Central Bank of Somalia

Annual Report 2014

Central Bank of Somalia

Mogadishu – Somalia

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List of Acronyms

AfDB	African Development Bank
AML/CTF	Anti money Laundering and Counter Terrorism Financing
CB&ERP	Core Banking and Enterprise Resource Planning
CBS	Central Bank of Somalia - the (Bank)
CBK	Central Bank of Kenya
CIA	Central Intelligence Agency
CPI	Consumer Price Index
FACTS	Financial Accounting Control and Transactional System
FGS	Federal Government of Somalia
FSNAU –	Food Security and Nutrition Analysis Unit
GDP	Gross Domestic Product
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
MoF	Ministry of Finance
MoPIC	Ministry of Planning and International Cooperation
MoU	Memorandum of Understanding
MTO	Money Transfer Operators (Hawalas)
MTBS	Money Transfer Business Service
NGOs	Non-Governmental Organizations
NISA	National Intelligence and Security Agency
PESS	Population Estimation Survey of Somalia
SMP	Staff Monitored Program
UAE	United Arab Emirates
UN	United Nations
WIP	Work-in-Progress

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1. Governor's Message

The task of enhancing institutional governance, improving systems for transparency and accountability continued to dominate Central Bank priorities during 2014. Despite the magnitude of this task, especially in restoring the role of Central Bank in post conflict Somalia, and in spite the weak legal and regulatory framework, concrete indications of improved socioeconomic and political environment, combined with a better trend in most macroeconomic indicators than has been evident in prior years, suggest that the overall macroeconomic policy is moving in the right direction.

The Bank continued its process improvements and institutional capacity development efforts to deliver its functional mandate on operational responsibilities, regulatory framework and advisory role to the government. During past year, the Bank took concrete steps towards formalizing the financial service sector, designing, introducing and implementing new prudential regulatory and compliance framework; and re-engaging with International Financial Institutions.

During 2014, four major elements of the Bank's functions came to decisive junctures; the establishment of the Board of Directors and the appointment of Governor and Deputy Governor through competitive and transparent vetting. With the support of international partners, including the US Government, the World Bank, and the International Monetary Fund (IMF), the Bank embarked on its core roles of regulating, licensing and supervising the commercial banks and money transfer operators in the pursue of implementing Anti-Money Laundering and Counter Terrorism Financing (AML/CFT).

All these actions are concerned with creating a reliable business environment conducive to maintaining financial stability and promoting inclusive economic growth in compliance with the international norms.

The gradual recovery of the Somali economy continues, despite security and political challenges. Export growth, particularly, agriculture and fishery, remained strong and domestic demand continued to grow. Consumer price inflation remained moderate and private sector participation in the economy continues to be strong, especially in communications, construction and financial services. Active Diaspora community leads this growth with investment and inflow of remittances worth about US$1.3 billion.

Somalia's international partners continue to contribute to both developmental and humanitarian activities under the Somalia New Deal. In 2014, development partners have reported US$607 million and US$672 million in aid for development and humanitarian respectively. Despite the genuine support from donor community, little amount of this aid goes through in-country systems.

During the year, the Central Bank of Somalia continued to deliver on its commitments to strengthen and modernize (i) financial governance and accounting (ii) bank licensing and supervision, (iii) currency reform, and (iv) regulatory & policy framework, (V) development of key monetary and statistics systems. Full implementation of the above measures remains essential to create modern Central Bank in post conflict Somalia.

Despite the steady progress, the Bank continued to face resource constraints including human resource. On broader macro and fiscal framework, the Bank faced overwhelming challenge of initiating monetary policy in predominantly dollarized and unregulated economy.

The Bank lacks monetary policy instrument to enhance and maintain (i) price and financial stability (ii) the value of Somali Shilling (SOS) (iii) formulate and implement exchange rate policies.

The Bank made a significant development in engaging with International Monetary Fund (IMF) to receive technical assistance (TA) and policy advice in these key areas. Despite the rough road ahead in terms of financial discipline and reformed institutions to implement the right policies, the recent approval by IMF Board on the Article IV consultation for Somalia, represent a good sign to indicate that the country is back to the international financial system.

In 2014, the Bank published its near-term strategic priorities, which set out how the Bank intends to deliver on its mission of general management and modernization reform, planning national currency reform, opening CBS branches in the new and proposed federal member states, use of in-country system and proper payment system and national asset recovery and management.

All of these are closely aligned to the Bank's functional mandate. Based on these strategic priorities, the Bank will continue to work towards furthering the progress already made to maintain financial stability and promote inclusive economic growth.

Enclosed is the Annual Report, which details how the Bank carried out its core activities during 2014.

I wish to thank the members of CBS Board of Directors for their advice, oversight and valuable contributions during the year. I devote similar thanks to the Somali institutions, IFIs and friendly governments for their support and cooperation.

I also would like to thank the management and staff of the Bank for their continued dedication, professionalism and hard work during 2014.

Mr. Bashir Issa Ali

Governor

2. World Economy

The global economy in the first half of 2014 was sluggish. However, the global activity and trade picked up during the second half of the year. The growth forecast for the world economy was 3.3% for 2014, which was 0.4 percentage point lower than World Economic Outlook (WEO), largely due to weaker-than-expected global activity in the first half of 2014, particularly in the United States and several emerging economies.

Inflation in these economies undershot projections, reflecting large output gaps and continued commodity price declines. Economic activity declined in many emerging markets due to decreasing FDI. Conversely, these economies continue to contribute more than two-thirds of global growth. Their output growth is expected to be lifted by stronger exports to advanced economies.

A global growth forecast for 2015 is lowered to 3.8 percent. The downside risks have tremendously increased due to worsening geopolitical tensions, sustained uncertainty financial markets, and uneven economic recovery from 2008 recession. The pace of recovery is becoming more country specific.

In advanced economies, the legacies of pre-crises boom and subsequent crises (including high private and public debt) still cast a shadow on the recovery. Equally, emerging economies are adjusting to rates of economic growth lower than those reached in the pre-crises boom and post crises recovery.

China continues its high growth rates, but slightly lower growth in the future is seen to be a healthy development. India has recovered from its relative slump; in part reflecting effective policies and a renewal of confidence, growth is expected once again to exceed 5 percent. In contrast, uncertain investment prospects in Russia had already lowered growth before the Ukraine crisis, and the crisis has made growth prospects worse.

Growth in Sub-Saharan Africa was buoyant at 5.1 percent in 2013, and activity in these economies remained strong in the first half of 2014. This was driven mainly by domestic demand, both from high investment outlays and strong private consumption - especially in low-income countries but export growth has also remained strong.

Table 1. Global Economic Growth Outlook

	Outturn		October 2014 WEO		Difference from July 2014 WEO	
	2012	2013	2014	2015	2014	2015
World	3.4	3.3	3.3	3.8	-0.1	-0.2
Advanced economies	1.2	1.4	1.8	2.3	0.0	-0.1
United States	2.3	2.2	2.2	3.1	0.5	0.0
Euro Area	-0.7	-0.4	0.8	1.3	-0.3	-0.2
Japan	1.5	1.5	0.9	0.8	-0.7	-0.2
United Kingdom	0.3	1.7	3.2	2.7	0.0	0.0
Emerging markets and developing economies	5.1	4.7	4.4	5.0	-0.1	-0.2
Russia	3.4	1.3	0.2	0.5	0.0	-0.5
China	7.7	7.7	7.4	7.1	0.0	0.0
India	4.7	5.0	5.6	6.4	0.2	0.0
Sub-Saharan Africa	4.4	5.1	5.1	5.8	-0.4	0.0
South Africa	2.5	1.9	1.4	2.3	-0.3	-0.4

Source: IMF WEO, October 2014.

3. Domestic Economy

Over past two decades, Somalia has witnessed a significant social upheaval and conflict. One of the legacies of post conflict is the collapse of state infrastructure, which resulted Informal economy dominating the key economic infrastructures.

Somalis statistical system is very weak, which makes very difficult to get high quality economic data to undertake planning and programming. Notwithstanding, public confidence in the market is growing as evidenced by increasing economic activities in construction, financial services, and telecommunication. The economic activities have also expanded due to the arrival of large number of Diaspora investors, which improved much required capital for investment.

According to IMF, for 2014, the economy grew at 3.7% in real terms (nominally 6.6%). This growth was below the Africa wide-growth rate of 3.9%.Agriculture remains the backbone of the economy, representing 60% of employment creation, 40% of GDP and more than 50% of export earnings.

Principal exports are livestock, banana, charcoal, fish and hides, while imports are manufactured goods, consumables, petroleum and Khat. Remittances remain the key lifeline for Somalis and source of fund forever expanding trade deficit.

Table 2. National Income and Prices, 2014			
	2013	2014	2015 Proj.
Nominal GDP in millions of US dollars	5,352	5,706	5,953
Real GDP, annual percentage change	n.a	3.7	2.7
Per capita GDP in UD dollars	402	418	425
Consumer Price Index (CPI), annual percentage change	4.5	1.3	4
Source: FGS estimates; and IMF estimates.			

Outlook of the Somali economy was positive and continued to grow at 3.7% per annum (Real GDP) in 2014. This was driven by a number of factors, including huge interest from the Diasporas, other international investors to take advantage of peace dividends, and increased foreign Aid. As well as the trust that the new Government acquired in its effort at building public institutions with strong accountability framework, and a strengthened Central Bank that is capable of facilitating the operation of commercial banks and other financial institutions.

Continued growth in agriculture, fishery, livestock, construction, and the telecommunication contributed to the overall growth of the Somali economy. Growth in the service sector enabled by the private sector to expand production of private and public goods and services, given improved security conditions, fostered private investment in power plants and grids of efficient size and rehabilitated key transport infrastructure including roads, ports and airports. All these are expected to contribute to a unified domestic market, hence, promote foreign direct investment in Somalia.

