CENTRAL BANK OF SOMALIA

ANNUAL REPORT 2018

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ECONOMIC RESEARCH AND STATISTICS DEPARTMENT
2018

OUR VISION

The Central Bank is to position itself among the region's leading central banks, on the back of its independence, strong organizational structure, professional staff, technological superiority and its capacity to produce effective results.

OUR MISSION

The Central Bank is to foster price stability and build a robust, stable, up-to-date and sound financial system. The core values of the CBS are reflected in all areas of the bank operations and in the performance of all the bank tasks

CBS's Board of Directors

Mr. Bashir Isse Ali - Governor and Chairman

Ms. Maryan Abdullahi Yusuf - Deputy Governor

Mr. Abdirashid Mohamed Siraaji - Member

Dr. Omar Ibrahim Hussein - Member

Mr. Maya Mohamed Shekhuna - Member

Mr. Yusuf Mohamed Ali - Member

Ms. Hodan Said Isse - Member

LIST OF ACRONYMS

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

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Governor's Massage

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

The Central Bank of Somalia (CBS) continues to advance efforts to improve its capacity to license, regulate and supervise financial institutions.

The Bank has developed a detailed financial sector roadmap to build a credible and integrated financial sector which is key for economic development. Anti-Money laundering and Combating the Financing of Terrorist (AML/CFT) Roadmap have been developed as well to address regulatory and capacity gaps in the AML/CFT framework.

CBS re-organization has been addressed as key foundation for a successful reform momentum. The Board has approved the new functional based organizational structure to improve the governance of the CBS to fast-track the reform roadmap.

With the support of the World Bank, CBS has taken critical steps to modernize the financial system. Under this initiative, CBS has launched a new payment system for the licensed financial institutions to create the first Somali inter-bank payment system to facilitates payments and settlements.

The economic growth of Somalia has rebounded since 2017. In 2018, real GDP growth has registered 3.1 percent (up from 2.3 percent in 2017), inflation has slowed to 3.5 percent, and the trade deficit has narrowed. Real GDP growth forecast in 2019 is 3.5 percent, and 3.0 percent for end-year inflation.

The CBS has commenced transformations to combat widespread counterfeiting, which included the development of an anti-counterfeiting strategy and hiring qualified staff equipped with essential training to compact the possible counterfeiting in the system. The CBS also established a management function for the currency reform and prepared detailed plans for a successful currency reform project.

During 2018 the Board of Directors approved new regulations and guidelines for the financial sector. The key regulations approved include regulation and guidelines on Asset Classification and Provision, Corporate Governance guidelines for Banks and Internal Audit Department Charter.

CBS will continue working with international financial institutions and will improve bilateral and multilateral relations with regional and international organization to build the capacity of the Bank and its staff which is a key to the achievement of the strategic goals.

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 of Somalia.

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

WORLD ECONOMY

1. WORLD ECONOMY

According to IMF World Economy Outlook (WEO) report 2019, Performance of global economy had significantly weakened especially in the second half of 2018. Global growth, which peaked at close to 4 percent in 2017, softened to 3.6 percent in 2018, and is projected to decline further to 3.3 percent in 2019. This was due to the escalation of US–China trade tensions, macroeconomic stress in Argentina and Turkey, disruptions to the auto sector in Germany, tighter credit policies in China, and financial tightening alongside the normalization of monetary policy in the larger advanced economies.

Growth in China fell due to a combination of needed regulatory tightening to rein in shadow banking and the upsurge of trade tensions with United States. Spending on durable consumption goods also moderated, with automobile sales falling in 2018 following the expiration of incentive programs for car purchases. As a result, China's growth declined from 6.8 percent in the first half of 2018 to 6.0 percent in the second half of the year.

The euro area economy lost more momentum than anticipated as consumer and business confidence weakened and car production in Germany was disrupted by the introduction of new emission standards; investment fell in Italy as sovereign spreads broadened; and external demand, especially from emerging Asia, softened.

Growth across emerging market and developing economies is projected to stabilize slightly below 5 percent, though with variations by region and country.

The baseline outlook for emerging Asia remains favorable, with China's growth anticipated to slow gradually toward sustainable levels and convergence in frontier economies toward higher income levels elsewhere across emerging market economies, activity moderated as worsening global financial market sentiment in the second half of 2018 compounded country-specific factors.

Needed policy tightening to reduce financial and macroeconomic imbalances took effect in Argentina and Turkey; sentiment weakened, and sovereign spreads rose in Mexico, following the incoming administration's cancellation of a planned airport for the capital and backtracking on energy and education reforms; and geopolitical tensions contributed to weaker activity in the Middle East.

Elsewhere in advanced economies, activity weakened in Japan, largely due to natural disasters in the third quarter. One exception to the broader pattern was that momentum in the United States remained robust amid a tight labor market and strong consumption growth, but investment appeared to soften in the second half of the year. The US Federal Reserve, in response to rising global risks, paused interest rate increases and signaled no increases for the rest of the year.

