Central Bank of Somalia

ANNUAL REPORT 2016

Central Bank of Somalia

Mogadishu – Somalia

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LIST OF ACRONYMS

AFDB	African Development Bank (AFDB),
AML/CFT	Anti Money Laundering and Combating of Terrorism
BODs	Board of Directors
CBS	Central Bank of Somalia
CPI	Consumer Price Index
DMU	Debt Management Unit (DMU)
FAO	Food and Agriculture Organization
FGS	Federal Government of Somalia
FMS	Federal Member States
GDP	Gross Domestic Product
HIPC	Heavily Indebted poor Countries (HIPC)
IDA	International Development Association
IFIs	International Financial Institutions
IMF	International Monetary Fund
LPG	Liquefied Petroleum Gas
MDAs	Ministries departments and agencies
MDRI	Multilateral Debt Relief Initiative (MDRI)
MOF	Ministry of Finance
MTBs	Money Transfer Business Service
OAG	Office of the Accountant General
RDNA	Rapid Drought Needs Assessment
SFMIS	Somali Financial Management Information System
SMP	Staff– Monitored Program
SOS	Somali shillings
TA	Technical assistance
TSA	Treasury Single Account

UAE	United Arab Emirates
UN	United Nations
US	United States of America
WEO	World Economic Outlook

GOVERNOR'S MASSAGE

It is with great pleasure that we present our annual report for the year ending December 31, 2016. This report highlights key performance matrices, challenges and milestones achieved over the course of this reporting period. To deliver on our mandate as provided under Article 47 of the Central Bank of Somalia Act, we present this annual report along with audited financial statements for the covered period.

During this period, the Central Bank of Somalia made significant progress in key functional areas. We strengthened our regulatory and oversight role through the adoption of sensible regulations designed to encourage innovation, foster financial inclusion, and curtail financing of criminal activities. The national economy outperformed expectation despite devastating famine in many part of the country and the Bank is striving to play greater role in supporting and supervising the financial sector and the economy at large.

We are continuing to provide opportunities for our staff members to develop personally and professionally through tailored intensive skill training programs offered in partnership with International Financial Institutions. Moreover, with support from International Financial Institutions and Friendly countries, we revamping our operation through standardization of accounting and reporting systems, implementation of core banking and payment/settlement systems infrastructure, and undertaking institutional reforms to conform to international standards and best practices.

I would like to recognize our board of directors for their timely oversight and effective guidance to support the strategic focus and direction of the bank. Moreover, I would like express our gratitude and appreciation to Federal Government of Somalia, Private Somalia Financial Institutions, International Financial Organizations, and friendly countries for their continued support and cooperation.

Finally, I would like to acknowledge the passion and selfless services of our public-spirited and mission-driven staff members for the continued hard work to enhance performance across the functional areas of the Bank.

Mr. Bashir Issa Ali

Governor

PREFACE

Somalia continues to be on a positive political trajectory. Over the past five-six years, despite challenging security and economic conditions, Somalia has marked important milestones in ongoing state building process, and rebuilding its economic governance and institutional capacity.

The task of enhancing traditional central banking operations, including enhancing institutional governance, improving systems for transparency and accountability, continued to dominate the bank's priorities over the past three years. The Bank has re-established its authority and institutional capacity.

The Bank laid foundation a reform program to improve the institutional capacity development efforts to deliver its functional mandate on operational responsibilities, regulatory framework and advisory role to the government. Key legislative framework has been successfully passed by Parliament.

The reform program’s main objectives are towards formalising the financial service sector, designing, introducing and implementing new prudential regulatory, internal audit, licensing and supervising the commercial banks and money transfer businesses, risk management, compliance and oversight procedures.

In executing our mandate we have licensed six Commercial Banks and 12 Money Transfer Business Services. CBS closely works with a number of prominent international partners to strengthen Somalia’s financial sector. The Central Bank has built its regulatory functions and supervision of banks and money transfer operators that are licensed to operate in Somalia. Over last two year, the CBS has embarked important work in the pursue of implementing important regulations focusing on Know-Your-Customer (KYC) and anti-money laundering and Counter Terrorism Financing (AML/CFT). Examinations are integral to the CBS’ supervision regime, and a key effort to maintain and strengthen remittance flows into Somalia. The Bank recently successfully completed on-site examinations of money transfer operators and of banks, which are significant steps for further formalisation of the Somali financial sector.

With the support from the World Bank, the CBS is putting in place a core banking software and associated software to improve its support to national payments. On capacity development, the Bank has intensified staff training, delivered by both multilateral organisations and bilateral donors.

The Somali economy is predominantly dollarized and cash is scarce, particularly in lower denominations. The Central Bank of Somalia estimates that virtually all Somali shilling (SOS) currently in circulation are counterfeit notes. Most of these are highly mutilated, and are not readily available, creating problems for the poorest segment of the citizens. In addition to a dominant use of U.S. dollar banknotes, there is an increasing use of electronic payments via 'Mobile Money Transactions' between mobile phones.

The needs of the Somali economy are poorly met by the existing currency situation. In addition, there is strong political and public concern about the absence of a national currency for payment system diversification and means of payment for the less advantaged people without mobile or foreign currency use.

The Central Bank of Somalia and the FGS are preparing to reissue new Somali shilling banknotes to combat the existing massive counterfeiting in the country, restore confidence in the national currency, and to allow the central bank to start implementing monetary policy. With technical assistance from the IMF, CBS is making all the necessary arrangements needed for reissuing the new Somali Shilling.

Somalia is currently experiencing severe drought that is putting millions of people in a situation of food insecurity. This follows a multiple seasons of failed rains and global weather patterns resulting in a near total crop failure and poor availability of pasture and water for livestock. The droughts influences not only via its direct effects on the agricultural and livestock sectors, but also through its linkages of these sectors with other sectors of the economy.

The livestock trade remains the backbone of the economy, and play a prominent role in the Somali economy and dominates exports: 60 percent of the population derives a livelihood from pastoralism-based livestock production. Due to the drought, the relative contribution of the export of livestock and agriculture sectors to GDP is negatively affected. Droughts like this can cripple any country and erase hard-fought development gains.

To prevent such devastation in the future, whether social or economic, an effective framework for recovery must be in place before a disaster strikes. Such provisions are even more important in Somalia, where two and a half decades of conflict destroyed much of the country's governance structure, economic infrastructure, and institutions.

There are great possibilities for growth in Somalia, yet such growth will only succeed if there is a major effort to rebuild Somalia's key institutions and economic and financial infrastructure.

Given the urgency of meeting Somalia's social and reconstruction needs, a substantial reduction in the debt burden is an essential element of our economic strategy. Somalia is working with its development partners to resolve the debt problem and is exploring ways to qualify for relief under the Heavily Indebted Poor Countries (HIPC) initiative. It is an important step in putting an IMF Staff-Monitoring Program (SMP) in place, a milestone toward debt forgiveness. Therefore, the Central Bank of Somalia will make every effort for a successful execution of the ongoing SMP, which could, in the coming future, lead to a satisfactory completion of the decided milestones.

Despite many remaining challenges, the reform efforts are gaining momentum. The Central Bank of Somalia will continue 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. Based on these strategic priorities, the Bank will also continue to work towards furthering the progress already made to maintain financial stability and promote inclusive economic growth.

World Economy

1. WORLD ECONOMY

Global economic activity continues to remain weak with increasing downside risks to the outlook. According to the IMF, World Economic Outlook (WEO) October 2016 global growth is estimated to 3.1 percent in 2016, slightly lower than growth in 2015, unchanged from the July 2016 WEO and to rebound next year to 3.4 percent. The developments are a reflection of economic activity in both the advanced and emerging market economies.

The 2016 forecast reflects weaker-than-expected U.S. activity in the first half of the year as well as materialization of an important downside risk with the Brexit vote. Although financial market reaction to the result of the U.K. referendum has been contained, the increase in economic, political, and institutional uncertainty and the likely reduction in trade and financial flows between the United Kingdom and the rest of the European Union over the medium term are expected to have negative macroeconomic consequences, especially in the United Kingdom. As a result, the 2016 growth forecast for advanced economies has been marked down to 1.6 percent.

Growth in advanced economies is estimated to slow down to 1.6 percent in 2016 from 2.1 percent in 2015, due to lower productivity growth and inflation that is persistently below the target. In the US, growth is expected to slow down to 1.6 percent in 2016 from 2.6 percent in 2015 as business investment continues to be soft amid weaker growth prospects and elevated policy uncertainty. In addition, the declining oil prices has occasioned reduced investments in energy related sectors, while the strong U.S. dollar and weakening global demand have contributed to declining exports.

Growth in emerging market and developing economies has strengthened slightly in 2016 to 4.2 percent after five consecutive years of decline, accounting for over three-quarters of projected world growth this year. However, the outlook for these economies is uneven and generally weaker than in the past. While external financing conditions have eased with expectations of lower interest rates in advanced economies, other factors are weighing on activity. These include a slowdown in China, whose spillovers are magnified by its lower reliance on import- and resource-intensive investment; commodity exporters' continued adjustment to lower revenues; spillovers from persistently weak demand in advanced economies; and domestic strife, political discord, and geopolitical tensions in several countries.

While growth in emerging Asia and especially India continues to be resilient, the largest economies in sub-Saharan Africa (Nigeria, South Africa, and Angola) are experiencing sharp slowdowns or recessions as lower commodity prices interact with difficult domestic political and economic conditions. Brazil and Russia continue to face challenging macroeconomic conditions, but their outlook has strengthened somewhat relative to April, 2016.

The recovery is anticipated to pick up in 2017 as the outlook improves for emerging market and developing economies and the U.S. economy regains some momentum, with a fading drag from inventories and a recovery in investment. Although longer-term prospects for advanced economies remain muted, given demographic headwinds and weak productivity growth, the forecast envisages a further strengthening of growth in emerging market and developing economies over the medium term.

Risks to the outlook for global economic activity remain on the downside and relate primarily to volatility of the financial markets and heightened geopolitical risks that have exacerbated existing macroeconomic imbalances. Persistently low oil prices have also aggravated fiscal or financial imbalances in some oil-exporting countries. Policy uncertainty surrounding the economic transition in China may lead to an increase in global financial volatility while economic and political uncertainty surrounding the Brexit continues to weigh on the outlook.

Other ongoing concerns on the outlook include spillovers to economic activity resulting from geopolitical tensions especially in the Middle East, terrorism as well as climate change.

Table 1: Actual and projected output /Growth of selected countries/ regions (percentage change						
	Actual		Projections		Difference from July WEO Update	
Country/Region	2014	2015	2016	2017	2016	2017
World Output	3.4	3.2	3.1	3.4	0.0	0.0
Advanced Economies	1.9	2.1	1.6	1.8	-0.2	0.0
United States	2.4	2.6	1.6	2.2	-0.6	-0.3
Euro area	1.1	2.0	1.7	1.5	0.1	0.1
Japan	0.0	0.5	0.5	0.6	0.2	0.5
United Kingdom	3.1	2.2	1.8	1.1	0.1	-0.2
Emerging Markets and Developing Economies	4.6	4.0	4.2	4.6	0.1	0.0
Emerging and Developing Asia	6.8	6.0	6.5	6.3	0.1	0.0
China	7.3	6.9	6.6	6.2	0.0	0.0
India	7.2	7.6	7.6	7.6	0.2	0.2
Latin America Caribbean	1.0	0.0	-0.6	1.6	-0.2	0.0
Brazil	0.1	-3.8	-3.3	0.5	0.0	0.0
Sub Saharan Africa	5.1	3.4	1.4	2.9	-0.2	-0.4
South Africa	1.6	1.3	0.1	0.8	0.0	-0.2
Nigeria	6.3	2.1	-1.7	0.6	0.1	-0.5
Middle east and north America	2.6	2.1	3.2	3.2	-0.1	0.1

Source: IMF, World Economic Outlook, 2016 Updates

1.1Financial Flows

Net inflows – comprising debt and equity – to low and middle income countries increased by 9 percent to US$ 1,132.3 billion in 2014, Net equity inflows accounted for 59 percent of total inflows while net debt flows accounted for 41 percent. In 2014, net equity inflows –comprising portfolio and foreign direct investment – increased by 6.6 percent to US$ 668.4 billion. Meanwhile, net debt inflows declined by 17.7 percent reflecting a 21.6 percent reduction in inflows from private creditors, fully offsetting a 58.7 percent increase in inflows from official creditors.

1.2 Remittances to Developing Countries

Flows to East Asia and Pacific region declined by 3.5 percent in 2014 but remained dominant accounting for 48.2 percent. Flows to Latin America and the Caribbean accounted for 26.4 percent of total net inflows in 2014 and increased by 4 percent while inflows to Europe and Central Asia accounted for 7.5 percent of total net inflows in 2014 and decreased by 37.6 percent. Inflows to South Asia, Sub-Saharan Africa and Middle East and North Africa accounted for 9.2 percent, 6.9 percent and 1.9 percent, respectively in 2014.

Remittances to developing countries in 2015 are estimated to have increased to US$ 431.6 billion from US$ 429.9 billion in 2014 reflecting an increase in flows to all regions.

East Asia and the Pacific accounted for the largest share of flows to developing countries in 2015 at 28.9 percent and increased to US$ 140.3 billion. Remittance flows to South Asia accounted for 28 percent of total flows and increased to US$ 135.8 billion in 2015.

Flows to Latin America and the Caribbean accounted for 15.4 percent of total flows while those to the Middle East and North Africa accounted for 11.2 percent. Flows to Europe and Central Asia accounted for 8.3 percent while those to Sub-Saharan Africa accounted for 8.1 percent of total flows.

