors' numismatic items available both on the local as well as on the international markets.

During 2015, the Bank entered into new agreements with a number of mints to issue a variety of coins of different sizes and metal contents to commemorate various events or themes of interest to numismatics collectors worldwide. Below are the different agreements and coins produced for issue in 2015.

6.4.2.1 Commemorative gold and silver coins

a) The Royal Mint

First Independence / National Day celebrated on June 29

Starting on the local market, the Bank collaborated with the National Day Celebrations Committee and the Ministry of Education to design a coin which was minted by the Royal Mint in the United Kingdom to commemorate the first year in which the Independence Day, June 29, would be celebrated as the National Day. The coin depicts the Coat of Arms of the Republic of Seychelles and the face value, fifty (50) rupees, on the obverse. The reverse design gives prominence to the date "29 JUNE", the Seychelles current national flag in colour as well as the year of issue, 2015. Also featured in the design, on the reverse, are the flags of the first and second republic all beautifully framed in a Coco-de-Mer shaped border with the words "INDEPENDENCE DAY" and "NATIONAL DAY" being integral parts of the design. This Ag 925

silver coin measures 38.61mm in diameter and weighs 28.28g and has a maximum mintage of 2,500 pieces worldwide.

b) Münzhandelsgesellschaft mbH & Co. KG Deutsche Münze (MDM)

The Bank and MDM signed new agreements for the production of the following coins;

i. World Heritage of Arts Series – Statue of David

The World Heritage of Arts series saw two additions during the year 2015. The first bearing the main design as the Statue of David and the year of issue, 2015, on the reverse, while depicting the Coat of Arms of the Republic of Seychelles and the face value, ten (10) rupees, on the obverse. Minted in Ag 925 silver and being partially gold plated on some areas of the design, this 38.61mm in diameter coin weighs 12g and has a maximum mintage of 5,000 pieces worldwide.

ii. World Heritage of Arts Series – Europa and the Bull

The second addition to the World Heritage of Arts Series was Europa and the Bull. This coin is also minted Ag 925 silver which is gold plated and weighs 12g, measures 38.61mm in diameter and has a maximum mintage of 5,000 pieces worldwide. The coin bears the Coat of Arms of the Republic of Seychelles and the face value ten (10) rupees on the obverse, whilst the reverse depicts the statue of Europa and the Bull from Greek mythology.

iii. History of Seafaring – Pamir

The Bank also entered into agreement with MDM for the production of the Pamir coin which forms part of the commemorative coin series the History of Seafaring. The coin which is made of Ag 925 silver, measures 38.61mm in diameter, weighs a total of 12g and has a maximum mintage of 7,500 pieces worldwide. This coin commemorates the historic commercial sailing ship ‘Pamir’ which sailed the oceans for trade from the year 1905 to 1957. The reverse of the coin depicts the vessel with an anchor along with the face value, ten (10) rupees, and an engraving of the years “1905 – 1957”. The obverse of the coin has the Coat of Arms of the Republic of Seychelles together with the year 2015.

iv. Smallest Gold Coins of the World Series – International Carnival of Victoria

Adding to MDM's series of Smallest Gold Coins of the World, the Bank introduced a new coin commemorating the International Carnival of Victoria. The Au 585 gold plated silver coin weighs a total of 0.5g and has a diameter of only 11mm and a maximum mintage of 7,500 pieces worldwide. The reverse of the coin depicts the face value, ten (10) rupees, along with the Clock Tower of Victoria, coconut trees as well as a carnival mask. The obverse depicts the Coat of Arms of the Republic of Seychelles and the year of issue, 2015. For this project the Bank sought the assistance of the organisers of the International Carnival of Victoria, the Seychelles Tourism Board.

v. From Princess to Monarch – Jubilee Princess & Jubilee Monarch

With the Republic of Seychelles being a member of the commonwealth, the Bank through its agreement with MDM, joined the international coin programme commemorating the life of Her Majesty Queen Elizabeth II as a monarch. This was through the issuance of a two coin series entitled “From Princess to Monarch – a Celebration”. The first coin was entitled, Jubilee Princess and the second, Jubilee Monarch. Both coins were minted by the Royal Mint in Ag 925 silver, weigh 28.28g, measure 38.61mm in diameter and each have a maximum mintage of 15,000 pieces worldwide. Furthermore both coins have a face value of ten (10) rupees, the Coat of Arms of the Republic of Seychelles and an Effigy of HM Queen Elizabeth II combined on the obverse with the year 2015 at the bottom.

- **Jubilee Princess**

The Jubilee Princess coin depicts on the reverse the young Princess Elizabeth with her grandfather, King George V, in the year of his Silver Jubilee.

- **Jubilee Monarch**

The reverse design of the Jubilee Monarch coin depicts a portrait of HM Queen Elizabeth II on the occasion of her Diamond Jubilee appearing in front of the iconic London Bridge on the river Thames during the Diamond Jubilee pageant.

c) Gavia GmbH

During the year, the Bank broadened its liaisons in the commemorative coin industry by entering into an agreement with Gavia GmbH of Germany for the production and issue of two new coins under Gavia’s coin series entitled “The Most Famous Artworks”.

i. The Most Famous Artworks – The Creation of Adam

The commemorative coin entitled The Creation of Adam is an Ag 999 silver plated brass coin with a total weight of 80g. Unlike the previous and more traditional circular coins issued by the Bank, this particular coin is rectangular in shape measuring 58.5mm by 80mm and is 20mm thick. The obverse of the coin depicts the Coat of Arms of the Republic of Seychelles, the face value ten (10) rupees and the year 2015. The reverse of the coin uses colour application to portray the famous Fresco painting entitled “The Creation of Adam” painted by famous painter Michelangelo. The painting illustrates the biblical creation narrative from the book of Genesis in which God breathes life into Adam. This coin has a maximum mintage of 10,000 pieces worldwide.

ii. The Most Famous Artworks – Sistine Madonna

The commemorative coin depicting the artwork entitled “Sistine Madonna” is also a rectangular Ag 999 silver plated brass coin, measuring 58.5mm by 80mm by 20mm. This 80g coin also depicts the Coat of Arms of the Republic of Seychelles, the face value ten (10) rupees and the year of issue, 2015, on the obverse but the reverse uses colour application to portray Raphael’s 1512 painting entitled “Sistine

Madonna”, which is an oil painting commissioned in 1512 by Pope Julius II. This coin has a maximum mintage of 10,000 pieces worldwide.

6.4.2.2 Issue of Commemorative Uncut sheets of R10 and R100 banknotes

During the course of 2015, the Bank continued to generate income through the sales of commemorative uncut sheets of the R10 and R100 banknote denomination. These numismatic items, some of them bearing the logo of the Bank’s 35th Anniversary celebration and some without the logo, amassed revenue of over R1.4 million during the year from sales to collectors.

6.4.2.3 Destruction of Soiled and Mutilated Banknotes

In the Bank’s ongoing endeavour to maintain a high quality level of banknotes in circulation, soiled and mutilated banknotes are continuously being removed from circulation and set aside for destruction. The year 2015 saw a total of five hundred thousand pieces of banknotes destroyed in the R10, R100 and R500 denominations combined. These destruction exercises took place towards the end of 2015 under the strict supervision of the destruction committee comprising of internal representatives as well as external independent representatives and chaired by an independent external member. The table below provides a detailed breakdown of banknotes destroyed by the Bank per denomination.

Table 6.3: Destruction of soiled and mutilated banknotes by Central Bank of Seychelles detailed by number of pieces and value for the year 2015

Denomination	Number of Pieces	Value in Seychelles Rupees (SCR)
R500	30,000	15,000,000
R100	270,000	27,000,000
R10	200,000	2,000,000
Total	500,000	44,000,000

Source: Central Bank of Seychelles

6.5 Risk Management Unit

The Risk Management Unit, is responsible for the overall monitoring of bank-wide risks within the Bank.

In order to achieve its mandate, the Unit is divided into two sections; the Financial Risk Section and the Operational Risk Section. Within the spectrum of the Financial Risk Section, the Unit has oversight on the operations of the Front Office in FMD and the Back Office in BSD and monitors their operations to ensure that transactions are certified, authorised and settled correctly according to set policies, benchmarks and guidelines.

Based on the Unit's monitoring, reports on Performance Measurement and Financial Risk Management are prepared for presentation on a monthly basis to the Investment Committee, on a quarterly basis to the Board of Directors and on a yearly basis, the Unit prepares disclosures in the Bank's Financial Statement.

The Unit is also responsible for risk allocation and budgeting, benchmark identification and selection in the management of International Foreign Exchange Reserves. Moreover, the Unit monitors and analyses international developments in exchange rates and interest rates.

In terms of Operational Risk, the Unit, with the help of the Head of Divisions/Units, identifies risk issues/events on a regular basis across the Bank of which the respective Division/Unit takes ownership of the risk and places the appropriate internal control to negate or mitigate the risk.

On a monthly basis, Risk Champions¹⁸ meet to discuss new and existing risks. These risks are brought to the Risk Implementation Committee and the Audit and Risk Committee (ARC) which meet quarterly.

The Unit is working with the divisions and units of the Bank to establish their Risk Tolerance, Risk Appetite and Key Performance Indicators (KPI). This will enable the Unit to operate within set limits and guidelines. Work is in progress to compile the Process Flow Chart for each division and unit to assist with the aforementioned objectives.

6.6 Payment Systems Division

During 2015, the Payment Systems Division (PSD) sought to establish a more conducive environment for further development of the national payment system. Amongst others, the Division was focused on the implementation of laws relating to the oversight and modernisation of payment systems, ensuring the country's participation in regional payment systems initiatives, strengthening the payment systems oversight function by conducting inspections of payment service providers and capturing a wider range of payment systems data as well as performing close monitoring over targeted payment streams.

6.6.1 Policy and Research Section

6.6.1.1 Implementation of the National Payment System (Licensing and Authorisation) Regulations, 2014

With the National Payment System (Licensing and Authorisation) Regulations, gazetted at the end of 2014, the focus in 2015 was towards its implementation. This included bringing all licensed institutions up to par with the standards set under the regulatory framework, which relate mainly to BDCs that provide remittance services and operators of Securities Clearing Systems, namely AfriClear.

This exercise was done with the aim of ensuring that entities licensed under the NPSA, 2014 are operating in an environment whereby risks are being properly mitigated through different measures adopted and amongst others, to ensure that appropriate consumer protection measures are in place.

¹⁸ The second in line in each Division/Unit who assists the person overseeing the Division/Unit (Risk Owner) in performing the Risk Management activities.

6.6.1.2 Projects under the Financial Sector Development Implementation Plan

As part of the FSDIP, government secured funding from the ICF and AfDB to finance four main assignments targeted at further developing the payment systems infrastructure in Seychelles. These are namely, a Feasibility Study for the Establishment of a Central Securities Depository (CSD) and a Real Time Gross Settlement (RTGS) System, a Diagnostic Study of Government Payments and an Assessment of the Remittance Market. Government, in collaboration with the Bank has initiated the process to procure consultants for these assignments which are expected to be delivered in 2016. Details for each of the assignments are provided below:

- **Feasibility of Establishing a CSD in Seychelles** – The objective of the consultancy is to support the Bank and government to assess the feasibility of establishing a CSD by conducting a thorough analysis of the market, including but not limited to the cost versus benefit of establishing such a system. A CSD will facilitate holding of securities in electronic accounts and eliminate the risks currently faced in paper certificates.
- **Feasibility of Establishing an RTGS System** - The objective is to support the Bank and government to assess the feasibility of introducing a national RTGS as a means of minimising settlement risk associated with payments system. This will include reviewing the current financial market infrastructure relating to the settlement system and the relevant legal framework, as well as conduct a cost benefit analysis of introducing an RTGS and its implications especially in terms of liquidity requirements.
- **Diagnostic Study on Government Payments** - The objective is to undertake a diagnostic study of the infrastructures and processes in place for all government payments with a view to evaluating areas for improvements. The study will place special emphasis on creating an efficient technical link between government ministries and departments with the available payment systems.
- **Assessment of the Remittance Market** - The objective is to conduct an assessment of the in-bound and out-bound remittance markets on the basis of the World Bank's Committee on Payment and Settlement System's (CPSS-WB) General Principles for International Remittance Services. The market assessment in the area of international remittances will focus on improving the market for remittance services. This will include the regulatory framework for remittance, provide greater transparency, consumer protection and governance framework in remittance services.

6.6.1.3 Consumer Protection

In addition to the above-mentioned projects under the FSDIP, greater importance has been placed on consumer protection. With the development of the legal framework for the national payment system, Seychelles has observed the introduction of a new payment service namely mobile money. While consumers have highly benefited from this new service, it has also presented new challenges. In this context, work commenced in 2015 to further reinforce the legal framework to address ongoing and emerging consumer protection issues. Technical assistance on this matter, is further expected in February 2016 from the World Bank.

6.6.1.4 Adoption of an International Bank Account Number (IBAN)

In 2015 the Bank, in collaboration with all commercial banks and the SCU, agreed to adopt an IBAN for the country. The IBAN is an international standard for identifying bank accounts across national borders and automating cross-border payment transactions with minimal risks of propagating transcription errors. Thus, the adoption of an IBAN will mainly reduce manual intervention and eliminate delays in transactions with IBAN compliant countries.

This initiative is particularly imperative now with the creation of the Single Euro Payments Area (SEPA). The IBAN is deemed a critical element in identifying accounts for all cross-border euro payments. Any missing or invalid IBANs on a payment instruction from a non-SEPA country may cause manual repair or rejections, which will ultimately result in higher transaction charges, late payment or, potentially, no payment at all.

To this effect, the Bank along with the commercial banks and the SCU have agreed to adopt IBAN for all their customers as of October 2016. As the authority designated to register the IBAN format in the IBAN registry, the Bank will initiate the registration process in the first quarter of 2016.

6.6.1.5 National Payment System Vision and Strategy

As per its mandate within the ambit of the NPSA, a National Payment System Vision and Strategy for 2016 - 2020 for the country was formulated. This document seeks to focus on strategies set from the previous Vision and Strategy document which had remained unfulfilled but still relevant, as well as to provide strategic direction for payment systems development in Seychelles for the period of 2016 to 2020.

The Vision and Strategy document is deemed essential especially at a time when payment systems have generated much interest across the financial sector due to increasing pressure from businesses and the general public for a safer, faster and more cost-effective payment delivery. In this regard, amongst the strategic focus areas of the document, it is required that the payment service providers further contribute towards greater financial inclusion which includes addressing aspects such as consumer education and protection.

It is anticipated that the Vision and Strategy document will be ratified by the relevant stakeholders by the first quarter of 2016.

6.6.1.6 SADC Integrated Regional Electronic Settlement System (SIRESS)

SIRESS is an electronic payment system developed by the SADC member states to settle regional transactions among banks within the region on a gross basis and in real time. The system is aimed at enabling efficient regional settlement which promotes cross-border trade and regional integration by increasing the speed and convenience of payments. It is also anticipated that this will improve the circulation of goods and services and the pace of economic expansion in the region. To this effect, the Bank has initiated the process to on-board SIRESS in the second quarter of 2016. This initiative is furthermore in line with Seychelles' ratification of the SADC Protocol on Trade "to further liberalise intra-regional trade by creating mutually beneficial trade arrangements, thereby improving investment and productivity in the region".

6.6.2 On-site Section

As per Section 18(1) of the NPSA and as further provided by Section 33(1) of the Central Bank Act (2004), the Bank has the mandate to conduct examinations of operators or participants of a payment, clearing and settlement system as well as conducting inspections at payment service providers, such as commercial banks, SCU and other non-bank institutions.

Throughout 2015, the Bank continued to conduct limited scope examinations on 6 commercial banks and SCU which had started the previous year. The aim of these examinations was to assess whether the participants were in adherence with the SEFT and ECC systems' rules and guidelines. Moreover, assessment on the procedures for handling salary payments, foreign currency cheques and business continuity aspects of participants were also completed.

In an attempt to increase the efficiency and reliability of payment systems, various weaknesses in payment processes and problematic areas which could expose participants to risks, such as operational, fraud, liquidity, reputational and legal risks were identified. Some of the main aspects which were identified for improvement by the commercial banks and SCU are listed below;

- i. Limiting delays in crediting customers' accounts.
- ii. Improving the timeframe for processing payment transactions, in particular salary payments.
- iii. Ensuring that there is proper procedure for customer complaints in relation to payment systems.
- iv. Enhancing compliance to the SEFT and ECC systems' rules and guidelines.
- v. Providing further impetus for eliminating the use of non-standard cheques still in circulation.
- vi. Enhancing the infrastructure to allow for business continuity relating to the different payment systems.

6.6.3 Off-site Section

In order to assess the efficiency of the different payment services, the offsite section of the PSD conducts monitoring activities on a continuous basis by capturing payment systems data from various participants. Moreover, ad-hoc reporting and close monitoring was done over targeted payment instruments such as cheques. More specifically, focus in 2015 was on the issuance of bounced cheques and non-standard cheques whereby awareness campaigns were done during the year to sensitise the public in an attempt to eradicate same in the country.

6.6.4 Payment Systems statistical data

PSD oversees the activities of the different types of payment systems and payment services available locally. Developments for each of the different activities overseen by the Bank are as follows:

6.6.4.1 Internet Banking

Internet banking, also termed as online banking is an electronic payment system enabling customers to make financial transactions on a website operated by banks offering such service. As at the end of 2015, three local banks were offering such type of banking facility to their customers.

6.6.4.2 Mobile Banking

Mobile banking is a system whereby customers of banks are able to conduct a number of financial transactions through a mobile device e.g. using smartphones, tablets etc. using a dedicated software or SMS. As at the end of 2015, two banks were offering mobile banking services to customers.

6.6.4.3 Mobile Payments

Mobile payments usually refer to payment services performed via a mobile device. It is generally operated under a regulatory framework and is an alternative method of effecting mostly retail payments as compared to the use of cash, debit or credit cards and cheques.

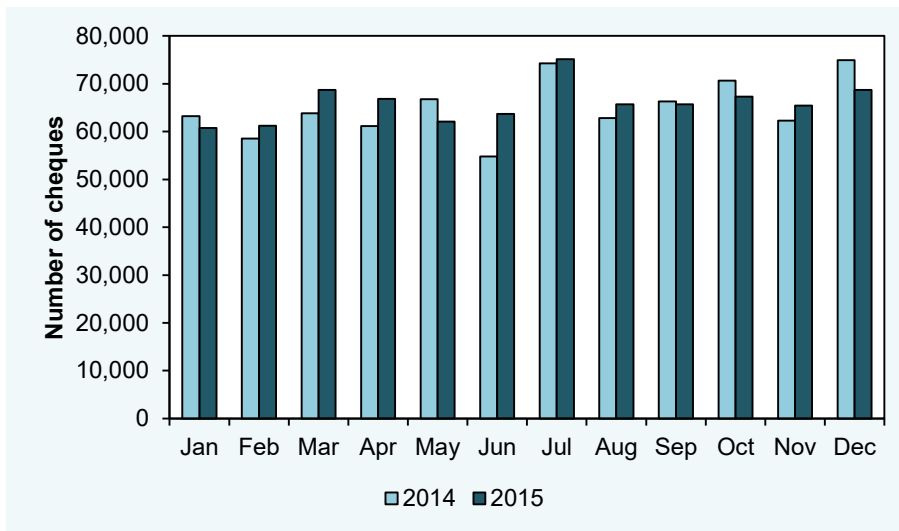
After the successful pilot phase of Airtel Money, on April 18, 2015, Airtel Mobile Commerce (Seychelles) was issued with a payment service provider licence under the NPSA to provide mobile payment services, which it is operating successfully to date. Payment through this medium is now extended to institutions such as the PUC for payment of utility bills and purchases done at retail shops.