Table 1: Actual and Projected Output in Selected Countries/Regions (Percent Change)

Country/Region	Actual 2017	Projections 2018	2019	2020
World Output	**3.7**	**3.6**	**3.3**	**3.6**
Advanced Economies	**2.3**	**2.2**	**1.8**	**1.7**
United States	2.3	2.9	2.3	1.9
Euro area	2.4	1.8	1.3	1.5
Japan	1.8	0.8	1.0	0.5
United Kingdom	1.7	1.4	1.2	1.4
Emerging Markets and Developing Economies	**4.7**	**4.5**	**4.4**	**4.8**
Emerging and Developing Asia	6.5	6.4	6.3	6.3
China	6.8	6.6	7.3	7.5
India	6.7	7.1	5.1	5.2
Latin America Caribbean	1.3	1.0	2.1	2.4
Brazil	1.1	1.9	1.6	2.5
Sub Saharan Africa	2.7	3.0	3.5	3.7
South Africa	0.9	0.8	1.2	1.5
Nigeria	0.8	1.9	2.1	2.5
Middle east and north Africa	2.5	1.4	1.3	3.2

Source: - IMF world economy outlook

1.1 World Commodity Prices and Inflation:

Over the period under review global energy prices fell by 17 percent as oil prices declined from a four-year peak of US$81 a barrel in October to US$61 in February. While supply influences dominated initially—notably a temporary waiver in US sanctions on Iranian oil exports to certain countries and record-high US crude oil production—weakening global growth added downward pressure on prices towards the end of 2018.

Consumer price inflation remained subdued across advanced economies, given the drop in commodity prices. For most countries in this group, core inflation is well below central bank targets despite the pickup in domestic demand in the past two years; in the United States and United Kingdom, it is close to 2 percent.

Although wage growth has been picking up across most advanced economies, notably in the United States and United Kingdom, it is still sluggish despite lower unemployment rates and diminished labor market slack. With wage growth broadly in line with labor productivity growth, unit labor costs continue to be restrained. Consistent with subdued overall price and wage pressures, and possibly strengthened by the slowing growth momentum, inflation expectations remain contained across advanced economies, and, in many cases, have softened recently.

1.2 Capital flows and exchange rates:

With investors generally lowering exposure to riskier assets, emerging market economies experienced net capital outflows in the third quarter of 2018. As of early January, the US dollar remains broadly unchanged in real effective terms relative to September, the euro has weakened by about 2 percent amid slower growth and concerns about Italy, and the pound has depreciated about 2 percent as Brexit-related uncertainty increased. In contrast, the Japanese yen has appreciated by about 3 percent, on higher risk aversion. Several emerging market currencies—including the Turkish lira, the Argentine peso, the Brazilian real, the South African rand, the Indian rupee, and the Indonesian rupiah—have staged recoveries from their 2018 valuation lows last August-September

DOMESTIC ECONOMY

2. Domestic economy

Somalia is recovering from decades of long civil war that has destroyed the country since 1991. Conflicts and civil strife led to the collapse of government institutions and infrastructure. Recurrent droughts, insecurity and extreme poverty remains a challenge for the country to achieve sustainable growth.

Despite the ongoing challenges, the country's economy had shown a positive economic recovery from the 2017 drought. The economic growth momentum is led by the production and export of livestock, agriculture, fisheries, and small industries, but it still demands more efforts to reduce poverty.

Luckily, growth has rebounded since 2017, inflation has slowed, and the trade deficit has narrowed. In 2018, the Real GDP has increased by 3.1 percent, this is up from 2.3 percent in 2017. Inflation has declined to 3.5 percent; this is down from 5.3 percent in 2017.

The forecast of Real GDP growth in 2019 is projected at 3.5 percent and 3.0 percent for end-year inflation. As shown in table 2, the exchange rate has remained constant.

In Somalia, agriculture is an important economic activity, both in terms of domestic consumption and in terms of export earnings. Farming leads to hunger relief and food security. To manage their lives, domestic farmers receive income from agricultural activities and goods, as well as job opportunities for agricultural work. In addition, the second largest contributor to GDP and export earnings is agriculture.

As a result of improved rainfall, Gu cereal production in 2018 is 17 per cent higher than in 2017, but the adverse effects of severe drought in 2016-2017 have continued, particularly among those who have become destitute and displaced due to drought and among pastoralists who have lost most of their live animals.

On the other hand, the livestock sector has shown a rise of US 33.6 million compared to the previous year. Fishing has also improved from US$ 26.8 million in 2017 to US$ 44.2 million in 2018, due to increased domestic demand and rapid population growth and urbanization because of recent droughts, especially among low-income groups such as those experiencing livestock losses.

According to Ministry of Commerce and Industry, the total number of industries registered in 2018 was 75 industries (up from 64 industries in 2017) producing around US$410.5 million which is 10.6 percent better production than in 2017.

However further efforts are needed to improve economic conditions, increase employment, and make a significant reduction in poverty. Development and humanitarian partners are working with the Federal Government of Somalia on enhancing the country’s resilience. Nevertheless, risks to the outlook of domestic economy remains unpredictable.