Domestic Economy

2. DOMESTICS ECONOMY

Federal Government of Somalia has recovered from nearly two decades of civil war since the collapse of the central government in 1991. This experience inherited Somalia decades of lawlessness, fragility and fragmentation, undermining legitimate institutions, and created widespread vulnerability. Despite these doubting challenges, remarkable progress has been made. In recent past, Somalia has achieved important milestones in building peace and strengthening its economy.

A successful political transformation in 2012 and the end of transition period marks critical signpost on post conflict political stability and economic recovery that lasted nearly 8 years. The second peaceful political transformation is in process, and free and fair elections are expected in the beginning of 2017.

Somalia is currently facing critical food insecurity due to severe draught and insignificant rainfall situation across almost all parts of the country. This is followed by four year season of Dry River, lower rainfall and severe food, pasture and water crises up to the end of 2016 and expected to remain visible in the next year. As a result of this devastating draught, nearly all crop production and all rural activities has declined significantly due to shortage of water and pasture.

Macroeconomic wise, Somalia is currently lacking of reliable statistics which is critical for any policy formulation, planning, budgeting, monitoring and service delivery. The absence of formal statistical systems and continuing conflict in some areas has led to fragmented and incomplete data collection. Thus, macroeconomic statistics are not comprehensive enough to capture growth of the economy accurately. Consequently, some of the basic statistics like national accounts and balance of payments do not exist. Current estimates of nominal GDP are based on sparse expenditure side information, while current account statistics is captured through trade partner exports and imports.

Nominal GDP in the reporting period of 2016 (Table 2) is estimated around US$6,336 million, representing 3.7 increases over 2015. GDP growth rate is expected to decelerate in 2017 due to the impact of draught on crop and livestock production. The projected slower growth rate will be partially offset by growing activity in the construction, telecommunications, and service sectors. Somalia economy is consumption driven supported by remittances, foreign direct investment from Somalia Diaspora and donor grants.

Market inflation remains stable to 1.5 percent in 2016 and projected to pick up in 2017. Lower oil prices and dollarization had somewhat helped to contain inflation, though expected food shortages mainly on the agricultural production will be assumed to increase inflation in the next year.

The outlook of the Somalia's national income growth is expected to remain steady with rise in inflation. Real GDP growth is projected at 3.4 percent in 2016–17, driven by vibrant private sector, remittances, investment from the Diaspora and donor-financed public investment. Inflation is expected to pick up at 1.5 percent. Reflecting largely construction material in war destroyed city, enhanced security and increased food imports, the external current account deficit is projected to be 6.4 percent of GDP in 2016–17, financed by foreign direct investment, while trade deficit (39.3 percent of GDP) is financed through remittance and grants.

Table 2: National Income and Prices, 2013-2016				
	2013	2014	2015	2016
Nominal GDP in millions of US dollars	5,723	5,950	6,111	6,336
Real GDP, annual percentage change	2.8	3.6	3.6	3.4
Per capita GDP in UD dollars	429	436	436	442
Consumer Price Index (CPI), annual percentage change	4.5	1.3	1.4	1.5

Source: FGS estimates; and IMF estimates.

2.1 Livestock

Table 3: livestock export 2015-16						
	Total Export (Heads)		Export Quality Price		Total Value	
Year	2015	2016	2015	2016	2015	2016
Type of the Animal						
Camel	72,420	70,909	700	695	50,694,000	49,281,755
Cattle	294,992	242,320	300	260	88,497,600	63003200
Shoats	4,946,602	4,409,577	50	56	247,330,100	246936312
Total Head	**5,314,014**	**4,722,806**		**Total Value**	**386,521,700**	**359,221,267**

Source: Ministry of Livestock and FSNAU-FAO, 2016

In 2016, Somalia exported 4.4 million Goats and Sheep (down from 4.9 million in 2015), 295,000 cattle (down from 242,000 in 2015) and 72,000 camels (down from 71,000 in 2015), worth an estimated US$359 million. Livestock export has declined by 7% from US$386 million in 2015. The reduction in export is associated with the devastating draughts that hit the country, leading to shortages of water and food, livestock deaths and migration (Table3).

According World Bank staff Rapid Drought Needs Assessment (RDNA), the drought has led to: livestock-related losses of between US$1.3 billion and US$1.7 billion for the period of the drought; crop production losses of up to US$60 million during the period of the drought; and depletion of nominally functional water resources, over 50 percent of which are located within highly drought stressed areas.

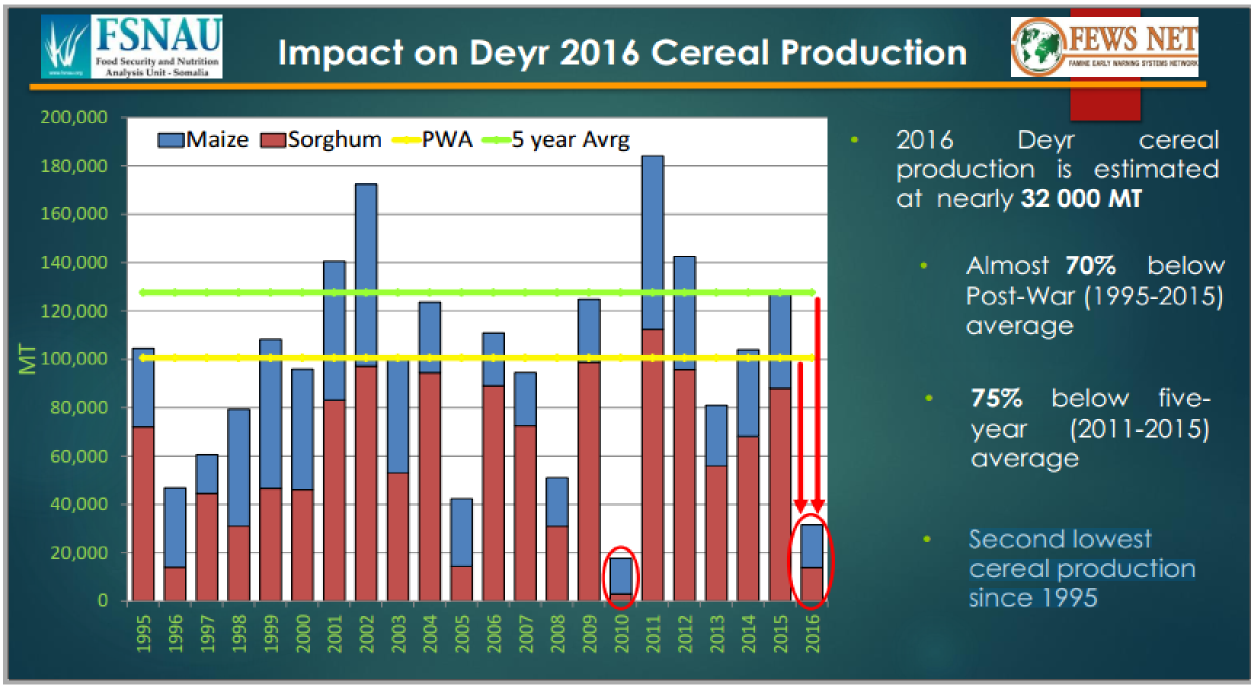
As a result, livestock prices dropped significantly and pastoralists engaged in forced sales to cope with the effects of the drought. Export of live animals to Gulf nations continued to be Somalia's leading foreign exchange earnings over time. Lack of diversification in livestock export market make the country vulnerable to external shock arising from epidemic disease, thus causing livestock export pan. Strong livestock disease surveillance is needed to reduce the economy's exposure to shocks from this sector.

2.2 Agriculture

According to FSNAU of FOA (2016), The 2016 Deyr (October-December) rainfall was much below average coupled with low river water levels. This greatly impacted the Deyr season cereal harvest which is estimated at 32,000 tones, 70 percent below long-term (1995-2015) average and 75 percent below the five-year average for 2011-2015 representing second lowest cereal production since 1995.

As this followed a poor harvest during the previous GU (April-June 2016) season, the combined impact has adversely affected the food security of most poor households in agro-pastoral and riverine areas of southern Somalia. Agricultural areas in South and central areas of Somalia continue to be impacted by trade disruption due to recurrent conflicts, insecurities and draughts.

As a result, poor segments of the population are likely to face food security deterioration due to worsening drought conditions and consequent increase in staple food prices that will lower food access.



Source FSNAU-FEWS NET Post Deyr 2016

2.3 Fishery

Somalia's fishery sector remains under exploited. Recent statistics from Ministry of Fisheries and Marine Resources (MFMR) in the reporting period of 2016 show that, nearly 663,943 Kg (Table 4), worth an estimate of US$9.3 million was produced in the capital city of Mogadishu and nearby shorelines.

National estimates of overall fishery production in Somalia coastline is to the tune of 995,914 Kg, worth US$14.9 million (chart 1). Somalia's long coastline is home to some of the richest fishing grounds in the world, with large tuna shoals migrating from north to south and back.

Conservative estimates put the country's sustainable annual marine fisheries production in the range of 200,000 metric tons. Deep-sea fishing in the Indian Ocean has been limited, however, with local communities fishing in the shallow water close to the shore in small boats. This is due to the fact that 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 and not taxed and their catch is not processed or sold in Somalia.

To help put Somalia's fishing sector on a sustainable path to growth, a US$5.3 million Euros project has been launched on Nov, 2016. The projected is funded by The European Union, benefited by the Federal Government of Somalia, and implemented by the Food and Agriculture Organization of the United Nations (FAO).

The new project is expected in promoting economic opportunities for young people living in coastal communities in north-eastern and central areas of Somalia. Creating long-term jobs for youth in fishing communities is a key strategy for preventing piracy and reducing temptations to engage in maritime crime.

Table 4: Fishery 2016

Date	Total
Jan	106,330
Feb	58,590
Mar	62,955
Apr	110,480
May	100,530
Jun	48,350
Jul	18,805
Aug	11,170
Sep	18,505
Oct	21,470
Nov	54,808
Dec	51,950
Total	663,943

Source MFMR, 2016

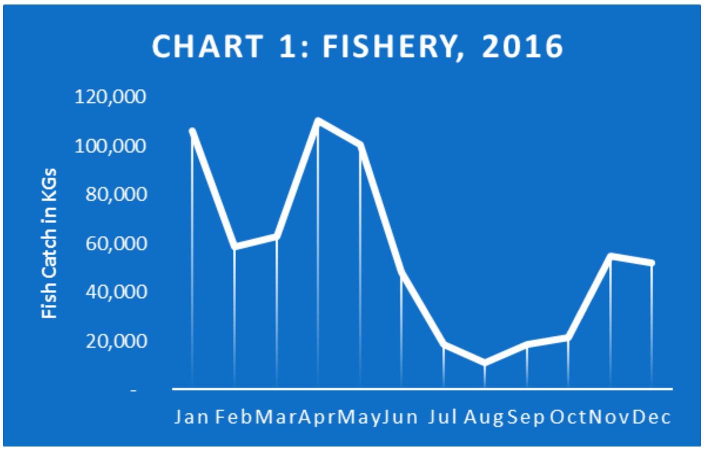


Chart 1: Fishery, 2016

2.4 Domestic Industry Production

According to Ministry of Commerce and Industry, the total number of industries registered in 2016 was 60 industries (up from 55 industries in 2015) producing around US$371 million (Table 5).

Foam industry represent the largest share (16.2 Percent) of the domestic production equivalent to US$60 million, this is followed by Aluminium industry (15.6 percent) equivalent to US$58 million, Plastic Industry (15 percent) totalled US$56 million, Construction Industry (11 percent) totalled US$40 million and Beverage Industry (10 percent) totalled US$36 million.

Table 5 : Domestic Industry Production, 2016 In millions of US Dollars

No.	Type of Industry	No. of Industry	Volume of Production	Unit	Value in US dollar (est.)
1.	Beverage	25	115,985,024	Liter	36
2.	Foam	11	71	Tons	60
3.	Aluminium	3	480	Tons	58
4.	Juice and Sodas	4	30,000	Carton = 15 Tons	30
5.	Plastic	4	22	Tons	56
6.	Soap	3	145,000	Liter	8
7.	Iron Sheet	1	2	Tons	15
8.	Perfumes	1	159,000	Liter	5
9.	Sesame Oil	1	45,000	Liter	10
10.	Hides and Skins	1	12	Tons	15
11.	Milk	3	750,000	Liter	1.2
12.	Construction Materials	1	15	Tons	40
13.	Plastic Containers	1	10	Tank	35
14.	Antiseptic	1	12,000	Liter	2
	Total	60	Total Value		371.2

Source Ministry of Commerce and Industry, 2016

2.5 Remittance

Remittance is lifeline of the economy. Somalia's Diaspora is estimated to have sent more than US$1,489 million home in 2016—nearly twice the level of development aid (US$620 million) and three times the level of humanitarian aid (US$577 million).

Remittance is a crucial component of the Somali economy, representing more than 24 percent of the nation's gross national income, far outweighing government revenues. Remittance support livelihoods for an estimated 40 percent of the population. Remittances help finance Somalia's large trade deficit of more than 39 percent of GDP, paying for about 42 percent of total imports.

The culture of non-regulation has made international banks handling transactions from Money Transfer Businesses Services (MTBs) uncomfortable due to risks and strong requirements by their governments to tighten regulations. Over the past two years, banks in Canada, Australia, the United Kingdom, and the United States have closed the accounts of some Somali remittance companies, citing legal and regulatory weaknesses, as well as risks of money laundering with possible financing of terrorism.

Though, the Parliament of Federal Government of Somalia in response to this burden, approved the AML/CFT in 2015, weak enforcement in AML/CFT underpin global banks to forego money transfer business, leading to higher cost of remittances, and lower remittance inflow.

The worst case of reduction in remittances, will create heavy burden on very poor segments of the society, who use the transfer as basic livelihood in day to day transactions.