For 2015, real growth is projected at 2.7 and inflation would remain subdued at about 4 percent. With modest progress on the security front and an absence of drought, medium-term annual growth should be about 5 percent.

Nevertheless, growth remains inadequate to redress acute poverty in the country. Despite many problems including security, political instability and bans by some major importing countries over the past 9 years, the number of animals and meat exported has grown steadily thereby boosting the economy and livelihoods in rural areas. In 2014 Somalia livestock export demonstrated significant boom of nearly 5 million heads of camel, cattle, and shoats[1] worth an estimated US$360 million.

According to Somali Agricultural Ministry, the total area planted in 2014 in southern Somalia under cereal crops is estimated at 251,000 hectares. Maize accounted for 51% of the total cropped area, while 49% is covered by sorghum.

[1] Shoats stand for combination of Sheep and Goat.

However, only 70% (178,000 hectares) of the planted area was harvested. The harvest losses are caused by various factors, including below average Gu rains; ongoing conflicts and displacements; and higher prices of agricultural inputs.

The Gu cereal (maize & sorghum) production in southern Somalia is estimated at 85,000 tones, which is 49% lower compared to production in Gu 2013. Maize accounts for about 66% (56,000 tones) of the total Gu cereal production and sorghum contributes 34% (29,000 tones)[2].

In general, overall cereal productions (maize, Sorghum & Beans) in most South-central regions accounted 150,000 metric tons comprising the production of Gu and Deyr during the year 2014, worth an estimate US$87,936,508. This data covers crop production of Lower Shabelle, Middle Shabelle, Hiran, Bay, Lower Jubba, Middle Jubba, Gedo, Bakol, Galgadud and Mudug.

According to Ministry of Fisheries and Marine survey of 2014, total annual fish harvest in Mogadishu coastline and nearby shorelines is estimated around 428,000 Kg, worth US$6,420,000. Conservative estimates put the country's annual marine fisheries production in the range of 642,000 Kg, worth an estimate of US$9,630,000, which is less than 0.2% of 2013 GDP. Comparatively, That is less than half the figure of neighboring countries. Fisheries account for 2.9% of Uganda's GDP, 1.4% of Tanzania's, 0.5% of Kenya's, and 0.4% of Rwanda's[3].

Although Somalia's territorial waters, along a 3,300 km long coastline, attract large numbers of foreign fishing vessels little benefit accrues to the local economy as most vessels are not registered, not taxed and their catch is not processed or sold in Somalia.

Somalia's telecommunication industry has one of the cheapest international call rates on the continent (CIA World fact book, 2012). In highly dollarized economy, most transactions are settled through mobile payment system. Mobile penetration is very high and increasing, 34% of adult population uses mobile money (World Bank, 2012). In November 2013, Somalia received its first fiber optic connection. The country previously had to rely on expensive satellite links due to the civil conflict, which limited Internet usage.

According to Internet World Stat, number of internet users in Somalia went from 200 in 2000 to 163,185 in 2014, and is still growing; Which is less than 2% Population Estimation Survey of Somalia (PESS) of 12,300,000(2014) and well below the average internet usage of Africa representing 9.8%. There were about 5,030,000

[2] FSNAU Post Gu 2014 Technical Series Report No VII. 56.

[3] East African Community Facts and Figures – 2014.

mobile subscribers in Somalia in the year 2013, an increase of 22% over 2012 and expected to be 6.1 Million by 2015 (Global Resource & Information Directory, 2014).

Remittance

Approximately one million Somalis send US$ 1.3 billion to Somalia every year, a crucial source of income for most of the Somalis. This significant source of income has been threatened by new regulations to restrict the flow of international remittances into the Somali economy. Remittance has a macroeconomic impact and is a funding source for ever-expanding trade deficit.

Inflation Outlook

Somali economy is highly dollarized economy, which to some extent helps to contain inflation.

Overall inflationary pressure remained under control in the twelve months ending December 2014. Consumer Price Index (CPI) was steady at 4.2% from 2010 to 2014. This wa6+s caused by numerous factors, but primarily, (i) robust dollar dominated remittance inflow, and (ii) CBS's monetary policy of not issuing currency. Dollarization has served the Somali economy well. It prevented inflation, restored public confidence.

Table 3. Consumer Price Index in Mogadishu Markets
Average Annual Prices

Division	Food & Non-alcoholic Beverage	Tobacco	Clothing & Footwear	Rent Fuel & Utilities	Household & Personal Goods	Health Care	Transportation	Communication	Entertainment	Education	Restaurant & Hotels	Miscellaneous	All Item CPI	Annual % Change
							Base 2010=100							
Weights	45.2	3.0	7.8	12.0	5.3	3.9	6.1	1.5	3.9	3.2	4.6	3.5	100.0	-
Calendar Year														
2010	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-
2011	104.5	99.7	98.7	91.8	102.4	97.2	94.1	100.0	100.0	100.0	97.8	100.9	100.5	0.5
2012	99.2	100.0	97.5	96.1	106.7	92.7	93.8	100.0	100.0	100.0	99.8	96.5	98.5	-1.9
2013	105.5	146.4	94.9	93.6	120.2	97.7	91.8	100.0	99.9	100.0	98.9	97.5	102.9	4.5
2014	109.6	99.3	102.1	99.5	103.3	104.8	93.7	100.0	100.1	100.0	98.4	98.4	104.2	1.3

Source: MoPIC, 2014

Outlook of Somali Shilling

The Somali Shilling is expected to be stable against US Dollar in the coming periods, subject to the level of Somali Shilling available in local markets.

It's expected that, as the security improves, that foreign currency inflow to increase. This in turn, encourages foreign direct investment in various sectors of the economy. The volume of inflows of long-term capital, remittance, and receipts from exports will augment as well.

Table 4. Monthly Exchange Rate (USD to SOS)

Period	2013	2014
January	20,258	19,684
February	17,175	18,564
March	16,202	19,189
April	17,696	20,420
May	18,458	20,761
June	18,950	20,778
July	19,473	21,041
August	19,671	20,875
September	20,068	20,456
October	20,134	20,235
November	20,143	20,453
December	20,148	20,268

Source: CBS, 2014

Mobile Money

The two Telecommunication companies, Hormuud and NationLink, are the major companies that provide mobile banking across the country.

The Mobile money transfer is quickly becoming an integral Part of economic life of Somalis and is promoting a cash-les society. Hence, solves the crucial problem of finding smaller denomination of US Dollar since it uses only dollar. This new phenomenon has gained acceptance in local markets with strong growth of customer usage.

To promote and expand access to banking, particularly to the poor and those living in remote areas of the country, The Bank plans to conduct a comprehensive study of existing mobile money Scheme. The specific purpose of this study would be to understand the status of mobile Money technology and how it is used in Somalia.

4. Fiscal Policy Management

Budgetary Operations

The Actual Budget of 2014 is presented on table 5. The council of ministries and the parliament approved this budget. The 2014 budget indicates 31% and 28% increase in revenue and Expenditure Respectively, when compared to 2013 budget.

Table 5. Summary of Revenue and Expenditure 2013-2014
In Million US Dollars

	2013 Actual	2014 Actual
1. REVENUE	**110.8**	**145**
(A) DOMESTIC REVENUE	**69.1**	**84**
Tax Revenue	65	74
Income and corporate taxes	…	1
Taxes on international trade	…	64
Other taxes	…	8
Domestic Loan and Grants	0	0
Non-Tax Revenue	4.1	11
(B) DONOR FUNDED	**41.7**	**61**
Bilateral Assistance	41.7	59
Multilateral	…	1.9
2. EXPENDITURE	**117.4**	**151.1**
(C) RECURRENT EXPENDITURE	**117.4**	**150.9**
Compensation of employees	50.4	77.2
Use of goods and services	56.1	57.6
Grants	7.5	10.1
Contingency	3.5	3.8
Repayment of arrears and advances	0	2.2
(D) CAPITAL EXPENDITURE	**0**	**0.2**
Projects	0	0.2
3. BALANCE	-6.6	-5.8
Unused Budget		6.2
Balance		0.2

Source: Ministry of Finance, 2014

Budget implementation remains weak due to poor revenue mobilization and inadequate expenditure controls. 2014 budget shows a significant deficit, accumulation of arrears, weak revenue mobilization strategies, sustained expenditure pressure and unfulfilled budgetary commitments from donors.

Revenue and Grants

Revenue (including grants) totaled US$145.2 million against budgeted amount of US$188.5 million, resulting shortfall of US$43 million. Trade taxes and foreign grants remain the largest sources of revenue. Customs duties on international trade represent 44% of total revenue, indicating a need for immediate diversification of sources of revenue to avoid fluctuations and uncertainty. There is also a significant underperformance in domestic tax owing to weak customs and tax administration and lack of appropriate framework in both regional and federal levels. Moreover, there is a need for realistic and conservative budget projections during the budget formulation process.

The ratio of domestic revenues to total revenues (including grants) continues to fall, which implies increasing reliance on foreign grants to fund government operations.

Direct donor budgetary support represents 38% and 42% of the total revenue in 2013 and 2014 respectively, implying an increase 46% of donor support on the actual budget of 2014. However, there are large changes in the composition and level of donor contributions reflecting the unpredictability and raises budget vulnerability to the uncertainties associated with donor disbursements. It is also noted that International assistance outside the budget is significantly higher than direct budget assistance.

Expenditure

Actual expenditure was US$151.1 million relative to a budgeted amount of US$216.2 million. Expansion in the number of ministries and government entities in 2014 has resulted in payroll-centric budget, with wage compensation consuming an ever-increasing share of expenditure.

In 2014, compensation for employees increased by 53% over 2013, crowding out investment and other spending for essential social service delivery, including health and education.

Expenditure on goods and services was US$56.70 Million (38% of total expenditure). This also had similar effects on capital expenditure and resulted in accumulation of arrears.

5. Balance of Payments

Since independence Somalia has been having unfavorable balance of payments. Current account deficit for 2014 is estimated at US$644 million (Table 8).