6.6.4.4 Cheque Clearing System¹⁹

Despite the modernisation and the introduction of electronic means of payment, as well as the proliferation of bounced cheques in the country, cheques were still being predominantly used by the public in 2015, especially high-value cheques which recorded an increase in volume of 50 per cent from 2014. The total number of cheques cleared during the year amounted to 791,245 representing an increase of 0.01 per cent compared to 2014. Likewise, the total value of cheque transactions increased by 7.5 per cent in 2015, from R15,598 million to R16,773 million.

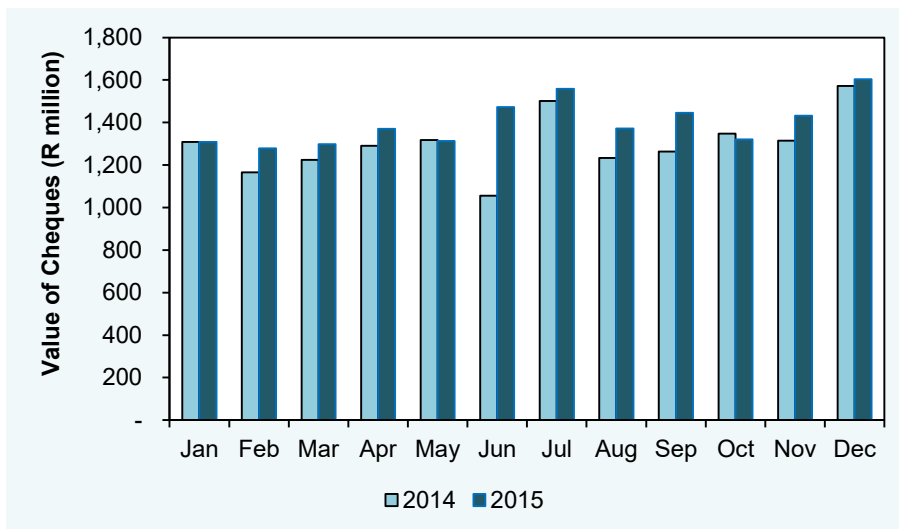
¹⁹ Figures are exclusive of On-Us cheques.

Chart 6.1: Number of cheques presented for the year 2014 and 2015



Source: Central Bank of Seychelles

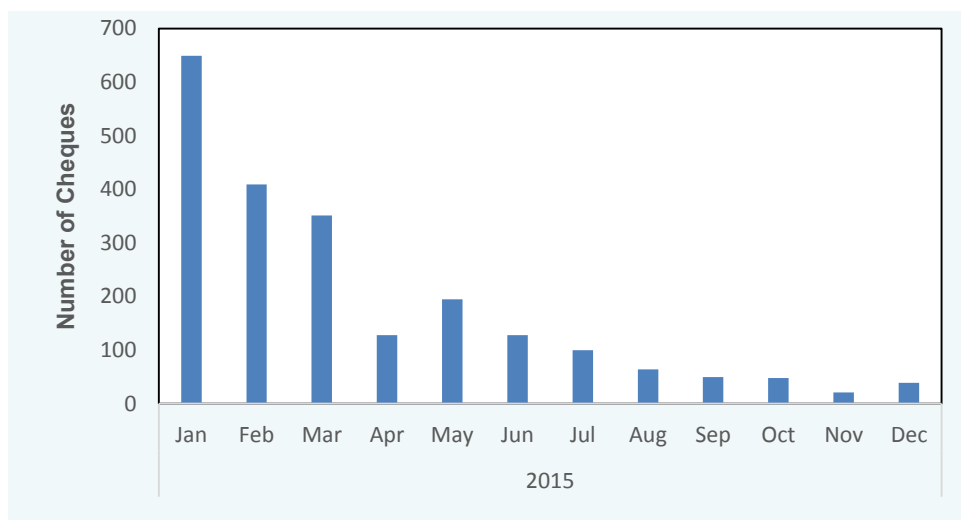
Chart 6.2: Value of cheques presented for the year 2014 and 2015



Source: Central Bank of Seychelles

In order to ensure the efficiency of such payment instrument, more efforts and awareness campaigns were conducted in an attempt to eradicate non-standard cheques in the system. Over the year 2015, there was a general decline in the usage of non-standard cheques which may signify the effectiveness of the awareness campaigns as well as actions taken by the commercial banks and the SCU to contact their customers and replace the cheques with the standard ones.

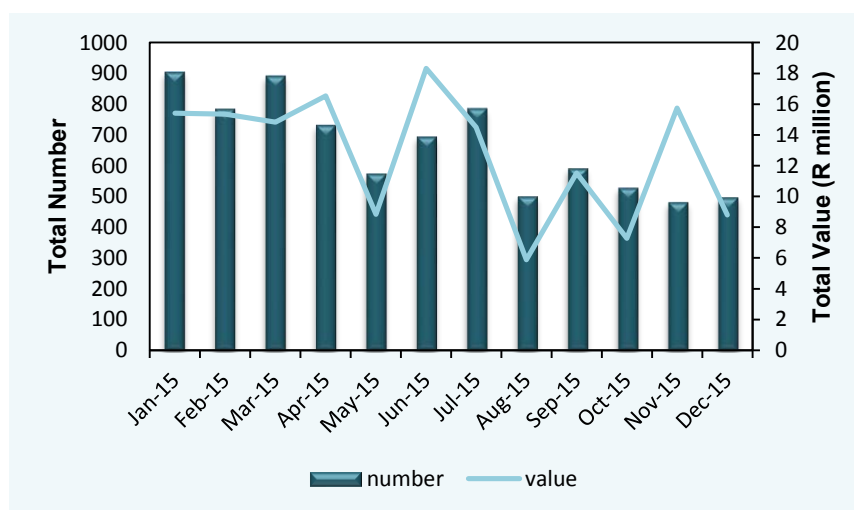
Chart 6.3: Total number of non-standard cheques cleared



Source: Central Bank of Seychelles

Whereas for cheques being returned due to insufficient funds, despite several awareness campaigns carried out to educate the public on the proliferation of bounced cheques in the country and measures that the beneficiary may take to protect themselves against such offenders, there has been no clear downward trend observed as depicted in the chart below.

Chart 6.4: Total number and value of Bounced cheques



Source: Central Bank of Seychelles

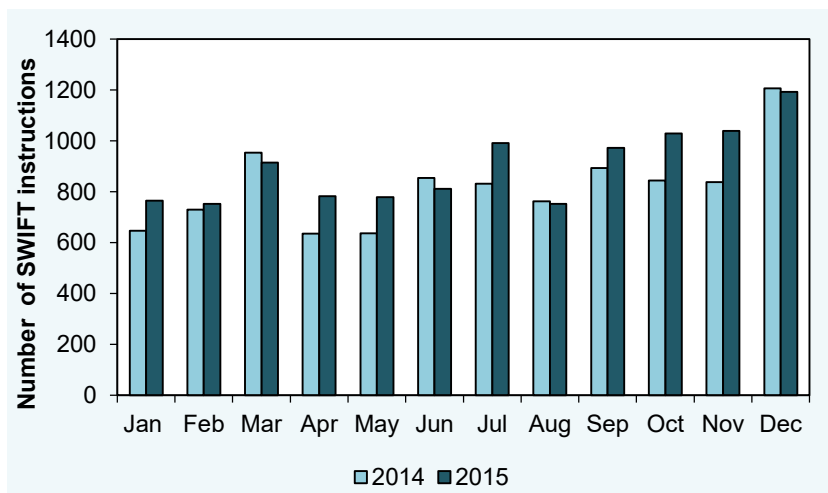
6.6.4.5 Central Bank of Seychelles Immediate Transfer Service (CBSITS)²⁰

Since the introduction of the SEFT system which is mainly being used for retail payments, the CBSITS is predominantly used for high value local payments.

²⁰ Figures showing only out-going SWIFT messages sent to participants.

The total number of SWIFT instructions sent to participants amounted to 101,130 in 2015. As depicted, 2015 recorded higher volume of SWIFT transactions compared to the previous year, bringing the total fluctuation to a 0.7 per cent increase compared to 2014.

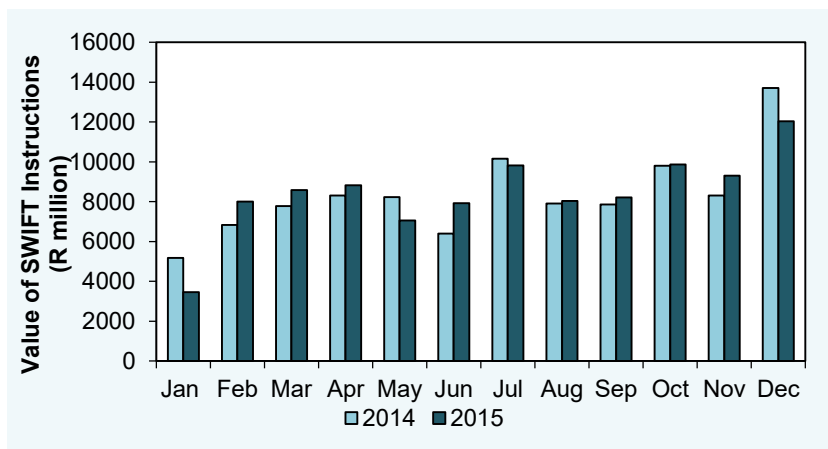
Chart 6.5: Number of SWIFT instruction messages sent to participants of the CBSITS for the year 2014 to 2015



Source: Central Bank of Seychelles

In terms of value of SWIFT instructions sent to participants, an increase of 0.10 per cent was recorded when compared to 2014.

Chart 6.6: Value of SWIFT instruction messages sent to participants of the CBSITS for year 2014 to 2015



Source: Central Bank of Seychelles

6.6.4.6 Seychelles Electronic Funds Transfer (SEFT) System

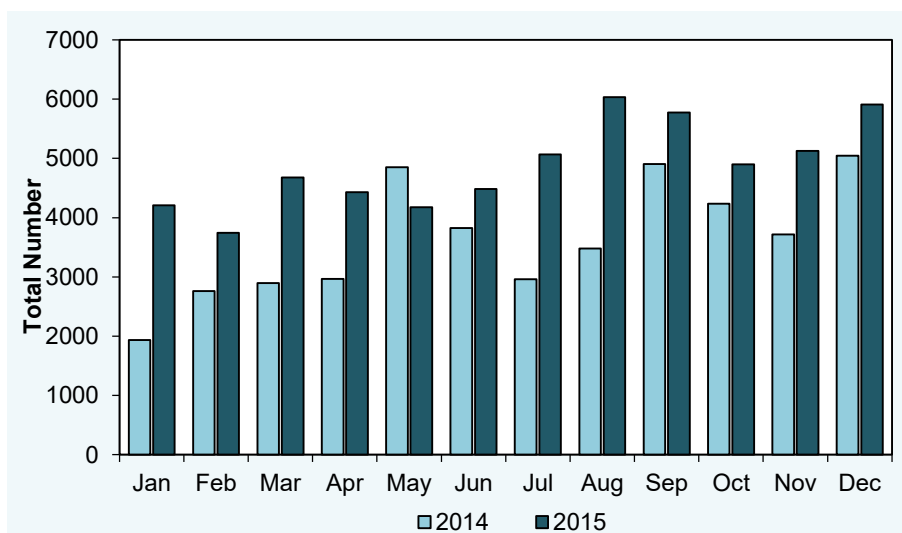
In order for customers to experience SEFT's full benefits in terms of speed of transactions, it was requested of participants to fully integrate their core banking system with the SEFT system. This would allow for STP of

transactions whereby customers' accounts would be credited instantaneously. By November 2015, most participants had successfully integrated with the exception of two banks which were given extensions to comply within the first quarter of 2016.

As for SEFT Phase 2, this is projected to be implemented by end of the third quarter of 2016, benefits of which will include public's participation on the SEFT platform, whereby access to the system will be granted to the customers of the banks and SCU to initiate their own transactions.

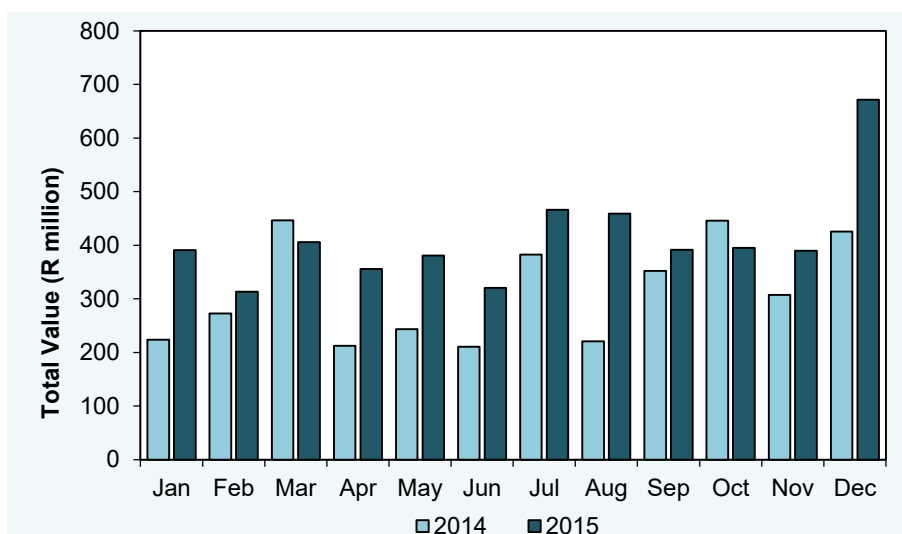
Based on statistics for 2015, there has been a general rise of 0.3 per cent in both the volume and value of SEFT transactions, which ties in with expectations in view of the integration to the SEFT system by most banks. The total number of SEFT transactions amounted to 58,529 with a total value of R4,940 million as can be seen below. On average, a total of 4,877 transactions were effected per month through the SEFT system, whilst the average value of transactions amounted to R412 million per month. It is forecasted that there will be further increases in SEFT transactions in the coming year as there will be further integration by the remaining banks and implementation of SEFT Phase 2.

Chart 6.7: Number of SEFT transactions for the year 2014 and 2015



Source: Central Bank of Seychelles

Chart 6.8: Value of SEFT Message for the year 2014 and 2015

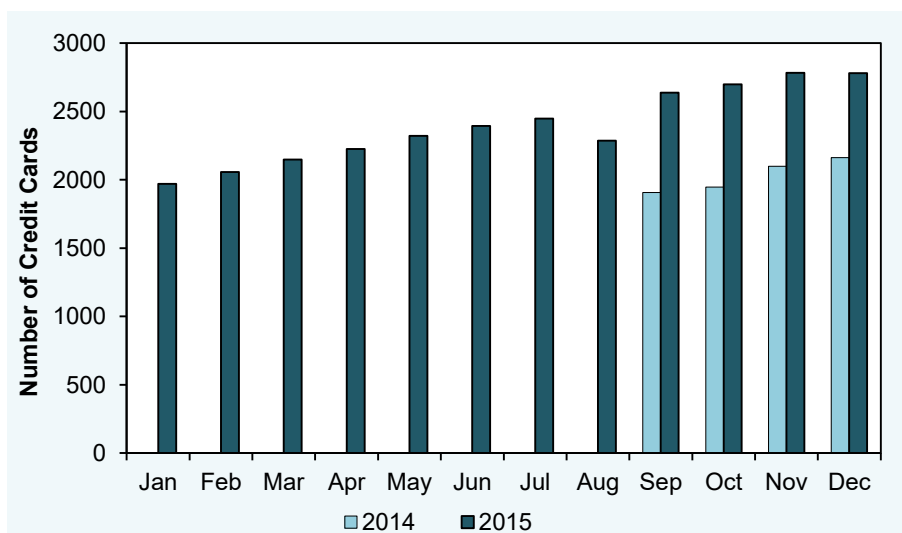


Source: Central Bank of Seychelles

6.6.4.7 Credit cards

October 2012 saw the launching of the first credit card facility offered locally by a commercial bank. As at the end of December 2015, three commercial banks were offering such facility and a total of 2,780 credit cards were in circulation. The total number of transactions effected through credit cards were 92,663 with a total value of R214 million in 2015.

Chart 6.9: Number of Credit Cards in Circulation for the year 2014 to 2015²¹



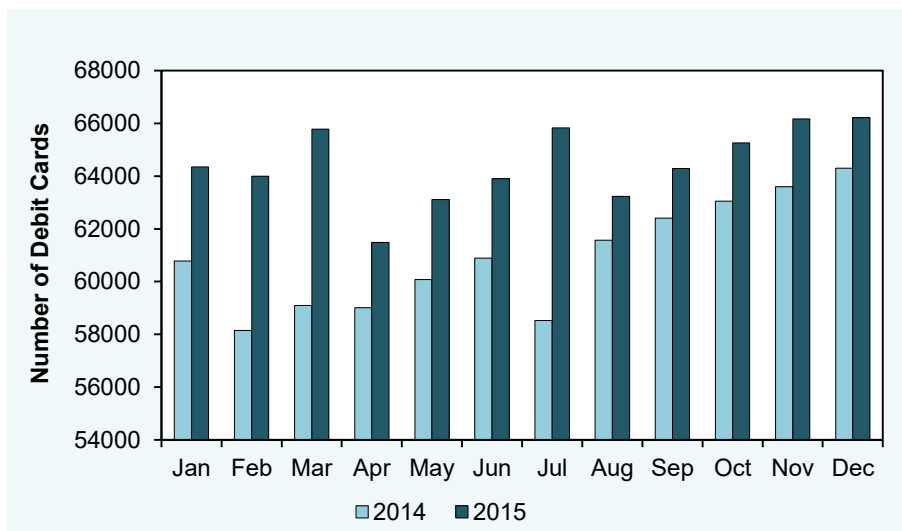
Source: Central Bank of Seychelles

²¹ Collection of credit card statistics available as at September 2014.

6.6.4.8 Debit Cards

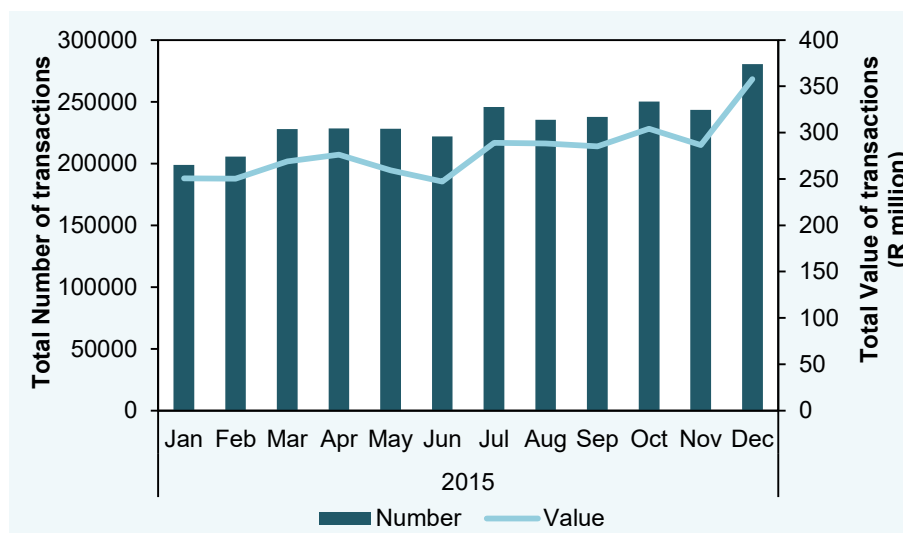
The total number of debit cards in circulation as at the end of December 2015 stood at 66,209. In general, there was an increase of 0.1 per cent compared to 2014 and this may be due to the fact that merchants and customers have become more receptive towards such payment instrument, supported by the fact that 2015 statistics showed greater availability of Point of Sale (POS) machines countrywide.