Table 2: National Income and Prices, 2014-2018

	2014	2015	2016	2017	2018
Nominal GDP in millions of US dollars	5,950	6,659	6,767	7128	7484
Real GDP, annual percentage change	3.6	3.9	4.4	2.3	3.1
Per capita GDP in UD dollars	436	511	504	511	527
Consumer Price Index (CPI), annual percentage change	1.3	-1.2	0.0	5.3	3.5
Exchange rate (SOS/USD, e.o.p.)	20,231	22,285	24,005	23,605	23,958

Source: FGS estimates; and IMF estimates

2.1 Agriculture

Agriculture is an important economic activity in Somalia not only in terms of meeting the food needs of the population, defeating hunger by working towards the alleviation of poverty and strengthening of livelihoods and food security but also in terms of generating income through crop sales and agricultural labor opportunities.

As stated in DINA report 2018, The Agriculture sector is Somalia's second largest source of economic activity, employment, and exports. Agro-pastoralists, estimated at 2.8 million or about 23 percent of the total population, are mostly poor and dependent on a mix of settled crop production (both staple food and cash crops) and livestock rearing and, to a more limited extent, on forestry products.

Small farming accounts for 80 percent of total crop output and 70 percent of marketed agricultural products. Use of appropriate technologies and good agricultural practices has been very limited, which is attributed to some extent as the root cause of Somalia's low agriculture productivity.

In the coming few lines, the report will demonstrate and analyze the major agricultural subsectors (crops, forestry, livestock, and fishing).

2.1.1 Crop Production

Crop production performance and its potential are determined by the bimodal rainfall. The two main agricultural crop production seasons are: Gu, from April to June and Deyr from October to December.

A small area in the Northwest (west of Hargeisa) and a much larger inter-riverine area between the Shabelle and Juba river valleys are the two areas in Somalia that considered to be high potential for crop production with rainfall ranging from 400mm to 600mm.

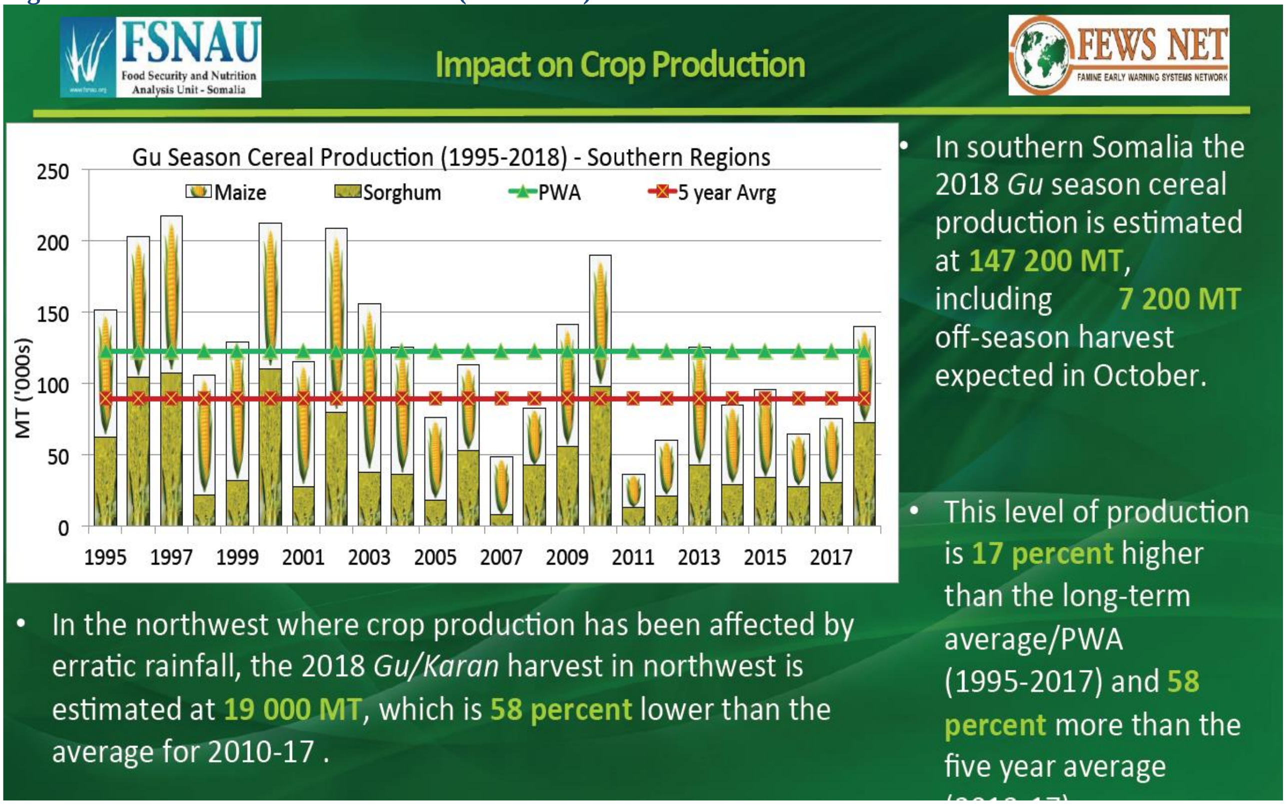
Regardless the imported crops by the humanitarian donors, Domestic economy largely depends on the local crop production (stable and cash crops) for the country cereal needs. Main staple crops are sorghum, maize and cowpeas, while the main cash crops are sesame, banana, other fruits, vegetables, legumes, frankincense and myrrh.

The only exports in recent years were of sesame, dry lemons (under the name Crops and Vegetable Oil), frankincense and myrrh (under Forest Products) as Table 3 indicates, unlike in the pre-war years when banana was by far the major crop export.