2.6 Exchange rate Development

In 2016, Somali Shilling (SOS) exchange rate depreciated against United State Dollars by around 4 percent to SOS 23,062 in 2016, up from an average rate of SOS 22,254 as shown in chart 2. The recent introduction of bulk counterfeit banknote in Puntland has created exchange rate differences in the main cities of Puntland and Galmudug States of Somalia, creating a chaos in exchange markets to complete rejections and violent demonstration in some other markets.

The CBS has control over neither the exchange rate nor the supply of the Somali shilling (SOS). As a result, there is no scope for monetary policy. The revived Central Bank of Somalia (CBS) has not issued any banknotes since 1991, resulting in a largely dollarized economy. The Somali Shilling/U.S. dollar exchange rate has remained stable (at about SOS 23,000 per U.S. dollar) since May 2016.

Somalia's exchange rate is classified, de facto, as free-floating. U.S. Dollar banknotes are estimated to represent more than 90 percent of currency in circulation. The stock of Somali shillings consist of a mix of official and counterfeit bank notes accumulated over the years; 95 percent of the local currency in circulation is counterfeit. The use of neighbouring country currencies like Kenya Shilling, Ethiopian Birr and Djibouti Franc is circulated in border areas, whereas Saudi Riyal and UAE Dirham is also exchanged in money markets. Mobile Money is used as medium of exchange in almost all parts of the country with US Dollar basis.

With technical support from IMF, CBS is in the process of currency reform which is expected to replace the one thousand counterfeit banknote currently in circulation. Local currency is used significantly in bulk volumes in the markets trading in vegetable, milk, livestock and Butchery, fishery and Khat. The only existing Somali shilling denomination is 1,000 SOS worth $0.05.

Table 6 : Monthly Exchange Rate in SOS

Period	2010	2011	2012	2013	2014	2015	2016
Jan	31,557.69	30,522.22	22,207.41	20,334.62	19,674.04	22,285	22,688
Feb	30,527.08	29,953.13	24,600.00	17,569.57	18,570.83	22,196	22,736
Mar	30,183.33	30,311.11	22,843.27	16,216.00	19,189.81	22,211	22,751
Apr	30,912.00	31,739.00	22,268.00	17,746.15	20,455.00	22,232	22,940
May	31,737.04	33,025.93	22,267.59	18,334.62	20,767.31	22,265	23,017
Jun	32,983.65	33,593.27	22,334.00	19,207.69	20,775.00	22,212	22,993
Jul	32,129.81	31,446.15	22,199.07	19,370.37	21,086.54	22,263	23,037
Aug	30,202.41	30,396.30	22,261.54	19,720.19	20,814.00	22,273	23,043
Sep	30,196.73	30,228.00	22,386.54	20,183.65	20,470.19	22,269	22,990
Oct	31,701.54	28,196.30	22,275.93	21,246.30	20,234.62	22,284	23,057
Nov	31,796.15	25,153.85	22,344.00	21,032.00	20,466.15	22,275	23,528
Dec	31,312.50	25,062.50	22,207.41	20,444.44	20,267.96	22,286	23,961
Average	**31,269.99**	**29,968.98**	**22,516.23**	**19,283.80**	**20,230.95**	**22,254**	**23,062**

Source: CBS, 2016

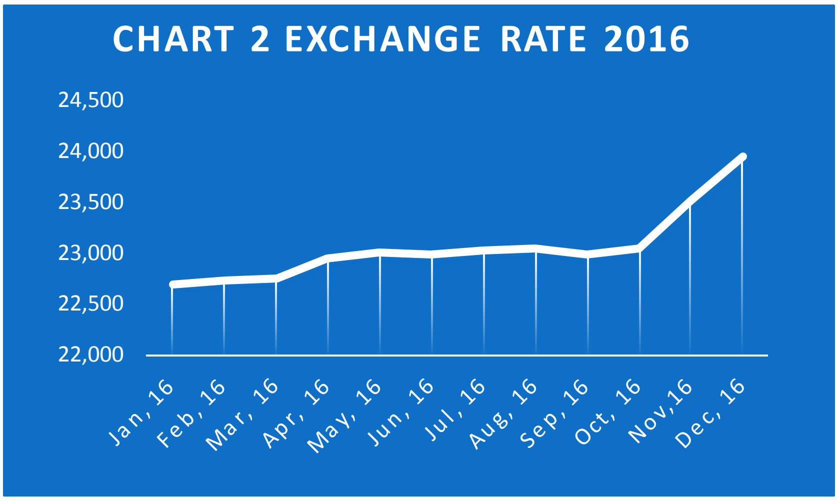


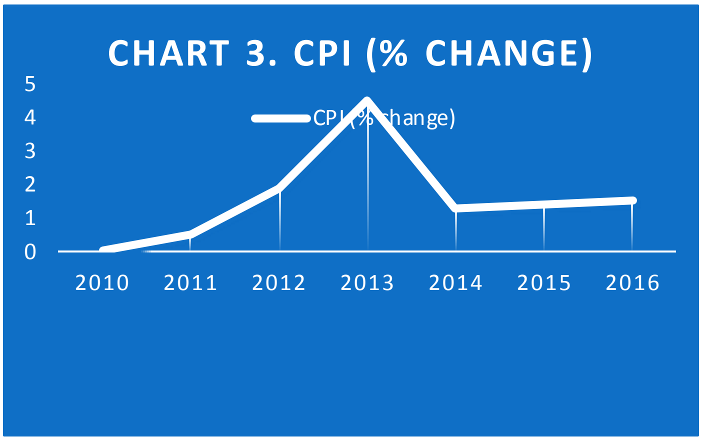
Chart 2 : Exchange Rate 2016

2.7 Inflation Outlook

Overall annual average inflation rate has increased slightly to 1.5 percent in 2016 against 1.4 percent in 2015 (chart 3).

Lower oil prices and dollarization had somewhat helped to contain inflation, though expected food shortages mainly on the agricultural production will be assumed to increase inflation in the next year. Expected food shortages from the current draughts mainly on the agricultural production will be assumed to increase inflation in the next year of 2017.

Chart 3: CPI (% Change)



Source: MoPIED, 2016

FISCAL POLICY MANAGEMENT

3. FISCAL POLICY MANAGEMENT

3.1. Budgetary operations

The actual budget of Federal Government of Somalia in 2016 is presented on the table below. The cabinet of FGS passed the federal budget on October, and on the federal Somali federal parliament approved government budget, after review and amendment in December 2015. The revised budget of 2016 is prepared on cash basis with zero balance budget.

Table 7: Summary of Revenue and Expenditure 2015-2016

	2015 Actual	2016 Budget	2016 Actual
1. REVENUE	199.0	248.0	168.0
(A) DOMESTIC REVENUE	113.9	139.3	112.7
Tax Revenue	85.7	107.8	88.6
Income and corporate taxes	4.7	5.1	2.4
Taxes on international trade	70.3	86.0	76.3
Other Indirect Taxes	6.4	12.6	2.9
Other taxes	4.3	4.1	7.0
Non-Tax Revenue	28.1	31.5	24.1
(B) DONOR FUNDED	85.2	108.3	55.3
Bilateral Assistance	35.4	34.0	31.3
Multilateral	49.8	74.4	24.0
2. EXPENDITURE	199.0	248.0	171.0
(C) RECURRENT EXPENDITURE	184.5	233.0	165.0
Compensation of employees	79.1	113.0	79.3
Use of goods and services	75.8	96.4	70.2
Grants	15.2	17.3	9.4
Contingency	2.7	2.1	2.0
Repayment of arrears and advances	11.7	4.1	4.0
(D) CAPITAL EXPENDITURE	14.5	15.3	6.0
Capital	14.5	15.3	6.0
3. BALANCE	0.0	0.0	-3.0

Source: Ministry of Finance, 2016

The trends in revenue and expenditure since 2013 have shown a strong and consistent growth, revenue has increased by 16% over 2014. Similarly, on the expenditure side, it has been noted an increase of 13% over 2014. However, the actual budget of 2016 has shown a significant decline of 16% and 14% in revenue and expenditure respectively over 2015. The major cause of budget decline was delayed pledges and elections.

3.2. REVENUE AND GRANTS

The actual revenue and grants of Federal Government of Somalia in the fiscal year of 2016 was reported to the tune of US$168 million, relative to the budgeted US$248 million reflecting a shortfall of US$80 million.

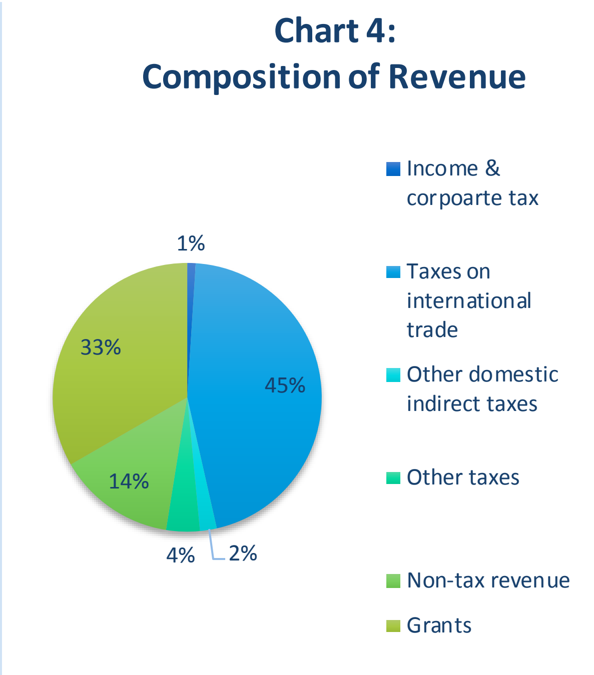
Total FGS tax revenue remained very low nearly 2.7 percent of GDP in 2016. Domestic revenue represents 67 percent (US$113 million in 2016) of the revenue of which more than 80 percent of tax revenue comes from trade taxes. Domestic revenue (taxes plus fees) as a share of GDP remains very low, at just 1.8 percent of GDP in 2016, making it difficult to provide services. Revenue growth in 2016 was flat, reversing the growth in earlier years. Past forecasts were unrealistically high (as the difference between budgeted and actual revenues), a problem that led to ad hoc cash rationing. In addition, the basic norms of fiscal management remain weak. Monthly revenues during 2016, reflecting the cash-based budget management, but arrears continued to accumulate.

Direct donor support (33 percent) and taxes on international trade (45 percent) remain the largest sources of government fiscal receipt (chart 4). For instance, the actual grants in the budget was US$55.3 (0.9 percent of GDP) of which US$31.3 million by the multilateral donors and US$24 million by bilateral donors, down from US $85.2 over the last year (2015). Taxes on international trade have increased slightly (8.5 percent) over 2015 to US$76.3 million.

The FGS lacks the resources to undertake major programs or investment projects. Public investment has so far continued to rely heavily on official development rather than broad-based investment. The weaknesses of the system reflect poor policy, weak administrative capacity, and inadequate coordination of institutions at all levels of governments and between the federal government and its Federal Member States (FMS).

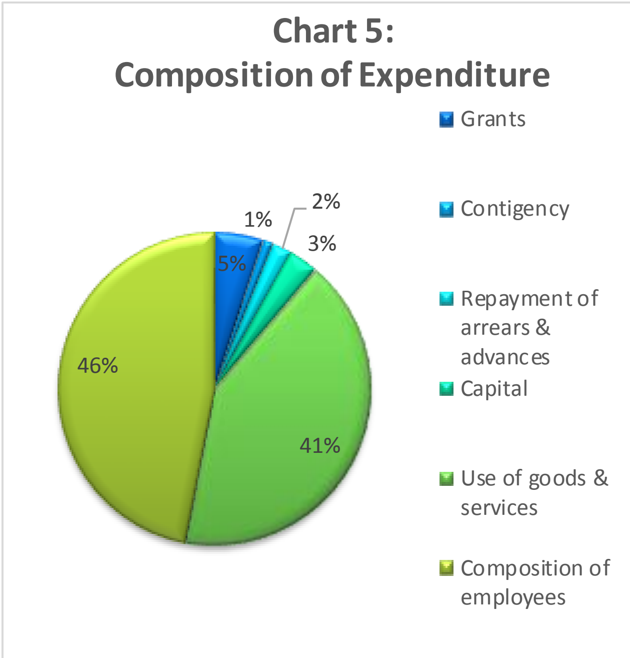
Untapped revenues estimated at US$80 million go uncollected in Somalia in the fiscal year of 2016. This is mainly due to the fact that the government does not have the tools to implement tax policies, in addition to that, there are not enough taxpayers on their books. The lost revenues often leaves a country unable to provide basic services to its people.

Chart 4: Composition of Revenue



Source: Ministry of Finance, 2016

Chart 5: composition of Expenditure



Source: Ministry of Finance, 2016

3.3 EXPENDITURE

On the expenditure side, recurrent expenditures account for almost all expenditure, with capital spending accounting for just 3 percent of total spending in 2016. Unrealistic revenue projections, coupled with weak expenditure controls, contribute to the accumulation of arrears. Development partners' contributions to the budget have been critical in recent years, although they remain unpredictable, making it difficult to execute the budget as planned.

Compensation of employees and purchases of goods and services consume a significant portion of FGS expenditure. Wages and salaries accounted for 40 percent of expenditure in 2015 and 46 percent in 2016 (chart 5). The next largest category of expenditure is goods and services, accounting for 38 percent of expenditures in 2015 and 41 percent in 2016.

Balance of Payment

4. BALANCE OF PAYMENT

The balance of payment (current account, capital account and financial account) covers Somalia's cross-border transactions with other countries over a given period. Somalia's external sector position remains weak due to the cost of conflict, including damage to vital infrastructure, security checks, roadblocks, and the shutdown of trade routes. The current deficit is estimated around 6 percent of GDP.

The current account deficit is largely driven by imports, estimated at 56 percent of GDP, larger than exports by factor of more than four. Most of the current account deficit has been financed by FDI (11 percent of GDP) and ODA in recent years.