Exports of goods and services were US$819 million and imports of goods and services were US$3.5 billion. Remittances were US$1.33billion and transfers of US41.137 billion. Grants were totaled to the tune of US$60.9 million. The current account deficit was financed by capital transfers, estimated at US$150 million, and foreign direct investment of US$434 million. Most donor support was off budget, mainly humanitarian and limited security assistance.

Exports

Exports were estimated US$779 million and US$819 million in 2013 and 2014 respectively. This showed export was growing at increasing rate, especially the livestock sector, which remains the backbone of the economy.

Gulf countries remain the main export destination and principle exports are livestock, banana, lemon, fish, hides and skins. Despite security and logistical challenges, the trend is expected to improve in the near short term.

Nearly 5 million heads of camel, cattle, and goats were exported to Gulf countries; this is a key landmark for the Somalia's livestock sector, which reflects the need for large investment to support commercial development of the livestock sector to become more competitive in international markets.

Imports

In 2014 overall imports were estimated at US$3.5 billion. Major imports include manufactured goods, consumables, petroleum, and Khat. Main import partners include U.A.E, Kenya, Ethiopia and China.

Table 6. Balance of Payments 2013-14		
(Millions of US Dollars)		
	2013	**2014**
Current account balance	**-656**	**-644**
Trade balance	-2,543	-2,663
Exports, f.o.b.	779	819
Imports, f.o.b.	-3,322	-3,482
Income (net)	-425	-450
Receipts	35	36
Payments	-460	-486
Current transfers (net)	2,312	2,469
Private, of which:	2,270	2,416
Remittance^1	1,300	1,333
Official^2	42	53
Capital Account and Financial Account	**656**	**644**
Capital account	150	150
Financial account (net)	506	494
Foreign direct investment (net)	446	434
Other net capital flows^3	60	60
Errors and omissions	0	0
Overall Balance	0	0
Financing gap	0	**0**
Nominal GDP (in millions of U.S. dollars)	5,352	5,706
External public debt(in million of US dollars)	5,259	5,294
1/ 2013 data from Barclays Bank, PLC.		
2/includes direct budget support		
3/ Insurance and technical reserves		
Sources: UN Comtrade; FGS; and IMF estimates and projections.		

Public Debt

Somalia's debt records were lost or destroyed during civil war in 1990s. In 2013, Somali government implemented debt mapping and successfully validated Somali's debt with major creditors validated debt information was successfully received from most creditors.

In 2014 Somali's external debt including arrears (but excluding commercial debt), was estimated at US$5.3 billion (Tables 7).

This debt is owed to two classes of creditors: multilateral debt (US$1.5 billion); bilateral debt, (US$3.8 billion), of which (US$2.3) for Paris Club and (US$1.5 billion) for Non-Paris Club. Currently, Somalia is in default on the majority of its external debt obligations.

Somalia has made significant progress in engaging its creditors and international financial institutions to receive debt forgiveness under Heavily Indebted Poor Countries (HIPC) initiative. Table 9 shows external public debt position in 2014.

Table 7. External Public Debt (end-2014)
In Millions of US Dollars

Creditors	Total Outstanding Excluding Arrears	Arrears				Total Outstanding Including Arrears
		Principal	Interest	Late/Penalty Interest	Total	
Multilateral	0.27	0.62	0.22	0.4	1.2	1.5
Bilateral, of which	0.1	1.4	1.2	1.9	3.7	3.8
Paris Club	0.1	0.7	1.2	1.2	2.2	2.3
Non-Paris Club	0.0	0.7		0.7	1.5	1.5
Commercial	n.a	n.a	n.a	n.a	n.a	n.a
Total	**0.3**	**2.7**		**2.3**	**5.0**	**5.3**

Source: Ministry of Finance; World Bank; and AfDB, 2014

Aid Flows

Development partners have increased Official Development Assistance (ODA) in Somalia under the New Deal. The majority of the ODA went towards humanitarian activities. Also, the majority of the aid wasn't disbursed through the country-system. Military spending is excluded from ODA and isn't tracked by Federal Government of Somalia. Below table indicates

Table 8. Reported Support by Type In Millions of US Dollars		
	2014	**2015 Proj.**
Development	607	675
Humanitarian	672	593
Total ODA	1,279	1,268
Support to Peacekeeping	439	624
Source: ACU Aid Flow Mapping		

6. Financial Sector Development

The Central Bank of Somalia continues to perform its supervisory role aimed at achieving and maintaining a sound, stable and robust financial system. In a bid to enhance economic activities and promote access to financial services in the country, the Bank granted provisional license to six banks and nine MTO (Money Transfer Operators).

Commercial Banks

Central Bank of Somalia put added priority in its Licensing and Supervision Department (LSD). The bank granted provisional license to six banks (6), which demonstrates the expansion and importance of financial sector, and the need to regulate and supervise them through appropriate financial laws. The near-term focus of the Bank is to bolster capacity in the critical areas in bank licensing and supervision.

The Bank is in early days of creating a road map for establishing and enhancing formal financial sector.

The Bank intends to develop comprehensive prudent growth of financial intermediation by building capacity in licensing and supervision. The Bank drafted a financial law to regulate the licensing of money transfer business to address current remittance challenges and is awaiting legislative approval.
CBS signed MoUs with World Bank, and US Department of treasure to enhance examination and supervision of banks and MOTOs. Each MOU would assist key AML/CFT components in customer identification (I.D) and biometric systems.

Following Table 8 shows number of commercial banks and their respective branches in main cities.

No.	Name of the Bank	No. of Branches	Main Cities				
			Mogadishu	Hargeysa	Bosaso	Garowe	Kismaayo
1	Premier Bank	2	2				
2	International Bank of Somalia	2	2				
3	Dahabshil Bank International	3	1	1	1		
4	Trust African Bank	1	1				
5	Salaam Somalia Bank	15	15				
6	Amal Bank	1				1	
	Total	**24**	**21**	**1**	**1**	**1**	

Table 9. Commercial Banks in Somalia and their respective branches

Source: CBS, 2014

Money Transfer Businesses (Hawalas)

One of the prime mandates of the Central Bank of Somalia is to license, supervise and regulate the financial system as a whole. The bank is in the process of promoting and maintaining the safety, and soundness, and the integrity of the financial system, particularly the non-banking financial institutions (Money transfer businesses MTBs). The passing of the Banking and Regulation Act of 2011 would tremendously facilitate and allow the protection of the remitters and the transparency and accountability of the money transfer businesses.

The CBS plans to:

- Receiving and processing applications for money transfer businesses (Hawalas) licensing through established procedures;
- Ensuring effective compliance with international standards and norms;
- Establishing an effective systems for on-site and offsite supervision of MTBs;
- Ensuring timely supervisory action and compliance with financial institutions and other legislations governing the operations of financial institutions; and
- Enforcing of all applicable regulations and directives.

There are currently 9 registered and licensed MTBs in Somalia. These MTBs provide vital financial services to the citizens of Somalia as they facilitate the flow of capital/funds from the Somali diaspora as well as within the country.

The 9 registered and licensed MTBs are:

1. Amal Express Money Transfer;
2. Amana Online Money Transfer;
3. Dahabshiil Money Transfer;
4. Hodan Global Money Transfer;
5. Jubba Express Money Transfer;
6. Kaah Express Money Transfer;
7. Mustaqbal Express Money Transfer;
8. Taaj Money Transfer;
9. Tawakal Express Money Transfer;

Non-Banking Financial Regulations

With regard to the regulation of NBFIs, there are currently four regulations approved by the Board of Directors of the CBS to license, supervise and regulate MTBs. These regulations include:

1. Money Transfer Business Licensing (2014);
2. Money Transfer Business Registration (2014);
3. Money Transfer Business on Customer Registration (2014);
4. Money Transfer Business Operations (2014).

7. Corporate Governance

In 2014, the bank made a steady progress in strengthening its institutional capacity as a modern bank in post-conflict environment. CBS continues to exercise its constitutional mandate consistent with CBS ACT Law No.130 of April 22nd, 2012. The board of directors approved first set of by-laws and the Bank is successfully implementing them. Following is the CBS's strategic objective for the next three years.

- *Good governance*: Building sound, transparent and accountable CBS. This involves the adoption of international standards and codes for transparency and accountability. The Bank is receiving targeted training and technical assistance from international financial institutions (IFI), development partners and other counterparts. Moderate progress has been achieved in improving legal and regulatory frameworks; strengthening procurement systems, enhancing reporting and building institutional capacity.

- *Organizational Effectiveness*; Strengthening, modernizing and organizational development of the Bank is critical for the restoration of public confidence. The Bank has developed bottom-up capacity enhancement, initiated organizational reform, and supported modernization and development initiatives. The Bank hired qualified experts in licensing, supervision, economic research as well as finance and accounting. The CBS continuous to receive training in governance, institutional strengthening, and human capacity development from the IMF, the World Bank (WB), the U.S. Department of the Treasury, and the Central Bank of Kenya.

- *Strengthening Financial Sector*;

  The formal financial sector has expanded significantly, and as a result the Central Bank of Somalia put added priority in its Licensing and Supervision Department (LSD). The near-term focus of the CBS is to bolster capacity in the critical areas in the bank licensing and supervision and building credibility in licensing and supervision operations of remittances. To achieve this CBS has:

- Signed MOU with different development partners to build the capacity of the CBS institutions and civil servants. These partners continue to provide successive TA to support these activities;
- CBS hired highly qualified and competent Compliance and Remittance Advisor to lead this initiative;
- Started the process of prudential regulation, supervision, and examination of licensed financial institutions (commercial banks and MTOs);
- Established step-by-step processes to strengthen operations and procedures of licensing & supervision department;
- Updating financial laws and acts.

The Bank achieved modest improvement on updating financial laws and acts by issuing first set of bylaws to carry out its business;

The bank also has taken number of actions to guard and strengthen its autonomy defined under the Central Bank Act Law No 130.