Table 3: Crop Production	
Crop Production/Year	**2018**
Crops & Vegetable Oil	95,527,085
Forest Products	60,973,425
Other	9,244,206
Total Value	**165,744,716**

Source: Customs, MOF, FSNAU & CBS estimates and projections, 2018

Figure 1: Gu Season Cereal Production (1995-2018)



Source: FSNAU, 2018

Although, the 2018 Deyr season rainfall was below average in most parts of Somalia but water and dry pasture from the previous Gu (April-June) and carryover stocks from above-average Gu season crop production, which was harvested in July, have helped to moderate the adverse impacts of poor Deyr rainfall. Based on the forecast issued by FSNAU in late 2018, there is a greater likelihood of normal 2019 Gu (April-June) rainfall across Somalia, except in coastal areas of the Shabelle and Juba regions, which may experience a dry spell in May.

According to the findings of Somalia –CEM[1] report 2018, over the past three decades, Somalia's crop subsectors have been buffeted by an increasingly fragile and degraded natural environment and more frequent and severe cycles of drought and floods. These factors, combined with insecurity, weak government institutions and a deterioration of flood control, irrigation, and transport infrastructure in the south-central regions, have led to a severe decrease in crop yields.

[1] Somalia Country Economic Memorandum by World Bank and the Food and Agriculture Organization of the United Nations 2018. http://www.fao.org/3/i8841en/I8841EN.pdf

2.1.2 Livestock

As shown in Table 4, Somalia livestock exports have increased in 2018 from US$265.4 million to US$ 299.04 million, representing an increase of 13 percent over 2017. This is due to the recovery from the 2017 drought in the country. The livestock and its products had faced a critical decline in 2017 but it has showed a positive recovery in 2018. It is estimated to keep accelerating up by the next year based on the forecast issued by FSNAU, FAO, in late 2018.

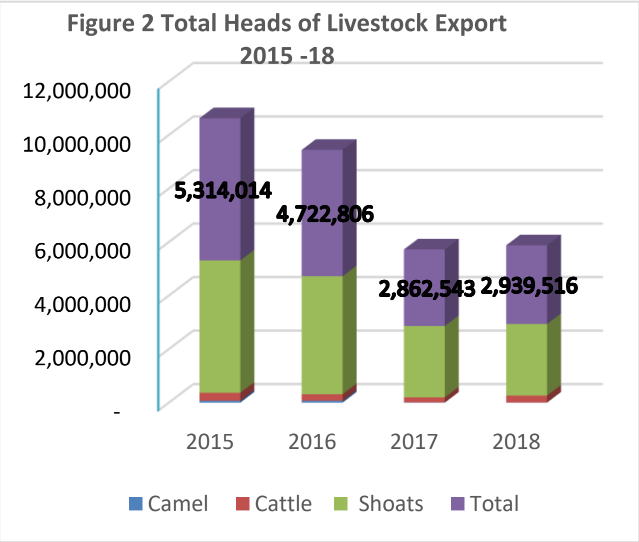
In 2018, Somalia has exported 2.68 million goats and sheep (up from 2.67 in 2017) with price of sixty dollars per head, and around 258,237 cattle (up from 190,547 in 2017) traded a market price of about three hundred USD while exported camel were estimated around 4,852 heads only which is slightly dropped from the previous year. Livestock export injected to the economy a total wealth of US$299 million dollars, this is up from US$265.4 million in 2017, equivalent to 13% increase over 2017. This is due to the 2018 more rainfall which has helped to mitigate and combat the shocks of livestock caused by recurrent droughts that lasted till mid-2017 combined with live animal's health improvement.

Export of live animals to Gulf nations continued to be Somalia's leading foreign exchange earnings over time. Lack of diversification in livestock export market make the country vulnerable to external shocks arising from epidemic disease, thus causing livestock export pan. Strong livestock disease surveillance is needed to reduce the economy's exposure to shocks from this sector.

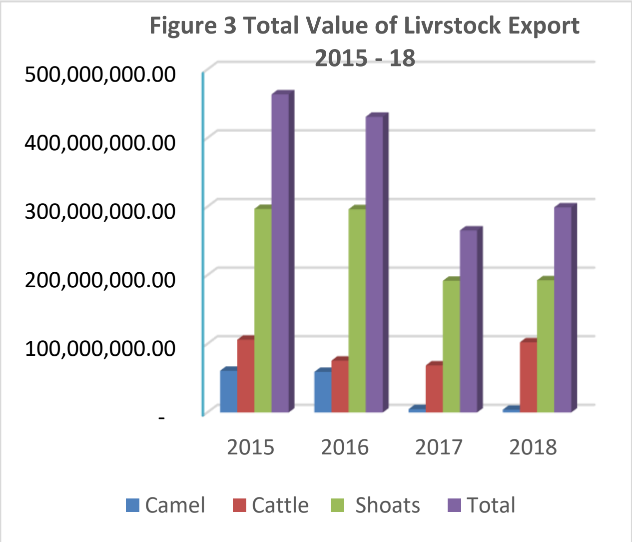
Table 4: Livestock Export

Year	Total Export (Heads)		Export quality Price		Total Value IN US	
Type of Animal	2017	2018	2017	2018	2017	2018
Camel	5,781	4,852	700	700	4,856,040	4,075,680
Cattle	190,547	258,237	300	330	68,596,920	102,261,852
Shoats	2,666,215	2,676,427	60	60	191,967,480	192,702,744
Total Head	2,862,543	2,939,516	Total Value		265,420,440	299,040,276

