



CENTRAL BANK SOMALIA



# ANNUAL REPORT

◆ 2015



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## List of Acronyms

AfDB	African Development Bank
AML/CFT	Anti money Laundering and Combating Financing of Terrorism
BoD	Board of Directors, (CBS)
CBS	Central Bank of Somalia - the (Bank)
CPI	Consumer Price Index
DBI	Dahabshil Bank International
DMU	Debt Management Unit
FGS	Federal Government of Somalia
FAO	Food and Agriculture Organization
FoB	Free on Board
FSNAU –	Food Security and Nutrition Analysis Unit
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
IBS	International Bank of Somalia
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
MDRI	Multilateral Debt Relief Initiative
MoF	Ministry of Finance
MoPIC	Ministry of Planning and International Cooperation
MTBS	Money Transfer Business Service
SOS	Somali Shilling
SSA	Sub-Saharan Africa
SSB	Salam Somali Bank
TAB	Trust African Bank
UAE	United Arab Emirates
US	United States of America
UN	United Nations
WEO	World Economic Outlook

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# 1. Governor's Message

The Central Bank of Somalia has made great effort to reinstate and develop the financial sector of Somalia who has been out of control for the last two decades. In that essence, the Bank developed various regulations and manuals governing depository corporations and other financial institutions like Money Transfer Business Services (MTBs).

One of the biggest milestones that the Central Bank of Somalia made in 2015 is the completion of the Anti-Money Laundry and Combating the Financing of Terrorism (AML-CFT Law). The law that has been enacted by the parliament of the Federal Government of Somalia empowers the Central Bank of Somalia to implement AML/CFT regulations and other examination regime to improve and strengthen the nascent financial sector in the country.

The financial sector in Somalia is small and nascent with large informal sector. The Central Bank of Somalia (CBS) faces challenges in building financial sector supervision due to technical and human resource constraints. The economy is predominantly dollarized and cash is scarce, particularly in lower denominations. Somali banknotes are not readily available, creating problems for the poorest segments of Somalia community.

Equally important, the Bank is taking important steps in modernizing the operations and governance structures, this covers a wider course of reforms including; developing policies, regulations, procedures, guidelines and standardizing accounting and reporting systems, implementing core banking and payment/settlement systems, undertaking institutional reform including human resources, strengthening the supervision department with the support of our international partners and Adopting international standards and best practices.

With support from IMF and other development partners, the bank has made tremendous determinations to strengthen the Central Bank of Somalia's capacity and governance structure, while taking a caution on currency reform initiatives at this stage until all prerequisites are met. The key areas received support include (i) the organization and governance structure of the central bank and its accounting systems; and, (ii) and licensing procedures and supervision of financial institutions, (iii) external sector statistics, (iv) reviewing the central bank law, (v) establishing a legal department in the central bank; (vi) development of central bank by-laws and a code of ethics and conduct for the board; and, (vii) advice on banking legislation and regulations.

The economy has made gradual growth of 5 percent compared to last year. The economy is driven by private consumption and imports. Household consumption backed by remittance remains the largest share of the Somali GDP. This is followed by food and beverage and non-food items (office supplies, personal care products

and other durables). Exports were equivalent to about 14.5 percent of GDP mainly on livestock totaling US\$386 million, while imports accounted for more than 60 percent of GDP. The large trade deficit was financed mainly by remittances and international aid.

Somalia remittance is lifeline of the economy. Somalia's Diaspora is estimated to have sent more than \$1.393 billion home in 2015—nearly twice the level of development aid (\$611 million) and humanitarian aid (\$588 million). Remittance is a crucial component of the Somali economy, representing more than 20 percent of the nation's gross national income, far outweighing government revenues. Remittance support livelihoods for an estimated 40 percent of the population.

Moving forward, while CBS continue to perform its role and responsibilities with highest level of integrity and ethical standards our primary emphasis for next year will again be towards improving information technology and infrastructural development. This include establishment and implementation of Core Banking and Oracle ERP. Undertaking this steps will smoothen the functioning of CBS's business processes and operations. In order to ensure the integrity of information stored and processed a separate IT Department has been established which is responsible for defining Policies & Procedures of IT systems and Risk Management requirement for the Central Bank of Somalia.

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

I would like to acknowledge the role of members of the Central Board of Directors whose timely and effective guidance has strengthened the governance of the central bank. I devote similar thanks to the Somali institutions, IFIs and friendly governments for their support and cooperation.

I would also acknowledge the dedication of staff for their continued hard work which has helped CBS to enhance its performance across the board. Finally, I urge the CBS employees to continue their efforts to take the central bank to new heights.



**Mr. Bashir Issa Ali**  
**Governor**

## 2. World Economy

World output is projected to grow by 3.3 percent in 2015, 0.2 percentage point lower than in 2014, reflecting a further slowdown in emerging economies which offset a recovery in advanced economies. However, in 2016 global growth is expected to strengthen to 3.8 percent.

Prospects across the main countries and regions remain uneven. Despite a setback in economic activities in the first quarter of 2015, mostly in North America, growth in advanced economies is projected to grow 2.1 percent in 2015 from 1.8 in 2014, growth rate of output in the United States to slightly improve from 2.4 percent in 2014 to 2.5 percent in 2015. Underlying drivers of output in advanced economies include easy financial conditions, more neutral fiscal policy in the euro area, lower fuel prices, improving confidence of investor and labor Market conditions. Growth in Euro area is expected improve from 0.8 percent in 2014 to 1.5 and 1.7 percent respectively, in 2015 and 2016, reflecting generally a robust domestic demand (Table 1).

In emerging market economies, the continued growth slowdown reflecting a number of factors, including lower commodity prices and tighter external financial conditions, structural bottlenecks, rebalancing in China and economic distress related to geopolitical factors. A rebound in activity in a number of distressed economies is expected to result in a pickup in growth in 2016.

In Sub-Saharan Africa (SSA), growth is projected to slow down from 5.0 percent in 2014 to 4.4 percent in 2015 before picking up to 5.1 percent in 2016.

The distributions of downside risk to global economic activities include increased financial market volatility and disruptive asset price shifts. Other risks include low medium term of output growth in both advanced and emerging market economies. Lower commodity prices also pose risks to the outlook in lower-income developing economies after many years of strong growth.

Overall inflation has remained broadly stable well below inflation objectives. In many advanced economies, monthly headlines inflation has thus started to bottom out, reflecting rebound in oil prices, and a rise in a fuel and end-user prices, but the impact of disinflationary factors earlier in the year was stronger than expected, particularly in the United States.

In many emerging market economies, notably those with weak domestic demand, headline inflation has declined.

**Table 1: Actual , and Projected output growth of selected countries /regions (Percent Change)**

	Actual		projections	
	2013	2014	2015	2016
World	3.4	3.4	3.3	2.4
Advanced economies	1.4	1.8	2.1	2.3
United States	2.2	2.4	2.5	3.0
Euro Area	-0.4	0.8	1.5	1.7
Japan	1.6	-0.1	0.8	1.8
United Kingdom	1.7	2.9	2.4	2.2
Emerging markets and developing economies	5.0	4.6	4.2	4.7
Emerging and Developing Asia	7	6.8	6.6	6.4
China	7.7	7.4	6.8	6.3
India	6.9	7.3	7.5	7.5
Sub-Saharan Africa	5.2	5.0	4.4	5.1
South Africa	2.2	1.5	2.0	2.1

Source: IMF, world Economic Outlook (WEO), July 2015 updates

### 3. Domestic Economy

Since the collapse of the Central Government of Somalia in 1991, Somalia has experienced more than two decades of conflict and fragility that fragmented the country, undermined legitimate institutions, and created widespread vulnerability. Despite the challenges, substantial progress is now being made. In 2015, economic activity continued to recover modestly, despite fiscal strain, economic growth remained steady and inflation low. Real GDP growth is estimated at 3.7 percent in 2015, driven mainly by growth in telecommunication and service sectors.

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. Some basic macroeconomic statistics, including national income and balance of payments data, do not exist. Also lacking is statistics needed to design and implement social services. Hence the development of a centralized reliable data system is key to the development of Somalia.

Based on rudimentary data, Somalia's GDP in 2015 was estimated at about US\$5,925 million (table 2), up from US\$5,647 million recorded in 2014 reflecting a 5 percent increase in nominal terms. Consumer price inflation declined from 1.3 percent in 2014 to 1 percent in 2015, due to lower commodity prices, including oil. Somalia's GDP in the reporting period of 2015 was subjugated by private consumption and imports. For instance, household consumption backed by remittance remains the largest share of the Somali GDP. This is followed by food and beverage and non-food items (office supplies, personal care products and other durables). Exports were equivalent to about 14.5 percent of GDP, while imports accounted for more than 60 percent of GDP. The large trade deficit was financed mainly by remittances and international aid.

The private sector continued to be vibrant in 2015. One of the major changes in Somalia over the past decade has been the growth of the private sector. Economic deregulation and privatization have accompanied by the radical localization of governance. The growth of the private sector is closely linked to processes of globalization. In the context of weak and often ineffectual public administration, the private sector is playing an instrumental role in providing social services and shaping development. As market economy replaced a centrally planned economy, development had become market-driven rather than government-led.

The outlook of the Somalia's national income growth is expected to remain steady with low inflation. Real GDP growth is projected at 3.7 percent in 2016–17, driven by private investment from the Diaspora and donor-financed public investment. Inflation is expected to remain at 1 percent, owing to continued low world commodity prices. Reflecting largely construction material and increased food imports, the external current account deficit is projected to be 15.8 percent of GDP in 2016–17, financed by foreign direct investment and external grants.

**Table 2. National Income and Prices, 2013-2015**

	2013	2014	2015
Nominal GDP in millions of US dollars	5,352	5,647	5,925
Real GDP, annual percentage change	2.8	3.6	3.7
Per capita GDP in UD dollars	402	413	423
Consumer Price Index (CPI), annual percentage change	4.5	1.3	4

Source: FGS estimates; and IMF estimates.