4.1 Current Account

The current account balance improved to deficit of US$ 404 million in the year 2016 from a deficit of US$555 million during the preceding financial year (Table 8a). The Development in the current account were mainly attributed to improved merchandise trade in which the value of imports declined. This reflected lower international oil prices.

4.2 Merchandise Trade

The value export estimates indicate that in 2015 Somali export were US$ 1,012 million, these increased to US$, 1,052 million Which represents almost 4.0% increase in exports. The major categories of export were camel, cattle, shoats, hides and skins Banana, Oil, Beans, dry Fish, meat and Myrrh. In 2015 overall imports were estimated to have been around 58 percent of GDP that is US$ 3.5 billion, while in 2016 imports are slightly increased to US$3.6 billion.

Major imports include manufactured goods, consumables, petroleum, Khat and food imports of Sugar, Pasta, wheat flour and Rice which is regarded leading items of Somali imports. In addition of fruits, vegetables, dairy products, coffee, tea and edible were others. Somalia's largest trading partners include United Arab Emirates (UAE), Yemen, Oman, Saudi Arabia, Kuwait, Qatar, Ethiopia, India, Oman, Kenya, China, and Pakistan.

Over the same period, the balance on services has shown a large deficit, in 2015 an estimated of US$ 941 million which represents 15.4 percent of GDP. In 2016 services deficit was US$ 979 million, equivalent to 15.5 percent of the GDP.

4.3 Income

In 2016, net factor payments abroad were estimated a deficit of US$30 million, which were higher than the US$29 million reported in 2015. In particular income accruing to foreigners was US$1,237 million while income earned by residents rose from US$254 to US$258million in 2016.

4.4 Capital and Financial Account

Financial account flows remained significantly decreased by 27 percent to US$404 million in the year 2016 compared to US$ 555 million in the year 2015. Inflows were mainly in the form of direct investment and other investment which stood at US$ 306 million and US$ 339 million respectively in the year of 2016 and 2015 (Table 8a).

Other investment inflows mainly reflected concessional Chinese bilateral funding for ongoing infrastructure projects.

Table 8a: Balance of Payments 2015-16		
(Millions of US Dollars)		
	2015	**2016**
Current account balance	-555	-404
Goods balance	-2,540	-2,503
Exports, f.o.b.	1,012	1,052
Imports, f.o.b.	3,552	3,555
Services (net)	-941	-979
Service credits	254	258
Service debit	1,195	1,237
Income(net)	-29	-30
Current transfers (net)	2,955	3,109
Private(net), Including remittance1	1,424	1,489
Official^2	1,531	1,620
Capital account and financial account of which	555	404
Foreign direct investment	306	339
Errors and omissions	-7	6
Overall Balance	-7	6
Change in the central bank net foreign assets3	7	-6
Memorandum items		
Nominal GDP (in millions of U.S. dollars)	6,111	6,336
External public debt(in millions of US dollars)4	4,996	5,063
Source: UN comrade; FGS estimates; and fund staff estimates		
1/ 2013 data from Barclays Bank, PLC.		
2/includes direct budget support		
3/ Insurance and technical reserves		
4/Excluding Somalia's net position with the IMF		

Table 8b: Balance of Payments 2015-16		
(percent of GDP)		
	2015	**2016**
Current account balance	-9.1	-6.4
Goods balance	-41.6	-39.5
Exports of goods f.o.b.	16.6	16.6
Imports of goods, f.o.b.	58.1	56.1
Services (net)	-15.4	-15.5
Services Credit	4.2	4.1
Services Debit	19.6	19.5
Income (net)	-0.5	-0.5
Current transfers(net)	48.4	49.1
Private (net) including remittance^1	23.3	23.5
Official^2	25.1	25.6
Capital account and financial account, of which	9.1	6.4
Foreign direct investment	5.0	5.4
Financial account (net)	12.0	12.3
Foreign direct investment (net)	10.9	11.2
Errors and omissions	-0.1	0.1
Overall Balance	-0.1	0.1
Change in the central bank net foreign assets3	0.1	-0.1
Nominal GDP (in millions of U.S. dollars)	6,111	6,336
External public debt(in millions of US dollars)4	4,996	5,063
Source: UN comrade; FGS estimates; and fund staff estimates		
1/ 2013 data from Barclays Bank, PLC.		
2/includes direct budget support		
3/ Insurance and technical reserves		
4/Excluding Somalia's net position with the IMF		

4.5 Public Debt

Significant progress has been made toward rebuilding Somalia's external debt statistics (Table 10). With technical assistance (TA) from the African Development Bank (AFDB), the Debt Management Unit (DMU) under the ministry of finance has reconstituted the bulk of the country's external debt database either lost or destroyed during the conflict.

Based on information through-end October 2016, from more than two-thirds of Somalia's creditors, outstanding public debt was estimated to be over $5 billion (nearly 80 percent of GDP), of which $4.7 billion in arrears (74 percent of GDP). In 2016, the debt comprises multilateral creditors ($1.4 billion or 22.9 percent of GDP), mainly the World Bank, the IMF, and the Arab Monetary Fund, Paris Club creditors ($2.3 billion or 36.6 percent of GDP), mainly the United States, the United Kingdom, the Russian federation, France, Italy, and Japan and some non-Paris Club creditors ($1.3 billion or 20.5 percent of GDP) countries including the United Arab Emirates, Saudi Arabia, and China.

Somalia has made an important progress with its development partners in engaging its creditors and international financial institutions to resolve the debt problems and to receive debt forgiveness under Heavily Indebted poor Countries (HIPC) initiative. After reaching the HIPC Completion Point Somalia would be eligible for additional debt relief under the Multilateral Debt Relief Initiative (MDRI) from the World Bank and AFDB.

Table 9: External Public Debt (2014-2016) In Millions of US Dollars

Creditors	Prel. 2014	Prel. 2015	Prel. 2016	Percent of GDP 2016
Total Stock outstanding	5,066	4,996	5 ,063	79.9
Multilateral	1,507	1,468	1,449	22.9
Bilateral in which	3,559	3,528	3,613	57.0
Paris Club	2,239	2,233	2,317	36.6
Non-Paris Club	1,320	1,296	1,297	20.5

Source: MoF-DMU, AfDB and WB, 2016

Financial Sector Development

5. FINANCIAL SECTOR DEVELOPMENT

The Central Bank of Somalia has taken steps to strengthen its regulatory mandate intended for achieving sound and effective prudential policies since approval of AML/CFT law last year.

In collaboration with International Financial Institutions like IMF, the US treasury and the World Bank, the Bank has developed various policy measures necessary in maintaining and promoting the safety, soundness and integrity of the banking and MTBs system that are in line the with international best practice.

Between 2015 and 2016 the Bank has issued seven prudential regulations and five manuals in banking sector, while the MTBs have four effective prudential regulations.

One of the important benchmarks implemented is the recruitment of a reputable Trusted Agent to work with MTBs on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT). The Bank has undertaken its supervisory practices and engaged in in-and-onsite examinations to make sure that the financial sector is implementing benchmarks set on prudential regulations and manuals.

The CBS's management priorities with respect to prudential regulation are:

- Banking Licensing Regulation
- Capital Regulation
- Liquidity Management Regulation
- Audit Committee Regulation
- Internal Audit Regulation
- External Audit Regulation
- Related Parties Transaction Regulation

Manuals

- Banking Licensing Guideline
- Capital Manual
- Liquidity Risk Management Manual
- Management and Corporate Governance
- Earning Manual

The MTBs effective regulations and Manuals

- Regulations on Money Transfer Business Registration
- Regulations Money Transfer Business Licensing
- Regulation on Money Transfer Business Operation
- Money Transfer Business Customer Identification

During 2016, The Central Bank of Somalia granted provisional license to six (6) banks, and fourteen (12) Money Transfer Businesses (MTBs). An additional13 application for commercial bank licenses are pending. The following are licensed Commercial banks and MTBs.

Commercial Banks

- Dahabshiil Bank International
- Salam Somali Bank
- International Bank of Somalia
- Trust Africa Bank
- Premier Bank
- Amal Bank

Money Transfer Businesses

- Dahabshil Money Transfers
- Kaah Money Express
- Amal Express
- Amana Express
- Bakaal Express
- Tawakal Express
- Hodan Global
- Jubba Express
- Iftin Express
- Taaj Express
- Mustaqabal Express
- Olympic Express

Most of these licensed banks hold corresponding banking relationship with foreign banks. While other are working towards establishing corresponding relations with foreign banks. The license will be operational for twelve (12) months starting from January to December. Applicants submit their requests before December and approved during Central Bank Board Meetings.

The financial sector in Somalia is infant with most commercial bank businesses concentrated in Mogadishu with each institution having only a few branches in other parts of the country, typically engaged in money transfers and trade finance.

In 2016, the total assets of the six licensed commercial banks are US$234.2 up from US$194.4 million representing 20 percent increase over 2015. Financing Assets shown increase of 46 percent to US$66.1 million over 2015. Customer deposits reached US$177.1 million up from US$142.8 million recording 24 percent over 2015 (Table 11). Shareholder capital increased by 11 percent to US$51.8 million in 2016.

Table 10: Financial Data of the Six Licensed Banks, 2014-2015

Year	Asset	Financing Assets	Deposits	Shareholders' Equity
2015	194,382,701.35	45,205,385.93	142,806,491.89	46, 627,764.26
2016	234,206,728.43	66,056,435.25	177,091,140.33	51,767,100.74

Source: CBS, 2016

Monetary Policy

6. MONETARY POLICY

The Central Bank of Somalia has not issued any currency during civil war in 1991. Since then, hundreds of bulk counterfeit banknotes have been produced outside the country, and in the recent past, printing machines has been established in Somalia to produce low quality paper banknotes to the market.

Almost 90 percent, even more than that, of the Somalia Shilling currency in circulation is considered to be a counterfeit. As a result, The Bank faces a daunting challenge of discharging its mandate in a largely dollarized economy, in which it does not have monetary tools to control the money supply in the country, prevent counterfeiting, and support payment systems.

The first and the basic function of the Bank is to protect the value of the Somali Shilling and thus, combat inflation. The Central Bank is not able, under current circumstances to perform any concrete monetary policy as the economy is highly dollarized; U.S. dollar banknotes are estimated to represent more than 90 percent of currency in circulation.

Somalia's exchange rate regime is classified as the de facto floating exchange rate controlled by the market. As the consequence, the shilling has lost the significant functions of money, from medium of exchange and unit accounts to store of value.

All six licensed commercial banks, MTBs and mobile money transactions are handled in US Dollars. The ongoing efforts towards reintroduction of new Somalia shilling banknote will help the country to set policies such as monetary policy; exchange rate policy and reserve management policy.

6.1 Currency Reform

Currency reform is one of the most important pillars of the financial governance program of the Central Bank of Somalia and the Federal Government of Somalia (FGS). Since its reopening in 2007, and in line with the strenuous efforts of the Government for rebuilding the basic national institutions, the Bank has developed capacity enhancement, initiating dynamic organizational reform, and supporting modernization and development initiatives that are critical for service delivery and restoration of public confidence in the institution.

There is a tremendous public demand to re-introduce new legitimate Somali shillings (SOS). Nonetheless, a successful currency introduction requires a strong central bank underpinned by appropriate monetary and fiscal policies.

Importantly, any currency reform must include general public awareness campaign in all steps of the reform so the new currency will be fully accepted by the general public as well as the business community and the financial sector.

The introduction of new banknotes with better quality and security features will supplement combating the rampant counterfeiting of the Somali Shilling, while supporting the development of the national payment systems. Reissuing the Somalia Shilling banknote will send both psychologically and politically important signals. It represents national identity, pride, and symbol of a country. It's normal for a country to introduce a new currency from time-to-time. Introduction of a new currency is a major undertaking, and requires political and socio-economic commitment from all social spectrums.

With advice and technical assistance from the IMF and with full engagement of Staff Monitored Program (SMP), the Central Bank of Somalia (CBS) has started to engage in currency reform prior to a planned issuance of a new legitimate banknotes to replace the bulk banknote counterfeits currently in circulation as an initial way to restore the credibility of the domestic currency as a first step toward allowing the CBS to engage in effective monetary policy.

The Bank in close collaboration with IMF, has established a roadmap for a comprehensive national currency reform taking into account the underlying market situation, security issues, and socio-political factors.

In the last year, CBS held extensive discussions with key national and international stakeholders on the framework of the planning of an entire currency reform. While most of the roadmap components would be reasonably satisfied.

In addition to that, The CBS has reconstituted a fully staffed cash management department, and prepared a draft anti-counterfeit strategy and roadmap for currency reform.

Despite the ongoing initiatives, the currency reform program amid susceptible challenges. While the macro and fiscal policy frameworks of the currency, the security condition, and the financial sector are in need of further enhancements.

The FGS and the CBS cannot cover the cost of designing, printing, and distributing new currency. Nevertheless, it's not uncommon to introduce a new currency in the face of these daunting and distorted macroeconomic realities.

A successful currency reform has to balance the planning efforts and financial constraints to accomplish the project roadmap against scheduled time

7. CORPORATE GOVERNANCE

7.1 Board of Directors resolution in 2016

In 2016, the BOD managed to hold four meetings to foster the CBS functions. 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 2016 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

7.2 The Central Bank of Somalia

The Central Bank of Somalia was established on June 30, 1960 by Decree No. 3, and converted into Law No. 2 of January 13, 1961. The Bank is guided in all its actions by the objectives of fostering monetary stability, maintaining the internal and external value of the Somali Shilling, and promoting credit and exchange conditions conducive to the balanced growth of the economy of the Federal Republic, and within the limits of its power, it shall contribute to the financial and economic policies of the State.