Source: FSNAU, with CBS estimates and Projections, 2018



Source: FSNAU, with CBS estimates and Projections, 2018



Source: FSNAU, with CBS estimates and Projections, 2018

2.1.3 Fishery

The fisheries sector has historically not been a priority area for the Somali people, and hence the agro-pastoral system and livestock sector has remained the economic backbone of the country. Even though fishing sector beneficiaries exceedingly increase in recent years, yet only very few coastal people were seriously involved in this sector.

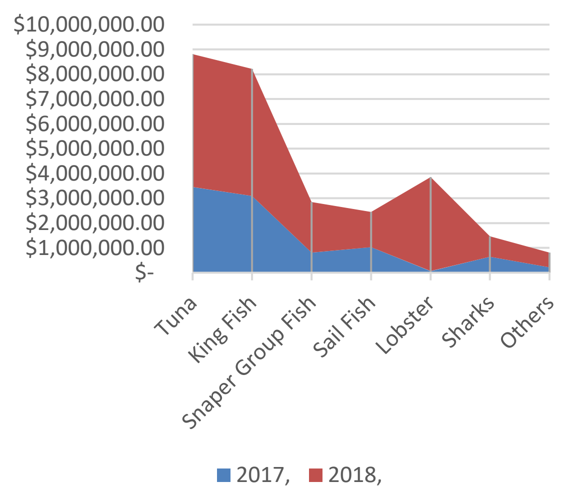
However, as part of an overall fishing initiatives policy, many drought-affected people were resettled along the coast and encouraged to take up fishing. Consequently, an increased trend was observed in fish consumption in the late 80s, even though the Somali people remain among countries of the lowest consumers of fish and fish products.

Despite the diversity and abundance of the marine resources available in Somalia, the sector has still not developed. A wide range of fishing activities designed to harvest the variety and diversity of fish species and other offshore resources is remaining untapped.

Table 5: Total Value of Fish Production in US Dollars (Mogadishu and Nearby Shorelines)

Type (KG)/Year	2017	2018
Tuna	5,064,857.60	7,423,031.70
King Fish	2,717,976.80	4,967,622.20
Snapper Group Fish	2,396,926.40	4,941,286.70
Sail Fish	3,040,884.00	4,548,446.40
Lobster	15,100.80	733,805.00
Sharks	2,271,350.40	4,025,907.40
Others	1,295,932.00	2,874,245.80
Total	**16,803,028.00**	**29,514,345.20**

Figure 4 Fish Production 2017-18



Source: CBS, MOFMR, 2018

According to the statistics from Ministry of Fisheries and Marine Resources in the reporting period of 2018 show that 3-million-kilogram, equivalent to a worth of US$29.51 million was produced in the capital Mogadishu and nearby shorelines (Table 5). National estimates of overall fishery production in Somalia coastline are estimated to be around the tune of 8,129,440 Kg, worth US$44.27 million.

The Fish harvest in 2018 is US$17.47 million higher and more productive than the previous year (this is up from US$26.8 million in 2017). This is the result of better volume of fish catch due to the good rainfall performance in 2018, high demand towards fish due to rapid population growth and urbanization derived by the recent droughts, especially among low-income groups like those encountered losses of their livestock.

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.

2.2 Domestic Production

The total number of manufacturing industries registered in 2018 has grown by 10 factories relative to 2017 (66 industries) while domestic production increased by almost 11 percent up from USD$371.2 million in 2017 as reported by Ministry of Commerce and Industry. This is an example of how extent the domestic production is developing to response increasingly domestic demand.

In addition, Foam, Plastic, Aluminium, and Construction industries represent 57 percent shares of the domestic production aggregating a worth of about USD$234 million.

Accordingly, in 2018, Somalia has rebounded by around 8 percent of its trade deficit, improved from a deficit of 55.3 percent last year which truly indicates that the domestic production has improved, covered much needs of public demand and transmitted to answer somewhat the external demands. It is expected the trade will recover further from that deficit in 2019.

The improvement of trade is associated with the major investments in the country by mostly residents and diaspora people to rebuild the country's infrastructure in general and in particular in the capital Mogadishu and administrative cities of Federal Member States, scaling up to extensive production and job opportunities, alleviating poverty and an unemployment rate in the country.