Chart 6.10: Number of Debit Cards in Circulation for the year 2014 and 2015



Source: Central Bank of Seychelles

Chart 6.11: Total number and value of debit card transactions



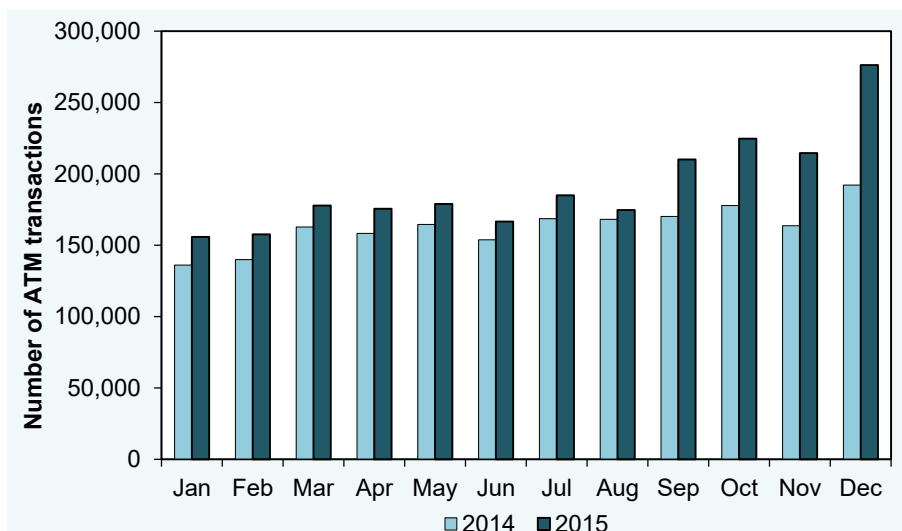
Source: Central Bank of Seychelles

6.6.4.9 ATMs

During 2015, only one new ATM was installed, in Victoria, bringing the total to 48. Despite this, the number of ATM transactions increased by 17 per cent, from 2.2 million in 2014 to 2.7 million.

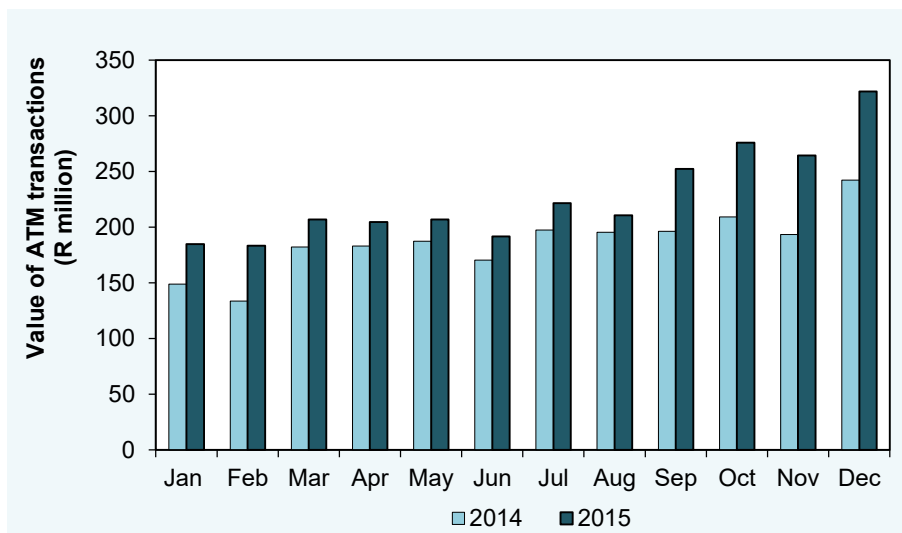
As regards to the value of ATM transactions, this increased by 22 per cent, from R2,240 million in 2014 to R2,725 million in 2015. As such, this depicted further adoption of such facility by the general public, despite the ATM skimming incident which happened during the third quarter of the year under review, which was thought would be a deterrent in ATM usage.

Chart 6.12: Number of ATM transactions for the year 2014 and 2015



Source: Central Bank of Seychelles

Chart 6.13: Value of ATM transactions for the year 2014 and 2015

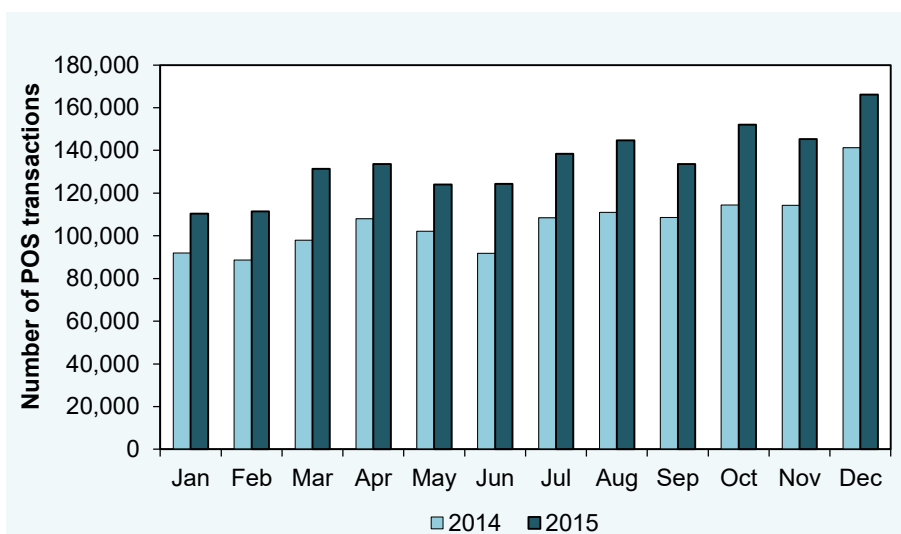


Source: Central Bank of Seychelles

6.6.4.10 Point of Sale

In 2015, there were 1.6 million recorded POS transactions which exceeded the total of 1.3 million recorded in 2014. This can be attributed to the increase in the number of debit cards issued during 2015 and also the rise in the number of POS terminals available. As at the end of December 2015, there was a total of 2,220 POS terminals spread across the three main islands, thus representing a 7.9 per cent growth compared to 2,057 in 2014.

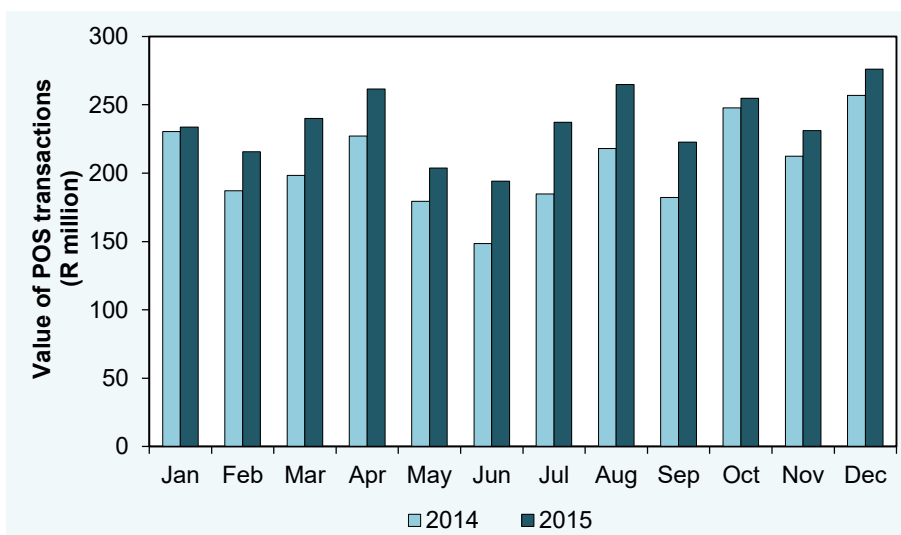
Chart 6.14: Number of POS transactions for the year 2014 and 2015



Source: Central Bank of Seychelles

In terms of value of POS transactions, there has been an increase of 15 per cent in 2015 when compared to 2014. Of note, the month of December recorded the highest number and value of transactions attributed to more transactions being effected during the festive seasons.

Chart 6.15: Value of POS transactions for the year 2014 and 2015



Source: Central Bank of Seychelles

In summary, the year 2015 saw increased usage of electronic payment services as is illustrated by the increase in the number of debit cards in circulation and the total number and value of transactions effected through the SEFT, POS and ATMs. This positive trend may be attributed to the on-going effort to continuously modernise the national payment system infrastructure.

6.7 Technical Services Division

The Technical Services Division (TSD) is responsible for delivering secure, reliable and quality systems to support the infrastructure as well as the internal operations of the Bank. It is organised into the following functions:

Network Support: Responsible for the effective management of server and network systems hardware and software.

Desktop Support: Responsible for effective management of desktop and laptop PCs, and mobile devices, their hardware, associated peripherals, operating systems and all generic software installed on them, collectively referred to as desktop systems.

Business Application Support: Responsible for the management of Central Bank core business applications including those available to market participants, key spreadsheets and databases, collectively referred to as banking systems.

During 2015, the Division managed to achieve a number of projects that were set out for the year. First and foremost, TSD managed to implement Microsoft SharePoint as a central repository to facilitate document sharing and archiving for users through a web interface. This software is intended to replace file server and allows for fast retrieval and searching of documents. TSD has completely transitioned to Microsoft SharePoint whilst other departments gradually move in this direction. SharePoint Training was done for all departments and this will continue next year.

In addition to this, TSD was able to complete work on high risk cabling in certain areas of the Bank. More so, in an effort to improve communications with the Bank's partners such as SADC central banks as well as reducing the cost of travel to attend relevant meetings, TSD coordinated in the installation of Skype for Business to facilitate video conferencing with the said partners.

The Division succeeded in achieving many other duties throughout 2015, such as the implementation of a new software to facilitate fixed asset management, the drafting of the Division's new strategic plan following the expiration of the 2012-2015 plan as well as performing Business Continuity test on the Bank's critical functions such as Core Banking, ECC and SEFT. The Division was equally devoted to supporting the ongoing SEFT Phase 2 implementation.

The year 2015 also saw the approval of Control Objectives for Information and Related Technology 5 (COBIT 5) by the Board as an IT management control framework for the implementation of sound IT governance at the Bank.

6.8 Administration Division

The Administration Division is tasked with providing administrative and logistical support to the Bank and its mandate includes:

- General Office Management
- Transport Management
- Mail Registry Management
- Property Management
- Security and Safety
- Project Management

With regards to improvement to the building, in 2015 work was carried out to extend the main store, and the necessary structural modifications were undertaken as part of the ventilation project which also involved improvement of the air conditioning system.

Works to improve the overall security system of the Bank continued in 2015. A new automated system for the main gate was implemented and an integrated security management system was successfully put in place. Moreover, work towards building a new security control room and new wall around the building commenced and as at the end of the year they were both at an advanced stage.

Similarly, with regards to non-building projects much activity took place in 2015. With respect to improvement on the existing credit information system, the Bank worked in collaboration with the Department of Information Communications and Technology which is designing a new system.

Furthermore, a software for fixed asset management was introduced together with the relevant policy and procedures. As for the SEFT phase 2, the project is progressing and is anticipated to go live in 2016. The SharePoint project also began; once fully implemented it will allow for effective electronic records management.

6.9 Human Resources Division

The principal role of the Human Resources Division (HRD) is to ensure that the general well-being and professional development of employees are met and maintained through recruitment, training and development as well as staff benefits and welfare. In 2015 the Division has strived to deliver its functions to a high standard.

In total, 6 new staff were recruited in 2015 while 3 employees resigned from the service of the Bank.

The year also saw the creation of a new unit, the FSU, which would be responsible for the continuous monitoring of the financial system to ascertain its resilience underpinned by the macro-prudential framework. The unit will begin with at least two employees being transferred internally in view that the nature of the posts require persons with sufficient experience in micro and macro prudential elements or financial stability.

More so, in line with the Bank's efforts to ensure a human resource pool of the highest calibre, employees were offered opportunities to attend a variety of short courses both locally and internationally. In total, 79 employees attended short courses/workshops overseas. These were primarily organised by SADC, IMF, Study Centre

Gerzensee in Switzerland, Federal Reserve Bank of New York, Intelligent Africa, Koenig Solutions, African Training Institute (ATI), RAMP and AFI.

Local courses, on the other hand were mainly provided by the Guy Morel Institute. The courses attended included, Customer Service Excellence, Supervisory Skills, Essentials of time management, Report writing and Presentation Skills. Four employees successfully graduated from the Guy Morel Institute upon the completion of a Certificate in Office Management and a Certificate in General Management.

Aside from this, numerous in-house trainings were also organised, namely, SWIFT, Business French, Excel and Presentation Skills training sessions. Furthermore, in April 2015, a first group of 16 participants embarked on the Intuition online learning programme provided by RAMP for reserve management activities. In 2015, there were 8 participants that continued with the online Crown Agent training which started in February 2014.

As part of the Bank's scholarship programme, two scholarships were granted to the Bank's employees to pursue further studies in 2015. Furthermore, one employee was also granted an external Chevening scholarship.

2015 also saw the return of three employees from long term studies, which included two employees who were pursuing their degrees online. All three successfully completed their undergraduate studies. Currently there are six employees still pursuing either their undergraduate or postgraduate studies.

The year under review also saw the launching of the Career Management project in liaison with consultants from Ernst and Young Advisory Services Pty Limited (EY) from South Africa and a former employee from the South African Reserve Bank. The project aims to facilitate career management for the Bank and it is expected to be completed in 2016.

With regards to staff benefits and welfare, a number of awareness sessions were conducted to advise employees on matters such as Performance Management and the proposed contract policy.

In 2015, HRD initiated several wellness sessions with the aim of promoting healthier lifestyles. An educational talk was organised on healthy eating habits by a representative from the Ministry of Health in February 2015 with the intention to encourage staff to incorporate these habits into their everyday lives. In addition, massage sessions were held in May 2015 so as to help alleviate stress. Furthermore, a talk on hepatitis and drugs was organised in July, 2015. In September 2015, HRD also organised for allergy tests to be conducted to determine whether employees suffered from specific allergies as part of the Bank's health and safety programme.

6.10 Legal Unit

The year for the Legal Unit consisted generally of assisting the divisions of the Bank in the conduct of their day to day duties and operations and assisting with any queries or issues arising. The Unit also conducted work and research for the different projects aimed at furthering the objectives of the Bank as well as strengthening the framework for good governance. In doing so, the Unit sought the guidance of the Attorney General's Office on a number of matters.

6.11 Internal Audit Division (IAD)

In 2015, IAD continued with its oversight function and followed up on recommendations from the Bank's external auditors and its consultants in ensuring compliance with the Institute of Internal Auditors (IIA) Standards.

Operations wise, the Division carried out 9 audits and presented 31 recommendations in 2015. Of these, 45 per cent were implemented. The remainder have been classified either as work in progress or to be executed in 2016. The recommendations made were aimed at adding value to the Bank's operations by strengthening internal controls and the governance process.

During the year, IAD continued to meet with the Board's ARC more than on a quarterly basis and received support and guidance from the Committee. As a result, this improved governance of the Bank and increased productivity of IAD.

One of the key components of the external review of IAD that will be done in 2017 is the completion of the Information Systems and Security Audit, which has been awarded to one of the big five auditing firms. This audit will mainly involve carrying out a vulnerability assessment covering operating systems, databases, applications, network, and security infrastructure as well as performing external penetration testing and a maturity assessment and for the Bank.

6.12 Board of Directors

The Board of Directors met for 8 ordinary and 7 extraordinary meetings in 2015. Discussions were held on the policy, operational and administrative matters. During the course of the year, the Board also met on a quarterly basis for monetary policy discussions, updates and decisions. The ARC and the Human Resources Committee (HRC) which are the sub-committees of the Board, also met on several occasions during the year for discussions on various on-going works for implementation. Moreover, the Board of Directors attended an in-house workshop on Banking Development for Banking Stakeholders organised by KPMG focusing on Global Banking Trends and Issues as well as Insights into Forensic application in the banking and financial services world.

To enhance its governance functions in line with best practice, it was decided that the role of Board Secretary, which had until then been assigned to employee as an additional duty, becomes a permanent responsibility.

6.13 Appreciation

The Board and Management of the Central Bank wish to express their appreciation to all staff members of the Bank for their valuable contributions and absolute commitment to the operation of the institution. The Bank's staff members have continued to discharge their responsibilities in a professional, ethical and exemplary manner as befitting a central monetary institution and in doing so further assisted the Bank to attain its statutory objectives, amongst other things. On this note, the Board and Management look forward to another successful year ahead.

**CENTRAL BANK OF SEYCHELLES
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015**

**Management's Commentary on the audited Financial Statements
for the year ended December 31, 2015**

The audited financial statements of the Central Bank of Seychelles for the year ended December 31, 2015 were approved and signed by the Board on March 21, 2016. These financial statements have been prepared in accordance with the CBS Act, 2004 as amended, and are in line with the International Financial Reporting Standards (IFRS) and comprise of the following primary statements; the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows, as well as the statement of distribution in accordance with the CBS Act, 2004 as amended and the notes to the financial statements.

The financial statements of 2015 have been audited by our external auditors, KPMG Mauritius on behalf of the Auditor General as per Section 47(3) of the CBS Act, 2004 as amended. In the auditors' opinion, the financial statements give a true and fair view of the financial position, the financial performance and the cash flows of the Bank which are in line with IFRS and in accordance with the CBS Act, 2004 as amended.

The presentation of the figures in the statement of financial position is consistent with the prior year and shows all foreign and local currency comparative figures for the year 2014 and 2015. For the year 2015, total assets stood at R8,450 million, total liabilities was R7,864 million and total equity stood at R586 million. Total value of foreign currency assets increased from R6,495 million as at the end of 2014 to R7,035 million as at the end of 2015, which is an increase of approximately 8.3 per cent. This increase mirrors the continued efforts of the Bank in its strategic objective of prudent foreign reserves accumulation. These total foreign assets comprised of R5,010 million as cash and cash equivalents with short-term maturities, R1,709 million as other balances and placements with maturities of more than three months and R316 million as financial assets with our external fund manager presented as financial assets at fair value through profit or loss.

The statement of profit or loss and other comprehensive income shows a net loss of R383 million for the year 2015, made up of R21 million as actual operating profit and distributable earnings as well as other non-distributable earnings in the form of; unrealised revaluation losses amounting to R374 million, unrealised losses from dealings in foreign currency transactions by our external fund manager amounting to R0.4 million, unrealised losses on fair valuation of financial assets at fair value through profit or loss amounting to R29 million and actuarial gains amounting to R0.2 million. The revaluation losses recorded are a direct result of the appreciation of the Seychelles rupee and are treated as unrealised losses under IFRS, and do not form part of the distributable earnings to the government as dividends. In addition, the effects of the actuarial gains and losses on the employee benefit obligations are treated as other comprehensive income that will never be reclassified to profit or loss under IFRS and these also do not form part of distributable earnings but are accumulated under actuarial reserve. Prior year's unrealised gains and losses on financial assets at fair value through profit or loss are only considered for distribution upon disposal of these assets in the following year. For the year 2015, these

realised losses amounted to R0.1 million and were offset against the distributable earnings for the year 2015 prior to distribution.

The Bank's actual operating profit and distributable earnings for the year 2015 is made up primarily of interest income, interest expense, fees and commissions, staff costs, policy costs as well as other income and expenses. The primary contributor to net revenue of R130 million was interest income earned on the Bank's holdings of Government treasury bills amounting to R155 million. This outcome is significantly higher than the figure reported in 2014 and is directly related to the higher yields on treasury bills that reached a year high of 12.99% in the third quarter of 2015, for the 365-day security. On the other hand, interest expense rose from R8.7 million in 2014 to R29 million due to the tighter monetary policy stance. The Bank used its main monetary policy instrument, the DAA, to mop up the excess liquidity.