The Bank prepared Anti-Money Laundering and CombatingFinancing of Terrorism (AML/CFT) with consultation of all stakeholders. The draft of the AML/CFT was submitted to the parliament for enactment.

Strong banking operations; to make the Bank more stronger than ever before, it is essential to have effective and efficient payment system that will ease the transactions in the financial system, setting up core banking, having practical risk management policy to mitigate the risks exposed to the bank, with advancement of CBS workflow.

Central Bank Work Plan Priorities in 2015

- General Management and Modernization Reform;
- Modernization of payments and systems;
- Studies and Planning for National Currency reform;
- Opening CBS branches in the proposed Federal Member States;
- Use of In-Country and proper payment system;
- National Asset Recovery and Management.

8. Monetary Policy and Currency Reform

Monetary Policy

The Central Bank of Somalia faces daunting challenges in discharging its mandate in predominantly dollarized and unregulated economy. Monetary policy tools don't exist, with free-floating exchange rate arrangement. The U.S. dollar is the de facto currency in the country, even though; the Somali Shilling (SOS) remains the *de jure* currency for all of Somalia. Accordingly, all payments are made in U.S. dollar.

The newly revived Central Bank of Somalia is in the process of taking full charge of formulating and implementing monetary policy. This is hampered by lack of adequate resources, both technical and financial. The Central Bank of Somalia's medium and longer-term monetary policy objectives are:

- Formulating and implementing monetary and exchange rate policies;
- Price stability;
- Maintaining and enhance the value of the local currency;
- Maintain financial stability;
- Harmonize and coordinate Government Fiscal policies with monetary policies.

Currency Reform

The Central Bank of Somalia has established a roadmap to prepare for a comprehensive currency reform. The bank engaged with International Monetary Fund (IMF) for both advice and financing for a currency reform. There are several currency reform options under discussion ranging from issuing lowest denomination banknotes to more banknote denominations. The reintroduction of the lowest denomination banknote remains top priority for the poor and those living in remote areas and don't have access to mobile payment or U.S dollar.

Even though, there is a legitimate need to undertake urgent currency reform, the underlying factors don’t support immediate currency reform. Also, appropriate financial laws and regulations are not in place to support a currency reform. Somalia’s currency reform efforts could learn from experiences in other countries with similar conditions.

Successful comprehensive currency reform will depend on:

(i) Building technical capacity;

(ii) Mobilizing financial resources;

(iii) Planning and conducting currency conversion, and

(iv) Ensuring policy consensus and broad-based political support.

Deloitte.

CENTRAL BANK OF SOMALIA

REPORTS AND
FINANCIAL STATEMENTS

31 DECEMBER 2014

CENTRAL BANK OF SOMALIA

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

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CENTRAL BANK OF SOMALIA

BANK INFORMATION

BOARD OF DIRECTORS	Bashir Isse Ali	- (Governor)
	Maryama Abdullahi Yusuf	- (Deputy Governor)
	Abdulqafar Abdullahi Sheik	
	Dr. Omar Ibrahim Hussein	
	Maye Mohamed Sheekhuna	
	Hussein Atto	
	Hodan Isse	
REGISTERED OFFICE	Central Bank of Somalia P O Box 11 55 Corso Somalia Mogadishu, Somalia	
LAWYERS	State Attorney General Villa Somalia, Mogadishu. Somalia	
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki Way, Muthangari P O Box 40092 - 00100 GPO Nairobi, Kenya	

CENTRAL BANK OF SOMALIA

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements of Central Bank of Somalia (the “bank”) for the year ended 31 December 2014, which disclose the bank’s state of financial affairs.

1. ESTABLISHMENT

The Central Bank of Somalia was established under the Central Bank of Somalia Act, 1962. The Bank currently operates under the Central Bank of Somalia Act, 2011.

Bank's vision

The vision of the Bank is: “To be the region’s leading Central Bank in fostering economic growth through maintaining price and financial stability.”

Bank's mission

The Bank’s mission is: “To conduct monetary policy directed towards maintaining price stability and to promote integrity and stability of the financial system conducive to sustainable growth of the national economy”.

2. STATUTE AND PRINCIPAL ACTIVITIES

Central Bank of Somalia (CBS) is the Central Bank of the Federal Republic of Somalia. The Bank is a body corporate with legal entity, with perpetual succession and common seal, with power to acquire, own, possess and dispose of common seal, and of property, and to contract, to sue and to be sued in its own name. The Bank has the ability to exercise any type of central banking function unless specifically excluded under The Central Bank Act 2011, and will enjoy all the prerogatives of a central bank.

A summary of functions and objectives of the Bank are to:

- Formulate, implement and be responsible for monetary policy, including foreign exchange rate policy, issue currency, regulate and supervise banks and financial institutions including mortgage financing, development financing, lease financing, licensing and revocation of licenses and to deal, hold and manage gold and foreign exchange reserves of Somalia;
- Compile, analyse, and publish the monetary, financial, balance of payments statistics and other statistics covering various sectors of the national economy;
- Regulate, monitor and supervise the payment, clearing and settlement systems;
- Ensure the integrity of the financial system and support the general economic policies of the Government and promote sound monetary, credit and banking conditions conducive to the development of the national economy.

3. RESOURCES AND STRENGTH

Resources and strengths that facilitate the Bank’s endeavor in achieving its strategic objectives include human, financial and technological resources.

In terms of human capital, the Bank has well-qualified and committed staff dedicated to a long-term career in the Bank. Likewise, the management adheres to good governance and promotes labour relations. From its strategic perspective, the Bank enhances its financial sufficiency by improving management of its resources through prioritization of initiatives, implementing initiatives within the available financial envelope and prudently managing its sources of income.

The Bank has also undertaken various reforms that contribute to the attainment of its objectives. For example, the on-going modernization of the monetary policy framework is expected to improve the efficiency and effectiveness of the monetary policy implementation.

4. REVIEW OF THE BANK'S PERFORMANCE AND BROAD GOALS

During the year, the Bank's Corporate Plan continued to focus on attaining three broad goals that translate its primary mandates. These are:

- Maintaining price stability;
- Promoting integrity and stability of the financial system; and
- Strengthening corporate governance.

Basing on the three broad goals, the Bank's performance revealed the following:

Maintaining price stability:

Foreign reserves were managed consistent with the strategic objective of capital preservation, adequate liquidity, and maximizing return on investments.

Promoting integrity and stability of the financial system

Financial stability is the smooth operation of the system of financial intermediation within Government through a range of financial institutions. Stability in the financial system is evidenced by an effective regulatory infrastructure, effective and well-developed financial markets, and effective and sound financial institutions.

Strengthening corporate governance

To strengthen the bank's corporate governance the board focused on building the capacity of its human capital, ensuring compliance with legislation and the overall engagement with external stakeholders. The outcome of each of this steps taken are explained below;

Staffing, Capacity Building and Work Environment

The Bank was adequately staffed with the right capabilities to accomplish its strategic and operational objectives. This position was a result of implementation of Human resource plans and strategies that enabled the Bank to fill vacant positions in time. To improve knowledge and skills of employees, the Bank continued to address skills requirements through donor support and funding. The Bank continued to have a safe and healthy working environment. All office facilities and working tools operated smoothly. Employees' benefits and welfare services were delivered as planned and staff well being and morale was maintained.

Enhance Compliance with Legislation, Regulations, Policies and Standards

During the year, the Bank continued to put emphasis on compliance with the Central Bank of Somalia Act, 2011; and other legislations, regulations and policies in executing its mandate.

Further, the Bank continued to adhere to Anti-Money Laundering (AML) and the Combating Financing of Terrorism Units (CFT) by continuing coordination of Anti-Money Laundering (AML)/Combating Financing of Terrorism (CFT) activities as an effort to ensure that the Bank adhered to legislation, regulations and policies. The Bank spearheaded coordination of AML/CFT initiatives within the Bank and among stakeholders in the country.

During the period under review, the Bank continued to maintain its properties and facilities including buildings, machinery, equipment and motor vehicles in order to ensure that they are always in good working condition.

The Central Bank's Engagement with External Stakeholders

The Bank continued to nurture its relationship with external stakeholders, seeking to gain confidence and trust in protecting the Bank's reputation. In order to improve its reputation, the Bank continued to address stakeholders' needs, expectations and providing timely responses to stakeholders' inquiries.

5. CAPITAL STRUCTURES

Article 9 of the Central Bank of Somalia Act, 2011 notes that the authorized capital of the Bank may be increased by such amounts as may be proposed by the Board and approved by the Ministry of Finance.

6. RELATIONSHIP WITH STAKEHOLDERS

The Central Bank of Somalia recognizes the importance of its key stakeholders including the government and banking institutions in adding value and ensuring that the needs and expectations to fulfill its mission and vision. The bank continues to hold good working relationships with its stakeholders and maintains a regular update with all those involved.

The Bank ensures it meets all its obligations with stakeholders by:

(a) Price Stability: The Bank formulates and executes monetary policy that leads to stable domestic prices; provide policy advice to the governments; disseminate economic reports and ensures stable exchange rates.

(b) Financial Stability: The Bank promotes the stability of the financial system through effective regulation and supervision of banking system; provide safe and efficient payment systems; and promote public access to the financial services.

(c) Internal requirements: The Bank attracts and retains high caliber staff with integrity, competency and accountability and provides conducive working environment and career development opportunities to its staff.

7. MANAGEMENT

The Governor is required to discharge such functions and direction, in conformity with the policies and other decisions made by the Board.

The law further provides that the Governor to be assisted by the Deputy Governor. The Deputy Governor heads various functions, which involve all directorates and independent departments.

8. FUTURE DEVELOPMENT PLANS

To ensure integrity and stability of the financial system, the Bank puts emphasis on ensuring that the financial sector remains on a sound footing to serve the broader needs of the Somalia economy. Accordingly, special focus will be placed on surveillance of CBS financial system and putting in place elaborate crisis management and resolution framework.