Export of live animals to Gulf nations continued to be Somalia's leading foreign exchange earner in 2015, registering steady annual growth with a 6 percent increase (FAO, 2015). Somalia exported 4.9 million goats and sheep, 295,000 cattle and 72,000 camels, putting an estimated US\$386.5 million into Somali livestock owners' pockets, against US\$360 million in the previous year of 2014. The livestock sector continues to offer significant growth potential, boosted by continued livelihood, and export-focused interventions, good prices and growing markets in the Middle East.

**Table3: Livestock Export, 2015  
in U.S. dollars**

Type of the animal	Total number	Price per head (USD)	Total Value of animal (USD)
Camel	72,420	700	50,694,000.00
Cattle	294,992	300	88,497,600.00
Shoats	4,946,602	50	247,330,100.00
<b>Total Head</b>	<b>5,314,014</b>	<b>Grand Total</b>	<b>386,521,700.00</b>

Source: FOA, 2015

Somalia saw increased demand in 2015 for live animals in the Gulf mainly due to increased investment in animal health services by local and international organizations, which is a key condition imposed by the importing countries. Saudi Arabia continued to be a key market for Somali livestock and future expansion of the Hajj (pilgrimage), when Muslims slaughter animals to celebrate Eid Al-Adha, or the "Feast of Sacrifice", means good business for Somalia.

The overall 2015 Deyr season cereal harvest in Southern Somalia is estimated at 130,100 metric tonnes. Due to a combination of depressed prices and concerns over El Nino induced rains damaging irrigation equipment, farmers have planted and

produced lower than typical harvest of non-cereal crops (sesame, cowpeas, groundnut, watermelon, tomatoes, and onions) in southern Somalia. These crops are important for household income and food source. In Northwest Agro-pastoral area, the 2015 Gu cereal harvest is estimated at only 7,700 metric tonnes. The poor production is mainly attributed to reduced area under crop establishment as a result of poor Gu rainfall performance as well yield reduction due to moisture stress (FSNAU, 2015).

According to Ministry of Commerce and Industry, the total number of industries registered in 2015 was 55 industries producing around US\$374 million (Table 4). Form industry represent the largest share (16 Percent) of the domestic production equivalent to US\$60 million, this is followed by Aluminum industry (15 percent) equivalent to US\$58 million, Plastic Industry (15 percent) totaled US\$56 million, Construction Industry (11 percent) totaled US\$40 million and Beverage Industry (10 percent) totaled US\$36 million.

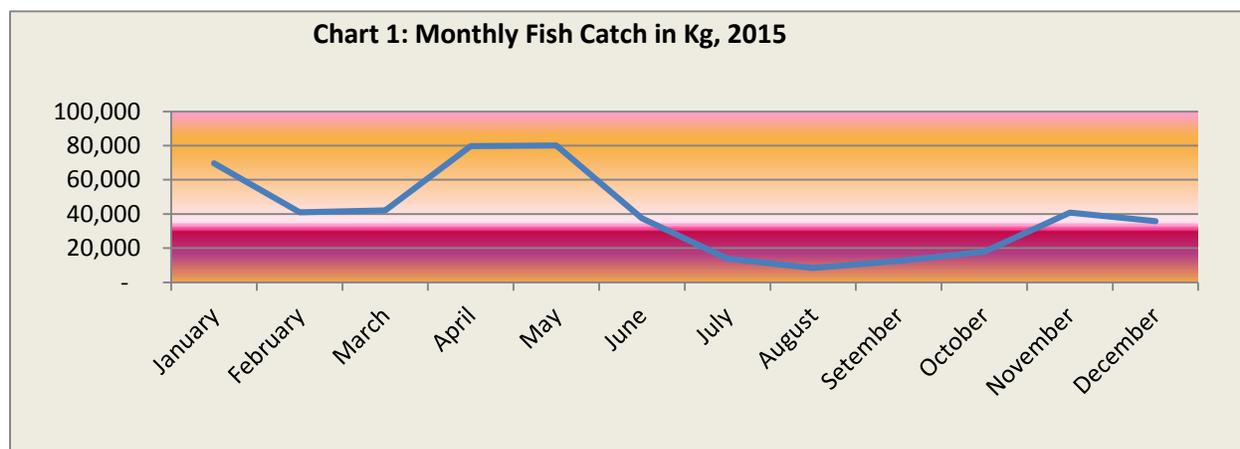
<b>Table 4: Domestic Production, 2015</b>					
<b>In millions of US Dollars</b>					
<b>No.</b>	<b>Type of Industry</b>	<b>No. of Industry</b>	<b>Volume of Production</b>	<b>Unit</b>	<b>Value in US dollar (est.)</b>
1.	Beverage	25	115,985,024	Liter	36
2.	Form	9	71	Tons	60
3.	Aluminum	2	480	Tons	58
4.	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.	Cigarette	1	2	Tons	4
12.	Construction Materials	1	15	Tons	40
13.	Plastic Containers	1	10	Tank	35
14.	Antiseptic	1	12,000	Liter	2
	<b>Total</b>	<b>55</b>	<b>Total Value</b>		<b>374</b>

Source Ministry of Commerce and Industry, 2015

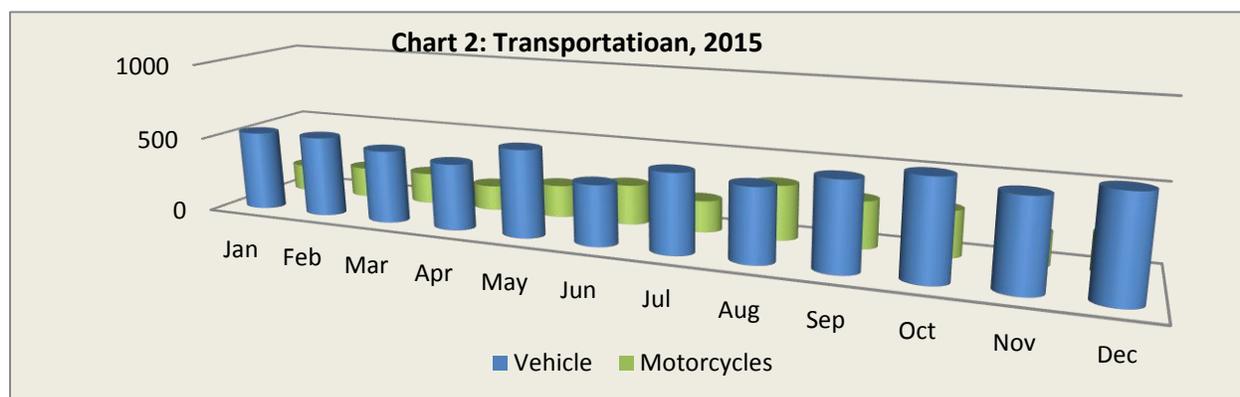
Somalia's fishery sector remains under exploited. Latest statistics from Ministry of Fisheries and Marine Resources in the reporting period of 2015 show that, nearly 479,050 Kg, worth an estimate of US\$7.2 million was produced in Mogadishu and nearby shorelines. National estimates of overall fishery production in Somalia coastline is on the tune of 718,575 Kg, worth US\$10.8 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.



Source: Ministry of Fishery and Marine Resource, 2015.



Source: Ministry of Transport and Ports, 2015.

Transportation industry is on the rise. The total numbers of imported vehicles in 2015 were 6,334 vehicles, comprising private and public transport, against 10,204 vehicles imported in the previous year of 2014. The reduction of imports was mainly attributed to the increase of custom duties levied on vehicle importations. Another important feature that has been witnessed is the rise of Three Legged Motorcycles as a method of public transport. Estimates suggest that the total number of imported of this kind of motorcycle was in the order of 2,849 motorcycles, up from 2,460 representing 16 percent increase over 2014 (chart 2).

Remittances help finance Somalia's large trade deficit of more than 40 percent of GDP, paying for about 38 percent of total imports. However, Somali Diaspora money transfers from the U. S. A. and elsewhere have slowed considerably. This due to loss of the banking services in the countries like, US, UK, Canada, Australia. Other challenge is the Suspicious/Loss of the licenses in Kenya. The Parliament of Federal Government of Somalia in response to this burden, approved the AML/CFT in 2015.

### **3.1 Remittance**

Somalia remittance is lifeline of the economy. Somalia's Diaspora is estimated to have sent more than \$1.393 billion home in 2015—nearly twice the level of development aid (\$611 million) and humanitarian aid (\$588 million). Remittance is a crucial component of the Somali economy, representing more than 20 percent of the nation's gross national income, far outweighing government revenues. Remittance support livelihoods for an estimated 40 percent of the population.

### **3.2 Exchange Rate Development**

In 2015, Somali Shilling (SOS) exchange rate depreciated against United State Dollars by around 10 percent to SOS 22,241 in 2015, up from an average rate of SOS 20,227 as shown in chart 3 below. The CBS has control over neither the exchange rate nor the supply of the Somali shilling (SOS).

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 use of neighboring country currencies is also prevalent in border areas. The depreciation of the Somalia Shilling in the reporting period of 2015 was mainly attributed to the bulk of counterfeits printed in Puntland State of Somalia.