The observed slight decline in income from fees and commissions, from R24 million in 2014 to R22 million in 2015 is mainly due to the lower exchange rate margins observed as a result of the currency appreciation. On the expenditure side, staff related costs increased from R59 million in 2014 to R63 million in 2015 in view that the Bank continued expanding in staff numbers on a net basis to meet the demands of the reform programme activities as well as the deliverables under the strategic plan. Policy costs which are directly linked to the Bank's objective of accumulating foreign reserves increased significantly, from R13 million in 2014 to R23 million in 2015, thus further highlighting the high cost of foreign exchange reserve accumulation activities during the year. In 2015, the Bank maintained its positive increase in gross international reserves from US\$464 million, equivalent to 4.1 months of imports, to US\$536 million, equivalent to 4.9 months of imports, which again further enhanced the country's external reserve buffer and in anticipation of the planned outflows for foreign debt repayments by the government in the coming years.

In view that the current aggregate balance under authorised capital and General reserve of the Bank fell short of the minimum 10 per cent of total monetary liabilities required at the end of every year due to an increase in the total monetary liabilities from R3,351 million in 2014 to R3,893 million in 2015, then 50 per cent of total distributable earnings was distributed to build up authorised capital and General reserve as follows; R6.4 million to build up authorised capital to the minimum required level of 3.33 per cent and the remaining balance, amounting to R3.9 million was transferred to General reserve to bring it to 4.6 per cent. The remaining 50 per cent of total distributable earnings, amounting to R10.3 million has been paid to the Government Consolidated Fund as dividends for the year.

The full set of the Bank's audited financial statements and detailed explanatory notes for the year ended December 31, 2015 are shown overleaf.

CENTRAL BANK OF SEYCHELLES
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2015

CENTRAL BANK OF SEYCHELLES

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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Please address all correspondence to the Auditor General

OPINION OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE CENTRAL BANK OF SEYCHELLES FOR THE YEAR ENDED 31 DECEMBER 2015**Scope**

Pursuant to the powers conferred on me by Section 47(3) of the Central Bank of Seychelles Act, 2004 as amended, I have caused KPMG, (Mauritius) to audit on my behalf the financial statements of the Central Bank of Seychelles (the "Bank") for the year ended 31 December 2015 as set out on pages 6 to 75.

Responsibility of the Board of Directors of the Bank for the Financial Statements

The Board of Directors of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Central Bank of Seychelles Act, 2004 as amended, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Auditor General

My responsibility is to express an opinion on these financial statements based on my audit. The audit was conducted in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**OPINION OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE CENTRAL BANK
OF SEYCHELLES FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

Opinion

In my opinion,

- (a) proper accounting records have been kept by the Bank as far as appears from my examination of those records; and
- (b) the financial statements on pages 6 to 75 give a true and fair view of the financial position of the Bank as at 31 December 2015 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Central Bank of Seychelles Act, 2004 as amended.



Marc Benstrong
Auditor General

21 March 2016
Victoria, Seychelles

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INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL OF THE REPUBLIC OF SEYCHELLES

We have audited the accompanying financial statements of the Central Bank of Seychelles (the "Bank"), which comprise the statement of financial position at 31 December 2015 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to and forming part of the financial statements which include a summary of significant accounting policies and other explanatory notes, as set out on pages 6 to 75.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the requirements of the Central Bank of Seychelles Act, 2004 as amended, and for such internal control as the Board of Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITORS' REPORT TO THE AUDITOR GENERAL OF THE
REPUBLIC OF SEYCHELLES (CONTINUED)**

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Central Bank of Seychelles as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the requirements of the Central Bank of Seychelles Act, 2004 as amended.

Other Matter

This report has been prepared solely for the Auditor General of the Central Bank of Seychelles in accordance with Section 47(3) of the Central Bank of Seychelles Act, 2004 as amended.


KPMG
Ebène, Mauritius

Date: 21 March 2016

CENTRAL BANK OF SEYCHELLES

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

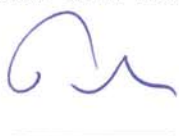
	Note	Foreign currency SCR' 000	2015 Local currency SCR' 000	Total SCR' 000	Foreign currency SCR' 000	2014 Local currency SCR' 000	Total SCR' 000
ASSETS							
Cash and cash equivalents	7	5,010,315	-	5,010,315	3,201,458	-	3,201,458
Other balances and placements	8	1,708,841	-	1,708,841	2,951,648	-	2,951,648
Financial assets at fair value							
through profit or loss	9	315,785	-	315,785	341,945	-	341,945
Investment securities	10	-	1,205,501	1,205,501	-	1,207,357	1,207,357
Loans and advances	11	-	26,556	26,556	-	29,703	29,703
Other assets	12	-	99,291	99,291	-	33,920	33,920
Currency replacement costs	13	-	9,914	9,914	-	13,807	13,807
Property and equipment	14	-	72,360	72,360	-	71,721	71,721
Intangible assets	15	-	1,567	1,567	-	3,688	3,688
Total assets		7,034,941	1,415,189	8,450,130	6,495,051	1,360,196	7,855,247
LIABILITIES							
Currency in circulation	16	-	1,096,913	1,096,913	-	1,017,590	1,017,590
Deposits from Government	17	253,831	2,960,898	3,214,729	268,328	2,459,307	2,727,635
Deposits from banks	18	671,032	819,945	1,490,977	562,189	787,511	1,349,700
Deposits from other financial institutions	19	-	95,499	95,499	-	58,419	58,419
Other deposits	20	7,689	24,098	31,787	2,669	39,720	42,389
Open Market Operations	21	-	1,181,142	1,181,142	-	886,614	886,614
Other liabilities	22	-	45,415	45,415	-	33,302	33,302
International Monetary Fund obligations	23	707,089	526	707,615	760,183	527	760,710
Total liabilities		1,639,641	6,224,436	7,864,077	1,593,369	5,282,990	6,876,359
EQUITY							
Capital and reserves							
Authorised capital	24	-	129,625	129,625	-	123,203	123,203
General reserve	24	-	180,439	180,439	-	176,603	176,603
Revaluation reserve	25	-	277,675	277,675	-	681,017	681,017
Actuarial reserve	26	-	(1,686)	(1,686)	-	(1,935)	(1,935)
Total equity		-	586,053	586,053	-	978,888	978,888
Total equity and liabilities		1,639,641	6,810,489	8,450,130	1,593,369	6,261,878	7,855,247

These financial statements were approved and authorised for issue on 21 March 2016 by the undersigned:

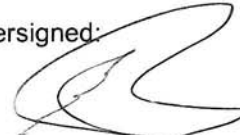

C. Abel
 Governor


C. Edmond
 First Deputy
 Governor


E. Dias
 Director


W. Jackson
 Director


W. Pierre
 Director


B. Rassool
 Director

The notes on pages 11 to 75 form an integral part of these financial statements.

CENTRAL BANK OF SEYCHELLES**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	2015 SCR' 000	2014 SCR' 000
Interest income	27	155,004	77,971
Interest expense	28	(29,003)	(8,678)
Net interest income		126,001	69,293
Fees and commission income	29	21,580	24,473
Other income		4,710	9,977
Gains arising from dealings in foreign currency transactions	30	6,056	31,054
(Losses)/gains arising from fair valuation of financial assets at fair value through profit or loss	30	(28,579)	38,585
Revenue		129,768	173,382
(Losses)/gains arising from revaluation of foreign currency monetary assets and liabilities	30	(373,937)	561,377
Staff costs	31	(62,849)	(58,704)
Currency expenses	32	(7,019)	(6,901)
Depreciation	14	(5,449)	(5,272)
Amortisation charge	15	(2,184)	(6,110)
Professional charges	33	(3,410)	(5,016)
International Monetary Fund ("IMF") charges		(6,029)	(6,457)
Policy costs		(23,090)	(12,779)
Administrative expenses		(12,243)	(12,310)
Other operating expenses		(16,384)	(18,513)
(Loss)/profit for the year		(382,826)	602,697
Other comprehensive income			
<i>Items that will never be reclassified to profit or loss</i>			
Actuarial gains/(losses)	22(a)	249	(47)
		249	(47)
<i>Items that are or may be reclassified to profit or loss</i>		-	-
Other comprehensive income		249	(47)
Total comprehensive income for the year		(382,577)	602,650

The notes on pages 11 to 75 form an integral part of these financial statements.

CENTRAL BANK OF SEYCHELLES**STATEMENT OF DISTRIBUTION
FOR THE YEAR ENDED 31 DECEMBER 2015**

	2015	2014
	SCR' 000	SCR' 000
Total comprehensive income for the year	(382,577)	602,650
<i>Adjusted as follows:</i>		
Realised losses transferred from revaluation reserve	(136)	-
Unrealised losses/(gains) transferred from/(to) revaluation reserve	403,478	(601,375)
Actuarial (gains)/losses as per IAS 19 (Revised)	(249)	47
	-----	-----
Distributable earnings	20,516	1,322
	=====	=====
<i>Amount distributed</i>		
<i>Distributed as specified by the Central Bank of Seychelles Act, 2004 as amended</i>		
Transfer to authorised capital	6,422	-
Transfer to General reserve	3,836	661
Transfer to Government Consolidated Fund (Note 6)	10,258	661
	-----	-----
	20,516	1,322
	=====	=====

The above information has been compiled from information contained in the statement of changes in equity as set out on page 9 and does not form part of the primary statements.

CENTRAL BANK OF SEYCHELLES
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Authorised capital SCR' 000	General reserve SCR' 000	Revaluation reserve SCR' 000	Actuarial reserve SCR' 000	Retained earnings SCR' 000	Total equity SCR' 000
At 1 January 2014	123,203	175,942	79,642	(1,888)	-	376,899
Profit for the year	-	-	-	-	602,697	602,697
<i>Other comprehensive income:</i>						
Actuarial losses	-	-	-	(47)	-	(47)
	-----	-----	-----	-----	-----	-----
	123,203	175,942	79,642	(1,935)	602,697	979,549
Transfer to revaluation reserve	-	-	601,375	-	(601,375)	-
Transfer to General reserve	-	661	-	-	(661)	-
Transfer to Government Consolidated Fund	-	-	-	-	(661)	(661)
	-----	-----	-----	-----	-----	-----
At 31 December 2014	123,203	176,603	681,017	(1,935)	-	978,888
Loss for the year	-	-	-	-	(382,826)	(382,826)
<i>Other comprehensive income:</i>						
Actuarial gains	-	-	-	249	-	249
	-----	-----	-----	-----	-----	-----
	123,203	176,603	681,017	(1,686)	(382,826)	596,311
Transfer from revaluation reserve (realised)	-	-	136	-	(136)	-
Transfer from revaluation reserve (unrealised)	-	-	(403,478)	-	403,478	-
Transfer to authorised capital	6,422	-	-	-	(6,422)	-
Transfer to General reserve	-	3,836	-	-	(3,836)	-
Transfer to Government Consolidated Fund	-	-	-	-	(10,258)	(10,258)
	-----	-----	-----	-----	-----	-----
At 31 December 2015	129,625	180,439	277,675	(1,686)	-	586,053
	=====	=====	=====	=====	=====	=====

The notes on pages 11 to 75 form an integral part of these financial statements.

CENTRAL BANK OF SEYCHELLES**STATEMENT OF CASH FLOWS**
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 SCR' 000	2014 SCR' 000
Net cash from operating activities	34	963,337	608,184
Cash flows from investing activities			
Investments in other balances and placements		1,249,632	(2,355,882)
Payments for acquisition of financial assets at fair value through profit or loss		(332,408)	(1,047,616)
Proceeds from sale of financial assets at fair value through profit or loss		329,553	745,850
Payments for currency replacement	13	(2,663)	(1,343)
Payments for acquisition of property and equipment	14	(6,172)	(7,722)
Payments for acquisition of intangible assets	15	(63)	-
Proceeds from disposal of property and equipment		20	19
Interest received		155,216	85,093
Net cash from/(used in) investing activities		1,393,115	(2,581,601)
Cash flows from financing activities			
Paid to Government Consolidated Fund	6	(661)	(26,298)
Net cash used in financing activities		(661)	(26,298)
Net increase/(decrease) in cash and cash equivalents		2,355,791	(1,999,715)
Cash and cash equivalents at 1 January		3,201,458	4,548,462
Effects of exchange rate changes on cash and cash equivalents		(546,934)	652,711
Cash and cash equivalents at 31 December	7	5,010,315	3,201,458

The notes on pages 11 to 75 form an integral part of these financial statements.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. GENERAL INFORMATION

The Central Bank of Seychelles (the “Bank”) is established and domiciled in the Republic of Seychelles. The address of its registered office is Independence Avenue, Victoria, Mahé, Seychelles. The Bank is established by statute under Section 3 of the Central Bank of Seychelles Act, 2004 as amended, hereafter referred to as the CBS Act. Section 3 of the CBS Act states; “there is hereby established the Central Bank of Seychelles which shall be a body corporate with perpetual succession and a common seal.”

The financial statements for the year ended 31 December 2015 have been approved for issue by the Board of Directors on 21 March 2016. Neither the Bank nor the Government has the power to amend the financial statements after issue.

The primary objective of the Bank is to promote domestic price stability.

The other objectives of the Bank are:

- to advise the Government on banking, monetary and financial matters, including the monetary implications of proposed fiscal policies, credit policies and operations of the Government; and
- to promote a sound financial system.

2. CHANGES IN ACCOUNTING POLICIES

Except for the changes below, the Bank has consistently applied the accounting policies set out in Note 3 to all periods presented in these financial statements.

The Bank has adopted the following amendments to standards and new interpretations with a date of initial application of 1 January 2015.

Effective for accounting periods ending on or after

Amendments to IAS 19:	<i>Employee Contributions</i>	31 December 2015
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The above amendment did not have an impact on the financial statements of the Bank.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

3.1 *Basis of preparation*

In accordance with Section 45(2) of the CBS Act, the financial statements of the Bank shall be maintained at all times in conformity with the applicable law, if any, and an internationally recognised financial reporting framework. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, except for financial assets at fair value through profit or loss which are measured at fair value.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 36.

The financial statements comprise the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in equity, the statement of cash flows and the notes, as well as the statement of distribution in accordance with the CBS Act.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates which are reviewed and updated as and when required. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions for the year are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement and complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

3.2 *Foreign currency translation*

(a) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the Bank operates (the "functional currency"). The financial statements are presented in Seychelles Rupees ("SCR") rounded to the nearest thousand, which is the Bank's functional and presentation currency.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.2 Foreign currency translation (continued)****(b) Transactions and balances**

Transactions denominated in foreign currencies are translated into SCR and recorded at the rates of exchange prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are translated into SCR at the closing exchange rates ruling on the reporting date.

Foreign exchange differences resulting from the settlement of foreign currency transactions and from the translation at year end closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss. All foreign exchange gains and losses recognised in profit or loss are presented net. Unrealised foreign exchange gains and losses are transferred from retained earnings to revaluation reserve, in accordance with the CBS Act as these are not allowed for distribution.

The exchange rate of the SCR is determined by the market and the rates applied on all foreign currency transactions are the weighted average trading exchange rates of banks except for the IMF Special Drawing Rights ("XDR") rate which applies the international market rate. The following rates of exchange were applied:

	31 December 2015	31 December 2014
IMF Special Drawing Rights	XDR 1 = SCR 18.1884	XDR 1 = SCR 20.3045
United States Dollars	USD 1 = SCR 13.1258	USD 1 = SCR 14.0147
British Pound Sterling	GBP 1 = SCR 19.4513	GBP 1 = SCR 21.6633
Euros	EUR 1 = SCR 14.2755	EUR 1 = SCR 17.0753
Australian Dollars	AUD 1 = SCR 9.5687	AUD 1 = SCR 11.4430
Canadian Dollars	CAD 1 = SCR 9.4926	CAD 1 = SCR 12.0919

The XDR is defined in terms of a basket of currencies. Its value is determined as the weighted sum of exchange rates of the four major currencies (Euro, Japanese Yen, British Pound Sterling and United States Dollar). For accounting purposes, XDR is treated as a foreign currency.

3.3 Financial instruments

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank recognises all financial instruments on its statement of financial position when it becomes a party to the contractual provisions of the instrument.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 *Financial instruments (continued)*

The Bank classifies all its financial assets into one of the following categories:

- as loans and receivables and;
- at fair value through profit or loss, and within this category as:
 - held for trading; or
 - designated at fair value through profit or loss.

All the financial liabilities are measured at amortised cost.

The main classes of financial assets are: cash and cash equivalents, other balances and placements, financial assets at fair value through profit or loss, investment securities, loans and advances and other assets. The main classes of financial liabilities are: currency in circulation, deposits from Government, deposits from banks, deposits from other financial institutions, other deposits, Open Market Operations and International Monetary Fund ("IMF") obligations. Their sub classes are disclosed within the notes to each of these classes of financial assets and liabilities.

(a) Financial assets – as loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value plus any directly attributable transaction costs and measured subsequently at amortised cost using the effective interest method. Interest on financial assets is included in profit or loss and is reported as "Interest income".

The Bank uses settlement date accounting for regular way contracts when recording financial asset transactions. Financial assets, consisting of investment securities, that are transferred to a third party but do not qualify for derecognition remain within investment securities but disclosed as "pledged as collateral", if the transferee has the right to sell or repledge them.

(b) Financial assets – at fair value through profit or loss

Fair value through profit or loss comprises of financial assets designated at fair value through profit or loss. These are initially recognised at fair value, with transaction costs recognised in profit or loss and subsequently measured at fair value. Interest on financial assets is included in profit or loss and is reported as "Interest income". Any gain or loss arising from a change in the fair value of these assets are recognised in profit or loss and any unrealised gains and losses at the reporting date are not distributable.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 *Financial instruments (continued)*

(c) Financial liabilities – at amortised cost

The Bank recognises all its financial liabilities initially at the value of the consideration received for those liabilities, excluding transaction costs and subsequently measures them at amortised cost.

(d) Derecognition

Financial assets are derecognised when the contractual rights to receive cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards of ownership have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised only when the obligation is discharged, cancelled or expired.

(e) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 *Financial instruments (continued)*

(e) Fair value measurement (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation wholly supported by observable market data or the transaction is closed out.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.4 *Repurchase agreements*

In the course of its financial market operations, the Bank may engage in repurchase agreements involving investment securities.

Securities sold and contracted for repurchase under reverse repurchase agreements (“reverse repos”) remain classified as investment securities and are disclosed as pledged assets, when the transferee has the right by contract or custom to sell or repledge the collateral; the counterpart obligation to repurchase the securities is reported in the statement of financial position as part of the Open Market Operations and carried at amortised cost. Securities purchased under agreements to resell (“repos”) are recorded as loans and advances. The difference between the sale and repurchase price is treated as interest and accrued over the term of the agreements using the effective interest method.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5 *Balances with International Monetary Fund ("IMF")*

(a) Receivables

Deposits with the IMF are included in cash and cash equivalents and represent the membership quota of the Seychelles with the IMF. Holdings of Special Drawing Rights relates to the amounts with the IMF that are available for day-to-day operations of the Bank.

Reserve tranche position is the extent to which the IMF's holdings of a member's currency are less than the member's quota. This excludes holdings obtained by members through the use of IMF credit. Also excluded are holdings in the IMF number two account that are less than one tenth of one percent quota. The reserve tranche position is part of the member country's external reserves.