On strengthening corporate governance, the Bank will take deliberate measures to create broad awareness and capacity building among staff to strengthen internal controls and formulate frameworks in adherence with International standards. In addition, the Bank will focus on enhancing application of modern technologies; improve its work processes and compliance with laws and regulation in order to improve operational efficiency in all its undertakings.

Further, the Bank will focus on service excellence in attending to CBS internal and external stakeholders. Like any other central bank, the Bank is dedicated to continue advising the governments on economic policy related matters and serving the general public as our ultimate customers.

9. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for risk management and internal control systems of the Bank. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Bank's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviors towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system, of internal control can provide absolute assurance against misstatement or losses, the Bank's system is designed to provide the Board with reasonable assurance that procedures in place are operating effectively. The Bank ensures that existing and emerging risks are identified and managed within acceptable risk tolerances.

Key risks and uncertainties

The key risks that may significantly affect the Bank's strategies and development are mainly financial, operational and strategic. Below we provide a description of the operational and strategic risks facing the Bank. The risks related to financial instruments have been disclosed under Note 45 of the financial statements:

(a) Operational Risk

This is the risk of CBS financial and non-financial resulting from inadequate human resource and systems, management failures, ineffective internal control processes, non-compliance, inadequate security and adverse legal judgements. The main operational risks of the Bank were:

- Human Resource Risk

  The particular nature of the activities of the Bank necessitates specialized knowledge in many areas. The Bank ensures that there is an adequate knowledge base for all specialized job requirements by investing significantly in human resource development in terms of capacity building and practical exposure. The Bank also organizes workshops, seminars, conferences and job attachments to its staff to improve its human resource requirements. It also revises its staff retention scheme to compete with the prevailing labour market.

- Business Disruption and Security risks

  Risks related to failure to execute business processes and events that compromise the assets, operations and objectives of the Bank. The risks might be due to lack of business continuity management, lack of good practices or controls on the Bank's activities.

  The Bank addresses these risks inter alia through ensuring existence of Business Continuity Management (BCM) and sound internal control system which includes: operational and procedural manuals, ICT security policies, back up facilities, contingency planning, and independent internal audit function. Managing operational risk in the Bank is an integral part of day-to-day operations by the management. Management, Internal Audit Function, Audit Committee and the Board, closely monitors this risk.

- Legal Risk

  Legal risk arises from any uncertainty of enforceability, whether through legal or judicial processes, of the obligations of the Bank's clients and counter parties. The Bank aims at minimizing such uncertainties through continuous consultations with all relevant parties.

  The Bank has in place a clear procedure of the delegation of authorities. Also strict code of conduct and ethics is used to minimize chances of causing legal disputes between the Bank and its counterparts.

9. RISK MANAGEMENT AND INTERNAL CONTROL

(b) Strategic Risk

This risk covers analytical and policy risk which is associated with economic and monetary policy formulation; business risk which refers to the probability of loss inherent in the Bank's operations and environment; performance risk which is associated with formulation and execution of business plans and strategies; and external risks which refer to threats from the external environment such as infrastructure disruption, financial crime and computer viruses, political, social and economic changes. Similar to operational risk, strategic risk may result into damage on the Bank's reputation.

The Bank has an obligation to ensure that it performs its functions and maintains its reputation as a Central Bank in line with requirements of the Central Bank of Somalia Act, 2011.

In view of the above, the Bank's management ensures that it fulfils its fiduciary responsibilities. The Bank adheres to the best practices and applies principle of sound corporate governance. It also ensures that all relevant employees have clear understanding of the appropriate processes in respect of the best practices and principles of good governance.

The Bank therefore, sets out policies and guidelines that govern sound functional operations within the Bank. The performance of these policies and guidelines are periodically reported to different levels of the Bank's management for control and compliance monitoring.

The top management of the Bank has the necessary freedom and discretion to exercise central banking functions. However, this freedom is exercised within the context of good governance and having regard to a proper balance between accountability and the best interests of the Bank and its various stakeholders.

The function of the Bank of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The Bank adheres to international best practice and, to this end, maintains close liaison with international donors. The Bank strives towards full compliance with the principles for effective banking supervision as well as the core principles for systemically important payment systems.

10. SOLVENCY

The Board of Directors confirms that International Financial Reporting Standards (IFRS) applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the Central Bank of Somalia has adequate resources to continue carrying out its statutory activities for the foreseeable future.

11. EMPLOYEES WELFARE

(a) Management and employees relationship

The relationship between the Bank and its employees continued to be good. Employees complaints raised during the year were resolved mainly through the use of consultative meetings/forums involving the management, trade union and employees through workers council. As a result, healthy relationship continued to exist between management and the trade union.

Complaints are resolved through meetings and discussions. Work morale is good and there were no unresolved complaints from employees. The Bank provides a number of facilities aiming at improving the working environment and living standards of its employees. Such facilities include medical services, transport to and from work, house allowance, employee training and development and leave travel assistance as well as any other allowances stipulated within the staff by-laws.

11. EMPLOYEES WELFARE (Continued)

(b) Medical Assistance

Members of staff are provided with medical support by the Bank should they require it. The bank covers both medical costs and travel costs in adherence with the Board of directors' resolution.

(c) Health and safety

Effective health, safety and risk management is a priority for the Bank. The Bank provides staff training on health and safety as well providing the necessary measures to protecting its working environment and team members.

(d) Financial assistance to staff

The Bank provides various loans to employees in accordance with the board resolution, staff by-laws and Financial Regulations in force. These include house loans, motor vehicle loans and personal loans.

(e) Persons with disabilities/ Loss of life

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff losing their live, every effort is made to ensure that their employment with the Bank continues and appropriate family member replacement is arranged.

12. CORPORATE SOCIAL RESPONSIBILITY

The Bank is committed to fulfilling part of its Corporate Social Responsibility (CSR) through supporting national activities and other areas of interest to the Bank in the Federal Republic of Somalia.

13. COMPLIANCE WITH LAWS AND REGULATIONS

In performing the activities of the Bank, various laws and regulations having the impact on the Banks operations were observed.

14. STATEMENT OF COMPLIANCE

The Directors' Report has been prepared in full compliance with requirements of the Central Bank of Somalia Act, 2011 (Directors' Report).

15. STATEMENT OF GRATITUDE TO INTERNATIONAL DONORS

The Central Bank of Somalia continues to engage with its international partners i.e. IMF, World Bank, African Development Bank and other stakeholders in its continued effort to reforming its financial systems and ensuring that it meets its obligations. The Bank has remained a key development partner of the Government in the provision of financial support to ongoing rebuilding of the country after more than two decades of civil war.

CENTRAL BANK OF SOMALIA

REPORT OF THE DIRECTORS (Continued)

PRINCIPAL ACTIVITIES

The bank is primarily responsible for providing payments and banking services to the government and other stakeholders.

RESULTS FOR THE YEAR	USD
Profit for the year	2,123,163
	========

DIRECTORS

The present members of the board of directors are shown on page 23.

AUDITORS

Deloitte & Touchewere appointed as auditors during the year and have expressed their willingness to continue in office.

BY ORDER OF THE BOARD

Director

Mogadishu

23 October 2016

CENTRAL BANK OF SOMALIA

STATEMENT ON CORPORATE GOVERNANCE

Central Bank of Somalia ascribes to the highest standards of corporate governance. The Bank through the Board of Directors and Management upholds and practices the principles of sound corporate governance.

To this end, the Central Bank of Somalia Act, 2011, has provided a framework for ensuring application of sound corporate governance principles and best practices by the Bank's Board of Directors and its Committees and Management in the course of managing the day-to-day affairs/operations of the Bank as summarized below:

- In terms of the provisions of Article 12 of the Central Bank of Somalia Act, 2011, the Bank's Board of Directors is the supreme policy making body in the Bank, and apart from its specified function of approving the budget of the Bank.

- Two Committees are currently assisting the Bank's Board of Directors in the discharge of its functions. These are the Audit Committee and Banking Supervision Committee.

Board composition

The Board shall be charged with the formulation and the supervision of the implementation of the policies, and the supervision of the administration and the operations of the Bank.

The Board shall consist of:

a) The Governor, who shall be the Chairman;

b) The Deputy Governor, who shall be the chairmen of the Board when the Governor is absent; and Five other non-executive directors.

Board responsibilities

The Board may, by resolution either generally or in any particular case, delegate to any committee of the Board, or to any member thereof, or to any officer, employee or agent of the Bank the exercise of any powers or the performance of any functions or duties of the Board under this Act or any other written law, except for the following: Formulate and adopt the monetary policy of the Bank including, as appropriate, decisions relating to intermediate monetary objectives, key interest rates and the supply of reserves in Somalia and to adopt internal rules for their implementation.

The governor, as chairman of the board of the Bank, shall convene meetings of the board not less than once in every two months, or whenever the business of the Bank so requires or whenever he is so requested in writing by at least three directors.

The board will Formulate and adopt other policies of the Bank regarding the execution of its functions, and to adopt, as appropriate, internal rules for their implementation and decide upon the application of the foreign exchange regime as well as supervise the implementation of the policies and the execution of the functions of the Bank.

Board Meetings

The Board held 3 meetings during the year ended 31st December 2014. In addition there were various meetings of the Board Committees. All members of the Board were able to devote their time required for the Board and Committee meetings either physically or through an online platform.