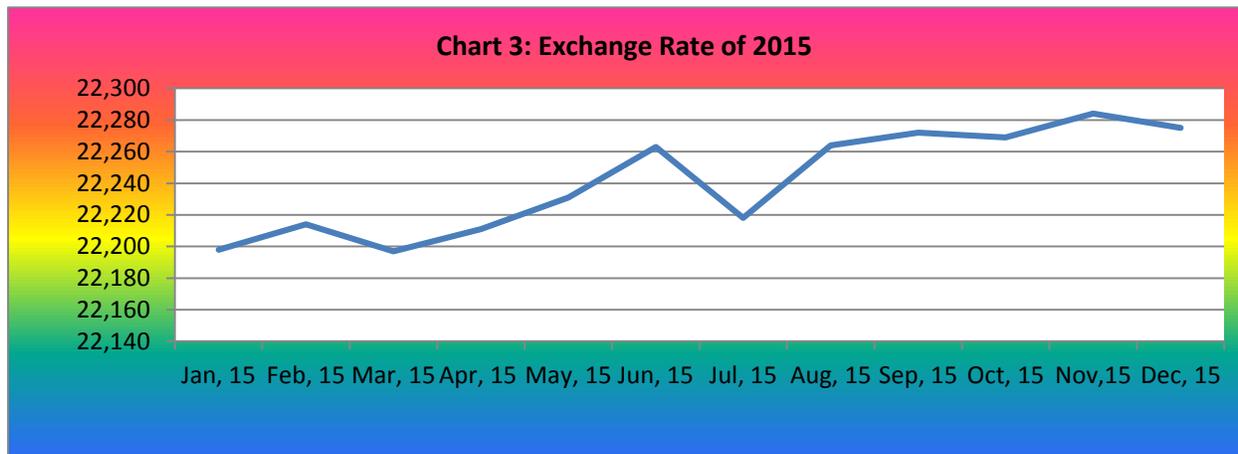
The arrival of the counterfeit Somalia Shilling in mid-2015 meant that exchange dealers at the exchange centers in capital city of Mogadishu and other main districts to change the rates every few hours in same day.

It appeared in the market for the first day in small volume, but was halted and overshadowed by official communication to the public from the CBS. On the next day, the volume subsided and most traders were refusing to accept it, as a result, the exchange rate remained unchanged.

**Table 5. Monthly Exchange Rate in SOS**

Period	2014	2015
January	19,684	22,198
February	18,564	22,214
March	19,189	22,197
April	20,420	22,211
May	20,761	22,231
June	20,778	22,263
July	21,041	22,218
Augusto	20,875	22,264
September	20,456	22,272
October	20,235	22,269
November	20,453	22,284
December	20,268	22,275
Average	20,227	22,241

Source: CBS, 2015



Source: CBS, 2015

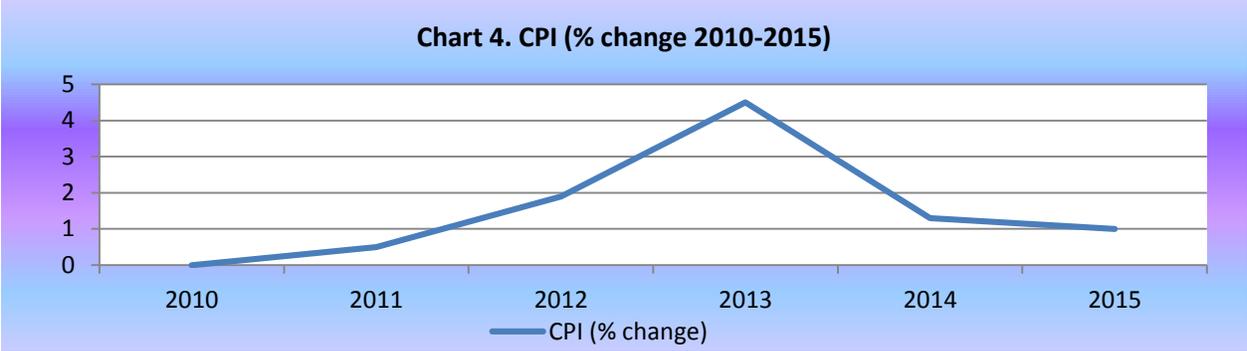
### 3.3 Outlook of Somali Shilling

The economy of Somalia is highly dollarized; CBS has not issued any bank notes since 1991, and the bulk of payments are settled in U.S. dollars, mobile phone platforms, and counterfeit SOS notes. 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.

Local currency is used significantly in bulk volumes in the markets trading in vegetable, milk, livestock and Butchery and Khat. The only existing Somali shilling denomination is 1,000 SOS worth \$0.05.

### 3.4 Inflation Outlook

Overall annual average inflation rate declined to 1 percent in 2015 against 1.3 percent in 2014 (chart 4). The decline in the inflation rate was primarily due to lower commodity prices and decrease in international oil prices. Dollarization has favored Somali economy by controlling inflation and hence restoring public confidence.



Source: MoPIC, 2015

## 4. Fiscal Policy Management

### 4.1 Budgetary Operations

The revised budget of 2015 is presented on the table 6 below. This revised budget was approved by the parliament in September, after a request for review and amendment in August 2015. The revised budget of 2015 is prepared on cash basis with zero balance budget.

The trends in revenue and expenditure since 2013 have shown a strong and consistent growth, revenue has increased by 31% over 2013 to 37% increases in 2015. Similarly, on the expenditure side, it has been noted a significant increase of 28% over 2013 to 32% in the revised budget of 2015.

**Table 6. Summary of Revenue and Expenditure 2014-2015**  
In Million US Dollars

	2014 Actual	2015 Budget	2015 Revised
<b>1. REVENUE</b>	<b>145.2</b>	<b>239.9</b>	<b>199.0</b>
(A) DOMESTIC REVENUE	84.3	123.4	113.9
Tax Revenue	73.8	103.1	85.7
Income and corporate taxes	1.1	4.6	4.7
Taxes on international trade	64.3	72.7	70.3
Other Domestic Indirect Taxes	4.8	22.6	6.4
Other taxes	3.6	3.2	4.3
Non-Tax Revenue	10.5	20.3	28.1
(B) DONOR FUNDED	60.9	116.5	85.2
Bilateral Assistance	59.0	39.9	35.4
Multilateral	1.9	76.7	49.8
<b>2. EXPENDITURE</b>	<b>151.1</b>	<b>239.9</b>	<b>199.0</b>
(C) RECURRENT EXPENDITURE	150.9	226.0	184.5
Compensation of employees	77.2	108.3	79.1
Use of goods and services	57.6	82.7	75.8
Grants	10.1	14.8	15.2
Contingency	3.8	3.2	2.7
Repayment of arrears and advances	2.2	17.0	11.7
(D) CAPITAL EXPENDITURE	0.2	13.9	14.5
Capital	0.2	13.9	14.5
<b>3. BALANCE</b>	<b>-5.8</b>	<b>0.0</b>	<b>0.0</b>

Source: Ministry of Finance, 2015

## 4.2 REVENUE AND GRANTS

Revenue and grants of Federal Government of Somalia in the fiscal year of 2015 was reported to the tune of US\$199 million, relative to the budgeted US\$239.9 million reflecting a shortfall of US\$41 million. Although domestic revenue was in line with the budget, grants fell short by US\$31.3 million (0.5 percent of GDP), mostly from multilateral donors owing to weak budget planning and delays in disbursements by some bilateral donors. Consequently, and as the result of that, the government has accumulated domestic arrears estimated at US\$22½ million (0.4 percent of GDP)—mainly to defense forces and civil servants—bringing the stock at the end of 2015 to about US\$68 million (1.1 percent of GDP).

Revenue and grants have increased by US\$40.9 million (37 percent) relative to 2014. Domestic revenue has increased by US\$29.4 million (0.5 percent of GDP) to US\$113.9 million in the fiscal year of 2015 (chart 5).

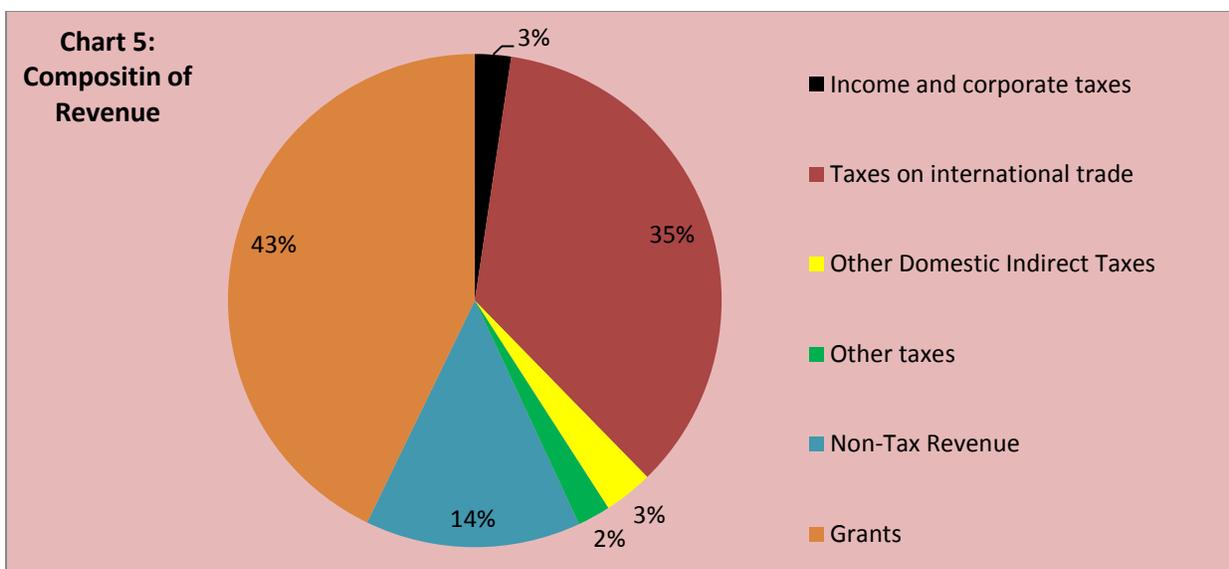
Direct donor support (43 percent) and taxes on international trade (35 percent) remain the largest sources of government fiscal receipt. For instance, the actual grants in the revised budget was US\$85.2 million (1.4 percent of GDP)—\$49.8 million by the multilateral donors and US\$35.4 million by bilateral donors, up from US\$61 million (39.7 percent increase) in the previous year of 2014. Taxes on international trade have increased slightly (9 percent) over 2014 to US\$70.3 million.