The history of the Central Bank of Somalia began when the United Nation's Trusteeship Administration "A.F.I.S." established on 8thApril, 1950 a new currency institution regulator "Cassa per la circolazione monetaria della Somalia" with its Head Office in Rome (Italy). During the 1950s, as independence approached, on 6th April, 1959 the Head Quarter has been moved to Mogadishu, taking over all the assets, liabilities, and operations of the Banka d'Italia's Mogadishu branch.

On 3rd June, 1960 it ceased to exist and its functions have been transferred to the newly established central bank "Somali National Bank".

Central Bank of Somalia (CBS) is an independent entity with full capacity as a legal person under the law applicable in the Republic of Somalia. CBS enjoys operational and administrative autonomy and function within the framework of the Federal Government of Somalia and is bound by the Central Banking Act Law 130 of 2012.

CBS is not bound by instructions of the any other arm of government or any other authorities in carrying out their legally defined mandate. CBS is responsible for the preparation and eventual rollout of the national currency which will be used as the legal tender in the Federal Republic of Somalia.

CBS will manage and oversee the banknote circulation in line with the best practices and standards. CBS maintains its financial independence through consistent earnings with respect to cost efficiency of its activities and operations.

Since CBS does not generate income through monetary operations, its earnings are determined by collection of fees and charges related to the provision of its services.

The primary objective of CBS is to preserve the value of the Somalia currency. It has also to save-guard its financial assets and maintain its capacity to support the liquidity of the financial sector.

The CBS is the fiscal and financial agent for the Federal Government of Somalia (FGS) and also provide policy advice to the government.

7.3 Current Environmental Context

Somalia is a complex environment characterized by institutional, political, security, social, infrastructure and development challenges, with much of its recent past marked by poverty, famine and recurring violence.

After decades of conflict and instability, a federal government was established, built through national dialogue and consensus.

When this Federal Government was formed, Somalia was divided with no clear path to reconciliation and unification; Somalia faced the significant challenge of simultaneously building frameworks and institutions, whilst needing to immediately deliver tangible benefits to the Somali people.

For financial services, in 2012, in the advent of a legislated Central Bank of Somalia Act and Financial Institutions Law, the establishment of permanent political institutions and important military offensives, Somalia entered into a new period; a period where longer term peace, planning and Governance seems possible.

Considerable effort has been made for last five years to resuscitate the CBS, and to position it at the center of Somalia's financial sector and the economy. The Bank has re-established its authority and institutional capacity to deliver its functional mandate on operational responsibilities, regulatory framework and advisory role to the government.

The reform program's main objectives are towards formalizing the financial service sector; implementing a credible national currency reform and new prudential regulatory, as well as internal audit, risk management, compliance and oversight procedures. Since 2012, a number of laws and regulations aimed at formalizing the financial sector have been passed. The latest being the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) law.

In addition to that, various regulations are now in force, including bank licensing, Money Transfer Businesses (MTBs) registration and licensing, and MTBs customer registration regulations. The contribution of the diaspora remittances to the Somali economy is significant and large, providing a lifeline to large segments of the population and have been important in cushioning household economies.

Through enhanced licensing procedures and registration regulating, the formal banking sector and MTBs is starting to strengthen.

So far, 6 banks and 14 MTBs have been licensed. Efforts are underway to further improve the financial sector by strengthening the licensing and supervision of financial institutions to foster confidence in commercial banks and MTBs.

More specifically, the Bank is developing a roadmap for financial sector development. The CBS is at an advanced stage of opening branches in the Federal Member States (FMS). Having operational branches in the FMSs is essential for currency reform, as well as the establishment of a functioning inter-governmental fiscal transfers system. The overall capacity is increasing within the CBS, as several of officials have been hired.

The CBS compiles, analyses and publishes limited financial and statistical data to provide overall macroeconomic and policy guidance. The International Monetary Fund (IMF) is providing technical assistance to produce timely reports and achieve compliance with International Finance Reporting Standards as required by the CBS Act. Currently, the bank produces Trade and Exchange rate statistics, Balance of Payment, and Monetary and Financial Statistics report.

These reports would remarkably improve economic decision-making processes. The improvement and deepening of the financial sector would further improve these financial reports .In addition, finding and recruiting qualified staff and further building the capacity of the bank staff.

In May 2014, a Memorandum of Understanding was agreed between the MOF and the CBS. It was designed to clarify the role of the two institutions with respect to the CBSs position as fiscal and financial agent of the State, and it is reportedly being implemented effectively. The implementation of the Somali Financial Management Information System (SFMIS) and the Core Banking Systems would tremendously improve the transparency, accountability and the reporting of all government accounts in real-time.

The CBS recognizes the importance of its key stakeholders including the government, financial institutions and the Somali public in adding value and ensuring that the needs and expectations to fulfil its mission and vision. The Bank's ambition is to hold good working relationships with its stakeholders and maintains a regular update with all those involved.

There is a great deal of substantial work-in- progress in relation to the design and operation of the Bank, the implementation of a number of legislative frameworks on financial safety, including anti-money laundering and counter-terrorism financing; corporate governance, financial accounting; payment system infrastructure; prudential regulation and monetary policy.

7.4 The Bank's Executive Leadership

Managing a central bank requires a robust and transparent governance framework which supports good and timely decision-making, systems of individual and collective accountability as well as the appropriate governance structures.

It is important that everyone understands and is empowered to carry out their role effectively and can be held to account for their actions appropriately.

The Central Bank of Somalia's Corporate Governance will be a key driver of the overall control and corporate governance structure.

The governance framework will define what the collective and individual responsibilities should be and how they should be discharged; it will set out how the Bank's executives and Senior Management will make decisions; the risk and governance committees; how each individual will be accountable for their actions; and how conflicts of interest will be managed.

The CBS Act provides for an extensive and clear allocation of tasks to the CBS's Governor and Deputy Governor, respectively the Board of Directors. At present, the CBS has a Board of Directors, which is composed of the Governor, the Deputy Governor, and five non-executive directors.

The Board of Directors meets in principle at least once every two months. The responsibility for the day-to-day management of the business of the CBS lies with CBS staff, the Governor, the Deputy Governor, and the other staff.

7.5 International Monetary Fund Staff-Monitored Program (SMP)

In May 2016, Somalia entered into a 12-month Staff-Monitored Program (SMP) to help economic reconstruction efforts and establish a track record of policy and reform implementation. In June, IMF management completed the SMP with Somalia.

It was an important step in putting an SMP in place, a milestone toward debt forgiveness.

Somalia's external debt is high, an estimated $5.6 billion to multilateral and bilateral creditors and in debt distress, thus precluding access to external borrowing.

Somalia's external debts are virtually in arrears because of two decades of non-payment. As a result of its arrears, Somalia has lost most of its rights within the International Financial Institutions (IFIs) nor can they receive funding through the World Bank's International Development Association (IDA).

The SMP is an informal and flexible instrument for dialogue between IMF staff and a member country on its economic policies.

The SMP is geared toward re-establishing macroeconomic stability, building capacity to strengthen macroeconomic management, rebuilding institutions, and improving governance and economic statistics.

The first review of the SMP was completed in November 2016, which involved joint monitoring of progress on the government's own reform plans for 12 months through to the end of 2016 and completed at the end of February 2017.

The new SMP is founded on three pillars: fiscal policy and reforms, monetary and financial sector policies and reforms, and governance and capacity development.

The new program will help Somalia maintain macroeconomic stability; rebuild institutions and capacity for macroeconomic management and governance; and to implement the necessary measures to lay the foundation for achieving debt relief in the future under the Heavily Indebted Poor Countries (HIPC) Initiative.

Somalia remains committed to maintaining the current policy and reform momentum under the follow-up SMP. The Central Bank of Somalia will make every effort for a successful execution of SMPs that could, in the near future, lead to a capability to get an upper-credit tranche quality, and higher and more inclusive growth, while preserving macroeconomic stability.

7.7 Core Banking (with World Bank)

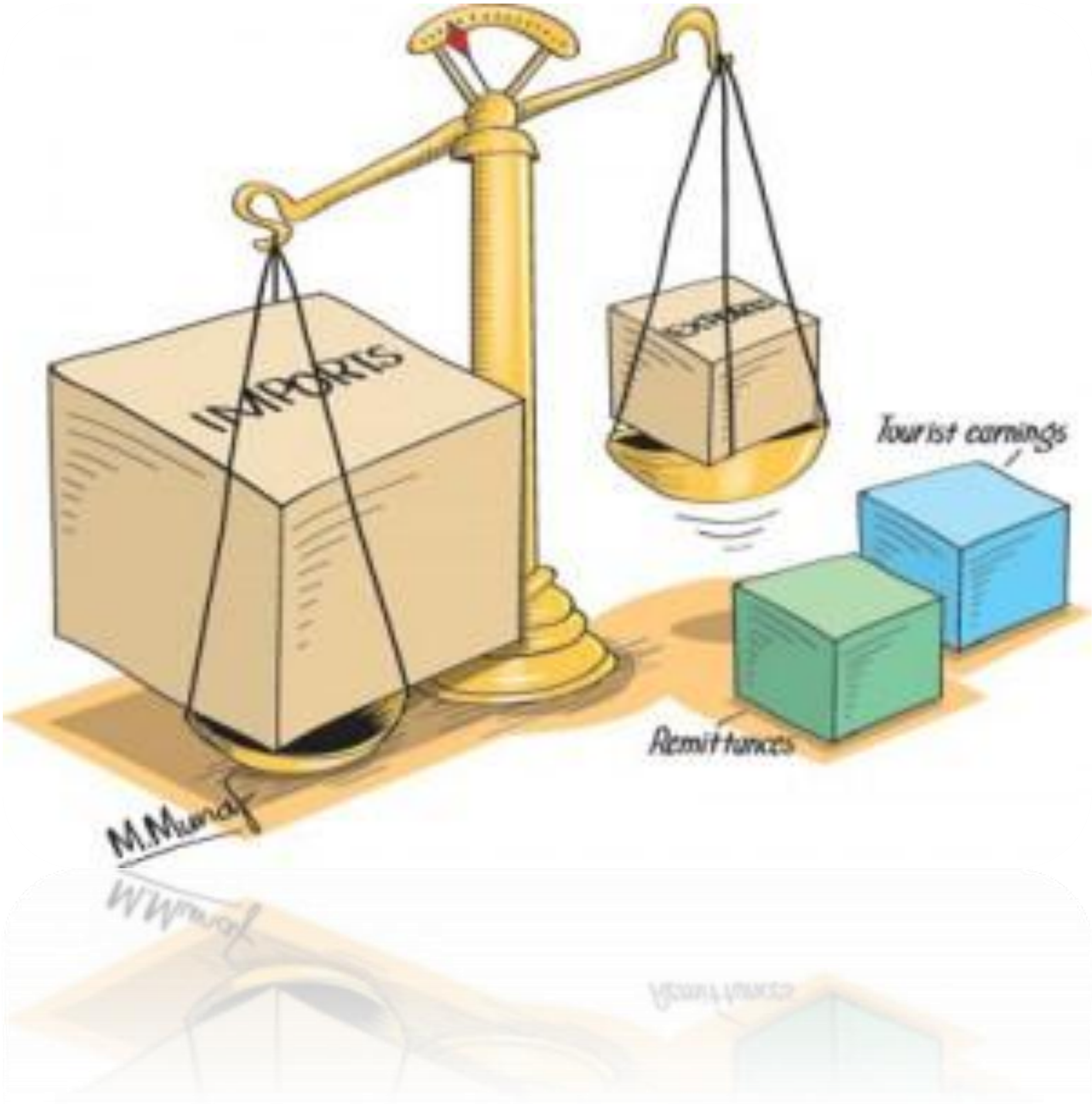
The CBS is finalizing the implementation of the Core Banking System, which would tremendously improve the transparency, accountability, and reporting of the Bank as well as the financial sector. The Core Banking Systems would allow the implementation of payment to initiate an interbank payment system.

Even though, the Bank is gradually increasing its autonomous function as the sole financial agent of the Federal Government of Somalia, and there is a greater utilization of the in- country systems and most of the government revenues are deposited in the Treasury Single Account (TSA) at the Central Bank of Somalia.

Still, there are off-budget and parallel accounts that's outside of the TSA – hence could jeopardize transparency, accountability, and reporting.

The CBS is also in the early stage of formulating and implementing policies as to best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems.

Appendix 1: Somalia Trade with UAE



APPENDIX 1: SOMALIA TRADE WITH UAE

United Arab Emirates is regarded as one of leading trading partners with Somalia with a millions of dollars of goods is exchanged between the two countries as the Somali businessmen consider UAE as a main base for exporting items to the country. Trade of livestock and leather products is practiced even before the oil discovery. The geographical proximity of the two countries has played a significant role in boosting the bilateral trade.

The major items being imported from Dubai to Somalia include rice, sugar, clothes, building materials, electronics, household goods, textiles, automobile spare parts, Tyres, batteries, cosmetics, used machinery and hardware. On the other hand, an increasing number of Somalis are now looking towards international markets and Dubai has emerged as a popular shopping destination for the Somali businessmen. The easy availability of a variety of competitively priced goods and excellent air and sea connections for transportation of goods has helped to promote Dubai as a hub for shopping.

In 2016 Somalia's non-oil imports were US$ 787 million while export to UAE was US$ 73 million, the leading import items were prepared foodstuff, beverages and tobacco products with an estimated US$204 Million and US$ 117 million of mineral products and US$23 million of Animal fats and oil. On export side, Somalia exported to UAE and estimated US$58 million pearls, precious/ semi-precious stones and metals and US$ 9 million of vegetable products.