(b) Liabilities

Borrowings from the IMF are financial liabilities held by the Bank on behalf of the Government of Seychelles, denominated in XDR and are included under the International Monetary Fund obligations in the statement of financial position. Borrowings from the general resources of the IMF bear interest at rates set by the IMF twice weekly and are repayable according to the agreed repayment schedules. The interest rate amounts to **0.05 percent** as at 31 December 2015 (2014 – 0.05 percent).

All borrowings from the IMF are guaranteed by promissory notes which are issued by the Government and are payable on demand.

3.6 *Impairment of financial assets*

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 *Impairment of financial assets (continued)*

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - adverse changes in the payment status of borrowers in the portfolio; and
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 *Impairment of financial assets (continued)*

Impairment charges relating to loans and advances are classified in “impairment charges” in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

3.7 *Impairment of non-financial assets*

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other groups of assets.

The 'recoverable amount' of a group of assets is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the group of assets.

An impairment loss is recognised if the carrying amount of a group of assets exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of the assets allocated within the group of assets on a pro rata basis.

An impairment loss in respect of non-financial assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.8 *Offsetting of financial assets and liabilities*

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's operations.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including foreign currency notes, balances held with banks abroad, holdings of Special Drawing Rights and Reserve Tranche with the International Monetary Fund ("IMF"). Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3.10 Other balances and placements

Other balances and placements comprise balances with more than three months' maturity from the date of acquisition, including deposits held with banks abroad. These are medium to long term deposits that are classified as loans and receivables and are carried at amortised cost.

These are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for as loan and receivables at amortised cost.

3.11 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent funds outsourced to Fund Managers and comprise of medium to long term deposits, securities and bonds, held for investment purposes. These have been designated at fair value through profit or loss with the changes in fair value recognised immediately in profit or loss.

3.12 Other assets

Other assets are made up primarily of the balance of SCR and foreign currency cheques held for clearing and settlement after the reporting date and other prepayments made by the Bank. These are measured at their carrying amounts and are subject to impairment (see Note 12).

3.13 Currency replacement cost

Currency note printing and coin minting costs incurred are deferred and are charged to profit or loss. Useful lives are currently estimated to be 5 years but this is reviewed at least annually. The unamortised cost of purchased bank notes and coins in issue is included in Currency replacement cost in the statement of financial position. Fully amortised cost of past replacements are treated as disposals and derecognised.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 *Property and equipment*

(a) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the items. If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

(b) Subsequent costs

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial year in which they are incurred.

(c) Depreciation

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	-	25 – 50 years;
Office furniture and fittings	-	2 – 10 years;
Office machine and equipment	-	4 years;
Motor vehicles	-	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were impaired as at 31 December 2015 (2014 – Nil).

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15 Leases

(a) Determining whether an arrangement contains a lease

At inception of an arrangement, the Bank determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Bank separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Bank concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using an appropriate discount rate equivalent to the lending rate.

(b) Leased assets

Assets held by the Bank under leases that transfer to the Bank substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Bank's statement of financial position.

(c) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 *Intangible assets*

Intangible assets comprise computer software licences which are recognised at cost less accumulated amortisation and any accumulated impairment losses. The computer software has a definite useful life and is amortised using the straight line method over its useful economic life.

At the end of each reporting period, intangible assets are reviewed for indicators of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

The Bank chooses to use the cost model for the measurement after recognition.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17 *Currency in circulation*

Currency in circulation represents money released to the public for circulation. This represents an unserviced liability of the Bank and is recorded in the statement of financial position at its face value.

When notes and coins are returned to the Bank by the commercial banks, Government entities and the general public they are removed from currency in circulation. Depending on their condition or legal tender status, they are either sent for destruction or held for re-issue.

3.18 *Deposits*

(a) Deposit from Government and banks

Deposits held by the Bank, whether SCR or foreign currency deposits are initially measured at fair value and carried at amortised cost in the statement of financial position.

As at the reporting date Government deposits and commercial banks' demand deposits were earning no interest (see Notes 17 and 18). Both deposits that are denominated in SCR are not normally allowed to be overdrawn. In the event of an overdraft on the Government general account and commercial bank's demand deposit accounts denominated in SCR, the Bank will grant temporary short term advances and this will be charged at the applicable interest rates.

Foreign currency deposit accounts are not allowed to be overdrawn and are revalued to reflect the market exchange rate at the reporting date.

(b) Deposit from other financial institutions

Deposits held from other financial institutions are SCR demand deposits and are initially measured at fair value and carried at amortised cost in the statement of financial position. As at the reporting date, these non-commercial banks' demand deposits from the Seychelles Credit Union ("SCU"), the Seychelles Pension Fund ("SPF") and the Development Bank of Seychelles were earning no interest (see Note 19). These deposits are not normally allowed to be overdrawn, however in the event of an overdraft on the demand deposit account of SCU only, the Bank will grant temporary short term advances and this will be charged at the applicable interest rates.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.18 Deposits (continued)

(c) Other deposits

Demand deposits held by the Bank under other deposits whether in SCR or foreign currency are initially measured at fair value and carried at amortised cost in the statement of financial position. At the reporting date foreign currency deposit accounts are revalued to reflect the market exchange rate. These other deposits comprises mainly of local and foreign currency denominated abandoned properties and special (project funds) deposits. Apart from the special (project funds) deposits which earn a fixed interest of 2.0 percent per annum every six months on the daily balance, all other deposits are non-interest bearing (see Note 20). These deposits are not allowed to be overdrawn and are payable on demand.

3.19 Other liabilities

Other liabilities is made up primarily of provisions for employee benefits, other payables and payables to the Government Consolidated Fund transferred from retained earnings (see Note 22).

3.20 Employee benefits

(a) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

(b) Defined benefit plan – Compensation

A defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

(c) Other long-term employee benefits – Gratuities

The Bank provides for a payment of gratuity to permanent employees. Gratuities are paid every five years (except in the case of early retirement) as from January 2007, for continuous service. The amount provisioned every year is based on the number of years the employee has worked after the last payment date.

The Bank also provides for a payment of gratuity to certain key management personnel at the end of their contracts. The amount provisioned every year is based on the discounted present value of the future obligation attributable to the completed years of service.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 *Employee benefits (continued)*

Both types of employee benefits, defined benefit plan and gratuities have characteristics of a defined benefit plan. The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the reporting date less fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of Government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited immediately to other comprehensive income in actuarial reserve in the case of the defined benefit plan and are charged or credited to profit or loss in the case of other long-term employee benefits. Past service costs are recognised immediately in profit or loss.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement age, or whenever an employee accepts voluntary redundancy in exchange to these benefits.

(e) Defined contribution plan

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient amount to pay all employees the benefits relating to employee service in the current and prior period. The Bank contributes to two defined contribution plan. Firstly, the Bank contributes to the SPF in accordance with the Seychelles Pension Fund Act. Secondly, the Bank contributes to the SwissLife Pension. Payments to both SPF and SwissLife are charged as an expense as they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.21 Provisions**

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation based on the current market assessment of the time value of money and risks specific to the obligation.

3.22 Authorised capital and General reserve

The statutory capital (which comprises the authorised capital and General reserve) of the Bank was established by the CBS Act. The Bank maintains the General reserve to provide for events which are contingent and non-foreseeable, including covering losses from exceptionally large falls in the market value of its holdings of domestic and foreign securities that cannot be absorbed by its other resources. The initial authorised capital of the Bank was SCR 1.0 million and thereafter it shall be built to 3.33 percent of monetary liabilities by transferring from retained earnings. All capital stock of the Bank as and when issued shall be for the sole account of the Government and shall not be transferable or subject to encumbrances. As per CBS Act, all authorised capital shall be deemed to be fully paid up.

3.23 Revaluation reserve

The Bank also holds Revaluation Reserve Accounts. These comprise of unrealised gains and losses arising from changes in the revaluation of the Bank's assets and liabilities including financial assets held at fair value through profit or loss denominated in foreign currencies and other units of account. This is as a result of alterations of parity of the SCR which are credited or charged to profit or loss and are subsequently transferred to the Revaluation Reserve Account, in accordance with Sections 45(5) and 45(6) of the CBS Act.

3.24 Actuarial reserve

The Bank holds an actuarial reserve in which cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are transferred.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.25 *Interest income and expense*

Interest income and interest expense are recognised in profit or loss for all financial instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments to the net carrying amount of these instruments. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or group of similar financial assets have been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.26 *Fees and commission income*

Commission on foreign exchange dealings are recognised on the dates of transactions. Fees and commissions are generally recognised in profit or loss on an accrual basis when the service has been provided.

3.27 *International Monetary Fund (IMF) charges*

Charges incurred for IMF membership and on the facilities from the IMF are recognised in profit or loss on an accrual basis for the period in which the charges relate.

3.28 *Policy costs*

Policy expenses are incurred on foreign currency dealings relating to policy decisions such as purchases and sales as part of the foreign reserves management activities and monetary policy operations. These costs are recognised in profit or loss on the dates of the transactions.

3.29 *Administrative expenses*

The costs of maintaining the premises and providing support services to the Bank are recognised in profit or loss on an accrual basis for the period in which the expenses relate.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****3.30 *Gains and losses from financial assets at fair value through profit or loss***

Net gain or loss from financial assets at fair value through profit or loss includes all realised and unrealised fair value changes on securities sold short and foreign exchange differences, but excludes interest and dividend income.

Net realised gain or loss from financial assets at fair value through profit or loss is calculated using the average cost method.

3.31 *Distributable earnings*

Under Section 16(2) of the CBS Act, the Bank is required to transfer a percentage or all of its distributable earnings to the Government Consolidated Fund on the basis described in Note 6 of the financial statements.

3.32 *Comparatives*

Certain information has been reclassified and restated to conform to the current year's presentation.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2016, and have not been applied in preparing these financial statements. Those which may be relevant to the Bank are set out below. The Bank does not plan to early adopt these standards. These will be adopted in the period that they become mandatory unless otherwise indicated.

At the date of authorisation of the financial statements for the year ended 31 December 2015, the following Standards and Interpretations were in issue but not yet effective:

Standard/Interpretation		Effective date Periods beginning on or after
Amendments to IAS 16 / IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation	1 January 2016*
Amendments to IAS 1	Disclosure Initiative	1 January 2016*
IFRS 15	Revenue from Contracts with Customers	1 January 2018*
IFRS 9	Financial Instruments	1 January 2018*
IFRS 16	Leases	1 January 2019*

* All Standards and Interpretations will be adopted at their effective date.

4.1 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The Bank currently does not have any intangible assets, property, plant or equipment that are amortised or depreciated using a revenue-based method, therefore there will be no impact on its financial statements.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

4.2 *Disclosure Initiative (Amendments to IAS 1)*

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments also clarify presentation principles applicable.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

The Bank is currently assessing the potential impact on its financial statements resulting from the amendments to IAS 1.

4.3 *Revenue from Contracts with Customers (IFRS 15)*

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

The impact on the financial statements of the Bank has not yet been estimated.

4.4 *Financial Instruments (IFRS 9)*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

4.4 *Financial Instruments (IFRS 9) (continued)*

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Bank is assessing the potential impact on its financial statements resulting from the adoption of IFRS 9.

4.5 *Leases (IFRS 16)*

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors.

The Bank is assessing the potential impact on the financial statements resulting from the adoption of IFRS 16.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management's judgement, which necessarily have to be made in the course of preparing the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standards. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

The following estimates were made by management:

5.1 *Identification and measurement of impairment*

Assumptions and estimation uncertainties that have or may have a significant risk of resulting in a material adjustment in the financial statements in relation to impairment are set out as per the following notes;

Note 3.6 – impairment of financial assets;

Note 3.7 – impairment of non-financial assets.

5.2 *Employee benefits*

The present value of the employee benefits, consisting of gratuity and compensation, depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of the employee benefit obligations.

The main assumption used in determining the net cost or income for employee benefits is the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the employee benefit obligations.

In determining the appropriate discount rate, the Bank considers the interest rates of Government bonds or its equivalent that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related liability.

5.3 *Termination and post-employment benefits*

The present value of both termination and post-employment benefits depends on assumption of an appropriate discount rate. The Bank determines the appropriate discount rate at the date of making the provision. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the termination benefit obligations. In determining the appropriate discount rate, the Bank considers the interest rates of Government bonds or its equivalent that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related liability. The Bank also takes into account expected rate of increase in remuneration and this is estimated from the expected rate of inflation.

Other key assumptions for the employee benefits obligations are based on current market conditions.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****5.3 Termination and post-employment benefits (continued)**

The carrying amount of the defined benefit obligations at 31 December 2015 is **SCR 5.0 million** (2014 – SCR 4.9 million). Details of the defined benefit obligation is disclosed in Note 22(a).

The financial assumptions used for purposes of these calculations are as follows:

- Discount rate: **5.5 percent p.a.** (2014 – 5.5 percent p.a.)
- Salary increase rate: **3.5 percent p.a.** (2014 – 3.5 percent p.a.)

It has been assumed that all employees will opt for retirement on reaching the age of 63.

No allowance has been made for withdrawal from service or pre-retirement mortality as the benefits payable in such circumstances are not materially significant and the turnover ratio for cases other than death, retirement or dismissal is low.

6. TRANSFER TO GOVERNMENT CONSOLIDATED FUND

Transfer to the Government Consolidated Fund has been carried out in accordance with Section 16(2) of the CBS Act.

Movements during the year are as follows:

	2015	2014
	SCR' 000	SCR' 000
At 1 January	661	26,298
Paid to Government Consolidated Fund	(661)	(26,298)
Transfer from retained earnings	10,258	661
	-----	-----
At 31 December (Note 22)	10,258	661
	=====	=====

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****6. TRANSFER TO GOVERNMENT CONSOLIDATED FUND (CONTINUED)****Central Bank of Seychelles Act, 2004 as amended.**

Section 16 of the CBS Act requires that the distributable earnings of the Bank be calculated as follows:

- a) net profit, less an amount equal to the total amount of unrealised gains, included in the net profit; and
- b) by adding to the amount remaining after applying paragraph (a), the total amount of unrealised gains, if those unrealised gains, included in the net profit of a previous year, are realised; and
- c) by the retention of the unrealised revaluation losses to the extent that they exceed any balance in the relevant Revaluation Reserve Account.

Where the Bank has distributable earnings for any financial year, 50 percent of those earnings shall be distributed in the following priority to the statutory capital until;

- a) authorised capital reaches 3.33 percent of monetary liabilities; and
- b) the General Reserve reaches 6.67 percent of monetary liabilities.

Provided that any residual distributable earnings remaining after a distribution in paragraphs (a) and (b) shall be transferred to the Consolidated Fund.

Where the distributable earnings of the Bank is less than zero, they shall be offset against the General Reserve.

7. CASH AND CASH EQUIVALENTS

	2015	2014
	SCR' 000	SCR' 000
Balances held abroad and foreign currency notes	4,901,113	3,072,938
Holdings of Special Drawing Rights	99,593	117,793
Reserve tranche with IMF (see Note 17)	9,609	10,727
	-----	-----
	5,010,315	3,201,458
	=====	=====
Current	5,010,315	3,201,458
	=====	=====

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****7. CASH AND CASH EQUIVALENTS (CONTINUED)**

Included in cash and cash equivalents are pledged and encumbered balances held abroad equivalent to **SCR 2,302.8 million** and **SCR 48.0 million** respectively (2014 – pledged SCR 1,573.6 million and encumbered SCR 54.3 million). These represent funds earmarked by the Bank for the purpose of developing projects, foreign currency minimum reserve requirements of local banks or other pledges and contingent liabilities.

The Reserve tranche with IMF is held on behalf of the Government and is not available for use by the Bank (see Note 17).

8. OTHER BALANCES AND PLACEMENTS

	2015 SCR' 000	2014 SCR' 000
Other balances and placements held abroad	1,708,841 =====	2,951,648 =====
Current	1,708,841 =====	2,951,648 =====

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2015 SCR' 000	2014 SCR' 000
Financial assets at fair value through profit or loss	315,785 =====	341,945 =====
Current	17,604	25,633
Non-current	298,181 -----	316,312 -----
	315,785 =====	341,945 =====

The financial assets at fair value through profit or loss comprise of underlying investments in treasury bills, notes and bonds from funds outsourced to fund manager.

10. INVESTMENT SECURITIES

	2015 SCR' 000	2014 SCR' 000
Investment in Government treasury bills	1,205,501 =====	1,207,357 =====
Current	1,205,501 =====	1,207,357 =====

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****10. INVESTMENT SECURITIES (CONTINUED)**

During the year under review, the Bank's holding of Government treasury bills as at the reporting date carried interest rates as follows: **7.57 percent to 12.83 percent** per annum for 365 days (2014 – 5.63 percent to 15.31 percent per annum for 365 days).

Securities pledged as collateral

As at the reporting date, the balance under repurchase agreements was **Nil** (2014 – Nil) and as such the amount of Government treasury bills pledged as collateral was **Nil** (2014 – Nil).

11. LOANS AND ADVANCES

	2015 SCR' 000	2014 SCR' 000
Staff loans	26,556 =====	29,703 =====
Current	3,638	6,026
Non-current	22,918 -----	23,677 -----
	26,556 =====	29,703 =====

The Bank grants loans to its employees at preferential rates. The loans are initially recognised at fair value, based on the market interest rates and the difference between the fair value on initial recognition and the loans proceeds is accounted for as prepaid employee benefits and is amortised over the lower of the life of the loan or the remaining working lives of employees. The loan is subsequently measured at amortised cost, using the effective interest method, with the effective interest being the market rate of interest of the type of loan at the initial recognition date.

12. OTHER ASSETS

	2015 SCR' 000	2014 SCR' 000
Cheques held for clearing	64,839	17,131
Items due and not received	2,561	2,206
Others	31,891 -----	14,583 -----
	99,291 =====	33,920 =====
Current	99,291	24,707
Non-current	- -----	9,213 -----
	99,291 =====	33,920 =====

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****13. CURRENCY REPLACEMENT COSTS**

	SCR' 000
Cost	
Balance as at 1 January 2014	45,227
Additions	1,343
Disposals	(13,615)

Balance as at 31 December 2014	32,955
Additions	2,663

Balance as at 31 December 2015	35,618
	=====
Accumulated amortisation	
Balance as at 1 January 2014	26,413
Amortisation charge	6,350
Disposals	(13,615)

Balance as at 31 December 2014	19,148
Amortisation charge	6,556

Balance as at 31 December 2015	25,704
	=====
Carrying amounts	
31 December 2014	13,807
	=====
31 December 2015	9,914
	=====

Disposals relate to fully amortised costs derecognised.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

14. PROPERTY AND EQUIPMENT

Cost	Land SCR' 000	Buildings SCR' 000	Office furniture and fittings SCR' 000	Office machine and equipment SCR' 000	Motor vehicles SCR' 000	Total SCR' 000
Balance as at 1 January 2014	5,617	67,844	9,986	13,359	1,858	98,664
Additions	-	5,478	1,430	564	250	7,722
Disposals	-	(476)	(142)	-	-	(618)
Balance as at 31 December 2014	5,617	72,846	11,274	13,923	2,108	105,768
Additions	-	3,858	754	1,560	-	6,172
Disposals	-	-	(244)	(111)	-	(355)
Balance as at 31 December 2015	5,617	76,704	11,784	15,372	2,108	111,585
Accumulated depreciation						
Balance as at 1 January 2014	-	14,237	5,364	8,789	581	28,971
Depreciation charge	-	1,592	1,558	1,859	263	5,272
Disposals	-	(68)	(128)	-	-	(196)
Balance as at 31 December 2014	-	15,761	6,794	10,648	844	34,047
Depreciation charge	-	1,657	1,625	1,898	269	5,449
Disposals	-	-	(170)	(101)	-	(271)
Balance as at 31 December 2015	-	17,418	8,249	12,445	1,113	39,225
Carrying amounts						
31 December 2014	5,617	57,085	4,480	3,275	1,264	71,721
31 December 2015	5,617	59,286	3,535	2,927	995	72,360

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****15. INTANGIBLE ASSETS**

	Computer software SCR' 000
Cost	
Balance as at 1 January 2014	30,148
Disposals	(7,983)

Balance as at 31 December 2014	22,165
Additions	63
Disposals	-

Balance as at 31 December 2015	22,228
	=====
Accumulated amortisation	
Balance as at 1 January 2014	15,799
Amortisation charge	6,110
Disposals	(3,432)

Balance as at 31 December 2014	18,477
Amortisation charge	2,184
Disposals	-

Balance as at 31 December 2015	20,661
	=====
Carrying amounts	
31 December 2014	3,688
	=====
31 December 2015	1,567
	=====

16. CURRENCY IN CIRCULATION

	2015 SCR' 000	2014 SCR' 000
Notes issued	1,052,137	976,083
Coins issued	44,776	41,507
	-----	-----
	1,096,913	1,017,590
	=====	=====
Current	1,096,913	1,017,590
	=====	=====

Notes and coins in circulation are shown at face value.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****17. DEPOSITS FROM GOVERNMENT**

	2015 SCR' 000	2014 SCR' 000
Government Rupee deposits	2,960,898	2,459,307
Government foreign exchange deposits (project accounts)	243,551	254,503
Government deposits with IMF (see Note 7)	9,609	10,727
Central Bank of Seychelles blocked foreign exchange deposits	671	3,098
	----- 3,214,729 =====	----- 2,727,635 =====
Current	3,214,729 =====	2,727,635 =====

Government foreign exchange deposits (project accounts) represent amounts deposited by the Government at the Bank and have been earmarked for specific local projects to be undertaken by the Government. These deposits are denominated in foreign currencies and are non-interest bearing.