There is a significant underperformance in domestic tax owing to weak customs and tax administration and lack of appropriate framework in both regional and federal levels.

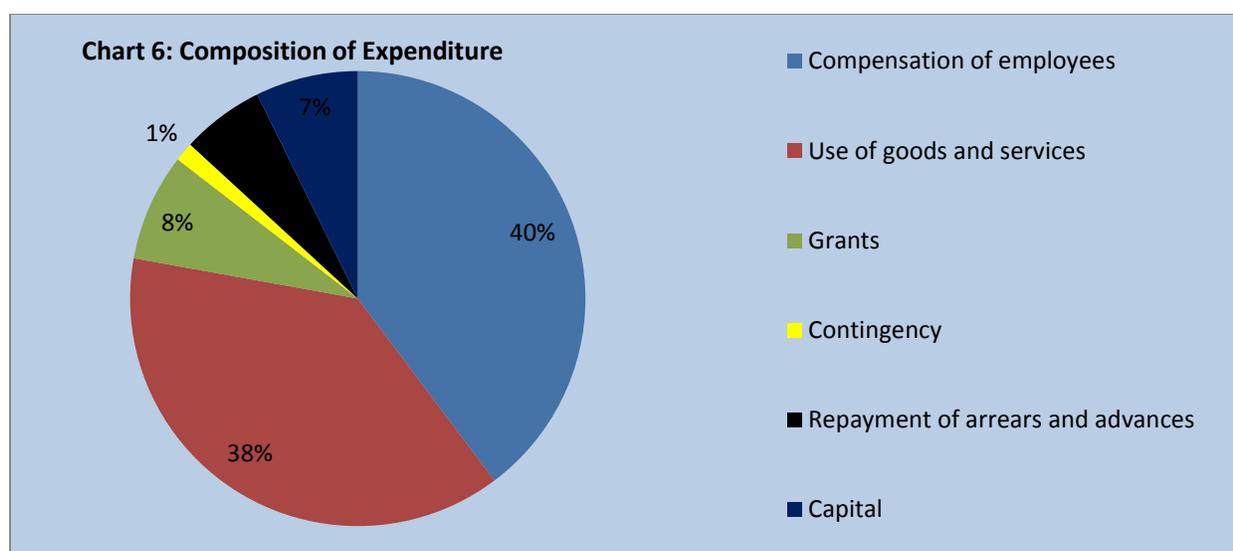
Untapped revenues estimated at US\$41 million go uncollected in Somalia every year. This is mainly due to the fact that the government does not have the tools to implement tax policies, in addition to that, there are not enough taxpayers on their books. The lost revenue often leaves a country unable to provide basic services to its people.

## 3.3 EXPENDITURE

FGS total expenditure stood by US\$199 million against the budgeted US\$239.9 million reflecting a shortfall of US\$41 million. Expenditure is envisaged to rise commensurately with revenue and grants. Monthly expenditures closely matched monthly revenues during 2015, reflecting the cash-based nature of budget management, but arrears continued to accumulate. Compensation of employees and purchases of goods and services consume a significant portion of FGS expenditures. Wages and salaries accounted for 51 percent of expenditures in 2014 and 40 percent in 2015 (chart 6). The next largest category of expenditure is goods and services, accounting for 38 percent of expenditures in 2014 and 2015 as well.



Source: Ministry of Finance, 2015



Source: Ministry of Finance, 2015

## 5. Balance of Payments

### 5.1 Current Account

In 2015, the current account deficit amounted to \$879million, (equivalent to 14.8 per cent of GDP) following a deficit of \$827 million or 14.7.per cent of GDP in 2014. The deterioration of current Account deficit is mainly attributed a large construction materials and a high food imports following a weak agriculture harvest. Foreign direct investment (in part by Somali Diaspora) and grants covered the deficit.

### 5.2 Merchandise Trade

Overall export estimates indicate that in 2013 Somali export were US\$799million, these increased to US\$819 and US\$859 in 2014 and 2015 respectively, Which represents 4.8% increase in exports. The major categories of export were camel, cattle, shoats, hides and skins Banana, Oil, Beans, dry Fish, meat and Myrrh

In 2014 overall imports were estimated to have been around 61 percent of GDP, that is US\$ 3.4billion, while in 2015 imports 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 Saudi Arabia, United Arab Emirates (UAE), Yemen, Oman, Kuwait, Qatar, Ethiopia, India, Oman, Kenya, China, and Pakistan.

### 5.3 Income

In 2015, net factor payments abroad were estimated a deficit of \$467Million, which were higher than the US\$450million reported in 2014. In particular income accruing to foreigners was US\$505million while income earned by residents rose from US\$36 to US\$38million in 2015.

### 5.4 Capital account and Financial Account

Somalia recorded a capital account surplus of US\$150million 2.8(per cent of GDP), which similar to US\$150million surplus of 2014 (see Table 7). Financial Account recorded surplus of US\$726million compared with US\$677million in 2014 attributed by an increase in Foreign Direct Investment.

**Table 7. Balance of Payments 2014-15**

<b>(Millions of US Dollars)</b>		
	<b>2014</b>	<b>2015</b>
Current account balance	-827	-876
<b>Trade balance</b>	-2,663	-2,794
<b>Exports, f.o.b.</b>	819	859
<b>Imports, f.o.b.</b>	-3,482	-3,653
<b>Income (net)</b>	-450	-467
<b>Receipts</b>	36	38
<b>Payments</b>	-486	-505
<b>Current transfers (net)</b>	2,286	2,385
<b>Private, of which:</b>	2,270	1,660
<b>Remittance^1</b>	1,359	1,393
<b>Official^2</b>	712	725
Capital Account and Financial Account	827	876
<b>Capital account</b>	150	150
<b>Financial account (net)</b>	677	726
<b>Foreign direct investment (net)</b>	617	666
<b>Other net capital flows^3</b>	60	60
<b>Errors and omissions</b>	2	-7
<b>Overall Balance</b>	1	-7
<b>Change in the central bank net foreign assets^4</b>	1	-7
<b>Nominal GDP (in millions of U.S. dollars)</b>	5,647	5,925
<b>External public debt(in million of US dollars)</b>	4,946	5,294
<b>Source: UN comtrade; FGS estimates; and fund staff estimates</b>		
<b>1/ 2013 data from Barclays Bank, PLC.</b>		
<b>2/includes direct budget support</b>		
<b>3/ Insurance and technical reserves</b>		
<b>4/Excluding Somalia's net position with the IMF</b>		

**Table 8. Balance of Payments 2014-15**

<b>(percent of GDP, unless otherwise indicated)</b>		
	<b>2014</b>	<b>2015</b>
Current account balance	-14.7	-14.8
<b>Trade balance</b>	-47.2	-47.2
<b>Exports, f.o.b.</b>	14.5	14.5
<b>Imports, f.o.b.</b>	-61.7	-61.7
<b>Income (net)</b>	-8.0	-7.9
<b>Receipts</b>	0.6	0.6
<b>Payments</b>	-8.6	-8.5
<b>Current transfers (net)</b>	40.5	40.3
<b>Private, of which:</b>	27.9	28.0
<b>Remittance<sup>1</sup></b>	24.1	23.5
<b>Official<sup>2</sup></b>	12.6	12.2
Capital Account and Financial Account	14.6	14.8
<b>Capital account</b>	2.7	2.5
<b>Financial account (net)</b>	12.0	12.3
<b>Foreign direct investment (net)</b>	10.9	11.2
<b>Other net capital flows<sup>3</sup></b>	1.1	1.0
<b>Errors and omissions</b>	0.0	-0.1
<b>Overall Balance</b>	0.0	-0.1
<b>Change in the central bank net foreign assets<sup>4</sup></b>	0.0	-0.1
<b>Nominal GDP (in millions of U.S. dollars)</b>	5,647	5,925
<b>External public debt(in million of US dollars)</b>	4,946	5,294
<b>Source: UN comtrade; FGS estimates; and fund staff estimates</b>		
<b>1/ 2013 data from Barclays Bank, PLC.</b>		
<b>2/includes direct budget support</b>		
<b>3/ Insurance and technical reserves</b>		
<b>4/Excluding Somalia's net position with the IMF</b>		

## 5.5 Public Debt

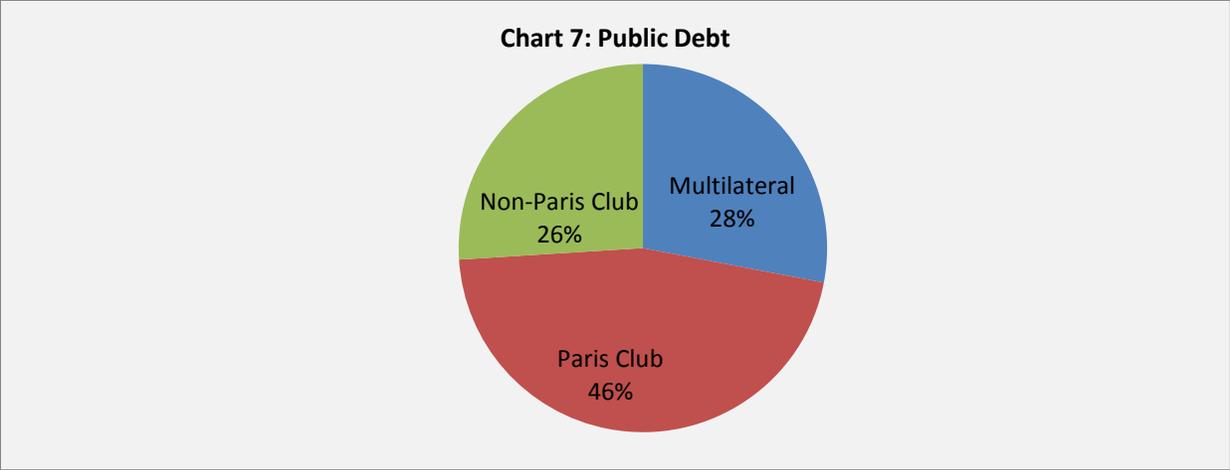
Somalia's external public debt record was lost or destroyed during the conflict in 1990s. Relations with the international creditors were frozen in the late 1980s, when financial policies slipped out of control. With the help from the African Development Bank, the Government has established a Debt Management Unit (DMU) at the ministry of Finance. DMU has successfully implemented debt mapping and validated Somali's debt with major creditors, validated debt information was successfully received from most creditors.