Board Meetings (Continued)

The Board and its committee's meet once every month with additional meetings convened as and when necessary. During the year, the Board and its committees met to discuss and decide on various business activities. The Board Committees recommend key business decisions to the Board for approval. Major issues raised at the board meetings during the year ended 31st December 2014 included;

- Memorandum of Understanding with the Ministry of Finance
- Regulations of the Financial Institutions
- Bank's Human Resource Plan
- Reviewing the Supervision Department Regulations
- Bank Licensing Regulation, Capital Adequacy Regulation, Liquidity Regulation
- MTB Registration and Licensing Regulation

During the year, the Board members attended the Board meetings as follows;

Date of meeting	31.05.2014	23.08.2014	06.12.2014
Bashir Isse Ali	✔	✔	✔
Maryam A. Yusuf	✔	✔	✔
Abdulqafar A. Sheik	✔	✔	✔
Dr. Omar I. Hussein	✔	✔	✔
Maye Mohamed Sheekhuna	✔	✔	✔
Hussein Atto	✖	✖	✖
Hodan Isse	✖	✔	✔

Board Committees

Two Committees are currently assisting the Bank's Board of Directors in the discharge of its functions. These are the Audit Committee and Banking Supervision Committee

(a) The Audit Committee

The Audit Committee is largely composed of Non-executive Directors. The Chairman of the Committee is a Non-executive Director. The Deputy Governor-Administration and Internal Control is the only Executive member of the Committee. The Terms of Reference for the Audit Committee cover four major areas, namely, Internal Control, Financial Reporting, Internal Audit and External Audit.

The Audit Committee's mandate under Internal Control covers evaluation of control environment and culture; the adequacy of the internal control systems and compliance with IFRS in the preparation of financial statements; the overall effectiveness of the internal control and risk management framework; The Committee also reviews requests for write off/ back of items from the books of accounts and reviews the effectiveness of the system for monitoring compliance with laws and regulations.

The mandate relating to Financial Reporting requires the Audit Committee to review significant accounting and reporting issues and their impact on the financial reports and ensure current financial risk areas are being managed appropriately. The Committee also ensures the adequacy of the financial reporting process and reviews the Bank's annual accounts before approval and adoption by the Board.

CENTRAL BANK OF SOMALIA

STATEMENT ON CORPORATE GOVERNANCE

Board Committees (Continued)

(a) The Audit Committee (Continued)

With regard to External Audit, the Audit Committee reviews and approves the external auditors' proposed audit scope, approach and audit deliverables, draft financial statements before submission to the External Auditors for audit; and also reviews and approves the proposed audit fee.

The Committee's mandate on Internal Audit covers review of the activities and resources of the internal audit function; effectiveness, standing and independence of internal audit function within the Bank; review of the internal audit plan; and follow up on implementation of internal audit findings and recommendations. The Audit Committee reports to the Board of Directors.

(b) Banking Supervision Committee

Members of the Committee comprise the Governor who is the Chairman, the Deputy Governors, Representative of the Ministry of Finance and five Non-executive directors.

The Banking Supervision Committee is responsible for review of internal control and systems in banks and other financial institutions; the Banking Supervision function; adequacy of the prevailing legal and regulatory framework; operating performance of banks, financial institutions and bureau de change with a view to ensuring safety and soundness in the banking system; financial stability reports before publication; and on emerging supervisory issues. The Committee advises the Board on appropriate policy, legislative and regulatory measures that promote a safe and sound banking system and high supervisory standards and practices.

Directors' remuneration

The remuneration received by the Governor and the Deputy Governor shall be in line with that received by persons holding similar executive positions with large financial institutions and be disclosed in the annual report.

Conflicts of interest

Directors have a statutory obligation to avoid situations in which they have or may have interests that conflict with those of the bank.

Independence

All Non-executive Directors are considered by the Board to be independent in character, judgment and free of relationships or circumstances, which could affect their judgment.

Approved by the Board of Directors on 23rd October 2016, and signed on its behalf by:

Bashir Isse Ali
The Governor and Chairman of the Board

Director

Director

23 October 2016

CENTRAL BANK OF SOMALIA

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Central Bank of Somalia Act law No. 130 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that they keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the bank. They are also responsible for safeguarding the assets of the bank.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Central Bank of Somalia Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Central Bank of Somalia. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the bank will not remain a going concern for at least the next twelve months from the date of this statement.

Director   Director

23 October 2016

Deloitte.

Deloitte & Touche
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CENTRAL BANK OF SOMALIA

Report on the financial statements

We have audited the accompanying financial statements of Central Bank of Somalia set out on pages 37 to 60, which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Central Bank of Somalia Act, and for such internal controls as directors determine are 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 as to 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 our 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, we considered the internal controls relevant to the bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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 qualified opinion.

Basis for Qualified Opinion

Opening balances

We were appointed as auditors after the end of the financial year and were unable to obtain sufficient appropriate audit evidence on the opening balances. The bank did not undertake an audit of the previous financial year ended 31 December 2013 and we were therefore unable to determine whether any misstatement in the unaudited opening balances could have a material impact on the opening reserves of the bank as at 1 January 2014 and to profit or loss and other comprehensive income for the year ended 31 December 2014.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
CENTRAL BANK OF SOMALIA (CONTINUED)

Report on the financial statements (Continued)

Basis for Qualified Opinion (Continued)

Cash on hand – Cash count

Included in the statement of financial position are cash balances amounting to USD 8,187,721 (2013 – USD 7,509,974). Although cash counts were carried out as at 31 December 2014, we could not satisfy ourselves by practical alternative means concerning cash held at the beginning and end of the year 2014 since we were appointed as auditors after the year end and therefore were not available to verify the cash count procedures at the end of the year.

Property – valuation

Included in the property and equipment are land and buildings amounting to USD 40,185,050 as at 31 December 2014. A valuation was carried out on 30 August 2016 by Bel Air Properties Limited, on a market value basis, and a valuation opinion expressed that the values of the properties may not significantly differ from the values as at 31 December 2014.However, we could not satisfy ourselves by any practical means whether the market values on the two dates are not materially different and hence whether there could be adjustments necessary to the amounts reported as at 31 December 2014.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the basis for qualified opinion section above, the accompanying financial statements give a true and fair view of the financial position of the bank as at 31 December 2014, and of the bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal Requirements

Except for the matters described under the basis for qualified opinion above, as required by the Central Bank of Somalia Act law No. 130, we report to you based on our audit, that:

(i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit;
(ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
(iii) the company's statement of financial position (balance sheet) and the statement of profit or loss and other comprehensive income are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya

31 October 2016

CENTRAL BANK OF SOMALIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 USD	2013 USD
FEES INCOME	4	3,244,854	3,059,553
OPERATING EXPENDITURE	5	(2,986,783)	(2,195,058)
NET OPERATING INCOME		258,071	864,495
OTHER INCOME	7	7,646,361	-
PROVISION FOR IMPAIRMENT	10	(5,803,920)	-
NET FOREIGN EXCHANGE GAINS		22,651	13,813
PROFIT BEFORE TAXATION		2,123,163	878,308
TAXATION	8	-	-
PROFIT FOR THE YEAR		2,123,163	878,308
OTHER COMPREHENSIVE INCOME:			
Revaluation surplus on property		40,312,808	-
		40,312,808	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		42,435,971	878,308

CENTRAL BANK OF SOMALIA

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	2014 USD	2013 USD
ASSETS			
Cash balance	9	8,187,721	7,509,974
Deposits and balances due from banking institutions	10	5,093,100	619,294
Receivables	11	2,450	1,043,325
Property and equipment	12	41,605,877	513,436
Intangible assets	13	3,000	4,000
TOTAL ASSETS		54,892,148	9,690,029
LIABILITIES			
Treasury deposits	14	4,469,647	6,681,307
Security deposits	15	120,000	120,000
Microfinance grant	16	3,000,000	-
Other payables	17	2,079,610	101,802
TOTAL LIABILITIES		9,669,257	6,903,109
RESERVES			
Revenue reserve		4,910,083	2,786,920
Revaluation reserve		40,312,808	-
TOTAL RESERVES		45,222,891	2,786,920
TOTAL LIABILITIES AND RESERVES		54,892,148	9,690,029

The financial statements on pages 37 to 60 were approved and authorised for issue by the board of directors on 2016
23 October and were signed on its behalf by:

Director

Director

CENTRAL BANK OF SOMALIA

STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2014

	Revenue reserve	Revaluation reserve*	Total
	USD	USD	USD
At 1 January 2013	1,908,612	-	1,908,612
Total comprehensive income for the year	878,308	-	878,308
At 31 December 2013	2,786,920	-	2,786,920
	========	========	========
At 1 January 2014	2,786,920	-	2,786,920
Total comprehensive income for the year	2,123,163	40,312,808	42,435,971
At 31 December 2014	4,910,083	40,312,808	45,222,891
	========	========	========

*Revaluation reserve relates to revaluation surplus on land and buildings held by the bank.

CENTRAL BANK OF SOMALIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	2014 USD	2013 USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	19(a)	3,019,556	6,837,929
Net cash generated from operating activities		3,019,556	6,837,929
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	12	(868,003)	(612,273)
Net cash used in investing activities		(868,003)	(612,273)
CASH FLOWS FROM FINANCING ACTIVITIES			
Microfinance Grant	17	3,000,000	-
Net cash generated from financing activities		3,000,000	-
INCREASE IN CASH AND CASH EQUIVALENTS		5,151,553	6,225,656
CASH AND CASH EQUIVALENTS AT 1 JANUARY		8,129,268	1,903,612
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	19(b)	13,280,821	8,129,268

1 ACCOUNTING POLICIES

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

For the Central Bank of Somalia Act reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

Adoption of new and revised International Financial Reporting Standards (IFRS)

i) New standards and amendments to published standards effective for the year ended 31 December 2014

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or CBSh.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

Application of these standards has not had any impact on the disclosures or the amounts recognised in these financial statements as the bank is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014).

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.The amendments have been applied retrospectively.

As the bank does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the bank's financial statements.

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

i) *New standards and amendments to published standards effective for the year ended 31 December 2014 (Continued)*

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements.

As the bank does not have any cash-generating units (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the bank's financial statements.

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

As the bank does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the bank's financial statements.

IFRIC 21 Levies

IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the bank's financial statements.