18. DEPOSITS FROM BANKS

	2015 SCR' 000	2014 SCR' 000
Demand deposits	819,945	787,511
Foreign currency minimum reserve requirement	671,032	562,189
	----- 1,490,977 =====	----- 1,349,700 =====
Current	1,490,977 =====	1,349,700 =====

18.1 Demand deposits

Commercial banks hold demand deposit accounts with the Bank to facilitate settlement of interbank transactions. Furthermore, as per regulations issued under the CBS Act, they are required to maintain a minimum statutory reserve amount which is adjusted on the basis of the monetary policy stance as approved by the Board of Directors. In 2015, the minimum statutory reserves requirement was maintained at **13.0 percent** (2014 – 13.0 percent) on each commercial bank's customers' Rupee deposits (held as demand, savings and time deposits held by residents excluding inter-bank and foreign currency deposits held by non-residents). The remuneration on the total minimum statutory reserves was maintained at zero percent as was the case since July 2011.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****18. DEPOSITS FROM BANKS (CONTINUED)****18.2 Foreign currency Minimum Reserve Requirement**

All depository institutions are required to maintain a minimum level of statutory reserves of their foreign currency by way of minimum deposits with the CBS. In 2015 the minimum deposit was maintained at **13.0 percent** (2014 – 13.0 percent) of the foreign currency deposits held by residents. Since its introduction in April 2009, the Bank has not paid any interest on foreign currency minimum statutory reserves requirement. This arrangement continued in 2015.

19. DEPOSITS FROM OTHER FINANCIAL INSTITUTIONS

	2015 SCR' 000	2014 SCR' 000
Demand deposit	95,499 =====	58,419 =====
Current	95,499 =====	58,419 =====

Other financial institutions hold demand deposit accounts with the Bank to facilitate inter-bank and other external transactions. These deposits are non-interest bearing and repayable on demand.

20. OTHER DEPOSITS

	2015 SCR' 000	2014 SCR' 000
Special deposits	1,792	1,731
Abandoned properties		
- Local currency	20,439	17,239
- Foreign currency	7,689	2,669
Others	1,867 -----	20,750 -----
	31,787 =====	42,389 =====
Current	31,787 =====	42,389 =====

As per the Financial Institutions Act 2004, as amended, commercial banks are required to publish and report to the Bank abandoned accounts or other properties, namely contents of safe deposit boxes, for which no transaction has been made for at least 10 years. In the 11th year, unclaimed properties are transferred to the Bank. Funds transferred to the Bank are maintained in non-interest bearing accounts whilst content of safe deposit boxes are kept in the Bank's vault. These abandoned properties are refundable to the clients on demand.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****21. OPEN MARKET OPERATIONS**

	2015	2014
	SCR' 000	SCR' 000
Deposit Auction Arrangement	1,181,142	886,614
	=====	=====
Current	1,181,142	886,614
	=====	=====

The Deposit Auction Arrangement ("DAA") which is an Open Market Operation, is a liquidity management tool made available by the Bank to the commercial banks for better liquidity management by both parties. The Bank uses the instrument to mop up excess liquidity in the system whilst the commercial banks use it as a convenient means for them to invest their excess reserves and earn a return. The maturities offered ranges from two (2) days to three hundred and sixty five (365) days.

Under this scheme, commercial banks are called to state the amount of funds they would like to bid in any of the maturities on offer. The interest rate for each maturity is fixed by the Bank and the Bank decides whether to accept or reject any bid as guided by the liquidity position in the financial system and depending on the sterilisation needs.

At the reporting date, an amount of **SCR 1,181.1 million** was held by the Bank with maturity periods of 6, 7, 10, 14, 21, 35, 42, 49 and 56 days. In 2014, the corresponding figure stood at SCR 886.6 million with maturity periods of 5, 6, 7, 10, 12, 14, 21, 28, 35, 42, 56, 63, 70, 77 and 84 days.

22. OTHER LIABILITIES

	2015	2014
	SCR' 000	SCR' 000
Payable to Government Consolidated Fund (Note 6)		
- Transfer from retained earnings	10,258	661
Provision for staff gratuities – contractual	3,563	3,122
Provision for staff gratuities – continuous (Note 22(a))	453	431
Provision for staff compensation – continuous (Note 22(a))	4,567	4,498
Provision for termination benefits	8,976	8,511
Provision for post-employment benefits	4,339	2,977
Items due and not yet paid	6,126	5,180
Others	7,133	7,922
	-----	-----
	45,415	33,302
	=====	=====
Current	27,080	16,885
Non-current	18,335	16,417
	-----	-----
	45,415	33,302
	=====	=====

Contractual staff are staff employed for a pre-determined duration of time. The duration of the contract depends on a number of factors, such as the nature of works and schemes.

Continuous employment refers to a permanent employment with no pre-determined end date.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

22. OTHER LIABILITIES (CONTINUED)

(a) *Employee Benefit Obligations*

	Total	2015 SCR' 000	2014 SCR' 000	Compensation 2015 SCR' 000	2014 SCR' 000	Gratuity (continuous) 2015 SCR' 000	2014 SCR' 000
Present value of obligation: At 1 January		4,929	4,704	4,498	4,287	431	417
Included in profit or loss							
Current service cost	602		603	438	432	164	171
Interest cost	258		220	238	203	20	17
Liability (gain)/loss arising from:							
- Financial assumptions	-		(4)	-	-	-	(4)
- Experience adjustment	(17)		(28)	-	-	(17)	(28)
		843	791	676	635	167	156
Included in OCI							
Actuarial (gains)/losses arising from:							
- Financial assumptions	-		8	-	8	-	-
- Experience adjustment	(249)		39	(249)	39	-	-
		(249)	47	(249)	47	-	-
Others							
Employer Contributions Paid	(503)		(613)	(358)	(471)	(145)	(142)
Balance at 31 December		5,020	4,929	4,567	4,498	453	431
Represented by:							
Net defined benefit liability – Compensation	4,567		4,498	4,567	4,498	-	-
Net defined benefit liability – Gratuity	453		431	-	-	453	431
Expected employer contribution 2016		397	8	224	-	173	8
Discount rate		-	-	5.50%	5.50%	5.50%	5.50%
Future salary increases		-	-	3.50%	3.50%	3.50%	3.50%

The Bank does not have any plan assets as the employee benefit relates to unfunded obligation in relation to compensation and gratuities.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****22. OTHER LIABILITIES (CONTINUED)****(a) Employee Benefit Obligations (continued)****Compensation plan**

All permanent employees of the Bank are entitled to compensation for their years of continuous service at retirement or upon leaving the services of the Bank. Provisions for this compensation cost is made on an annual basis for every year completed by the employee and payments are made immediately after the last day of service. The Bank has recognised a net liability of **SCR 4.6 million** for this compensation plan as at 31 December 2015 (2014 – SCR 4.5 million).

Gratuity plan

The Bank provides for a payment of gratuity to permanent employees reaching minimum period of 5 years of continuous service and typically every 5 years thereafter. The Bank has recognised a net liability of **SCR 0.45 million** for this gratuity plan as at 31 December 2015 (2014 – SCR 0.43 million).

Funding

The Bank provides for the compensation and gratuity costs for its permanent employee through an accrual basis and expenses the accrued amount in the financial year in which the service is rendered.

Duration

At 31 December 2015, the weighted-average duration of the defined benefit obligation is 17 years for the compensation plan and 2 years for the gratuity plan (2014 – 18 years for the compensation plan and 2 years for the gratuity plan).

(b) Sensitivity analysis

Possible reasonable changes at the reporting date to one of the relevant actuarial assumption, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Compensation plan		Gratuity plan	
	Increase SCR' 000	Decrease SCR' 000	Increase SCR' 000	Decrease SCR' 000
2014				
Discount rate (1% increase)	-	700	-	7
Discount rate (1% decrease)	893	-	7	-

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****22. OTHER LIABILITIES (CONTINUED)****(b) Sensitivity analysis (continued)**

	Compensation plan		Gratuity plan	
	Increase SCR' 000	Decrease SCR' 000	Increase SCR' 000	Decrease SCR' 000
2015				
Discount rate (1% increase)	-	684	-	7
Discount rate (1% decrease)	875	-	7	-

Although the analysis does not take account of the full distribution of cash flows expected under the plans, it does provide an approximation of the sensitivity of the assumptions shown.

The above sensitivity analysis has been carried out by recalculating the present value of obligation at end of period after increasing or decreasing the discount rate while leaving all other assumptions unchanged. Any similar variation in the other assumptions would have shown smaller variations in the defined benefit obligation.

23. INTERNATIONAL MONETARY FUND OBLIGATIONS

	2015 SCR' 000	2014 SCR' 000
Purchases outstanding		
- Extended Fund Facility	556,444	592,012
Allocation of Special Drawing Rights	150,645	168,171
IMF no. 1 account	510	511
IMF no. 2 account	16	16
	-----	-----
	707,615	760,710
	=====	=====
Current	44,542	34,029
Non-current	663,073	726,681
	-----	-----
	707,615	760,710
	=====	=====

Seychelles became a member of the IMF on 30 June 1977 and was initially assigned a quota of XDR 1.0 million. The quota allocation determines the financial and organisational relation with the IMF. Subsequent increases in quota subscription were effected over the years which has brought the quota subscription to **XDR 10.9 million** (2014 – XDR 10.9 million). The portion payable in SCR is paid by way of non-negotiable, non-interest bearing promissory notes issued by the Government in favour of the IMF, which are payable on demand. These promissory notes are lodged with the Bank acting as custodian for the IMF.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****23. INTERNATIONAL MONETARY FUND OBLIGATIONS (CONTINUED)**

Seychelles continues to maintain the following balance sheet accounts with the IMF under heading IMF Obligation: IMF Purchases Outstanding Account, SDR Allocation Account, IMF no.1 Account and IMF no. 2 Account. Other balance sheet accounts classified under cash and cash equivalents include SDR Holdings Account and Reserve Tranche Account both denominated in XDR. Seychelles also holds an off balance sheet balance called the IMF Securities Account backed by Government issued promissory notes amounting to **SCR 766.7 million** as at the reporting date (2014 – SCR 741.2 million). SDR Allocations are subject to charges while SDR holdings earn interest on a quarterly basis.

In December 2009, the Government was granted continued support for their reform effort through a three-year arrangement under the Extended Fund Facility (“EFF”). In 2012, this arrangement was extended for another year, expiring in December 2013. A new three year arrangement was approved in June 2014, under the EFF program under which an amount **XDR 11.4 million** was granted. The total disbursement for 2015 amounting to **XDR 3.2 million** (2014 – XDR 3.2 million) was as follows: **XDR 1.6 million** in June 2015 and **XDR 1.6 million** in December 2015. The Stand-by Arrangement (“SBA”) which was replaced by the EFF was fully repaid in 2014.

The Bank revalues the IMF accounts in its statement of financial position in accordance with the practices of the IMF’s Treasury Department. In general, the revaluation is effected annually on 30 April and whenever the Fund makes use of SCR in accordance with the IMF designated plan. For accounting purposes, the IMF accounts have been revalued using exchange rates as at the reporting date.

The repayment terms for the purchases outstanding are as follows:

	2015	2015	2014	2014
	XDR' 000	SCR' 000	XDR' 000	SCR' 000
1 – 3 years	10,531	191,546	7,828	158,950
Over 3 years	20,062	364,898	21,329	433,062
	-----	-----	-----	-----
Total	30,593	556,444	29,157	592,012
	=====	=====	=====	=====

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****24. STATUTORY CAPITAL**

	2015 SCR' 000	2014 SCR' 000
Authorised capital	129,625	123,203
General reserve	180,439	176,603
	-----	-----
	310,064	299,806
	=====	=====

As per Section 14 of the CBS Act, the initial authorised capital of the Bank shall be SCR 1.0 million and accumulate as per the distributable earnings under Section 16 of the Act (see Note 6). The statutory capital of the Bank shall be 10.0 percent of monetary liabilities of which 3.33 percent shall relate to authorised capital and the remaining 6.67 percent shall relate to General reserve.

As at the reporting date the statutory capital of the Bank stood at **7.97 percent** of total monetary liabilities (2014 – 8.95 percent). As at the reporting date the authorised capital was fully paid up.

As indicated in Note 6, 50 percent of the distributable earnings shall be distributed to authorised capital and General reserve subject to the limits stated therein. This has resulted in amount of **SCR 6.42 million** (2014 - Nil) and **SCR 3.84 million** (2014 - SCR 0.66 million) to be transferred to authorised capital and General reserve respectively.

Following the above, the authorised capital and General reserve stands at **3.33 percent** (2014 - 3.68 percent) and **4.64 percent** (2014 – 5.25 percent) of monetary liabilities respectively.

Where the distributable earnings of the Bank is less than zero, they shall be offset against the General reserve. Where the General reserve accumulates a balance of less than zero, the Government shall within 30 days of publication of the annual accounts, recapitalise by transferring marketable securities to the ownership of the Bank to restore the General reserve to zero.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****25. REVALUATION RESERVE**

Unrealised gains and losses arising from changes in the valuation of the Bank's assets and liabilities and fair valuation of financial assets at fair value through profit or loss denominated in foreign currencies and other units of account as a result of alterations of parity of the Seychelles Rupee have been credited or charged to profit or loss and subsequently transferred to the Revaluation Reserve Account in accordance with Section 45(5) and 45(6) of the CBS Act. Revaluation gains and losses do not form part of distributable earnings and are offset against Revaluation Reserve Account. The total revaluation reserve for the year 2015 amounted to **SCR 277.7 million** (2014 – SCR 681.0 million).

26. ACTUARIAL RESERVE

As a result of the adoption of IAS 19 (Revised), the actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited immediately to other comprehensive income and the accumulated gains and losses form part of the actuarial reserve. Actuarial gains and losses do not form part of distributable earnings and are accumulated in Actuarial reserve. The total Actuarial reserve for the year 2015 amounts to a shortage of **SCR 1.69 million** (2014 – shortage of SCR 1.94 million).

27. INTEREST INCOME

	2015 SCR' 000	2014 SCR' 000
Interest on investment securities	130,655	54,027
Interest on deposits with banks	18,813	19,367
Interest on advances to staff and local banks	3,037	2,079
Interest on financial assets at fair value through profit or loss	2,499	2,498
	-----	-----
	155,004	77,971
	=====	=====

28. INTEREST EXPENSE

	2015 SCR' 000	2014 SCR' 000
Interest on Deposit Auction Arrangement	28,853	8,644
Other interests	150	34
	-----	-----
	29,003	8,678
	=====	=====

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****29. FEES AND COMMISSION INCOME**

	2015	2014
	SCR' 000	SCR' 000
Commission income	17,402	18,889
Licence fees – Financial institutions	4,015	5,164
Licence Fees – Payment service providers	75	-
Others	88	420
	21,580	24,473
	=====	=====

30. DEALINGS IN FOREIGN CURRENCIES

	2015	2014
	SCR' 000	SCR' 000
Gains arising from dealings in foreign currency transactions – realised	6,468	28,937
(Losses)/gains arising from dealings in foreign currency transactions – unrealised	(412)	2,117
Gains arising from fair value of financial assets at fair value through profit or loss – realised	549	704
(Losses)/gains arising from fair value of financial assets at fair value through profit or loss – unrealised	(29,128)	37,881
(Losses)/gains arising from revaluation of foreign currency monetary assets and liabilities – unrealised	(373,937)	561,377
	(396,460)	631,016
	=====	=====

31. STAFF COSTS

	2015	2014
	SCR' 000	SCR' 000
Salaries and allowances	37,188	34,168
Staff training	11,289	8,844
Gratuity costs	189	161
Compensation costs	939	673
Termination benefits	294	1,716
Post-employment benefits	4,970	7,067
Other staff costs	7,980	6,075
	62,849	58,704
	=====	=====

32. CURRENCY EXPENSES

	2015	2014
	SCR' 000	SCR' 000
Notes and coins expense	463	551
Amortisation of currency replacement cost (Note 13)	6,556	6,350
	7,019	6,901
	=====	=====

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****33. PROFESSIONAL CHARGES**

	2015 SCR' 000	2014 SCR' 000
Fees payable to auditor:		
- Statutory audit (including disbursements)	1,092	1,083
Consultancy fees	1,372	2,836
Legal fees	72	72
Directors fees and allowances	455	429
Others	419	596
	-----	-----
	3,410	5,016
	=====	=====

34. NET CASH FLOWS FROM OPERATING ACTIVITIES

	2015 SCR' 000	2014 SCR' 000
(Loss)/profit for the year	(382,826)	602,697
Adjustments for:		
- Interest income	(155,004)	(77,971)
- Interest expense	29,003	8,678
- Depreciation and amortisation charges	7,633	11,382
- Amortisation of currency replacement costs	6,556	6,350
- Prepaid employee benefits	1,814	733
- Loss on disposal of property and equipment	65	403
- Loss on disposal of intangible assets	-	4,551
- Unrealised exchange losses/(gains)	569,503	(731,475)
- Realised exchange gains	(549)	-
	-----	-----
	76,195	(174,652)
Changes in:		
- Deposits	654,849	1,258,225
- Open Market Operations	295,250	(685,350)
- Other liabilities	157	(1,593)
- Loans and advances	3,148	1,855
- Other assets	(65,372)	11,466
- Currency in circulation	79,322	117,969
- International Monetary Fund obligations	(53,095)	83,255
- Provisions for employee benefits	2,608	4,122
	-----	-----
Cash from operating activities	993,062	615,297
Interest paid	(29,725)	(7,113)
	-----	-----
Net cash from operating activities	963,337	608,184
	=====	=====

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****35. RELATED PARTY TRANSACTIONS**

In the normal course of its operations, the Bank enters into transactions with related parties. Related parties include Government and key management personnel, consisting of members of the Board of Directors, with voting powers. Unless stated, all transactions with related parties take place at arm's length.