Based on up-to-date information from more than two-thirds of creditors Somalia owes an estimated \$5 billion (85.1 percent of GDP) to multilateral and bilateral creditors (chart 7). It owes (\$1.5 billion or 24.7 percent of GDP) to multilateral creditors, mainly the World Bank, the IMF, and the Arab Monetary Fund. Somalia owes (\$2.3 billion or 38.5 percent of GDP) to Paris club creditors, mainly the United States, the United Kingdom, the Russian Federation, France, Italy, and Japan, and \$1.3 billion 21.9 percent of GDP to non-Paris club 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 debt. Table 9 shows external public debt positions in 2013-2015

<b>Creditors</b>	<b>Prel. 2013</b>	<b>Prel. 2014</b>	<b>Prel. 2015</b>	<b>Percent of GDP</b>
<b>Total Stock outstanding</b>	4,989	4,946	5,043	85.1
<b>Multilateral</b>	1,557	1,505	1,464	24.7
<b>Bilateral in which</b>	3,433	3,441	3,578	60.4
<b>Paris Club</b>	2,232	2,239	2,279	38.5
<b>Non-Paris Club</b>	1,201	1,202	1,299	21.9

Source: MoF (DMU), World Bank, and AfDB



Source: MoF (DMU), World Bank, and AfDB

## 6. Financial Sector Development

The Central Bank of Somalia continues to perform its supervisory role aimed at achieving and maintaining a sound, stable and robust financial system. In a bid to enhance economic activities and promote access to financial services in the country, the Licensing and Supervision Department is continuing to strengthen its supervisory framework for the financial institutions (commercial banks and MTBs).

The CBS in collaboration with various international partners such as the IMF, U.S. Treasury and the World Bank developed various policy measures necessary in maintaining and promoting the safety and soundness and integrity of the banking and MTBs system that are in line with international best practice. Currently, there are seven prudential regulations and five manuals in the banking sector, while the MTBs have four effective prudential regulations. In addition, the AML/CFT law passed in the parliament and the president approved the implementation of this law.

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

The Central Bank of Somalia granted provisional license to six banks (6), which demonstrates the expansion and importance of financial sector, and the need to regulate and supervise them through appropriate financial laws. The near-term focus of the Bank is to bolster capacity in the critical areas in bank licensing and supervision. An additional 13 application for commercial bank licenses are pending. In the Money Transfer Business, there are nine registered and licensed in 2015. The following are licensed Commercial banks and MTBs.

## Commercial Banks

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

## Money Transfer Business

- Dahabshil Money Transfers
- Kaah Money Express
- Amal Express
- Amana Express
- Tawakal Expresss
- Hodan Global
- Jubba Express
- Taaj Express
- Mustaqabal Express

Many of these licensed banks had established corresponding banking relationship and some are currently working on establishing corresponding relations with foreign banks.

The granted provisional license in 2015 is valid for 31, December during which the applicant has to comply with the requirements under the FIL and fulfill the other conditions as may be stipulated by the Central Bank of Somalia.

The CBS grants full license to carry on banking business, after the bank is satisfied that the applicant has complied with the terms and conditions laid down in the Financial Institutions Law.

Formal commercial banking activity is geographically 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. Six commercial banks are licensed by the CBS with assets of \$194.4 million and deposits of \$142.8 million. Total assets has increased by 16 percent up from US\$168 million in the first quarter of 2015, while customer deposits shown significant increase of 24 percent up from US\$115 million on the same period.

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

Year	Asset	Financing Assets	Deposits	Shareholders' Equity
2014	150,900,450.28	41,214,945	104,422,991.20	42,025,593.30
2015	194,382,155.54	45,205,385.93	142,806,491.89	46,627,762.96

Source: CBS, 2015

**Table 11: List of Commercial Bank Branches, 2015**

No.	Name of the Bank	No. of Branches	Main Cities				
			Mogadishu	Hargeysa	Garowe	Bosaso	Kismayo
1	DBI	3	1	1		1	
2	SSB	15	12	1	1	1	
3	Amal Bank	2	1		1		
4	IBS	4	4				
5	TAB	1					
6	Premier Bank	3	3				

Source: CBS, 2015

## 7. Corporate Governance

### 7.1 Board of Directors resolution in 2015

In 2015, the BoD managed to hold three meeting to foster the CBS functions. In these meeting there are several issues that had been raised by the board members finally issuing some useful resolutions:

<b>Table 12: Board of Directors (BoD) Resolutions, 2015</b>			
<b>Date</b>	<b>Meeting No.</b>	<b>Agendas</b>	<b>Resolutions</b>
26 <sup>th</sup> Jan, 2015	BoD 4 <sup>th</sup> Meeting	<ul style="list-style-type: none"> <li>• Approving 3<sup>rd</sup> meeting minutes</li> <li>• Approval of the budget 2015</li> <li>• Funds for Kuwait Fund for Arab Development</li> <li>• Final review and approval on supervisory regulations</li> <li>• Any other business</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of the 2015 budget with minor corrections</li> <li>• Extension of commercial banks' license tin 31<sup>st</sup> Dec2015</li> <li>• Board Members had advised for making the Kuwait Fund long lasting to asset the Somali community instead of one time expending fund</li> <li>• BoD suggested some minor changes for regulations developed by Supervision Department:               <ul style="list-style-type: none"> <li>✓ The Bank Licensing Regulations (CBS/REG/01)</li> <li>✓ Capital Adequacy Regulation (CBS/REG/02)</li> <li>✓ Liquidity Risk Management Regulations (CBS/REG/03)</li> <li>✓ Money Transfer Business(MTB) Registration (CBS/REG/04)</li> <li>✓ Money Transfer Business(MTB) Licensing Regulation(CBS/REG/04)</li> </ul> </li> </ul>
16 <sup>th</sup> May, 2015	BoD 5 <sup>th</sup> Meeting	<ul style="list-style-type: none"> <li>• Approving 4<sup>rd</sup> meeting minutes</li> <li>• WB provisional on the "Safer corridor" project</li> <li>• Appointment of Internal Auditor Office</li> <li>• Any other Business</li> </ul>	<ul style="list-style-type: none"> <li>• Appointment of Chief of Internal Audit by the BoD</li> <li>• Recommending of signing of "Safe Corridor" project with making amendments</li> <li>• Agreed on sending letter to the president asking for replacing one BoD member who did not attend the BoD meetings all five meetings</li> </ul>
22 <sup>nd</sup> Aug, 2015	BoD 6 <sup>th</sup> Meeting	<ul style="list-style-type: none"> <li>• Approving 5<sup>th</sup> meeting minutes</li> <li>• Roles and responsibly of the BoD</li> <li>• The US Department: Notice of Funding Opportunities (NOFO)</li> <li>• Licensing and Supervision of Commercial Banks</li> <li>• Currency Reform</li> <li>• Adopting Procurement Procedure/Commitment</li> </ul>	<ul style="list-style-type: none"> <li>• BoD members agreed on to solicit legal advice on the physical presence versus digital presence (Teleconferencing)</li> <li>• BoD members scheduled their meetings at the last every Saturday in every two months</li> <li>• BoD agreed that regulating of financial institutions is the mandate of Central Bank of Somalia as in the Central Bank Act, 2011; Article 38 (1).</li> </ul>

## 7.2 CBS Agendas in the Short-term Future

CBS has more than a few agendas in the short-term future to develop its internal governance, human development, and institution development, and other CBS related programs.

Below is a highlight to some important points for the Central Bank of Somalia.

1. National Payment Systems.
2. Currency Reform.
3. Monetary Policy.
4. Core Banking.

# 8. Monetary Policy and Currency Reform

## 8.1 Monetary Policy

The Central Bank of Somalia faces daunting challenges in discharging its mandate in predominantly dollarized and unregulated economy. Monetary policy tools don't exist, but regulated by free-floating exchange rate arrangement in the market only decided by amount Dollars supplied and demanded. The U.S. dollar is the de facto currency in the country, even though, the Somali Shilling (SOS) remains the de jure currency for all of Somalia. Accordingly, all payments are made in U.S. dollar. To put in all monetary tools; Firstly, the Bank is planning to improve.

The newly revived Central Bank of Somalia in 2012 is highly ambitious in the process of taking full charge of formulating and implementing monetary policy. This is hampered by lack of adequate resources, both technical and financial. Hence, The Central Bank of Somalia's medium and longer-term monetary policy objectives are:

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

To accomplish above-mentioned objectives, the Central Bank of Somalia is willing to adopt means for attainment its achievements by enriching the research capabilities of the bank and opening Central Bank branches in the federal states.

1) Economic Research Capabilities. Economic Research and Statistics Department is expected to get enrichment by staffing extra capable and qualified economic researchers who will conduct research activities on economic situation in the country.

This will help the bank to increase its credit and restore monetary policy framework to achieve the desired objectives.

2) Institute establishment. The CBS had built Training Institute in 2014; the Institution is expected to be opened as soon as possible to teach the CBS and commercial Banks staff in educating necessary courses for Banking and economic courses. The institute is one of the core objectives of the Central Bank of Somalia as mean for execution its desired goals in both short-and-long term futures. The Institute will be run by Central Bank of Somalia as center of discipline-based research to serve the interests of the Bank and its staff hosting the capacity-injection or building activities to enhance the skills of the staff of both CBS and other Governmental institutions staff.