2.3 Exchange Rate Development

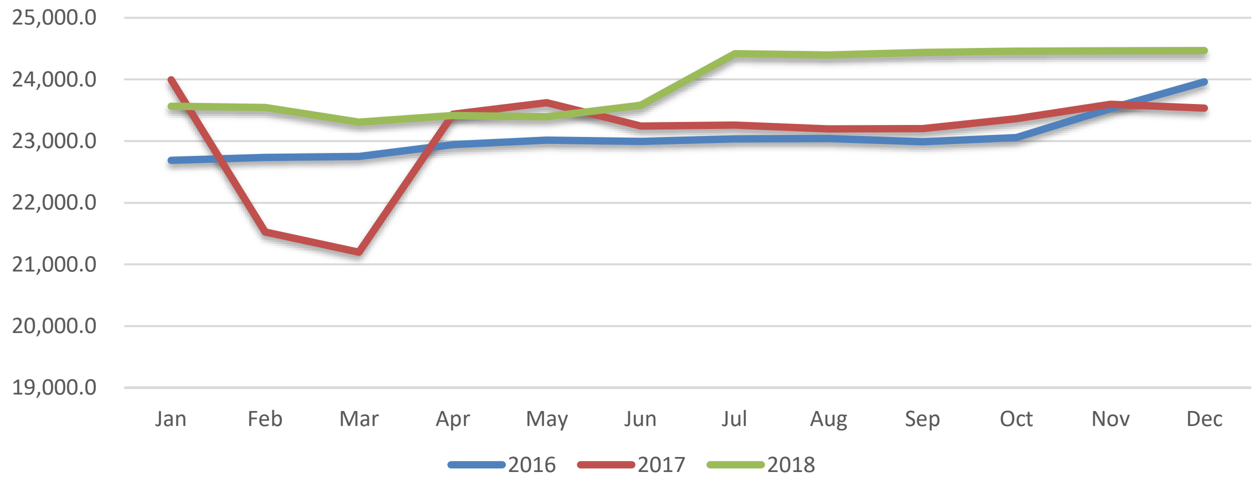
In 2018, Somali Shilling (SOS) was mostly stable in first half of the year. However, the United State Dollars has apprecieted aginst the Shilling by second half of the year. Exchange rate averege June and july are SOS 23,612 in 2018 up to SOS 24,420 respectively; it made 4.3 percent increment. The revived Central Bank of Somalia (CBS) has not issued any banknotes since 1991, resulting in a largely dollarized economy. The Somali Shilling/U.S. dollar exchange rate has remained stable (at about SOS 23,000 per U.S. dollar) since June 2018.

Somalia's exchange rate is classified, de facto, as free-floating. Foreign exchange markets operates fully freedom from the influences of regulatory monetary authority. Exchange dealers decided the rate of the day.The CBS has control over neither the exchange rate nor the supply of the Somali shilling (SOS). As a result, there is no scope for monetary policy.

Table 6: Exchange Rate Data 2016-18			
Year/Month	**2016**	**2017**	**2018**
Jan	22,688	23,994	23,566
Feb	22,736	21,526	23,547
Mar	22,751	21,197	23,307
Apr	22,940	23,437	23,417
May	23,017	23,622	23,394
Jun	22,993	23,245	23,581
Jul	23,037	23,259	24,418
Aug	23,043	23,197	24,395
Sep	22,990	23,203	24,437
Oct	23,057	23,365	24,457
Nov	23,528	23,595	24,464
Dec	23,961	23,536	24,468
Year Average	**23,062**	**23,098**	**23,954**

Source: CBS, 2018

Figure 5 Monthly Exchnage Rate in SOS (2016-2018)



Source: CBS, 2018

The Somali Shilling has direct covertibility to the U.S Dollar, while the conversion of other major currency available in the local markets are based on their daily rate with U.S. Dollar. Banknotes of the neighbouring countries like Kenya Shilling, Ethiopian Birr and Djibouti Franc is circulated in border areas, whereas Saudi Riyal and UAE Dirham is also exchanged in money markets.