Table 11 (a) : Non-oil trade UAE 2016			
Product	**Exports**	**Imports**	**Total**
Live animals & animal products	4,481,092	45,472,611.75	49,968,733.00
Vegetable products	9,852,295	28,089,215.63	37,952,926.38
Animal fats & oils	69,518	23,881,057.81	23,957,782.05
Prepared foodstuff, beverages and tobacco	69,476	204,282,854.20	204,413,812.49
Mineral products	0	117,797,001.17	117,832,441.57
Chemicals and allied products	23,804	27,429,928.97	27,461,992.73
Plastic and rubber and articles thereof	26.4	36,633,554	36,633,581.25
Hides and skins, leathers and articles thereof	207,917	767,186	975,397.86
Wood and articles of wood and plaiting materials	395,358	36,622,536.62	36,929,003.31
Wood pulp and paper/paperboard	849	3,634,535	3,636,385.15
Textiles and textile articles	211	28,420,552	28,420,764.06
Footwear, headgears, umbrellas and others	0	3,611,747	3,611,747.93
Articles of stone, cement, ceramics and glassware	10,782	16,223,039	16,233,821.15
Pearls, precious/semi-precious stones and metals	58,472,401	32,418,785	90,891,186.90
Base metals and articles thereof	127,274	19,970,542	20,097,816.88
Machinery and electrical/electronic equipment and parts	856	58,838,365	58,839,221.73
Transport equipment	0	90,261,549	90,261,549.77
Optical, photographic and other precision instruments	0	4,032,922	4,032,922.45
Arms and ammunitions	0	0	0
Miscellaneous manufactured articles	82	9,564,773	9,564,854.94
Works of arts and collectors' items and antiques	0	1,509	1,508.83
Others, news	0	1,017	1,017.32
Total	**73,716,490**	**787,001,977**	**861,718,467.73**

Source: UAE Chamber of Commerce and Industry 2016

95Table 12 (b): Somali Non-Trade Oil with UAE 2011-2016		
Year	**Export US$**	**Import US$**
2011	73,276,744	501,218,534
2012	79,646,822	840,796,661
2013	80,533,336	902,166,041
2014	87,724,134	509,046,195
2015	122,361,309	712,436,030
2016	73,694,319	787,764,969

Source: UAE Chamber of Commerce and Industry 2016

Appendix 2: Oil Imports Survey 2016

APPENDIX 2: OIL IMPORTS SURVEY 2016

Most oil products imported into Somalia originate from the UAE through private companies who normally share the cost of fright and shipment. Importers use foreign petroleum tankers or merchant vessels with different capacities to ship refined oil products to Somalia. Though its banned in Mogadishu Port, there are small dealers who cannot afford to use tankers; but instead import oil in drums as retailers, and distribute in drums on retail markets.

The entry points of the imported oil product into Somalia are mainly through Mogadishu port; the biggest port in Somalia, representing an estimated of 40% of Oil import channels. This is followed by Berbera port; the semi-autonomous Somaliland accounting an estimated 30% of which significant quantities goes to cross border trade between Somalia and Ethiopia. Bossaso in Puntland accounts 20% of oil products imported to Somalia while Kismayo in Juba-Land, is around 10%. It is further supplied and transported all over the country by private oil dealers. For instance, the petrol through Mogadishu port is channeled to southern and central regions, including Lower and Middle Shebelle regions, Bay and Bakol regions and some parts of Hiiran region.

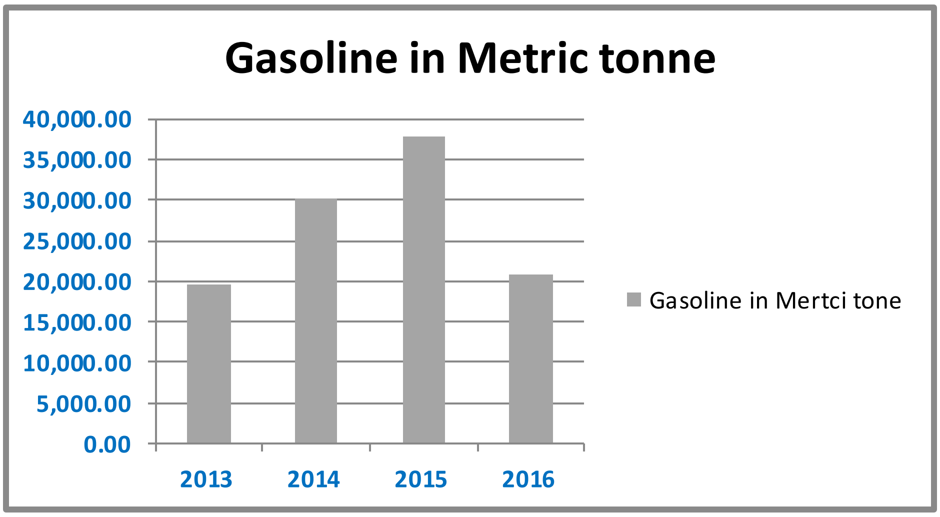
The demand of oil products stems from the need of fossil fuel for cooking, lighting, transport and manufacturing. The use of this product is costly (reportedly equivalent to about 30 percent of average incomes). This was a base survey of Energy in Mogadishu by UN-Habitat in June, 2013.

In 2015, an estimated of US$ 221.7 Million of different petroleum products has imported into Somalia, which was 3.6 percent of the GDP and 6.9 percent of the total imports into Somalia. In 2016 the figure has declined into US$ 177.6 Million which constitutes 2.8 percent of the GDP and 5.2 percent of the total imports to Somalia that was due to lower oil prices in the world markets and the establishment of oil depots in Mogadishu in 2015 the biggest in its kind in east Africa.

Table 13: Oil Imports

Year	Oil Imports(US Dollars)	% of GDP	% of Imports
2016	177,698,985	2.8	5.2
2015	221,728,987	3.6	6.9
2014	280,057,795	4.7	9.8
2013	164,058,830	2.8	6.5

Source: MoF – Customs Department and CBS estimates and projections, 2016



Source: Mogadishu port

2.1Gasoline importation and consumption

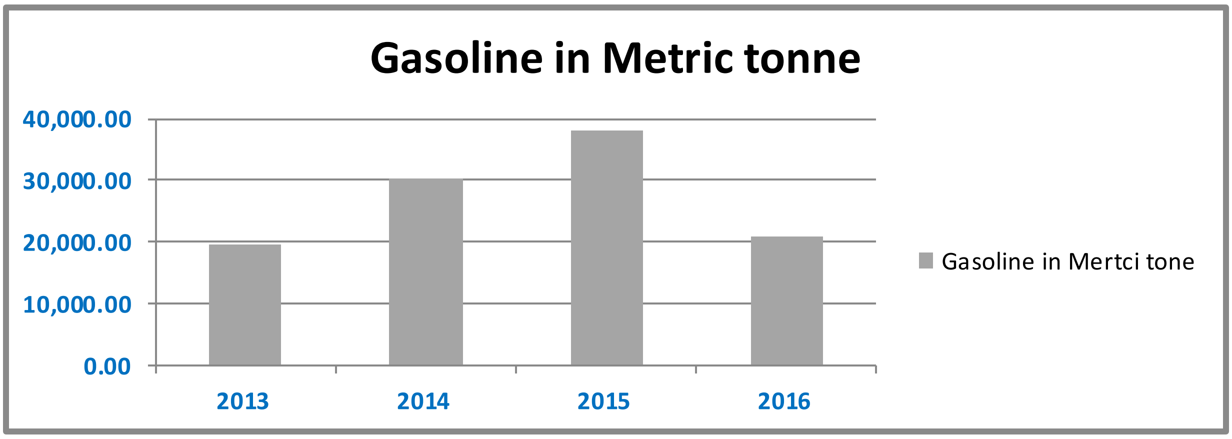
Gasoline is important for lighting, electricity, transport and manufacturing. Gasoline imports as reported by Mogadishu port authorities indicate that in 2013, nearly 19,541 metric tons worth an estimate of US$ 18 Million (as we estimated above Mogadishu port accounts 40% of total imports in Somalia).

The volume increased to 30,182 metric tons in 2014, worth an estimate of $25.3; which represents a 54 percent increase, compared to the previous year. Lower oil prices in international markets were the main driver of increased fuel consumption.

In 2016 however, 20,809 metric tons of Gasoline is imported with estimated value of $7.3 Million, This was down (37 per cent) compared to highest imported Gasoline estimate of 37,933 metric tons in 2015 with value of $22.8Million.

This substitution was due to the newly established oil depots established in Mogadishu port as well as in the airport. This project is invested by the members of oil industry who import petroleum products with estimate storage capacity of 500ktonnes/year.

Chart 6: Gasoline in metric tons, 2013-2016



Source: MoF – Customs Department and CBS estimates and projections, 2016

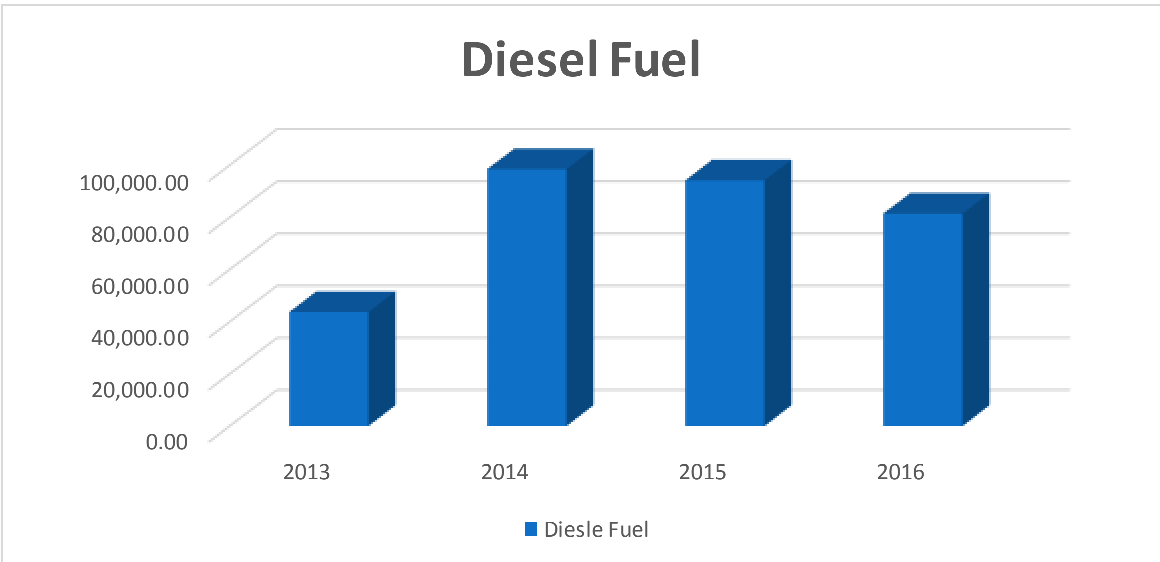
2.2Diesel Fuel

Diesel remains the major fuel for lighting, transport, agriculture and manufacturing. In 2013, Diesel imports through Mogadishu port was 43,675 metric tons worth US$ 39.74Million. In 2014 however, the figure has increased substantially to 98,456 metric tons, an estimated value of US$ 82.7 Million reflecting lower prices in world markets.

In 2016, 81,409 metric ton of Diesel Fuel is imported, worth of US$28.5 Million. This makes a daily average import of 223 metric tons.

The Import of 2016 constitute a 13.5 per cent less than 94,135.67 metric tons that is being imported in 2015 worth an estimated value of US$65.9Million (258 metric tons on daily basis).

Chart 7: Diesel in metric tons, 2013-2016



Source: MoF – Customs Department and CBS estimates and projections, 2016

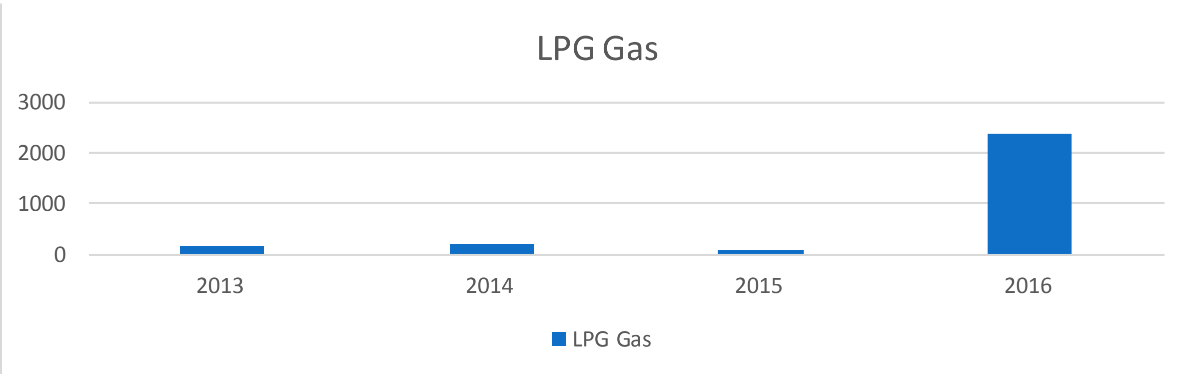
2.3LPG Gas

Liquefied Petroleum Gas (Cooking Gas) known LPG currently serve as a source of energy for small portion of the country's wealth household, with a significant increase in the number of households using LPG gas to power their cooking stoves.

LPG as cooking fuel is infant to Mogadishu markets and expected to replace charcoal. If the consumption of LPG continue to grow at this increasing rate, then, the import of LPG will be anticipated to increase in the upcoming years. Though income remains challenging to many households.

Somalia imported nearly, 177.8 metric tons of LPG gas in 2016 worth an estimate of US$34,102.04. This is down from 192 metric tons in 2014 worth an estimate of US$36,825. This is due to lower prices of LPG gas in world markets which made it affordable to many households as the household income increased. Moreover the storage availability at Mogadishu port made it possible to import more than the annually demand).