The operational-sing of Institute will not be an easy task that the CBS could be able to implement alone but, collective efforts of CBS and other stakeholders especially the donors will be needed as soon as possible, the needs of the institute is of the priorities in the current time.

To reach this important point, there are general and specific requirements for the final launching of the institute including human resources who could run the institute and the development of its curriculum to carry out its mandate as learning and research center that will be problem-solving center for its CBS and other clients in the market, and also the funding opportunity should be identified for the implementation of the project.

Expected benefits from the Institute Post Operationalising for CBS and Staff

- If the institute is functionalized, it will be an added value to the CBS to enhance the credibility of the Bank which is the last resort of the Banking industry in Somalia.
- Since the Banking organization activities are ever changing, the Institute is expected to provide the CBS employees with training during their careers for skill enhancement.
- The knowledge and skills of the staff of the Bank will be developed that will motivate the employees themselves because better understanding of their work requirements will be clear.
- When they are trained or taught work-related courses, positive attitudes of the employees will be expected towards the work environment in interaction with other people in and outside of the Bank.
- Trainings and workshops that could be hosted at the institute instead of sending the employees mostly to outside as a capacity development which too cost for both the CBS and donors.
- Professional and homegrown staff will be produced if the institute functions as expected and desired in the future.

3) Federal States Branches; CBS used to have branches in all regions before 1990s. Recently, one branch is reopened in Kismayo, Jubbaland State of Somalia, and

another one in Baidoa, South-West State is rehabilitated. The CBS plan is to open other branches in both existing and emerging states in Somalia to enhance the bank's operation in the nationwide. This plan is expected to realize in the short-term future as soon as possible.

Once the central bank fully prepared its monetary policy, the central will restore its credibility because the main responsibility is to safeguard the economy of the nation by implementing strong monetary policies to maintain price stability and the economy as whole. The next points will determine whether the Central Bank vows to the all responsibilities under monetary policies:

- Likelihood of prices stabilization.
- Uphold of local currency value against foreign currency to battle with currency crises.
- Financial stabilization achievement.
- How monetary and monetary policies match achieved.

### **Measurements for Monetary Policy Success:**

1. If the price stabilization is realized at CBS
2. Implementation exchange regime to safeguard the exchange rate in the market
3. If the financial system of the country maintained and projected for from risks
4. Synchronization Government Fiscal policies with monetary policies.
5. Accomplishment institute launching to offer courses as mechanism for monetary objectives.
6. Expansion of CBS branches in all states in the country as part of monetary policy enhancement.

## **8.2 Currency Reform**

This is a key significant agenda to handle currency crisis in the country since early 1991s where no genuine Somalia Shilling Notes had been printed by the CBS to circulate in the economy. To get solution for the shortage of notes in the circulation and counterfeited amounts of notes that takes the expense of the citizens. The CBS begun comprehensive plan working with other stakeholders starting from brainstorming process at the CBS level led by CBS governorship and board of directors, then working with other Somali Authorities including; SFG especially Ministry of finance and, after that as CBS, We are now at the stage to start crucial negotiations with other international partners especially IMF and donors whom are expected to finance this project.

The main stages of this plan are two: first, CBS plans are two stages in the currency reform process; Phase one will provide the Somali people with much urgently needed new legitimate lower denomination Somali currency during 2016. Phase two would represent a comprehensive national currency reform. In the context of the national comprehensive currency reform, CBS is considering four (4) to seven (7) new banknotes. The new banknotes would encompass several denominations and, the later stage; for international comparison, the new currency would have the lowest corresponding value of USD 0.05 and the highest of USD 4.5 at the prevailing exchange rate of SOS 22,000 per USD 1. Actual denominations structure for the new currency would be decided in the subsequent currency reform discussions. The two highest

denominations will not be part of the initial currency issuance. CBS plans to implement a Currency Board System.

The key objective of the currency board is to pursue a visible anti-inflationary policy. To implement the system, CBS would cover the entire “narrow” Shilling supply (printed). In this way, the markets and the public at large can be assured that every Shilling is backed by an equivalent amount of USD in the official reserve. In accordance with the Financial Institutions Law no.130, CBS may lend the FGS even under the Currency Board System in the 15% temporary advance limit. The Currency Board is a very important choice both politically and economically and will need the fullest support of both the Somali Government and its international partners.

Successful comprehensive currency reform will depend on: (i) building technical capacity; (ii) mobilizing financial resources; (iii) planning and conducting currency conversion. And (iv) ensuring policy consensus and broad-based political support.

### **To reach that prompt objectives, the CBS has these rules on currency reform;**

- Building adequate human capital;
- Battling with existing counterfeiting ;
- Formulating right monetary policies to safeguard the overall economic of the country;
- Maintaining the value of Somali shilling against other international currencies; and
- Printing new currencies and pulling out the old notes from the circulation;

### **The factors will exemplify the success of currency reform;**

- In receipt of ample and professional personnel for the currency reform
- Getting rid of the counterfeiting notes in the circulation
- Conduction of fully currency reform at the end in the short-term future
- accomplishment in Implementing stable exchange regime and maintaining anti-inflationary policy in the economy
- succeeding in persuasion of the donors to finance the project

# Deloitte.

CENTRAL BANK OF SOMALIA

REPORTS AND  
FINANCIAL STATEMENTS

31 DECEMBER 2015

CENTRAL BANK OF SOMALIA

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2015

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## CENTRAL BANK OF SOMALIA

### INSTITUTIONAL INFORMATION

#### BOARD OF DIRECTORS

Bashir Isse Ali - (Governor)  
Maryama Abdullahi Yusuf - (Deputy Governor)  
Abdulqafar Abdullahi Sheik  
Dr. Omar Ibrahim Hussein  
Maye Mohamed Sheekhuna  
Hussein Atto  
Hodan Isse

#### REGISTERED OFFICE

Central Bank of Somalia  
P O Box 11  
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Mogadishu, Somalia

#### LAWYERS

State Attorney General  
Villa Somalia,  
Mogadishu, Somalia

#### AUDITORS

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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 2015, 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.

# CENTRAL BANK OF SOMALIA

## REPORT OF THE DIRECTORS (Continued)

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

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

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

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

**Maintaining price stability:**

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

**Promoting integrity and stability of the financial system**

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

**Strengthening corporate governance**

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

## CENTRAL BANK OF SOMALIA

### REPORT OF THE DIRECTORS (Continued)

#### 5. CAPITAL STRUCTURES

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

#### 6. RELATIONSHIP WITH STAKEHOLDERS

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

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

- (a) **Price Stability:** The Bank formulates and executes monetary policy that leads to stable domestic prices; provide policy advice to the governments; disseminate economic reports and ensures stable exchange rates.
- (b) **Financial Stability:** The Bank promotes the stability of the financial system through effective regulation and supervision of banking system; provide safe and efficient payment systems; and promote public access to the financial services.
- (c) **Internal requirements:** The Bank attracts and retains high caliber staff with integrity, competency and accountability and provides conducive working environment and career development opportunities to its staff.

#### 7. MANAGEMENT

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

The 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.

REPORT OF THE DIRECTORS (Continued)

9. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

**Key risks and uncertainties**

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

(a) Operational Risk

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

- Human Resource Risk

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

# CENTRAL BANK OF SOMALIA

## REPORT OF THE DIRECTORS (Continued)

### 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 employees relationship

The relationship between the Bank and its employees continued to be good. Employees complaints raised during the year were resolved mainly through the use of consultative meetings/forums involving the management. 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.

# CENTRAL BANK OF SOMALIA

## REPORT OF THE DIRECTORS (Continued)

### 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

USD

Profit for the year

2,380,743

=====

### 18. DIRECTORS

The present members of the board of directors are shown on page 29

CENTRAL BANK OF SOMALIA

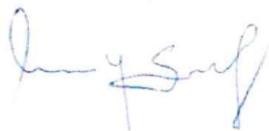
REPORT OF THE DIRECTORS (Continued)

19. AUDITORS

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

BY ORDER OF THE BOARD

Director



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Mogadishu

30/04/

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 non-executive directors.

#### **Board responsibilities**

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

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

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

#### **Board Meetings**

The Board held 3 meetings during the year ended 31<sup>st</sup> December 2015. 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.

## CENTRAL BANK OF SOMALIA

### STATEMENT ON CORPORATE GOVERNANCE (Continued)

#### 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 31<sup>st</sup> December 2015 included;

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

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

Date of meeting	31.05.2015	23.08.2015	06.12.2015
Bashir Isse Ali	✓	✓	✓
Maryam A. Yusuf	✓	✓	✓
Abdulqafar A. Sheik	✓	✓	✓
Dr. Omar I. Hussein	✓	✓	✓
Maye Mohamed Sheekhuna	✓	✓	✓
Hussein Atto	✗	✗	✗
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 Non-executive Director. The Deputy Governor-Administration and Internal Control is the only Executive member of the Committee. The Terms of Reference for the Audit Committee cover four major areas, namely, Internal Control, Financial Reporting, Internal Audit and External Audit.

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

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

# CENTRAL BANK OF SOMALIA

## STATEMENT ON CORPORATE GOVERNANCE (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 line with that received by persons holding similar executive positions with large financial institutions and be disclosed in the annual report.

### Conflicts of interest

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

### Independence

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

Approved by the Board of Directors on 30/04/2018, 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. 130 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that they keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the bank. They are also responsible for safeguarding the assets of the bank.

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

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

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



Director



Director

30/04/2018

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CENTRAL BANK OF SOMALIA

### Report on the financial statements

We have audited the accompanying financial statements of Central Bank of Somalia, set out on pages 43 to 68, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

#### *Directors' Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Basis for Qualified Opinion*

##### *Opening balances*

We were appointed as auditors of the bank in the previous financial year and were unable to obtain sufficient appropriate audit evidence on the opening balances. The bank did not undertake an audit of the financial year ended 31 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 2014 and 2015 and to profit or loss and other comprehensive income for the years ended 31 December 2014 and 2015.