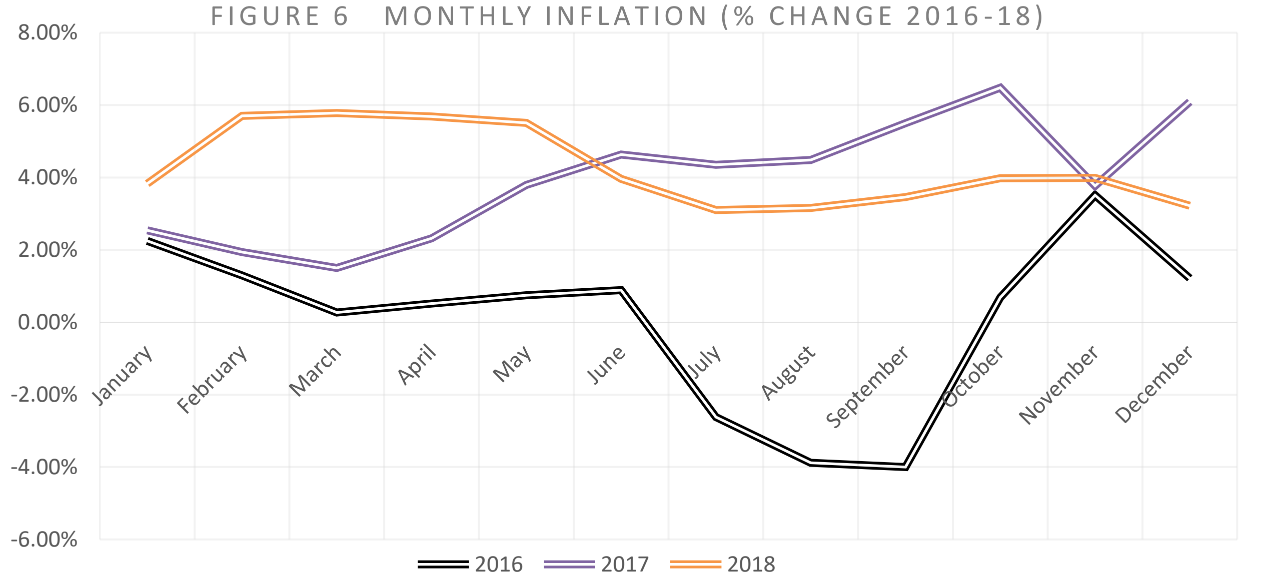
2.3.1 Inflation Outlook

Annual average inflation rate of 2018 was estimated 4.30 percent which is 1 percentage point higher than expected (projected) inflation rate of 3.5 percent. Likewise, the overall inflation rate increased by 0.3 percent in 2018 from 4 percent in 2017. It has been growing speedily up since 2016 while inflation of 2018 is the least volatile in accordance with price fluctuations due to the better agricultural performance and fully recovery from the recurrent droughts since 2016. Consequently, inflation rate is projected to record at 3 percent in 2019 down from 4.3 percent in 2018.

Table 7: CPI Monthly Percentage Change			
Month/Year	**2016**	**2017**	**2018**
January	2.25%	2.54%	3.83%
February	1.29%	1.94%	5.70%
March	0.27%	1.50%	5.78%
April	0.52%	2.32%	5.68%
May	0.75%	3.79%	5.51%
June	0.89%	4.63%	3.96%
July	-2.62%	4.35%	3.10%
August	-3.88%	4.48%	3.16%
September	-4.00%	5.50%	3.46%
October	0.68%	6.48%	3.98%
November	3.51%	3.77%	3.99%
December	1.21%	6.09%	3.22%
Annual average	**0.07%**	**4.00%**	**4.30%**

Source: MOPIED, CBS 2016-2018

FIGURE 6 MONTHLY INFLATION (% CHANGE 2016-18)



Source: MOPIED, CBS 2016-2018

PUBLIC FINANCE DEVELOPMENT

3. PUBLIC FINANCE DEVELOPMENT

3.1 Implementation of fiscal Policy

The Parliament of the Federal Government of Somalia has approved the FGS budget envelope in December 2017, this appropriation act directs the spending of the Federal Government of Somalia (FGS) from 1st January to 31st December of the fiscal year 2018.

The actual budget of Federal Government of Somalia in 2018 is presented on the below table.

Table 8: Summary of Revenue and Expenditure 2017-2018 (Million US Dollars)

	2017 Actual	2018 Budget	2018 Actual	Change Over 2018 Budget	%
1. REVENUE	**248.3**	**274.6**	**297.1**	**22.5**	**8.2%**
(A) DOMESTIC REVENUE	142.6	156.0	172.5	16.5	10.6%
Tax Revenue	112.0	127.2	127.9	0.7	0.5%
Tax on Income, Profit and Capital Gains	3.4	6.9	7.2	0.2	3.3%
Taxes on Goods and Services	8.9	17.6	19.4	1.9	10.5%
Taxes on international trade	92.8	97.0	94.5	(2.5)	-2.6%
Other taxes	6.9	5.7	6.8	1.1	19.3%
Non-Tax Revenue	30.6	28.8	44.7	15.8	54.8%
(B) DONOR FUNDED	105.6	118.6	124.6	6	5.0%
Bilateral Assistance	61.8	61.1	43.5	(17.6)	-28.8%
Multilateral	43.8	57.5	81.1	23.6	41.0%
2. EXPENDITURE	**245.6**	**274.6**	**297.1**	**22.4**	**8.2%**
(C) OPERATIONAL EXPENDITURE	227.9	248.7	263.0	14.4	5.6%
Compensation of employees	124.6	130.4	145.0	14.6	11.2%
Use of goods and services	67.2	75.0	76.4	1.4	1.9%
Consumption of fixed capital	1.0	8.8	2.8	(5.9)	-67.8%
Grants	23.4	23.6	32.9	9.3	39.2%
Contingency	4.0	2.5	4.4	1.9	76.6%
Repayment of arrears and advances	7.8	8.4	1.5	(6.9)	-81.8%
(D) PROJECT EXPENDITURE	17.7	26.0	34.0	8.1	31.0%
Compensationof employees	0.3	0.9	0.9	(0.0)	-2.8%
Use of goods and services	12.0	19.3	20.3	1.0	5.2%
Purchase of non-financial assets	5.4	5.7	12.7	7.0	122.8%
Grants	0.0	0.1	0.2	0.1	80.2%
3. BALANCE	**2.7**	**0.0**	**0.0**	**0.0**	

Source: MoF, 2018

The revised 2018 budget is broadly in line with the fiscal framework (Table 8). It targets a budget envelope of US$297.1 million, up from US$274.6 million in the program. The overall cash fiscal position was in surplus by US$22.5 million in which US$8.6 million was collected in September 2018 up from US$2.3 million in June same period, largely due to continued strong domestic revenue collection.