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2014

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 9	1 January 2018
IFRS 15	1 January 2017
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- The directors of the bank anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the bank's financial assets and financial liabilities (e.g. the bank will classify financial assets as subsequently measured at either amortised cost or fair value). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

1 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods (Continued)

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the bank uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

iv) Early adoption of standards

The bank did not early adopt new or amended standards in 2014.

1 ACCOUNTING POLICIES (Continued)

Basis of preparation

The bank prepares its financial statements under the historical cost convention, modified to include the revaluation of certain assets.

Fees and commission income

In the normal course of business, the bank earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Net trading income

Net trading income arises from the margins which are achieved through market-making and customer business and from changes in market value caused by movements in interest and exchange rates, equity prices and other market variables. It comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes.

Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses where applicable. Depreciation is calculated on a straight line basis at annual rates estimated to write off the cost of the property and equipment over their expected useful lives. The rates generally in use are:

Buildings	2.5%
Motor vehicles	20%
Fixtures, fittings, computers and equipment	10% - 20%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease. When a lease includes land and buildings elements, the bank assesses the classification of each element as either a finance lease or an operating lease. In determining classification of the land element, an important consideration is that land normally has an indefinite economic life. Therefore the finance lease or operating lease classification of the land is considered a critical area of judgment. See note 2 to these financial statements.

1 ACCOUNTING POLICIES (CONTINUED)

Intangible assets - computer software costs

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less any accumulated amortisation and impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding 5 years.

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are 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 asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions

Provisions are recognized when the bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Foreign currencies

Transactions in foreign currencies during the year are translated at the rates ruling at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars at the rates of exchange ruling at the end of each reporting date. Non-monetary items that are measured in terms of historical costs in a foreign currency are not retranslated. Gains and losses on exchange of monetary items are dealt with in the profit or loss in the period in which it arises.

1 ACCOUNTING POLICIES (CONTINUED)

Taxation

Article 8 of the Central Bank of Somalia Act, 2011 exempts the Bank from all:

a) taxes on its income and all duties, excise and other taxes and levies on the import and domestic supply of gold, banknotes and coins.
b) other taxes duties and levies from which Government ministries and other public agencies are exempted by law.

Financial instruments

(i) Recognition

Financial assets or liabilities are initially recognised on the bank's statement of financial position at cost using settlement date accounting, when the bank has become a party to the contractual provisions of the instrument.

(ii) Classification and measurement

Financial assets

The bank classifies its financial assets into the following categories:

- Financial assets at fair value through profit or loss.
- Loans and receivables.
- Held to maturity financial assets.
- Available for sale financial assets.

Management determines the appropriate classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

Financial assets are classified as fair value through profit or loss (FVTPL) when the financial asset is either held for trading or is designated as at FVTPL. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term; or on initial recognition it is part of a portfolio of identified financial instruments that the bank manages together and has a recent actual pattern of short term profit taking; or it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are stated at fair value, with gains or losses arising on re-measurement recognised in profit or loss.

Loans and receivables

Loans and receivables including advances originated by the bank are non-derivative financial assets with fixed or determinable payments with fixed maturities that are not quoted in an active market. Loans and receivables are recognised when cash is advanced to borrowers. These are held to maturity and are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short term receivables when the recognition of interest would be immaterial.

Held to maturity investments

Financial assets with fixed or determinable payments and fixed maturity where the bank has the positive intent and ability to hold to maturity other than loans and receivables originated by the bank are classified as held to maturity investments and are measured at amortised cost using effective interest rate method less any impairments with revenue recognised on an effective yield basis. When a sale occurs other than an insignificant amount of held to maturity assets, the entire category would be tainted and classified as available for sale.

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale financial assets

Financial assets that are not (a) loans and receivable originated by the bank, (b) held –to-maturity investments, or (c) financial assets held for trading are measured at their fair values. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses; interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognised in profit or loss. Where the investment is disposed and or if determined to be impaired the cumulative gain or loss previously accumulated in the investments revaluation reserves is reclassified to profit or loss. Dividends on available for sale equity instruments are recognised in the profit or loss when the bank's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment.
If it is probable that the bank will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred.

The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the financial asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts account. The amount of the loss incurred is included in the profit or loss for the period.

The bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit or loss, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a bank, or national or local economic conditions that correlate with defaults on assets in the bank.

When an available for sale financial asset is considered impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in other comprehensive income is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

Where a loan is deemed uncollectible, it is written off against the related provision for impairment losses. Subsequent recoveries are credited to the profit or loss for the year.

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

1 ACCOUNTING POLICIES (Continued)

Financial liabilities

After initial recognition, the bank measures all financial liabilities including customer deposits other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Derecognition of financial liabilities

Financial liabilities are derecognised when and only when the bank obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The bank as a lessee

Assets held under finance leases are recognised as assets of the bank at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant leases.

Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with Central Bank of Somalia (CBS), items in the course of collection from other banks, deposits held at call with banks and treasury bills with original maturities of less than three months. Such assets are generally subject to insignificant risk of changes in their fair value, and are used by the bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the bank acts in a fiduciary capacity such as nominee, trustee or agent.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

In the process of applying the bank's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

(i) Critical accounting judgements in applying the bank's policies

Impairment losses on loans and receivables

The bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit or loss, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a bank, or national or local economic conditions that correlate with defaults on assets in the bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating CBSh the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held -to-maturity investments

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the bank evaluates its intention and ability to hold such investments to maturity. If the bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

Classification of leases of land and buildings as finance or operating leases

At the inception of each lease of land or building, the bank considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (Continued)

(i) Critical accounting judgements in applying the bank's policies

Classification of leases of land and buildings as finance or operating leases (Continued)

The bank also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

(ii) Key sources of estimation uncertainty

Property and equipment

Critical estimates are made by directors in determining the useful lives and residual values for property and equipment and intangible assets based on the intended use of the assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

3 RISK MANAGEMENT POLICIES AND OBJECTIVES

A. OVERVIEW OF RISK MANAGEMENT

The bank has exposure to the following financial risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risks

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework.

(a) Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arise principally in lending to customers and other banks and investment activities. The Central Bank of Somalia does not provide loans to third parties and therefore the bank is not significantly exposed to any credit risk

3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

a) Credit risk (Continued)

Credit risk on financial assets other than loans

The bank is exposed to credit risk arising on other financial assets as included in the statement of financial position. As part of the credit risk management, the bank's management reviews information on significant amounts. The bank's management assess the credit quality of each counterparty, taking into accounts its financial position, past experience and other factors.

The credit risk on amounts due from banking institutions is limited because the counterparties are banks with high credit ratings.

	2014 USD	2013 USD
Deposits and balances due from banking institutions	5,093,100	619,294
	========	========

Maximum exposure to credit risk before collateral held

	2014 USD	%	2013 USD	%
Credit exposures:				
On balance sheet items:				
Deposits and balances due from banking institutions	5,093,100	100	619,294	40
Receivables	2,450	-	1,043,325	60
	5,095,550	100	1,662,619	100
	========	====	========	=====

b) Liquidity risk

The bank is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measures:

(i) Management of liquidity risk

The bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under CBSh normal and stressed conditions, without incurring unacceptable losses or risking damage to the bank's reputation. The Board of Directors, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties meeting financial liabilities as they fall due is encountered.

(ii) Source of funding

The bank's source of funding is mostly from charging an agreed upon fees to al income received by the CBSh the Federal and Regional governments which are deposited into their respective Central Bank of Somalia operational accounts.

3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

B) CAPITAL MANAGEMENT

The Central Bank of Somalia sets and monitors capital requirements for the bank as a whole.

The bank's accounting reserve position at 31 December was as follows:

	2014 USD	2013 USD
Reserves		
Retained earnings	4,910,083	2,786,920
Revaluation reserve	40,312,808	-
	45,222,891	2,786,920
	========	========

C) OTHER RISK DISCLOSURES

STRATEGIC RISK

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. It is a risk that may significantly impact on the achievement of the institution's vision and strategic objectives as documented in the strategic plan.

Who manages strategic risk

The Board of Directors is responsible for the preparation and implementation of the bank's strategy. The board delegates implementation to the Governor and the senior management team who execute strategy. The Board works together with senior management to ensure that the bank meets its strategic goals and objectives.

How we manage strategic risk

The bank sets strategic goals and objectives, evaluates its strategic position and develops appropriate strategies and then translates those strategies into a Strategic plan.

Each department is responsible for directing strategies in their respective units and ensures that such strategies are aligned to the overall strategy of the Bank. Regular comparison of actual performance to desired outcomes serves as an important check on the success of implementing approved strategies, and allows management to take timely remedial actions to address significant deviations from set targets.

The bank has internal control systems which are subject to internal audit reviews to ensure that it is not unduly exposed to strategic risks. The results of such audit reviews, including any issues and weaknesses identified are reported to the Board and senior management directly. CBS Board and senior management are engaged in the process to determine whether such reviews and audits are effectively performed and identified issues are addressed.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is embedded in all business activities including the practices for managing other risks e.g. credit, market and liquidity risks that arise in the normal course of business.

3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

C) OTHER RISK DISCLOSURES (Continued)

Who manages operational risk?

Senior management is responsible for consistently implementing and maintaining throughout the institution, policies, processes and systems for managing operational risk in all of the institution's material products, services and activities, consistent with the bank's risk appetite and tolerance.

How we manage operational risk?

Internal operational loss data such as loss arising from fraud, forgeries, robbery and system downtime provides meaningful information for assessing a bank's exposure to operational risk and the effectiveness of internal controls. External data elements consist of gross operational loss amounts, dates, recoveries, and relevant causal information for operational loss events occurring at organizations other than the bank.

Internal controls are designed to provide reasonable assurance that the bank has efficient and effective operations; safeguard its assets; produce reliable financial reports; and comply with applicable laws and regulations.

The bank has established risk management and internal control procedures to address operational risks including code of conduct, delegation of authority, segregation of duties, audit coverage, compliance, mandatory leave, staff compensation, recruitment and training, and physical controls.