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

**Report on the financial statements (Continued)**

*Basis for Qualified Opinion (Continued)*

*Cash on hand – Cash count*

Included in the statement of financial position are cash balances amounting to USD 13,943,470 (2014 – USD 8,187,721). Although cash counts were carried out by management as at 31 December 2015, we could not satisfy ourselves by any practical alternative means concerning cash held at the beginning and end of the year 2015 since we did not witness the cash count procedures.

*Property – valuation*

Included in the property and equipment are land and buildings amounting to USD 69,391,769 (2014 – 41,211,050). A valuation on these properties was carried out on 30 August 2016 by Bel Air Properties Limited, on a market value basis, and the valuation opinion expressed that the values of the properties may not significantly differ from the values as at 31 December 2014 being the date when the values were initially recognized in the financial statements. However, we could not satisfy ourselves by any practical means as to whether the market values on the two dates are not materially different and whether there could be adjustments necessary to the amounts reported as at 31 December 2015.

*Qualified Opinion*

In our opinion, except for the possible adjustments arising from limitations described in the basis for qualified opinion section above, the accompanying financial statements give a true and fair view of the financial position of the bank as at 31 December 2015, and of the bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of matter*

Without further modifying our opinion, we draw your attention to note 23 which describes a prior year adjustment that has been made by management to recognise gold coins and bullions that were identified during the year and which were in existence in the prior years. The carrying value of the asset has been credited to the general reserve which has been set up for the assets recovery process. Note 23 has laid out the nature of the prior year adjustments and the considerations by the bank.

**Report on Other Legal Requirements**

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

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



**Certified Public Accountants (Kenya)**

**Nairobi, Kenya**

12 May 2018

CENTRAL BANK OF SOMALIA  
STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 USD	2014 USD (Restated)
FEES INCOME	4	2,910,592	3,244,854
OPERATING EXPENDITURE	5	(2,786,939)	(2,986,783)
NET OPERATING INCOME		123,653	258,071
OTHER INCOME	7	23,211	7,646,361
PROVISION FOR IMPAIRMENT OF ASSETS	10	2,200,000	(5,803,920)
NET FOREIGN EXCHANGE GAINS		33,879	22,651
PROFIT BEFORE TAXATION		2,380,743	2,123,163
TAXATION	8	-	-
PROFIT FOR THE YEAR		2,380,743	2,123,163
OTHER COMPREHENSIVE INCOME:			
REVALUATION SURPLUS ON PROPERTY		27,573,150	40,312,808
REVALUTION LOSS ON GOLD COIN AND BULLIONS		(2,062,871)	(276,924)
		25,510,279	40,035,884
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		27,891,022	42,159,047

CENTRAL BANK OF SOMALIA

STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2015

	Notes	2015 USD	2014 USD (Restated)	1 January 2014 USD (Restated)
<b>ASSETS</b>				
Cash balances	9	13,943,470	8,187,721	7,509,974
Deposits and balances due from banking institutions	10	7,292,656	5,093,100	619,294
Receivables	11	76,856	2,450	1,043,325
Gold coin and bullion	12	17,254,547	19,317,418	19,594,342
Property and equipment	13	69,755,701	41,605,877	513,436
Intangible assets	14	2,693	3,000	4,000
		_____	_____	_____
<b>TOTAL ASSETS</b>		108,325,923	74,209,566	29,284,371
		=====	=====	=====
<b>LIABILITIES</b>				
Treasury deposits	15	11,895,742	4,469,647	6,681,307
Security deposits	16	660,000	120,000	120,000
Microfinance grant	17	3,000,000	3,000,000	-
Other payables	18	338,850	2,079,610	101,802
		_____	_____	_____
<b>TOTAL LIABILITIES</b>		15,894,592	9,669,257	6,903,109
		_____	_____	_____
<b>RESERVES</b>				
Revenue reserve		7,290,826	4,910,083	2,786,920
Revaluation reserve		67,885,958	40,312,808	-
General reserve		17,254,547	19,317,418	19,594,342
		_____	_____	_____
<b>TOTAL RESERVES</b>		92,431,331	64,540,309	22,381,262
		_____	_____	_____
<b>TOTAL LIABILITIES AND RESERVES</b>		108,325,923	74,209,566	29,284,371
		=====	=====	=====

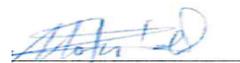
The financial statements on pages 43 to 68 were approved and authorized for issue by the board of directors on

30/04/

2017 and were signed on its behalf by:



Director



Director

CENTRAL BANK OF SOMALIA

STATEMENT OF CHANGES IN RESERVES  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Revenue Reserve* USD	Revaluation Reserve** USD	General Reserve*** USD	Total USD
At 1 January 2014 - as previously reported	2,786,920	-	-	2,786,920
Prior year adjustment (note 23)	-	-	19,594,342	19,594,342
At 1 January 2014 as restated	2,786,920	-	19,594,342	22,381,262
Total comprehensive income for the year	2,123,163	40,312,808	(276,924)	42,159,047
	-----	-----	-----	-----
At 31 December 2014	4,910,083	40,312,808	19,317,418	64,540,309
	=====	=====	=====	=====
At 1 January 2015 - as previously reported	4,910,083	40,312,808	-	45,222,891
Prior year adjustment (note 23)	-	-	19,317,418	19,317,418
At 1 January 2015 as restated	4,910,083	40,312,808	19,317,418	64,540,309
Total comprehensive income for the year	2,380,743	27,573,150	(2,062,871)	27,891,022
	-----	-----	-----	-----
At 31 December 2015	7,290,826	67,885,958	17,254,547	92,431,331
	=====	=====	=====	=====

\* Revenue reserve represents cumulative profits from the banks' operations.

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

\*\*\*General reserve represents assets that the bank is continuously recovering through its asset recovery exercise.

CENTRAL BANK OF SOMALIA

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 USD	2014 USD
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	20(a)	8,706,246	3,019,556
		<hr/>	<hr/>
Net cash generated from operating activities		8,706,246	3,019,556
		<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	13	(750,075)	(868,003)
Purchase of intangible assets	14	(866)	-
		<hr/>	<hr/>
Net cash used in investing activities		(750,941)	(868,003)
		<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Microfinance grant received	16	-	3,000,000
		<hr/>	<hr/>
Net cash generated from financing activities		-	3,000,000
		<hr/>	<hr/>
INCREASE IN CASH AND CASH EQUIVALENTS		7,955,305	5,151,553
CASH AND CASH EQUIVALENTS AT 1 JANUARY		13,280,821	8,129,268
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20(b)	21,236,126	13,280,821
		=====	=====

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 2015*

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

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

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

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

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

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

Application of these standards has not had any impact on the disclosures or the amounts recognised in these financial statements as the bank is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2015).

**Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities**

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

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

## 1 ACCOUNTING POLICIES (Continued)

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

- i) *New standards and amendments to published standards effective for the year ended 31 December 2015 (Continued)*

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

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

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

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

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

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

**IFRIC 21 Levies**

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

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

- ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015*

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

1 ACCOUNTING POLICIES (Continued)

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

iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods*

**IFRS 9 Financial Instruments**

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- The directors of the bank anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the bank's financial assets and financial liabilities (e.g. the bank will classify financial assets as subsequently measured at either amortised cost or fair value). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

**IFRS 15 Revenue from Contracts with Customers**

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

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

1 ACCOUNTING POLICIES (Continued)

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

iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods (Continued)*

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

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

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

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the bank uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively. The directors of the bank anticipate that the application of IAS 16 and IAS 38 in the future will not have a significant effect on the bank’s financial statements.

iv) *Early adoption of standards*

The bank did not early adopt new or amended standards in 2015.

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

**Leasehold land**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(ii)

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.

(iii) 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.

CENTRAL BANK OF SOMALIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)  
**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.

CENTRAL BANK OF SOMALIA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 realise the asset and settle the liability simultaneously.

**Leasing**

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

*The bank as a lessee*

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

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

**Cash and cash equivalents**

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

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

*Impairment losses on loans and receivables*

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

*Held -to-maturity investments*

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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

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

*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.

**(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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 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.

	2015 USD	2014 USD
Deposits and balances due from banking institutions	7,269,445	5,093,100
	=====	=====

**Maximum exposure to credit risk before collateral held**

	2015 USD	%	2014 USD	%
Credit exposures:				
Deposits and balances due from banking institutions	7,292,656	100%	5,093,100	100%
Receivables	76,856	0%	2,450	0%
	-----	-----	-----	-----
	7,369,512	100%	5,095,550	100%
	=====	=====	=====	=====

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

c) **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 all 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 31 December was as follows:

	2015 USD	2014 USD
<b>Reserves</b>		
Retained earnings	7,290,826	4,910,083
Revaluation reserve	67,885,958	40,312,808
General reserve	17,254,547	19,317,418
	-----	-----
	92,431,331	64,540,309
	=====	=====

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.