Chart 8: LPG Gas

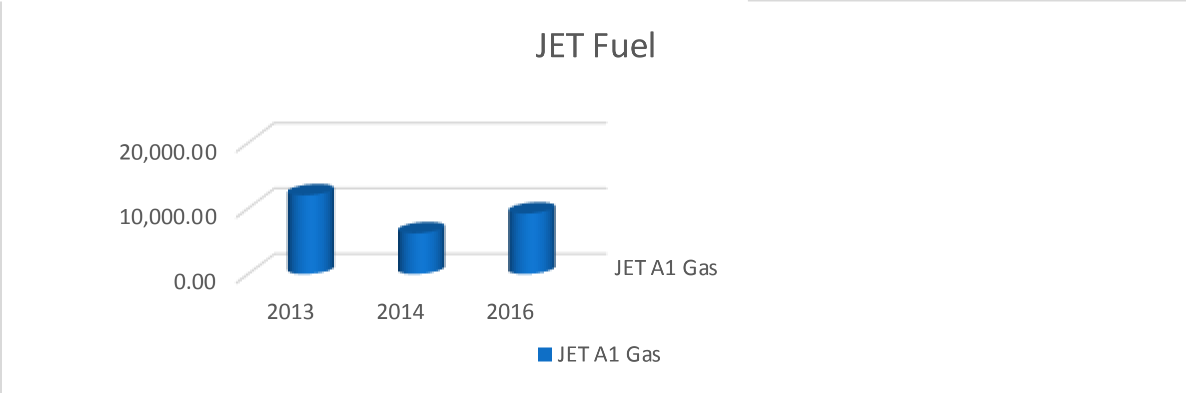


Source: MoF – Customs Department and CBS estimates and projections, 2016

2.4JET Gas

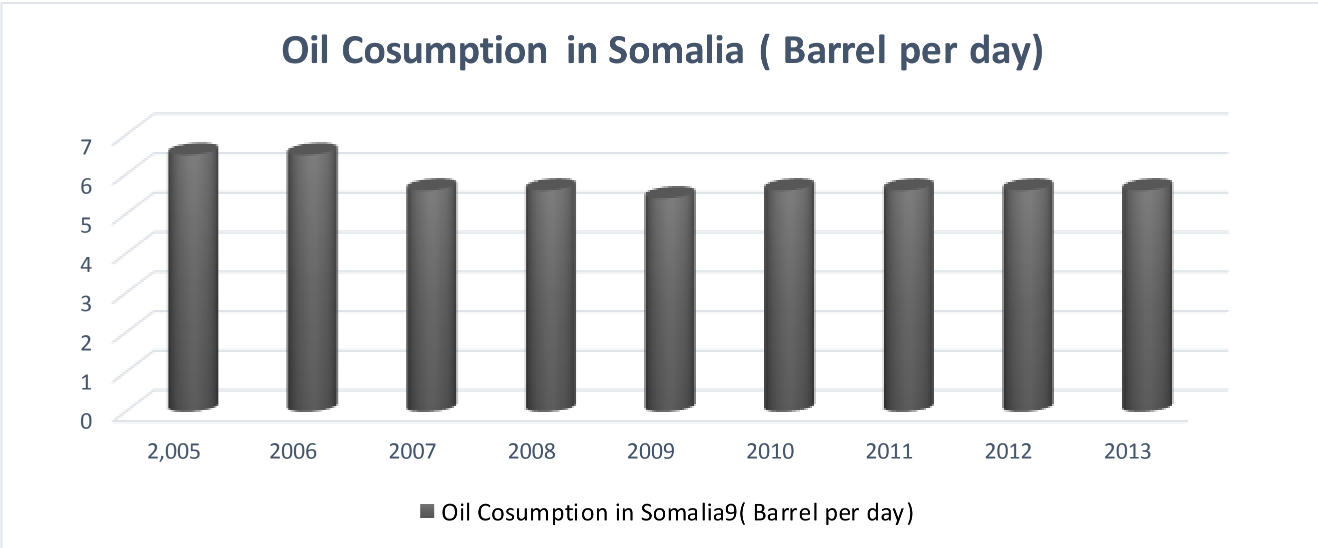
In 2016, 9,217 metric tons of JET A1 Gas totalled US$4.2 Million is imported through Mogadishu port, which represents up from 6,206 metric tons (**48%**) increase in 2014, worth US$4 Million. This is due to the rise of the number flights coming to Somalia, as well as some of foreign jet oil companies who has recently entered the market, particularly at the airport like Supreme, Sky, Agip and Favori who now run Aden Ade International Airport.

Chart 9: JET Fuel



Source: MoF – Customs Department and CBS estimates and projections, 2016

Chart 10: Oil Consumption in Somalia (Barrel per day)



Source: international Energy statistic, 2005-13

Table 14: Value Import (In USD)of Oil

	Value of Oil Imports In Mogadishu Port				National Estimate of Value of Oil Imports			
Year	**Motor Gasoline**	**Diesel Fuel**	**LPG Gas**	**Jet Gas**	**Motor Gasoline**	**Diesel Fuel**	**LPG Gas**	**Jet Gas**
2016	7,283,150.00	28,493,150.00	34,102.04	4,147,965.00	18,207,875.00	71,232,875.00	85,255.10	10,369,912.50
2015	22,759,800.00	65,894,969.00	36,825.60	n.a	56,899,500.00	164,737,422.50	92,064.00	n.a
2014	25,286,177.78	82,703,040.00	n.a	4,033,900.00	63,215,444.45	206,757,600.00	n.a	10,084,750.00
2013	17,955,834.08	39,744,978.00	n.a	8,162,720.00	44,889,585.20	99,362,445.00	n.a	20,406,800.00

Source: MoF – Customes Department and CBS estimates and projections, 2016

8. FINANCIAL PERFORMANCE

CENTRAL BANK OF SOMALIA

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2016

CENTRAL BANK OF SOMALIA

REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

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CENTRAL BANK OF SOMALIA

CORPORATE INFORMATION

BOARD OF DIRECTORS	Bashir Isse Ali	- (Governor)
	Maryama Abdullahi Yusuf	- (Deputy Governor)
	Abdulrashid M. Siraj	
	Dr. Omar Ibrahim Hussein	
	Maye Mohamed Sheekhuna	
	Yusuf Mohamed Ali	
	Hodan Isse	
REGISTERED OFFICE	Central Bank of Somalia PO 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 2016, 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 outcomes of each of these 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 fulfil 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, in the order determined by the governor, shall act for the governor, shall exercise all the powers, and shall perform all the functions conferred on the governor under this act whenever the governor is temporarily absent or incapacitated, and shall perform such other functions as the governor may from time to time assign to him/her.

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 3 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

Key risks and uncertainties (continued)

(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 employee’s 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. 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.

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.

16. PRINCIPAL ACTIVITIES

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

17. RESULTS FOR THE YEAR

	2016 USD
Loss for the year	(885,859)
	=======

18. DIRECTORS

The present members of the board of directors are shown on page 52.

19. AUDITORS

Deloitte & Touche have expressed their willingness to continue in office.

BY ORDER OF THE BOARD

Director

Mogadishu

28/08/2018

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 nonexecutive 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 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 2016. 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 2016 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	**24.05.2016**	**24.10.2016**	**30.11.2016**	**28.12.2016**
Bashir Isse Ali	✓	✓	✓	✓
Maryan A. Yusuf	✓	✓	✓	✓
Abdulrashid M. Siraji	✓	✓	✓	✓
Dr. Omar I. Hussein	✓	✓	✓	✓
Maye Mohamed Sheekhunaa	✓	✓	✓	✓
Yusuf Mohamed Ali	✓	✓	✓	✓
Hodan Isse	✓	✓	✓	✓

Board Committees

One Committee is currently assisting the Bank's Board of Directors in the discharge of its functions. This is the Audit Committee

The Audit Committee

The Audit Committee is largely composed of Non-executive Directors. The Chairman of the Committee is a Nonexecutive 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 (Continued)

Board Committees (Continued)

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.

Directors' remuneration

The remuneration received by the Governor and the Deputy Governor shall be in in 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 28/8/2018 018, and signed on its behalf by:

Bashir Isse Ali

The Governor and Chairman of the Board

Director

Director

CENTRAL BANK OF SOMALIA

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Central Bank of' Somalia Act law No. 1 30 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 determines 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 the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments 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

28/08/2018

Director

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Deloitte.

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INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF CENTRAL BANK OF SOMALIA

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Central Bank of Somalia (the "Bank"), set out on page 71 to 92, which comprise the statement of financial position as at 31st December 2016, and statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then earned, and notice the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for effects of the matters described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of financial position of the Bank as at 31st December 2016 and of its financial performance and cash flows for the year then earned in accordance with the International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

Opening balances

We were appointed as auditors of the bank in the financial year ended 3 1 December 2014 but were unable to obtain sufficient appropriate audit evidence on the opening balances. The bank did not undertake an audit of the financial year ended 3 1 December 2013 and preceding periods. In attempt to address the difficulties in obtaining historical transaction data at the bank, management embarked on a process of reconciling the opening balances including reconfirming completeness and accuracy of the bank's assets and liabilities in the previous years. This process had not been fully concluded by the time of completing our audit. 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 2015 and 2016 and to profit or loss and other comprehensive income for the years ended 31 December 2015 and 2016.

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditors ' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information, which comprises the report of directors and the statement of corporate governance. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The directors are responsible for the preparation and fair presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS") 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.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.
Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banks internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT
T THE BOARD OF DIRECTORS OF CENTRAL BANK OF SOMALIA (Continued)

Report on Other Legal Requirements

Except for the matters described under the basis for qualified opinion section of our report, as required by the Central Bank of Somalia Act, 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 bank, so far as appears from our examination of those books; and

iii) the bank's statement of financial position (balance sheet) and statement of profit or loss (profit and loss account) are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors ' report is CPA **FOkwiri — P/No 1699.**

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

30 August 2018

CENTRAL BANK OF SOMALIA

STATEMMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD YEAR ENDED 31 DECEMBER 2016

	Notes	2016 USD	2015 USD
FEES INCOME	4	3,411,332	2,910,592
OPERATING EXPENDITURE	5	(3,732,263)	(2,786,939)
OTHER INCOME	7(a)	5,207	23,211
PROVISION FOR IMPAIRMENT OF ASSETS	10	-	2,200,000
NET FOREIGN EXCHANGE GAINS		13,771	33,879
(LOSS)/PROFIT BEFORE TAXATION		(885,859)	2,380,743
TAXATION	8	-	-
(LOSS)/PROFIT FOR THE YEAR		(885,859)	2,380,743
OTHER COMPREHENSIVE INCOME:			
REVALUATION SURPLUS ON PROPERTY		-	27,573,150
REVALUATION GAIN/(LOSS)ON GOLD COIN AND BULLIONS		1,404,951	(2,062,871)
		1,404,951	25,510,279
TOTAL COMPRHENSIVE INCOME FOR THE YEAR		519,092	27,891,022

CENTRAL BANK OF SOMALIA

STATEMENT OF FINACIAL POSITION
AS AT 31 DECEMBER 2016

ASSETS	Notes	2016	2015
Cash Balances	9	8,436,343	13,943,470
Deposits and Balances due from banking institutions	10	7,393,828	7,292,656
Receivables	11	5,868	76,856
Gold coin and bullion	12	18,659,498	17,254,547
Property and Equipment	13	69,353,825	69,755,701
Intangible Assets	14	1,520	2,693
TOTAL ASSETS		103,850,882	108,325,923
LIABILITIES			
Treasury Deposit	15	6,771,956	11,895,742
Security Deposit	16	840,000	660,000
Microfinance grant	17	3,000,000	3,000,000
Other Payables	18	288,503	338,851
TOTAL LIABILITIES		10,900,459	15,894,593
RESERVES			
Reserves			
Revenue reserve		6,404,967	7,290,826
Revaluation reserve		67,228,038	65,823,087
Gold reserve		19,317,418	19,317,418
TOTAL RESERVE		92,950,423	92,431,331
TOTAL LAIABILITIES AND RESERVES		103,850,882	108,325,923

The financial statement on pages 66 to 94 were approved and authorized for issue by the board of directors on 28/08/2018 and were signed on its behalf of by:

Director

Director

CENTRAL BANK OF SOMALIA

STATEMENT OF CHNAGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2016

	Revenue Reserve * USD	Revaluation Reserve** USD	Gold Reserve*** USD	TOTAL USD
At 1 January 2015	4,910,083	40,312,808	19,317,418	64,540,309
Total comprehensive income for the year	2,380,743	25,510,279	-	27,891,022
At December 2015	7,290,826	65,823,087	19,317,418	92,431,331
At 1 January 2016	7,290,826	65,823,087	19,317,418	92,431,331
Total Comprehensive income for year	(885,859)	1,404,951	-	519,092
At December 2016	6,404,967	67,228,038	19,317,418	92,950,423

*Revenue reserve represents net cumulative profits/ (losses) from the banks' operations. This is subject to distribution in accordance with the provisions of the CBS Act.

**Revaluation reserve relates to revaluation surplus on land and buildings owned by the bank and gains/losses on the revaluation of the Gold coin and bullion.

** *Gold reserve represents value of Gold coin and bullion that the bank has recovered through its asset recovery exercise.

CENTRAL BANK OF SOMALIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
		USD	USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used in)/generated from operations	20(a)	(5,132,716)	8,706,246
Net cash (used in)/generated from operating activities		(5,132,716)	8,706,246
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment*	13	(280,239)	(750,075)
Purchase of intangible assets	14		(866)
Proceeds from disposal of motor vehicles		7,000	
Net cash used in investing activities		(273,239)	(750,941)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20(b)	15,830,171	21,236,126
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(5,405,955)	7,955,305
CASH AND CASH EQUIVALENTS AT 1 JANUARY		21,236,126	13,280,821

* In 2015, the bank continued with its recovery exercise and recovered additional assets valued at USD 27,573, 150. These were recognized in these financial statements at their professional valuation and included in the additions to property and equipment in the year ended 31 December 2015.