As banker to the Government, the following are transactions entered into:

- Banking services;
- Foreign exchange transactions;
- Payment and settlement facility;
- Investment in Government Securities and;
- Agent to the Government in raising domestic debt.

Material transactions with the Government are as follows:

35.1 Foreign Exchange Transactions

	2015 SCR' 000	2014 SCR' 000
Purchase of foreign currency	807,826 =====	781,562 =====
Sale of foreign currency	1,028,620 =====	969,765 =====

The Bank, in its capacity as fiscal agent to the Government in raising domestic debt, executes auctions, carries out back office operations, promotes the development of financial markets and works towards improving trading and settlement infrastructure.

35.2 Investment in Government Securities

	2015 SCR' 000	2014 SCR' 000
365 - day treasury-bills	1,185,053 -----	1,185,053 -----
Total face value	1,185,053	1,185,053
Accrued interest	20,448 -----	22,304 -----
Total Investment in Government Securities	1,205,501 =====	1,207,357 =====

Other transactions with the Government consist of receipts and payments in SCR made on behalf of the Government.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****35. RELATED PARTY TRANSACTIONS (CONTINUED)****35.2 Investment in Government Securities (continued)**

Outstanding balances from the Government consist of investment securities whilst outstanding balances to the Government consist of deposits from Government and the payables to the Government Consolidated Fund under other liabilities, as disclosed in the financial statements and corresponding notes.

35.3 Deposits from Government

The deposits with Government as at 31 December 2015 are disclosed in Note 17.

35.4 Key Management Personnel

Key Management Personnel comprises the Governor, First Deputy Governor, Second Deputy Governor and the Non-Executive board members. The latter are considered to be part of the key management personnel as they have the authority and responsibility for planning, directing and controlling the activities of the Bank.

The aggregate remuneration provided for and paid to key management personnel comprised:

	2015	2014
	SCR' 000	SCR' 000
Salary and allowances	3,276	3,145
Car benefits	261	279
Termination benefits	661	2,914
Post-employment benefits	1,363	1,318
Others	318	422
	-----	-----
Total	5,879	8,078
	=====	=====

Movements in loans to key management personnel are as follows:

	2015	2014
	SCR' 000	SCR' 000
Balance as at 1 January	3,192	3,935
Total loans granted	750	-
Total repayments	(809)	(743)
	-----	-----
Balance as at 31 December	3,133	3,192
	=====	=====

Loans to key management personnel are approved and disbursed as per the Bank's loan policy. In accordance with Section 44(1) of the CBS Act, all Non-Executive board members are no longer provided loans.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. FINANCIAL RISK MANAGEMENT

The Bank's risks are principally attributed to its functional obligations. The Bank is exposed to a variety of financial risks: market risk, credit risk and liquidity risk.

(i) Market risk

Market risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

The Bank's exposure to market risk comes in the form of general and specific market fluctuations which affects the investments in interest bearing and foreign currency denominated financial instruments. Further to that, the exposure to market risk is generated from both trading and asset/liability management activities. The measures taken by the Bank to manage such risk are disclosed below:

(a) Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk is managed as follows:

- **Foreign reserve interest rate risk management**

Interest rate risk increases or reduces the total return on the portfolio which consists mainly of demand and short term deposits and is measured by daily calculation of the weighted average portfolio duration of the foreign exchange reserves as prescribed in the Bank's Investment Policy and Investment Guidelines. Limits are set on interest rate risk with the aim of avoiding reporting losses as a result of market valuation changes over a one year reporting period.

- **Domestic market operations interest rate risk**

The Bank's exposure to domestic market interest rate risk arises from its domestic market operations which are short term in nature. These may include standing deposit and credit facilities, deposit and credit auctions, short term repurchase and reverse repurchase agreements with banks and investment in Government treasury bills. The Bank cannot eliminate domestic market interest rate risk as it is a function of its monetary policy.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) *Market risk (continued)*

(a) Interest rate risk (continued)

The table below summarises concentration of the interest rate re-pricing risk categorised by the earlier of contractual re-pricing or maturity dates:

As at 31 December 2015

Financial assets

Cash and cash equivalents

Other balances and placements

Financial assets at fair value through
profit or loss

Investment securities

Loans and advances

Total financial assets

Financial liabilities

Currency in circulation

Deposits from Government

Deposits from banks

Deposits from other financial institutions

Other deposits

Open Market Operations

International Monetary Fund obligations

Total financial liabilities

Net financial position

	Demand and up to 1 month SCR' 000	1 to 3 months SCR' 000	3 to 12 months SCR' 000	1 to 5 years SCR' 000	Over 5 years SCR' 000	Non-interest bearing SCR' 000	Total SCR' 000
Financial assets							
Cash and cash equivalents	4,689,870	313,220	-	-	-	7,225	5,010,315
Other balances and placements	576,267	136,407	996,167	-	-	-	1,708,841
Financial assets at fair value through profit or loss	-	-	17,604	298,181	-	-	315,785
Investment securities	-	-	1,205,501	-	-	-	1,205,501
Loans and advances	297	596	2,552	11,079	11,515	517	26,556
Total financial assets	5,266,434	450,223	2,221,824	309,260	11,515	7,742	8,266,998
Financial liabilities							
Currency in circulation	-	-	-	-	-	1,096,913	1,096,913
Deposits from Government	-	-	-	-	-	3,214,729	3,214,729
Deposits from banks	-	-	-	-	-	1,490,977	1,490,977
Deposits from other financial institutions	-	-	-	-	-	95,499	95,499
Other deposits	-	-	-	-	-	31,787	31,787
Open Market Operations	1,003,431	177,711	-	-	-	-	1,181,142
International Monetary Fund obligations	526	3,335	40,681	400,312	262,761	-	707,615
Total financial liabilities	1,003,957	181,046	40,681	400,312	262,761	5,929,905	7,818,662
Net financial position	4,262,477	269,177	2,181,143	(91,052)	(251,246)	(5,922,163)	448,336

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) *Market risk (continued)*

(a) Interest rate risk (continued)

The table below summarises concentration of the interest rate re-pricing risk categorised by the earlier of contractual re-pricing or maturity dates:

As at 31 December 2014

Financial assets

Cash and cash equivalents

Other balances and placements

Financial assets at fair value through
profit or loss

Investment securities

Loans and advances

Total financial assets

Financial liabilities

Currency in circulation

Deposits from Government

Deposits from banks

Deposits from other financial institutions

Other deposits

Open Market Operations

International Monetary Fund obligations

Total financial liabilities

Net financial position

	Demand and up to 1 month SCR' 000	1 to 3 months SCR' 000	3 to 12 months SCR' 000	1 to 5 years SCR' 000	Over 5 years SCR' 000	Non-interest bearing SCR' 000	Total SCR' 000
Financial assets							
Cash and cash equivalents	2,831,647	369,811	-	-	-	-	3,201,458
Other balances and placements	92,467	1,054,176	1,805,005	-	-	-	2,951,648
Financial assets at fair value through profit or loss	-	-	25,633	316,312	-	-	341,945
Investment securities	-	-	1,207,357	-	-	-	1,207,357
Loans and advances	2,547	902	2,390	12,454	10,878	532	29,703
Total financial assets	2,926,661	1,424,889	3,040,385	328,766	10,878	532	7,732,111
Financial liabilities							
Currency in circulation	-	-	-	-	-	1,017,590	1,017,590
Deposits from Government	-	-	-	-	-	2,727,635	2,727,635
Deposits from banks	-	-	-	-	-	1,349,700	1,349,700
Deposits from other financial institutions	-	-	-	-	-	58,419	58,419
Other deposits	-	-	-	-	-	42,389	42,389
Open Market Operations	490,290	396,324	-	-	-	-	886,614
International Monetary Fund obligations	527	3,722	29,780	411,665	315,016	-	760,710
Total financial liabilities	490,817	400,046	29,780	411,665	315,016	5,195,733	6,843,057
Net financial position	2,435,844	1,024,843	3,010,605	(82,899)	(304,138)	(5,195,201)	889,054

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****36. FINANCIAL RISK MANAGEMENT (CONTINUED)****(i) Market risk (continued)****(a) Interest rate risk (continued)***Sensitivity to interest rate risk*

A sensitivity analysis is performed for each type of market risk to which the Bank is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

The table below presents the sensitivity analysis of the Bank's financial assets and liabilities in relation to changes in interest rates.

	Total gain/(loss) impacting equity 2015 SCR' 000	Total gain/(loss) impacting equity 2014 SCR' 000	Total gain/(loss) impacting profit or loss 2015 SCR' 000	Total gain/(loss) impacting profit or loss 2014 SCR' 000
Impact of:				
An increase of 100 basis point in the domestic market interest rates	641	642	1,282	1,285
A decrease of 100 basis point in the domestic market interest rates	(641)	(642)	(1,282)	(1,285)
An increase of 100 basis point in the market interest rates for foreign currencies	35	30	71	61
A decrease of 100 basis point in the market interest rates for foreign currencies	(35)	(30)	(71)	(61)

The Bank's exposure to interest rate risk might remain unchanged on both its local and foreign financial assets, despite the Guidelines for the latter allowing for a more active approach and the former being solely inclusive of Government treasury bills in the Bank's portfolio of securities.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****36. FINANCIAL RISK MANAGEMENT (CONTINUED)****(i) Market risk (continued)****(b) Currency risk**

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Bank's foreign reserve management function requires it to operate internationally and assume exposures to changes in prices of one currency against another, notably on its financial position and cash flows primarily with respect to the United States Dollar, the Euro, British Pound Sterling, Canadian Dollar, Australian Dollar and IMF Special Drawing Rights. Nonetheless, the Bank attempts to manage currency risk to some extent through its determination of the benchmark currency composition whereby in certain circumstances the Bank might limit its holding of a particular currency which is seen to be extremely volatile or risky. This approach has been adopted on the basis that hedging against currency risk is not being done at present. Exchange gains and losses arising from the revaluation of assets and liabilities denominated in foreign currencies are accounted in profit or loss and are transferred to the Revaluation Reserve Account in accordance with Section 16 of the CBS Act.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) *Market risk (continued)*

(b) Currency risk (continued)

The table below discloses the financial assets and financial liabilities by concentration of currency risk.

As at 31 December 2015	EUR SCR' 000	USD SCR' 000	GBP SCR' 000	XDR SCR' 000	SCR SCR' 000	CAD SCR' 000	AUD SCR' 000	Total SCR' 000
Financial assets								
Cash and cash equivalents	89,976	3,936,334	492,318	109,201	-	382,406	80	5,010,315
Other balances and placements	-	1,309,104	399,737	-	-	-	-	1,708,841
Financial assets at fair value through profit or loss	65,135	231,167	19,483	-	-	-	-	315,785
Investment securities	-	-	-	-	1,205,501	-	-	1,205,501
Loans and advances	-	-	-	-	26,556	-	-	26,556
Total financial assets	155,111	5,476,605	911,538	109,201	1,232,057	382,406	80	8,266,998
Financial liabilities								
Currency in circulation	-	-	-	-	1,096,913	-	-	1,096,913
Deposits from Government	76,317	167,818	87	9,609	2,960,898	-	-	3,214,729
Deposits from banks	219,123	451,909	-	-	819,945	-	-	1,490,977
Deposits from other financial institutions	-	-	-	-	95,499	-	-	95,499
Other deposits	365	7,186	138	-	24,098	-	-	31,787
Open Market Operations	-	-	-	-	1,181,142	-	-	1,181,142
International Monetary Fund obligations	-	-	-	707,089	526	-	-	707,615
Total financial liabilities	295,805	626,913	225	716,698	6,179,021	-	-	7,818,662
Net financial position	(140,694)	4,849,692	911,313	(607,497)	(4,946,964)	382,406	80	448,336

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(i) *Market risk (continued)*

(b) Currency risk (continued)

The table below discloses the financial assets and financial liabilities by concentration of currency risk.

As at 31 December 2014	EUR SCR' 000	USD SCR' 000	GBP SCR' 000	XDR SCR' 000	SCR SCR' 000	CAD SCR' 000	AUD SCR' 000	Total SCR' 000
Financial assets								
Cash and cash equivalents	140,510	2,283,062	377,799	128,520	-	271,482	85	3,201,458
Other balances and placements	-	2,291,403	660,245	-	-	-	-	2,951,648
Financial assets at fair value through profit or loss	53,082	267,144	21,719	-	-	-	-	341,945
Investment securities	-	-	-	-	1,207,357	-	-	1,207,357
Loans and advances	-	-	-	-	29,703	-	-	29,703
Total financial assets	193,592	4,841,609	1,059,763	128,520	1,237,060	271,482	85	7,732,111
Financial liabilities								
Currency in circulation	-	-	-	-	1,017,590	-	-	1,017,590
Deposits from Government	108,409	149,042	150	10,727	2,459,307	-	-	2,727,635
Deposits from banks	230,969	331,220	-	-	787,511	-	-	1,349,700
Deposits from other financial institutions	-	-	-	-	58,419	-	-	58,419
Other deposits	189	2,423	56	-	39,721	-	-	42,389
Open Market Operations	-	-	-	-	886,614	-	-	886,614
International Monetary Fund obligations	-	-	-	760,183	527	-	-	760,710
Total financial liabilities	339,567	482,685	206	770,910	5,249,689	-	-	6,843,057
Net financial position	(145,975)	4,358,924	1,059,557	(642,390)	(4,012,629)	271,482	85	889,054

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****36. FINANCIAL RISK MANAGEMENT (CONTINUED)****(i) Market risk (continued)****(b) Currency risk (continued)**
Sensitivity to currency risk

A sensitivity analysis is performed for each type of market risk to which the Bank is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

The table below presents the sensitivity analysis of the Bank's financial assets and liabilities in relation to changes in exchange rates.

	Impact on equity		Impact on profit or loss	
	2015	2014	2015	2014
	SCR' 000	SCR' 000	SCR' 000	SCR' 000
Impact of:				
An appreciation of 5% in the value of the Seychelles Rupee against all other currencies	269,765	245,084	269,765	245,084
A depreciation of 5% in the value of the Seychelles Rupee against all other currencies	(269,765)	(245,084)	(269,765)	(245,084)

Adherence to its Investment Policy and Investment Guidelines implies that the Bank will continue to be exposed to foreign currency risk. Nonetheless, the Bank's foreign currency risk is limited by its investment in cash and cash equivalents, short term investment and financial assets at fair value through profit or loss.

(c) Other price risk

Other price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Management is assisted by external fund managers in its strategy to maximise investment returns. All assets managed by the fund manager and all buy and sell decisions are approved by same in compliance with the agreement which reflects compliance to the Investment Guidelines.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****36. FINANCIAL RISK MANAGEMENT (CONTINUED)****(i) Market risk (continued)****(c) Other price risk (continued)***Sensitivity to price risk*

The table below presents the sensitivity analysis of the Bank's financial assets and liabilities in relation to changes in market price.

	Impact on equity		Impact on profit or loss	
	2015	2014	2015	2014
	SCR' 000	SCR' 000	SCR' 000	SCR' 000
Impact of:				
An increase of 5% in the market price of foreign investments.	15,789	17,097	15,789	17,097
A decrease of 5% in the market price of foreign investments.	(15,789)	(17,097)	(15,789)	(17,097)

The Bank's foreign price risk is limited by its investment in financial assets at fair value through profit or loss.

(ii) Credit risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

(a) Credit risk measurement

The Bank's maximum exposure is reflected in the carrying amount of financial assets in the statement of financial position.

The Bank's investments in short term deposit instruments coupled with institutions of acceptable credit worthiness allows it to manage its credit risk effectively. As such, the Bank is not exposed to significant credit risk, which is the risk that its counterparts will be unable to fulfil their contractual obligations.

Credit risk related to the placement of deposits with international commercial banks, including correspondent banks, is guided by credit ratings obtained from Standard and Poor's, Moody's Investors Services, or Fitch Ratings. To be eligible for deposits, including holdings on correspondent account, the international bank must be rated investment grade and above.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Credit risk (continued)

(a) Credit risk measurement (continued)

To limit credit risk, no more than 35 percent of reserves are invested in claims on international commercial banks. To diversify exposure to international commercial banks, no more than 30 percent of the foreign reserves, are placed with any international commercial bank with a minimum credit rating of A- and no more than 5% with commercial banks with minimum credit rating of BBB. Reflecting uncertainties regarding banks, the maturity of international commercial banks deposits should not exceed 6 months.

The exposure to credit risk in the local markets is limited due to the largest amount of domestic financial assets in the Bank's portfolio being Government securities which carries sovereign risk. Furthermore, given that the Bank is the regulatory authority for banks, any investment and transactions with them such as reverse repurchase agreement and foreign exchange swap will be treated as low risk as such transactions are secured.

The following table presents the Bank's financial assets based on Standard and Poor's, Fitch and Moody's credit rating of the issuer. AAA is the rating used for identification of highly reliable international financial institutions. This rating indicates that the entity has an extremely strong capacity to pay interest and principal. AA is a high-grade rating and A is an upper-medium grade rating, indicating a very strong capacity and a strong capacity to pay interest and principal, respectively. BBB is the lowest investment grade rating, indicating an adequate capacity to pay interest and principal. Ratings lower than AAA can be modified by + or – signs to indicate relative standing within the major categories. N/R indicates the entity has not been rated by any of the above mentioned rating agencies.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****36. FINANCIAL RISK MANAGEMENT (CONTINUED)****(ii) Credit risk (continued)****(a) Credit risk measurement (continued)**

			2015		2014
	Credit	Amount	% of	Amount	% of
	Rating	SCR' 000	Financial	SCR' 000	Financial
			Assets		Assets
Financial assets					
Cash and cash equivalents					
- Demand deposits	AA	688,175	8.32%	531,490	6.87%
	A	523,654	6.33%	211,510	2.74%
	BBB	77,513	0.94%	125,256	1.62%
	N/R	3,603,832	43.59%	2,188,247	28.30%
- SDR holdings	N/R	109,201	1.32%	128,520	1.66%
- Foreign currency cash	AA	715	0.01%	3,387	0.04%
	No risk	7,225	0.09%	13,048	0.17%
Other balances and placements	AA	164,335	2.00%	98,103	1.27%
	A	831,832	10.06%	681,019	8.81%
	BBB	253,262	3.06%	168,487	2.18%
	NR	459,412	5.56%	2,004,039	25.92%
Financial assets at fair value through profit or loss	AAA	105,017	1.27%	201,257	2.60%
	AA	210,768	2.55%	140,688	1.82%
Investment in Government securities	B+	1,205,501	14.58%	1,207,357	15.61%
Loans and advances	N/R	26,556	0.32%	29,703	0.39%
		8,266,998	100.00%	7,732,111	100.00%
		=====	=====	=====	=====

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) *Credit risk (continued)*

(b) Concentration of risk - Geographical sectors

The table below breaks down the Bank's main credit exposure at the carrying amounts, as categorised by geographical region as of 31 December 2015. Exposures have been allocated by region of the country of domicile of the relevant counterparties.