3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

C) OTHER RISK DISCLOSURES (Continued)

**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.

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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

## C) OTHER RISK DISCLOSURES (Continued)

**Who manages reputational risk?**

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

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

**How we manage reputational risk?**

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

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

**COMPLIANCE RISK**

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

**Who manages compliance risk**

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

**How we manage compliance risk**

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

	2015 USD	2014 USD
4 FEES INCOME		
Cash handling fees	2,533,653	2,958,990
License fees	127,000	158,000
Rental income	244,400	106,316
Registration fee	2,000	16,000
Sundry income	3,539	4,900
Fines	-	648
	2,910,592	3,244,854
	=====	=====

The CBS earns a commission of 1.5% (2014; 2%) on government revenue deposited with the Bank. License and registration fees are charged pursuant to the Financial Institutions Act.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5	OPERATING EXPENDITURE	2015 USD	2014 USD
	Staff costs (note 6)	1,354,804	1,423,308
	*Travel expenses	145,628	355,063
	Security	251,925	173,465
	Asset recovery expenses	98,800	122,380
	Repairs and maintenance	39,876	110,974
	Auditors fees	100,000	100,000
	Hospitality	87,082	96,976
	Depreciation	173,402	88,370
	Amortisation	1,173	1,000
	Fuel	46,963	75,319
	Miscellaneous office expenses	4,522	72,059
	Hotel	34,485	65,010
	Medical expenses	35,018	52,974
	Internet expenses	27,721	47,708
	Rent	32,400	29,931
	Board of directors expenses	25,568	26,628
	Printing, publications and subscriptions	19,714	25,718
	Tuition fees	19,119	24,553
	Miscellaneous vehicle expense	6,595	21,643
	Electricity	76,660	20,765
	Telephone, fax, and telegraph	11,657	14,881
	Office supplies stationaries	15,353	11,643
	Water	3,495	8,706
	Legal expense	2,200	6,000
	Cleaning	6,708	6,958
	Bank charges	-	2,086
	Garden expenses	687	1,546
	Oil expenses	32	738
	Postage	142	381
	Donations	68,060	-
	Consultant fees	30,000	-
	Mission allowance	67,150	-
		2,786,939	2,986,783
		2,786,939	2,986,783
6	STAFF COSTS	USD	USD
	Salaries and wages	1,143,789	1,007,190
	Staff allowances	71,240	63,294
	Bonus	17,050	6,625
	Overtime	325	41,496
	Contract experts	122,400	163,350
	Staff welfare	-	141,353
		1,354,804	1,423,308
		1,354,804	1,423,308

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

CENTRAL BANK OF SOMALIA  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 USD	2014 USD
7 OTHER INCOME		
Cash recovered by the Bank	-	7,646,361
Interest on deposit account held in Federal Reserve Bank of New York	23,211	-
	<u>23,211</u>	<u>-</u>
	=====	=====

Other income refers to the accounting recognition of cash balances and other amounts that were recovered by the Central Bank of Somalia through its asset recovery process and that are held in foreign banks.

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.

	2015 USD	2014 USD
9 CASH BALANCES		
Somali Shillings	571,646	13,806
United States Dollars	13,371,824	8,173,915
	<u>13,943,470</u>	<u>8,187,721</u>
	=====	=====

CENTRAL BANK OF SOMALIA  
NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 DEPOSITS AND BALANCES DUE FROM BANKING  
INSTITUTIONS

Balances due from banking institutions	10,896,576	10,897,020
Provision for impairment of unconfirmed bank balances	(3,603,920)	(5,803,920)
	<u>7,292,656</u>	<u>5,093,100</u>
	=====	=====

Movement in provision for impairment is as follows;

At the start of year	5,803,920	-
Profit and loss credit/(charge)	(2,200,000)	5,803,920
	<u>(3,603,920)</u>	<u>5,803,920</u>
	=====	=====

The weighted average effective interest rate on balances and deposits due from banking institutions at 31 December 2015 was Nil (2014 - Nil)

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2015 USD	2014 USD
11		
RECEIVABLES		
Staff receivables	-	1,950
Other receivables	76,856	500
	<u>76,856</u>	<u>2,450</u>
	=====	=====
12		
GOLD COIN AND BULLION		
At 1 January	19,317,418	19,594,342
Valuation loss through other comprehensive income	(2,062,871)	(276,924)
	<u>17,254,547</u>	<u>19,317,418</u>
	=====	=====

Gold coin and bullion consists of 16, 261 fine troy ounces of gold at the market price of USD 1,061.10 per ounce (2014: 16,261 fine troy ounces at USD 1,187.96 per ounce).

13		Land and buildings USD	Furniture and fixtures USD	Vehicles USD	Equipment USD	Other equipment USD	Total USD
	COST						
	At 1 January 2014	313,015	53,979	137,050	101,041	7,188	612,273
	Additions	585,227	29,074	184,400	69,302	-	868,003
	Revaluation	40,312,808	-	-	-	-	40,312,808
	Write-offs	-	(16,134)	(54,200)	(12,353)	(330)	(83,017)
		<u>41,211,050</u>	<u>66,919</u>	<u>267,250</u>	<u>157,990</u>	<u>6,858</u>	<u>41,710,067</u>
	At 31 December 2014	41,211,050	66,919	267,250	157,990	6,858	41,710,067
	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
		<u>69,487,769</u>	<u>78,784</u>	<u>267,250</u>	<u>192,631</u>	<u>6,858</u>	<u>70,033,292</u>
	At 31 December 2015	69,487,769	78,784	267,250	192,631	6,858	70,033,292
	DEPRECIATION						
	At 1 January 2014	-	12,636	37,990	41,353	6,858	98,837
	Charge for the year	-	7,366	50,950	30,054	-	88,370
	Write offs	-	(16,134)	(54,200)	(12,353)	(330)	(83,017)
		<u>-</u>	<u>3,868</u>	<u>34,740</u>	<u>59,054</u>	<u>6,528</u>	<u>104,190</u>
	At 31 December 2014	-	3,868	34,740	59,054	6,528	104,190
	At 1 January 2015	-	3,868	34,740	59,054	6,528	104,190
	Charge for the year	-	23,738	103,850	45,483	330	173,401
		<u>-</u>	<u>27,606</u>	<u>138,590</u>	<u>104,537</u>	<u>6,858</u>	<u>277,591</u>
	At 31 December 2015	-	27,606	138,590	104,537	6,858	277,591
	NET BOOK VALUE						
	At 31 December 2015	69,487,769	51,178	128,660	88,094	-	69,755,701
	At 31 December 2014	41,211,050	63,051	232,510	98,936	330	41,605,877
		=====	=====	=====	=====	=====	=====

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 PROPERTY AND EQUIPMENT (Continued)

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 31 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 have been recognized in these financial statements at their professional valuation. As at 31 December 2015, the bank had recognized all assets it could control in the bank's books.

14 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2015 USD	2014 USD
COST		
At 1 January	5,000	5,000
Additions	866	-
	<hr/>	<hr/>
At 31 December	5,866	5,000
	<hr/>	<hr/>
AMORTISATION		
At 1 January	2,000	1,000
Charge for the year	1,173	1,000
	<hr/>	<hr/>
At 31 December	3,173	2,000
	<hr/>	<hr/>
NET BOOK VALUE		
At 31 December	2,693	3,000
	<hr/> <hr/>	<hr/> <hr/>

15 TREASURY DEPOSITS

Denominated in Somali Shillings	571,413	16,249
Denominated in United States Dollars	11,324,329	4,453,398
	<hr/>	<hr/>
	11,895,742	4,469,647
	<hr/> <hr/>	<hr/> <hr/>

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.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16	SECURITY DEPOSITS	2015 USD	2014 USD
	Performance security to undertake banking and forex business in Somalia	660,000 =====	120,000 =====

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

17	MICROFINANCE GRANT	2015 USD	2014 USD
	Microfinance Grant	3,000,000 =====	3,000,000 =====

In September 2014, the Federal government of Somalia received a \$3,000,000 interest free grant from the Kuwait Fund for the Arab Economic Development. The purpose of the fund is to provide micro-finance funding to small business in Mogadishu in order to support the growth of the Somali private sector. This grant was disbursed to the recipients in 2017.

18	OTHER PAYABLES	2015 USD	2014 USD
	Other payables and accruals	338,850 =====	2,079,610 =====

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.

# CENTRAL BANK OF SOMALIA

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 20 NOTES TO THE CASH FLOW STATEMENT

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

	2015 USD	2014 USD
Profit before taxation	2,380,743	2,123,163
<i>Adjustments for:</i>		
Depreciation	173,401	88,370
Amortisation	1,173	1,000
Working capital changes:		
(Increase)/decrease in receivables	(74,406)	1,040,875
Decrease/(increase) in treasury account	7,426,095	(2,211,660)
Increase in sundry deposits	540,000	-
Increase in other payables	(1,740,760)	1,977,808
	<hr/>	<hr/>
Cash generated from operations	8,706,246	3,019,556
	=====	=====

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

	2015 USD	2014 USD
Cash and Bank balance	13,943,470	8,187,721
Deposits and balances due from banking institutions (Note 10)	7,292,656	5,093,100
	<hr/>	<hr/>
	21,236,126	13,280,821
	=====	=====

### 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 31, 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 specific contingencies as at 31 December 2015 and has therefore not recorded or disclosed possible related amounts and the probability that any such contingencies will be realized.

### 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 2015, nor are there known significant assets or liabilities with related parties as at 31 December 2015 (2014 – Nil).

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	As previously reported USD	Prior year adjustment USD	Restated USD
23	PRIOR YEAR ADJUSTMENTS		
	<b>As at 31 December 2013</b>		
	-	19,594,342	19,594,342
	-	19,594,342	19,594,342
	=====	=====	=====
	<b>As at 31 December 2014</b>		
	-	19,317,418	19,317,418
	-	19,317,418	19,317,418
	=====	=====	=====

Management through its asset recovery effort managed to obtain a confirmation from the Federal Reserve Bank of New York as at 31 December 2013 and 2014, which confirmed holding 45 gold bars weighing 16,261 ounces valued at market value \$1,187.96 per ounce as at 31 December 2014 (and market value \$1,204.99 per ounce as at 31 December 2013) on behalf of Central Bank of Somalia. This related to 2013 and prior years since Central Bank of Somalia has not made any investment of this nature in recent years. Prior year adjustments have been made in the financial statements to incorporate these assets in 2013 and 2014. The amounts have been credited to the general reserve which the bank maintains for its assets recovery processes.

The balances recognized in the financial statements represent the fair value of the Gold coin and bullions. The entire amounts have been credited to the general reserves since has not been practical to separate the historical cost from the cumulative valuation changes at the date of initial recognition being 31 December 2013.

24 INCORPORATION

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

25 CURRENCY

These financial statements are prepared in United States Dollars.

26 EVENTS AFTER REPORTING PERIOD

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