REPUTATIONAL RISK

Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.

Who manages reputational risk?

Ultimate accountability for reputational risk management rests with the board of directors and senior management by addressing explicitly reputational risk as a distinct and controllable risk to the institution's safety and soundness.

Nonetheless, every employee and representative of the bank has a responsibility to contribute positively to our reputation.

How we manage reputational risk?

Under the corporate governance principles matters such as management integrity, staff competence, code of conduct, support and corporate culture are incorporated all of which aim to reduce reputational risk.

Every employee and representative of the bank has a responsibility to contribute in a positive way towards our reputation. this is through ensuring ethical practices are always adhered to, interactions with all stakeholders are positive, and we comply with applicable policies, legislation, and regulations.

COMPLIANCE RISK

Compliance risk is the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from the possibility of incorrect interpretation of effective laws or regulations.

Who manages compliance risk

The ultimate accountability for compliance risk management rests with the board, which is aware of the major aspects of the institution's compliance risk.

How we manage compliance risk

Department heads manage day to day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls already in place.

	2014 USD	2013 USD
4 FEES INCOME		
Cash handling fees	2,958,990	2,751,415
License fees	158,000	255,000
Rental income	106,316	-
Registration Fee	16,000	29,000
Sundry income	4,900	24,138
Fines	648	-
	3,244,854	3,059,553

The CBS earns a commission of 2% on government revenue deposited with the Bank. License and registration fees are charged pursuant to the Financial Institutions Act.

	2014 USD	2013 USD
5 OPERATING EXPENDITURE		
Staff costs (note 6)	1,423,308	1,010,117
*Travel expenses	355,063	139,557
Security	173,465	103,908
Asset recovery expenses	122,380	-
Repair and maintenance	110,974	36,131
Auditors fees	100,000	-
Hospitality	96,976	17,258
Depreciation	88,370	-
Amortisation	1,000	-
Fuel	75,319	48,686
Miscellaneous office expenses	72,059	73,321
Hotel	65,010	59,336
Medical expenses	52,974	11,058
Internet expenses	47,708	29,439
Rent	29,931	1,500
Board of directors expenses	26,628	-
Printing, publications and subscriptions	25,718	19,768
Tuition fees	24,553	4,465
Miscellaneous vehicle expense	21,643	15,796
Electricity	20,765	10,411
Telephone, fax, and telegraph	14,881	14,545
Office supplies stationaries	11,643	11,028
Water	8,706	4,238
Legal expense	6,000	581,557
Cleaning	6,958	1,227
Bank charges	2,086	-
Garden expenses	1,546	1,050
Oil expenses	738	530
Postage	381	132
	2,986,783	2,195,058

*Travel expenses are made up of per diem, travel and other related expenses.

		2014 USD	2013 USD
6	STAFF COSTS		
	Salaries and wages	1,007,190	755,585
	Staff allowances	63,294	30,725
	Bonus	6,625	-
	Overtime	41,496	22,438
	Contract experts	163,350	192,819
	Staff welfare	141,353	8,550
		1,423,308	1,010,117
7	OTHER INCOME		
	Cash recovered by the Bank	5,803,920	-

Other income refers to the accounting recognition of cash that have been recovered by Central Bank of Somalia through its asset recovery exercise.

8 TAXATION

Article 8 of the Central Bank of Somalia Act Law no. 130 of 22 April 2011 exempts the Central Bank of Somalia from taxes on its income and all duties, excise and other taxes and levies on the import and domestic supply of gold, banknotes and coins, and other taxes duties and levies from which Government ministries and other public agencies are exempted by law.

		2014 USD	2013 USD
9	CASH AND BANK BALANCES		
	Somali Shillings	13,806	489,631
	United States Dollars	8,173,915	7,020,343
		8,187,721	7,509,974
10	DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS		
	Balances due from banking institutions	10,897,020	619,294
	Provision for impairment of unconfirmed bank balances	(5,803,920)	-
		5,093,100	619,294

The weighted average effective interest rate on balances and deposits due from banking institutions at 31 December 2014 was Nil (2013 - Nil).

		2014 USD	2013 USD
11	RECEIVABLES		
	Staff receivables	1,950	2,455
	Other receivables	500	1,040,870
		2,450	1,043,325

12 PROPERTY AND EQUIPMENT

	Land and buildings	Furniture and fixtures	Vehicles	Equipment	Other equipment	Total
COST	USD	USD	USD	USD	USD	USD
At 1 January 2014	313,015	53,979	137,050	101,041	7,188	612,273
Additions	585,227	29,074	184,400	69,302	-	868,003
Revaluation	40,312,808	-	-	-	-	40,312,808
Write-offs	-	(16,134)	(54,200)	(12,353)	(330)	(83,017)
At 31 December 2014	41,211,050	66,919	267,250	157,990	6,858	41,710,067
DEPRECIATION						
At 1 January 2014	-	12,636	37,990	41,353	6,858	98,837
Charge for the year	-	7,366	50,950	30,054	-	88,370
Write offs	-	(16,134)	(54,200)	(12,353)	(330)	(83,017)
At 31 December 2014	-	3,868	34,740	59,054	6,528	104,190
NET BOOK VALUE						
At 31 December 2014	41,211,050	63,051	232,510	98,936	330	41,605,877
At 31 December 2013	313,015	41,343	99,060	59,688	330	513,436

Land and buildings were revalued on 30 August 2016 by Bel Air Properties Limited, registered and practicing property valuers, on a market value basis. In the opinion of the valuers, the values of the properties as at the valuation date are unlikely to be significantly different from the values as at 31 December 2014.

Events after the reporting period:

The Bank's management are carrying out an asset recovery exercise in a bid to bring under control all assets that the bank legally owns. As at 31 December 2014, the bank had recognized all assets it could control in the bank's books. In 2015, the bank continued with its recovery exercise and recovered additional assets valued at USD 27,573,150.These have not been recognized in these financial statements.

13 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2014 USD	2013 USD
COST		
At 1 January	5,000	5,000
Additions	-	-
At 31 December	5,000	5,000
AMORTISATION		
At 1 January	1,000	-
Charge for the year	1,000	1,000
At 31 December 2014	2,000	1,000
NET BOOK VALUE		
At 31 December	3,000	4,000

14 TREASURY DEPOSITS

Denominated in Somali Shillings	16,249	477,421
Denominated in United States Dollars	4,453,398	6,203,886
	4,469,647	6,681,307

CBS holds accounts for Government in accordance with the Central Bank Act. Government includes the Federal Government of Somalia, selected regional authorities and salary payment accounts for current and former employees and parliamentarians

15 SECURITY DEPOSITS

	2014 USD	2013 USD
Performance security to undertake banking and forex business in Somalia	120,000	120,000

Per the Financial Institutions Law No. 130 of 22 April, 2012 every person licensed to carry on money remittance business shall maintain with the Central Bank, a security in the sum of United States Dollars 60,000 or its equivalent in Somali currency, or such other amount as may be prescribed by the Central Bank by regulation.

	2014 USD	2013 USD
16 MICROFINANCE GRANT		
Microfinance Grant	3,000,000	-
	========	========

In September 2014, the Federal government of Somalia received a $3,000,000 interest free grant from the Kuwait Fund for the Arab Economic Development. The purpose of the fund is to provide micro-finance funding to small business in Mogadishu in order to support the growth of the Somali private sector.

	2014 USD	2013 USD
17 OTHER PAYABLES		
Sundry Creditors	1,979,610	101,802
Audit Fess	100,000	-
	2,079,610	101,802
	========	========

18 CAPITAL

The authorized capital of the Bank is determined in accordance with Law no. 130 of the Central Bank of Somalia Act of 22 April 2011.The ownership of the entire paid up capital of the Bank shall be vested in the Ministry of Finance. The paid up capital of the Bank shall not be reduced at any time. The authorized capital of the Bank may be increased by such amounts as may be proposed by the Board and approved by the Ministry of Finance.

As at year end, this section of the Act the Act had not been implemented hence the prescribed capital for the bank had not been set.

19 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to cash generated from operations

	2014 USD	2013 USD
Profit before taxation	2,123,163	878,308
Adjustments for:		
Depreciation	88,370	98,837
Amortisation	1,000	1,000
Working capital changes:		
Decrease / (increase) in receivables	1,040,875	(1,043,325)
(Decrease) / increase in treasury account	(2,211,660)	6,681,307
Increase in deposits	-	120,000
Increase in other payables	1,977,808	101,802
Cash generated from operations	3,019,556	6,837,929
	=========	=========

19 NOTES TO THE CASH FLOW STATEMENT (Continued)

(b) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes

	2014 USD	2013 USD
Cash and Bank balance	8,187,721	7,509,974
Deposits and balances with other banking institutions (Note 10)	5,093,100	619,294
	13,280,821	8,129,268

20 CONTINGENCIES AND COMMITMENTS

The Central Bank of Somalia has no significant known commitments and has not provided for any contingent liabilities as at December 31, 2014. Given the development and security context in Somalia, as well as difficulties in obtaining all relevant historical transaction data and relevant entity accounting documentation and agreements, contingent assets and liabilities may exist. The Bank has not identified specific contingencies as at 31 December 2014 and has therefore not recorded or disclosed possible related amounts and the probability that any such contingencies will be realized.

21 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Bank acts as fiscal agent to the Government in accordance with the Central Bank of Somalia Act. Government includes the Federal Government of Somalia, selected regional authorities and salary payment accounts for Parliamentarians. Other than transactions and balances in the normal course of business with the Government, there have been no significant transactions with related parties during 2014, nor are there known significant assets or liabilities with related parties as at 31 December 2014.

22 INCORPORATION

The Bank is incorporated under the Central Bank of Somalia Act, 2011 (the Act)

23 CURRENCY

These financial statements are prepared in United States Dollars.

24 EVENTS AFTER REPORTING PERIOD

Events after the reporting period are disclosed in note 12 to the financial statements.