1 ACCOUNTING POLICIES

a) Statement of compliance

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

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 2016

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 28 Investment Entities: Applying the Consolidation

Exemption

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

The application of these amendments has had no impact on the bank's financial statements as the bank is not an investment entity and does not have any holding company, subsidiary, associate or joint venture that qualifies for designation as an investment entity.

Amendments to IFRS 11 Accounting for Acquisitions of interest in joint operations

The amendments provide guidance on how to account for the acquisition of a joint operation that constitute a business as defined in IFRS 3, Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is required to disclose relevant information required by IFRS 3 and other standards for business combinations.

The amendment had no impact on the financial statements as the bank did not have any such transactions in the year.

IAS 1 Disclosure Initiative

The amendments clarify that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information for disclosure purposes. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

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 2016 (Continued)

IAS 1 Disclosure Initiative (Continued)

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the bank, and should be separated into the share of items that, in accordance with other IFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The application of these amendments has not resulted in any impact on the financial performance or financial position of the bank.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

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 amortization 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.

As the bank already uses the straight-line method for depreciation and amortization of its property and equipment, and intangible assets respectively, the application of these amendments has had no impact on the bank's financial statements.

Amendments to IAS 16 & IAS 41- Bearer Plants

The amendments define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16 instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The application of these amendments has had no impact on the bank's financial statements as the Bank is not engaged in agricultural activities.

1 ACCOUNTING POLICIES (Continued)

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

i) New standards and amendments to published standards effective the for year ended 31 December 2016 (Continued)

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarized below:

- IFRS 5 - The amendments introduce specific guidance in IFRS 5 for when an entity reclassifies an asset or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for- distribution accounting is discontinued.
- IFRS 7 - The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.
- IAS 19 - The amendments clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting yera on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high-quality corporate bonds, the market yields at the end of the reporting year on government bonds denominated in that currency should be used instead.

The application of these amendments has had no effect on the financial statements.

ii) New and amended standards in issue but not yet effective in the year ended 31 December 2016

The application of these amendments has had no effect on the bank's and subsidiaries financial statements.

New standards and amendments to standards	*Effective for annual years beginning on or after*
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
Amendments to IFRS 2 Classification and Measurement of Share based Payment Transactions	1 January 2018
Amendments to IAS 7 Disclosure Initiative	1 January 2017
IFRS 16 Leases	1 January 2019

1 ACCOUNTING POLICIES (Continued)

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

iii) Impact of new and amended standards in issue but not yet effective in the year ended 31 December 2016 (Continued)

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 recognized 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 years. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting years. 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 are assessing the impact of the application of IFRS 9 in the future. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

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.

1 ACCOUNTING POLICIES (Continued)

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

iii) Impact of new and amended standards in issue but not yet effective in the year ended 31 December 2016 (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step l: 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.

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the bank do not anticipate that the application of IFRS 16 in the future will have a significant impact on amounts reported in respect of the bank's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities. However, an entity may fulfill the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

The amendments apply prospectively for annual years beginning on or after I January 2017 with early application permitted. The directors of the bank do not anticipate that the application of these amendments will have a material impact on the bank financial statements.

(iv) *Early adoption of standard*

The bank did not early-adopt any new or amended standards in 2016

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 relate mainly to transaction and service fees, which are recognised 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 are 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.

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

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.

Gold

Gold is held by the Central Bank of Somalia as part of its foreign reserves. Gold is initially recorded at the prevailing rates at initial recognition, including transaction costs. Subsequent to initial measurement, it is valued at the prevailing market rates.

Gold reserves are held to support the national currency (Gold Bullion) and as such are classified as non-current assets, and accounted for using either cost model or the revaluation model. Such reserves are not traded and the levels frequently do not change from one year to the next.

Currency in circulation

Notes and coins in circulation are measured at fair value. Currency in circulation represents the nominal value of all bank notes and coins held by the public and commercial banks. The bank has not been able to measure the value of the currency in circulation after its reconstruction in 2013 following its collapse in 1992. Consequently, the values have not been included in these financial statements.

1 ACCOUNTING POLICIES (CONTINUED)

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.

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.

Financial instruments (Continued)

Financial assets (Continued)

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.

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.

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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.

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 realize 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

1 ACCOUNTING POLICIES (Continued)

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 judgments 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

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. 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.

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

(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

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

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.

	2016	2015
	USD	USD
Deposits and balances due from banking institutions	7,393,828	7,292,656

3 RISK MANAGEMENT POLICIES AND OBJECTIVES

A. OVERVIEW OF RISK MANAGEMENT

Maximum exposure to credit risk before collateral held

	2016 USD		2015 USD	
Credit exposures:				
Deposits and balances due from banking institutions	7,393,828	100%	7,292,656	100%
Receivables	5,868	0%	76,856	0%
	7,399,696	100%	7,369,512	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 CBS 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 CBS the Federal and Regional governments which are deposited into their respective Central Bank of Somalia operational accounts.

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 3 1 December was as follows:

	2016 UUSD	2015 USD
Reserves	6,404,967	7,290,826
Retained earnings		
Revaluation reserve Gold	67,228,038	65,823,087
reserve	19,317,418	19,317,418
	92,950,423	92,431,331

3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

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.

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.

3 RISK MANAGEMENT POLICIES AND ABJECTIVES (Continued)

C) OTHER RISK DISCLOSURES (Continued)

How we manage operational risk?

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 noncompliance 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.

		2016	2015
4	FEES INCOME	USD	USD
	Cash handling Fees	2,888,992	2,533,653
	License fees	122,000	127,000
	Rental income	396,800	244,400
	Registartion fee	500	2,000
	Sundry Income	3,110	3,539
		3,411,332	2,910,592

The CBS earns a commission of I .5% on government revenue deposited with the Bank. License and Registration fees are charged pursuant to the Financial Institutions Act.

		2016	2015
		USD	USD
5	OPERATING EXPENDITURE		
	Staff costs (note 6)	1,495,055	1,354,804
	*Travel expenses	117,146	145,628
	Security	318,271	251,925
	Asset recovery expenses	145,000	98,800
	Repairs and maintenance	92,793	49,876
	Auditors fees	90,000	90,000
	Hospitality	61,223	87,083
	Depreciation (note 13)	672,915	173,401
	Amortisation (note 14)	1,173	1,173
	Fuel	7,817	46,963
	Miscellaneous expenses	3,798	4,522
	Hotel	60,273	34,485
	Medical expenses	31,466	35,018
	Internet expenses	19,686	27,721
	Rent	56,000	32,400
	Board of directors expenses	96,000	25,568
	Printing, publications and subscriptions	15,512	19,714
	Tuition fees	10,892	19,119
	Miscellaneous vehicle expense	5,952	6,595
	Electricity	76,215	76,660
	Telephone, fax, and telegraph	3,207	11,657
	Office supplies stationaries	26,883	15,353
	Water	2,503	3,495
	Legal expense	42,400	2,200
	Cleaning	18,184	6,708
	Garden expenses	-	687
	Oil expenses	47	32
	Postage	49	142
	Donations	49,803	68,060
	Consultant fees	48,500	30,000
	Mission allowance	163,500	67,150
		3,732,263	2,786,939

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

		Notes	2016	2015
			USD	USD
6	STAFF COSTS			
	Salaries and wages		1,163,341	1,143,789
	Staff allowances		153,929	71,240
	Bonus		4,685	17,050
	Overtime		-	325
	Contract experts		164,300	122,400
	Pension		8,800	-
			1,495,055	1,354,804
7(a)	OTHER INCOME			
	Interest on deposit account held in Federal Reserve Bank of New York		7,407	23,211
	Loss on disposal of motor vehicles		(2,200)	-
			5,207	23,211
7(b)	OTHER LOSSES			
	Cash stolen from the Central Bank of Somalia		583,906	-

The other losses relate to counterfeit cash that was discovered in the Central Bank's Vault in the course of the year. The bank commissioned an investigation into the matter and the individuals responsible have since been arrested by the responsible authorities.

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.

		2016	2015
		USD	USD
9	CASH BALANCES		
	Somali Shillings	216,178	571,646
	United Stated Dollar	8,220,161	13,943,470
		8,436,343	13,943,470

		2016	2015
		USD	USD
10	DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTION		
	Balances due from banking institutions	10,997,748	10,896,576
	provision for impairment of unconfirmed bank balances	(3,603,920)	(3,603,920)
		7,393,828	7,292,656
	Movement in provision for impairment is as follows;		
	At start of year	(3,603,920)	(5,803,920)
	Profit or loss credit	-	2,200,000
	At end of the year	(3,603,920)	(3,603,920)

The weighted average effective interest rate on balances and deposits due from banking institutions at 31 December 2016 was Nil (2015 - Nil).

		2016	2015
		USD	USD
11	RECEIVABLES		
	Staff receivables	446	-
	Other receivables	5,422	76,856
		5,868	76,856

12	GOLD COIN AND BULLION		
	At 1 January	17,254,547	19,317,418
	Valuation gain/(loss) through other comprehensive income	1,404,951	(2,062,871)
	At 31 December	18,659,498	17,254,547

Gold coin and bullion consists of 16, 261 fine troy ounces of gold at the market price of USD l, 147.50 per ounce (2015: 16,261 fine troy ounces at USD 1,061.10 per ounce).

These Gold coin and bullion are held at the Federal Reserve Bank of New York. The assets are carried at fair value through other comprehensive income.

13 PROPERTY AND EQUIPMENT

COST	Land and buildings USD	Furniture and fixtures USD	Vehicles USD	Equipment USD	Other equipment USD	Total USD
At 1 January 2015	41,211,050	66,919	267,250	157,990	6,858	41,710,067
*Additions	28,276,719	11,865	-	34,641	-	28,323,225
At 31 December 2015	69,487,769	78,784	267,250	192,631	6,858	70,033,292
At 1 January 2016	69,487,769	78,784	267,250	192,631	6,858	70,033,292
Additions	175,389	23,423	-	78,657	2,770	280,239
Disposals	-	-	(29,500)	-	-	(29,500)
At 31 December 2016	69,663,158	102,207	237,750	271,288	9,628	70,284,031
DEPRECIATION						
At 1 January 2016	-	3,868	34,740	59,054	6,528	104,190
Charge for year	-	23,738	103,850	45,483	330	173,401
At 31 December 2015	-	27,606	138,590	104,537	6,858	277,591
At 1 January 2016	-	27,606	138,590	104,537	6,858	277,591
Charge for year	580,526	9,996	44,400	37,670	323	672,915
Eliminated on disposal	-	-	(20,300)	-	-	(20,300)
At 31 December 2016	580,526	37,602	162,690	142,207	7,181	930,206
NET BOO VALUE						
At 31 December 2016	69,082,632	64,605	75,060	129,081	2,447	69,353,825
At 31 December 2015	69,487,769	51,178	128,660	88,094	-	69,755,701

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 were unlikely to be significantly different from the values as at 3 1 December 2014 being the date when the values were initially recognized in the financial statements.

*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. In 2015, the bank continued with its recovery exercise and recovered additional assets valued at USD 27,573, 150. These were recognized in these financial statements at their professional valuation and included in the additions to property and equipment in the year ended 3 1 December 2015. As at 3 1 December 2016, the bank had recognized all assets it could control in the bank's books.

14 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2016 USD	2015 USD
COST		
At I January	5,866	5,000
Additions	-	866
At 3 1 December	5,866	5,866
AMORTISATION		
At I January	3,173	2,000
Charge for the year	1,173	1,173
At 31 December	4,346	3,173
NET BOOK VALUE		
At 3 1 December	1,520	2,693

15 TREASURY DEPOSITS

Denominated in Somali Shillings	202,348	571,413
Denominated in United States Dollars	6,569,608	11,324,329
	6,771,956	11,895,742

The bank holds accounts for and on behalf of the 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.

16 SECURITY DEPOSITS

	2016 USD	2015 USD
Performance security to undertake banking and forex business in Somalia	840,000	660,000

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.

17 MICROFINANCE GRANT

	2016 USD	2015 USD
Microfinance Grant	3,000,000	3,000,000

In September 2015, 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. This grant was disbursed to the recipients in 2017.

18 OTHER PAYABLES

	2016 USD	2015 USD
Other payables and accruals	288,503	338,851

19 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.

20 NOTES TO THE CASH FLOW STATEMENT

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

	2016 USD	2015 USD
(Loss)/profit before taxation	(885,859)	2,380,743
Adjustments for:		
Loss on disposal of motor vehicles	2,200	
Depreciation	672,915	173,401
Amortisation	1,173	1,173
Working capital changes:		
Decrease/(increase) in receivables	70,989	(74,406)
(Decrease)/increase in treasury deposits	(5,123,786)	7,426,095
Increase in sundry deposits	180,000	540,000
Decrease in other payables	(50,348)	(1,740,760)
Cash (used in)/generated from operations	(5,132,716)	8,706,246

20 NOTES TO THE CASH FLOW STATEMENT

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

	2016 USD	2015 USD
Cash balances (Note 9)	8,436,343	13,943,470
Deposits and balances due from banking institutions (Note 10)	7,393,828	7,292,656
	15,830,171	21,236,126

21 CONTINGENCIES AND COMMITMENTS

The Central Bank of Somalia has no significant known commitments and has not provided for any contingent liabilities as at December 3 1, 2016 or 2015. Given the development and security situation 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. However, the Bank has not identified any specific contingencies as at 3 1 December 2016 and has therefore not recorded or disclosed possible related amounts and the probability that any such contingencies will be realized (2015 — Nil).

22 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 2016, nor are there known significant assets or liabilities with related parties as at 31 December 2016 (2015 — Nil).

23 INCORPORATION

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

24 CURRENCY

These financial statements are prepared in United States Dollars.

25 EVENTS AFTER REPORTING PERIOD

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