	Europe SCR' 000	US SCR' 000	Seychelles SCR' 000	Asia SCR' 000	Middle East SCR' 000	Africa SCR' 000	Total SCR' 000
At 31 December 2015							
Financial assets							
Cash and cash equivalents	3,698,300	276,467	7,225	720,071	308,252	-	5,010,315
Other balances and placements	712,674	-	-	632,173	363,994	-	1,708,841
Financial assets at fair value through profit or loss	274,183	15,382	-	-	-	26,220	315,785
Investment securities	-	-	1,205,501	-	-	-	1,205,501
Loans and advances	-	-	26,556	-	-	-	26,556
Total financial assets	4,685,157	291,849	1,239,282	1,352,244	672,246	26,220	8,266,998
At 31 December 2014							
Financial assets							
Cash and cash equivalents	2,343,042	493,712	13,047	225,525	126,132	-	3,201,458
Other balances and placements	2,172,526	-	-	441,463	337,659	-	2,951,648
Financial assets at fair value through profit or loss	215,642	98,308	-	-	-	27,995	341,945
Investment securities	-	-	1,207,357	-	-	-	1,207,357
Loans and advances	-	-	29,703	-	-	-	29,703
Total financial assets	4,731,210	592,020	1,250,107	666,988	463,791	27,995	7,732,111

As at the reporting date, the Bank did not have any assets that was past due or impaired and has not experienced such situation in the past.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) *Liquidity risk*

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities. It refers to the possible difficulties in selling (liquidating) large amounts of assets quickly, possibly in a situation where market conditions are also unfavourable, resulting in adverse price movement. As the Bank is the sole issuer of the national currency this channels its liquidity risk towards its foreign currency positions. On that basis, the liquidity of each financial instrument eligible for investment is duly considered by the Bank before an investment is made.

To reduce liquidity risk, the Bank can only invest in instruments under the liquidity tranche that can be liquefied within five business days and preferably same day for the working capital tranche.

(a) Contractual maturity of financial assets and liabilities

The table overleaf analyses the Bank's financial assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the maturity table are the undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position which is based on discounted cash flows. Balances due within one month equal their carrying balances, as the impact of discounting is not significant.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) *Liquidity risk (continued)*

(a) Contractual maturity of financial assets and liabilities (continued)

At 31 December 2015									
		Demand and up to 1 month SCR' 000	1 to 3 months SCR' 000	3 to 12 months SCR' 000	1 to 5 years SCR' 000	Over 5 years SCR' 000	Gross nominal inflow/(outflow) SCR' 000	Carrying amount SCR' 000	
Financial liabilities									
Currency in circulation		1,096,913	-	-	-	-	(1,096,913)	1,096,913	
Deposits from Government		3,214,729	-	-	-	-	(3,214,729)	3,214,729	
Deposits from banks		1,490,977	-	-	-	-	(1,490,977)	1,490,977	
Deposits from other financial institutions		95,499	-	-	-	-	(95,499)	95,499	
Other deposits		31,787	-	-	-	-	(31,787)	31,787	
Open Market Operations		1,004,478	178,612	-	-	-	(1,183,090)	1,181,142	
International Monetary Fund obligations		526	4,785	44,967	418,055	264,960	(733,293)	707,615	
Total financial liabilities		6,934,909	183,397	44,967	418,055	264,960	(7,846,288)	7,818,662	
Financial assets									
Cash and cash equivalents		4,698,025	313,675	-	-	-	5,011,700	5,010,315	
Other balances and placements		576,597	136,656	1,000,283	-	-	1,713,536	1,708,841	
Financial assets at fair value through profit or loss		-	-	17,614	299,163	-	316,777	315,785	
Investment securities		-	-	1,315,499	-	-	1,315,499	1,205,501	
Loans and advances		561	1,118	4,765	21,161	22,425	50,030	26,556	
Total financial assets		5,275,183	451,449	2,338,161	320,324	22,425	8,407,542	8,266,998	
Net liquidity gap		1,659,726	(268,052)	(2,293,194)	97,731	242,535	561,254	448,336	

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(iii) *Liquidity risk (continued)*

(a) Contractual maturity of financial assets and liabilities (continued)

At 31 December 2014		Demand and up to 1 month SCR' 000	1 to 3 months SCR' 000	3 to 12 months SCR' 000	1 to 5 years SCR' 000	Over 5 years SCR' 000	Gross nominal inflow/(outflow) SCR' 000	Carrying amount SCR' 000
Financial liabilities								
Currency in circulation		1,017,590	-	-	-	-	(1,017,590)	1,017,590
Deposits from Government		2,727,635	-	-	-	-	(2,727,635)	2,727,635
Deposits from banks		1,349,700	-	-	-	-	(1,349,700)	1,349,700
Deposits from other financial institutions		58,419	-	-	-	-	(58,419)	58,419
Other deposits		42,389	-	-	-	-	(42,389)	42,389
Open Market Operations		490,166	397,551	-	-	-	(887,717)	886,614
International Monetary Fund obligations		527	5,270	34,368	432,501	317,818	(790,484)	760,710
Total financial liabilities		5,686,426	402,821	34,368	432,501	317,818	(6,873,934)	6,843,057
Financial assets								
Cash and cash equivalents		2,944,222	683,067	-	-	-	3,627,289	3,201,458
Other balances and placements		171,264	1,471,069	5,551,797	-	-	7,194,130	2,951,648
Financial assets at fair value through profit or loss		-	-	25,643	317,709	-	343,352	341,945
Investment securities		-	-	1,317,564	-	-	1,317,564	1,207,357
Loans and advances		540	1,469	4,436	21,118	18,021	45,584	29,703
Total financial assets		3,116,026	2,155,605	6,899,440	338,827	18,021	12,527,919	7,732,111
Net liquidity gap		(2,570,400)	1,752,784	6,865,072	93,674	(299,797)	5,653,985	889,054

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****36. FINANCIAL RISK MANAGEMENT (CONTINUED)****(iv) Capital management**

The statutory capital of the Bank which comprises the authorised capital and General reserve shall be built up to 10.0 percent of monetary liabilities and can be more in one year should the monetary liabilities decrease. Section 16(2) of the CBS Act states that where the Bank has distributable earnings for any financial year, 50 percent of those earnings shall be distributed in the following priority, to the statutory capital until:

- a) authorised capital reaches 3.33 percent of monetary liabilities; and
- b) the General reserve reaches 6.67 percent of monetary liabilities.

As at 31 December 2015 statutory capital stood at **7.97 percent** of monetary liabilities (2014 – 8.95 percent). In the event of the General reserve falling below zero the Government shall recapitalize the Bank with marketable securities to restore the General reserve to a zero balance.

(v) Non-financial risk management**(a) Operational risk management**

Operational risk is the risk of direct or indirect loss as a result of inadequate control or failures in internal processes and systems. This also covers activities of employees and external events. The Bank's typical general risk areas include reputational, strategic, financial, compliance and operational risks. Whilst it is understood that such risks cannot be entirely eliminated and the cost for mitigating these risks may outweigh the potential benefits of the Bank, the ¹Risk Implementation Committee ("RIC") of the Bank is dedicated towards risk management, especially in managing these risks.

As part of the implementation of the Bank's enterprise risk management framework, autonomous checks on the risk issues are carried out by the Risk Management Unit ("RMU"). During the year RIC met on a quarterly basis to discuss the risks identified within the Bank and to put in place controls to mitigate them.

¹ Risk Implementation Committee ("RIC") has been renamed as Risk Management Committee ("RMC") as at February 2016.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(v) *Non-financial risk management (continued)*

(b) Policies approved by the Board

Risk Event Reporting Policy

RMU prepared a Risk Event Reporting Policy which is aimed at encouraging staff to report any risk that they encounter during day to day operations and which may have an impact on the Bank. The regular and timely reporting of risks enables the Bank to have better oversight on the level of risks that it is faced with.

Risk Assessment Policy

RMU prepared the Risk Assessment Policy and Procedures Manual which sets out the rules to follow for the risk assessment process. The risk assessment process will enable the Bank to assess the level of risks that it faces as well as identify appropriate measures to manage those risks. The policy and procedures guide RMU in identifying areas of weaknesses, determining risk assessment frequency, reviewing post implementation measures, and recording and reporting findings to the RIC.

37. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****37. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)****(i) Fair value of financial assets and liabilities**

The table below summarises the carrying amounts and fair values of investment securities which are not presented on the Bank's statement of financial position at fair value:

	2015		2014	
	Carrying value SCR' 000	Fair value SCR' 000	Carrying value SCR' 000	Fair value SCR' 000
Financial assets				
Investment securities	1,205,501 =====	1,237,252 =====	1,207,357 =====	1,255,949 =====

The fair value of investment securities classified as loans and receivables is based on market prices of Government treasury bills as at the reporting date. The fair value of Government treasury bills has been computed using the compounded interest method at interest rates of **7.15 percent** for the 365 day treasury bills (2014 – 5.60 percent for the 365 day treasury bills).

For all other financial assets and liabilities, their carrying amounts are a reasonable approximation of fair value.

(ii) Valuation models

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within level 1 that are observables either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

CENTRAL BANK OF SEYCHELLES**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****37. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)****(ii) Valuation models (continued)**

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

(iii) Accounting classifications and fair values

The following tables overleaf sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. It does not include fair value information for financial instruments not measured at fair value if the carrying amount is a reasonable approximation of fair value.

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

37. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(iii) Accounting classifications and fair values (continued)

	At fair value through profit or loss SCR' 000	Carrying amount Loans and receivables SCR' 000	Other financial liabilities SCR' 000	Total SCR' 000	Fair value		
					Level 1 SCR' 000	Level 2 SCR' 000	Level 3 SCR' 000
At 31 December 2015							
Financial assets measured at fair value							
Financial assets at fair value through profit or loss	315,785	-	-	315,785	-	315,785	-
Financial assets not measured at fair value							
Cash and cash equivalents	-	5,010,315	-	5,010,315	-	5,010,315	-
Other balances and placements	-	1,708,841	-	1,708,841	-	1,708,841	-
Investment securities	-	1,205,501	-	1,205,501	-	1,237,252	-
Loans and advances	-	26,556	-	26,556	-	-	-
Total assets not measured at fair value	-	7,951,213	-	7,951,213	-	7,956,408	-
Financial liabilities not measured at fair value							
Currency in circulation	-	-	1,096,913	1,096,913	-	-	-
Deposit from Government	-	-	3,214,729	3,214,729	-	-	-
Deposit from banks	-	-	1,490,977	1,490,977	-	-	-
Deposit from other financial institutions	-	-	95,499	95,499	-	-	-
Other deposits	-	-	31,787	31,787	-	-	-
Open Markets Operations	-	-	1,181,142	1,181,142	-	1,181,142	-
International Monetary Fund obligations	-	-	707,615	707,615	-	707,615	-
Total liabilities not measured at fair value	-	-	7,818,662	7,818,622	-	1,888,757	-

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

37. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(iii) Accounting classifications and fair values (continued)

	Carrying amount		Fair value					
	At fair value through profit or loss SCR' 000	Loans and receivables SCR' 000	Other financial liabilities SCR' 000	Total SCR' 000	Level 1 SCR' 000	Level 2 SCR' 000	Level 3 SCR' 000	Total SCR' 000
At 31 December 2014								
Financial assets measured at fair value								
Financial assets at fair value through profit or loss	341,945	-	-	341,945	-	341,945	-	341,945
Financial assets not measured at fair value								
Cash and cash equivalents	-	3,201,458	-	3,201,458	-	3,201,458	-	3,201,458
Other balances and placements	-	2,951,648	-	2,951,648	-	2,951,648	-	2,951,648
Investment securities	-	1,207,357	-	1,207,357	-	1,255,949	-	1,255,949
Loans and advances	-	29,703	-	29,703	-	-	-	-
Total assets not measured at fair value	-	7,390,166	-	7,390,166	-	7,409,055	-	7,409,055
Financial liabilities not measured at fair value								
Currency in circulation	-	-	1,017,590	1,017,590	-	-	-	-
Deposit from Government	-	-	2,727,635	2,727,635	-	-	-	-
Deposit from banks	-	-	1,349,700	1,349,700	-	-	-	-
Deposit from other financial institutions	-	-	58,419	58,419	-	-	-	-
Other deposits	-	-	42,389	42,389	-	-	-	-
Open Markets Operations	-	-	886,614	886,614	-	886,614	-	886,614
International Monetary Fund obligations	-	-	760,710	760,710	-	760,710	-	760,710
Total liabilities not measured at fair value	-	-	6,843,057	6,843,057	-	1,627,324	-	1,627,324

CENTRAL BANK OF SEYCHELLES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

38. TAXATION

The Bank is exempted from taxation under Section 49 of the CBS Act.

39. CURRENCY

The financial statements are presented in Seychelles Rupees and figures are stated in thousands of Seychelles Rupees.

40. SUBSEQUENT EVENTS

There were no material subsequent events after the reporting date.

CBS List of Officers

	Designation
<u>Secretariat</u>	
Ms Caroline Abel	Governor
Mr Christophe Edmond	First Deputy Governor
Ms Jenifer Sullivan	Second Deputy Governor
Ms Nandi Jones	Communications Officer
<u>Legal Unit</u>	
Ms Martine Faure	Legal Officer
Ms Shannon Jolicoeur	Legal Officer
Ms Tanya Berlouis	Legal Officer
<u>Internal Audit Division</u>	
Mrs Danielle Michaud	Senior Internal Auditor
Ms Rachel Hoareau	Internal Auditor
Mr Hubert Bouchereau	Internal Auditor
<u>Administration Division</u>	
Vacant	Head of Division
Mr Francis Payet	Director
Mr Russel Moustache	Building and Project Manager
<u>Banking Services Division</u>	
Mr Mike Tirant	Head of Division
Mrs Noemie Gobine	Director
Mrs Jeannette Payet	Senior Banking Officer
Ms Vanessa Bijoux	Senior Banking Officer
Mrs Patricia Padayachy	Senior Banking Officer
Ms Sylvia Woodcock	Banking Officer
Mr Chris Loizeau	Banking Officer
Ms Sharon Stravens	Banking Officer
Ms Claire Pragassen	Banking Officer
Mr Terry Adrienne	Banking Officer
Mr Christopher Rousseau	Currency and Numismatics Officer
Mr Jude Adolphe	Currency and Numismatics Officer

Financial Markets Division

Ms Moyra Alexis	Head of Division
Mrs Gina Rosette	Director
Ms Shirley Mendes	Market Operations Officer
Ms Geralda Desaubin	Market Operations Officer
Ms Vaithegi Naidu	Market Operations Officer
Ms Marylene Chang-Him	Market Operations Officer
Mr Paul Morel	Market Operations Officer
Mrs Shireen Hoareau	Market Operations Officer
Ms Aneesha Coopposamy	Market Operations Officer
Ms Elaine Desnousse	Market Operations Officer
Ms Vanessa Valentin	Market Analyst
Mr Adolf Nourrice	Market Analyst
Mr Davis Laporte	Market Analyst

Financial Services Supervision Division

Mr Naadir Hassan	Head of Division
Mr Jean-Paul Barbier	Director
Mrs Samanta Esparon	Senior Financial Services Analyst
Mr Aaron Leong-Pon	Senior Financial Services Analyst
Mrs Vivienne Gertrude	Senior Financial Services Analyst
Ms Janine Henriette	Financial Services Analyst
Mrs Audrey Pothin	Financial Services Analyst
Mr Edouard Rose	Financial Services Analyst
Mr Tyron Scholastique	Financial Services Analyst
Mr Nicholas Cetoupe	Financial Services Analyst
Ms Shirlee Agricole	Financial Services Analyst
Ms Selma Valentin	Financial Services Analyst
Ms Munirah Ebrahim	Financial Services Analyst
Ms Sammia Marie	Financial Services Analyst
Ms Daniele Chetty	Financial Services Analyst
Mrs Nella Souris	Financial Services Analyst
Ms Joan Lespoir	Financial Services Analyst
Ms Stephanie Pillay	Financial Services Analyst
Mrs Charmine Fanchette	Financial Services Analyst

Human Resources Division

Mrs Juliana Ah Thew-Rose	Head of Division
Mrs Levina Françoise	Senior Human Resources Officer
Ms Sacha Accouche	Senior Human Resources Officer
Ms Christie Michel	Human Resources Officer
Ms Pauline Moustache	Human Resources Officer

Payment Systems Division

Mr James Jean	Director
Ms Liz Julienne	Senior Payment Systems Officer
Ms Beggita Vital	Payment Systems Officer
Ms Mikaella Joubert	Payment Systems Officer
Ms Sophie Morel	Payment Systems Officer
Ms Tracy Pouponneau	Payment Systems Officer

Research and Statistics Division

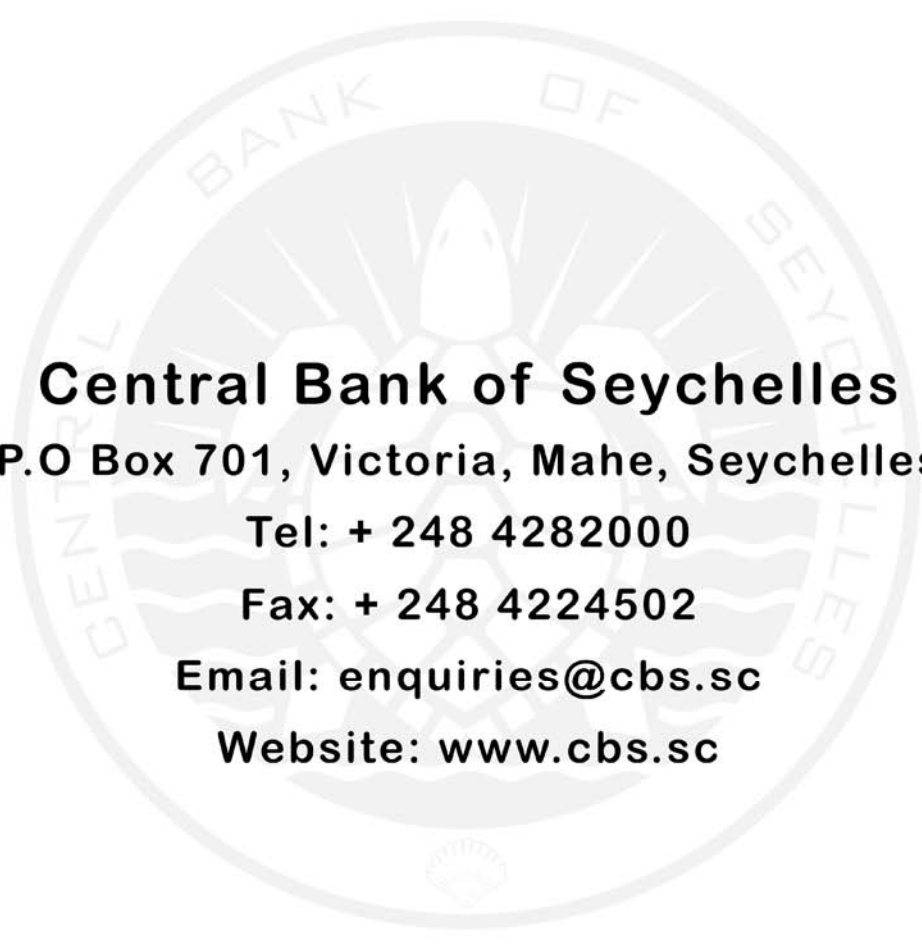
Mr Brian Commettant	Head of Division
Mrs Hilda Palconit	Director
Mr Lenny Palit	Senior Economist
Mr Naddy Marie	Economist
Ms Nadine Boniface	Economist
Mrs Sarah Lang	Economist
Ms Audrey Rath	Economist
Ms Trudy Lucas	Economist
Ms Dorothea Michel	Senior Statistician
Mr Terence Payet	Statistician
Ms Rebecca David	Statistician
Ms Kathleen Nicette	Statistician

Technical Services Division

Vacant	Head of Division
Mr Darell Edmond	Director
Mr Jude Woodcock	Chief Information Security Officer
Mr Gerry Sopha	Network Systems Administrator
Mr Elvis Serret	Business Applications Administrator (Banking)
Mr Desire Larue	Business Applications Administrator (Other)
Ms Shanthi Pillay	Business Applications Administrator (Other)

Risk Management Unit

Mrs Laureenda Jeremie	Compliance and Risk Officer
Ms Antoinette Bistolet	Compliance and Risk Officer
Ms Prisila Laurence	Operational Risk Officer



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