Moving away from previously negotiated taxes, the tax reform measures initiated from the fourth quarter of 2017 are bearing its fruits in 2018. This performance largely reflects yields from new fiscal measures and efficiency gains, additional grants and increased domestic revenue mobilization, including from the introduction of new measures: such as sales tax on imported goods, sales taxes and license fees from telecommunication companies, increased tax rate on khat and, transferring the collection of certain fees from the line ministries to the Ministry of Finance. To broaden the tax base, these taxes will be extended to wider sectorial activities overtime.

3.2 REVENUE AND GRANTS

Revenues and grants of Federal Republic of Somalia in the fiscal year of 2018 amount to US$ 297.1 million performing at 8.2 percent above the projected budget. Domestic revenue performed well since it was above its targeted budget by 10.6 percent about (US$16.5 million). Grants performed at 5 percent as US$124.6 million was registered against target of US$118.6 million that was projected for the whole year.

3.2.1 Domestic Revenues:

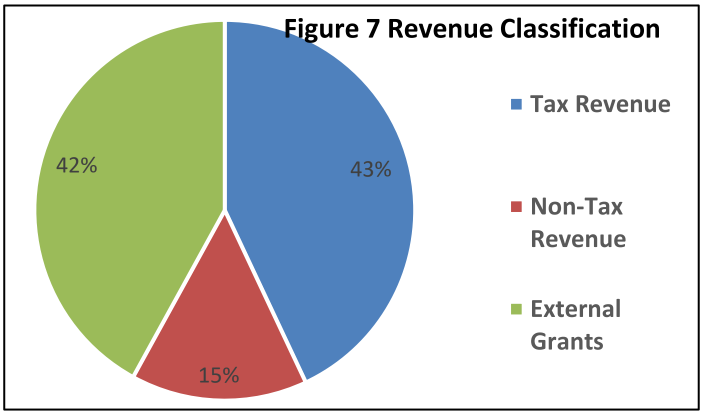
Domestic revenues worth US$172.5 million was collected by Federal Government of Somalia and this was against the budgeted US$150 million, implying a surplus of US$16.5 million. Out of the total collections, US$127.9 million was tax revenue while US$ 44.7 million was non-tax revenue.

Tax revenue was above its target by US$ 0.7 million while non-tax revenue also higher than its target by US$15.8 million.

Three tax categories including taxes on goods & services, taxes on income profit and capital gains (direct and indirect taxes) and other taxes performed well during the year surpassing their targets by US$ 0.2 million, US$1.9 million, and US$1.1 million respectively. However, taxes on international trade were lower than its target by US$2.5 million.

As shown in figure 7, the share of each category of revenue of the total collected revenue during the 2018 is provided, and the tax revenue component accounted for the highest contribution with 43% of the total revenue followed by External Grants with 42% and Non-tax revenue at 15%.

Figure 7 Revenue Classification



Source: MOF, 2018

3.3 GOVERNMENT EXPENDITURE

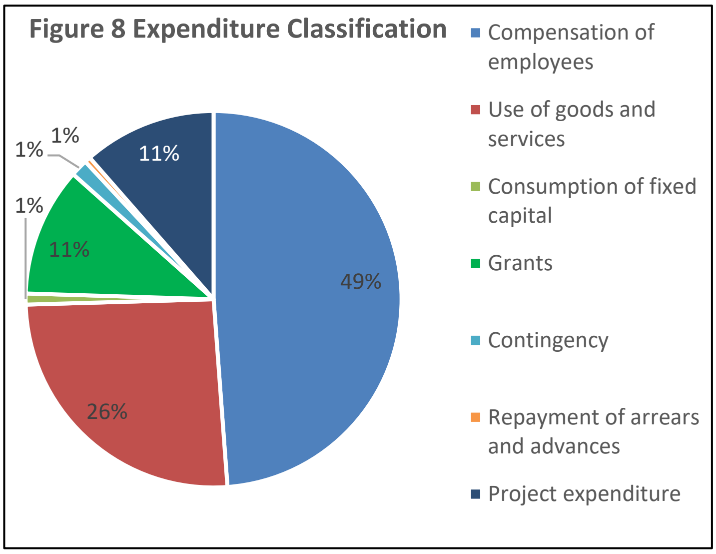
As indicated in above table, government expenditure during 2018 fiscal year totalled to US$297.1 million, which translates into a performance of 8.2 percent above the programmed expenditure. Government expenditure on recurrent activities was US$263 million against a program of US$248.7 million. This translated into an overspending of US$14.4 million, most of which was non-wage recurrent expenditure.

Wages were higher than programmed for the year by US$14.6 million. Government also continued with its commitment to clear outstanding arrears. However, repayment of the arrears underperformed against the program by US$6.9 million in 2018.

Total development expenditure amounted US$34 million against the program of US$26 million, which shows an upward revision of project funding by US$8 million.

As shown in figure 8, the FGS expenditure is classified under the following categories.

- Compensation of Employees: which are payments of salary and allowances for the benefit of the civil servants. This category remains the highest with 49% of the total expenditure.
- Use of Goods and Service: this category turned out as the second most incurred expenditure category after employees' cost and accounted for 26% of the total expenditure.



Source: MOF, 2018

- Transfers to the Federal Member States (TFMSs): as the name suggests this category is used by the FGS to make Government budgetary support to the Federal Member States which are Puntland State, Jubbaland state, Southwest state, Galmudug State, Hirshabelle State and Banadir region. This category represented the third highest percentage of 11% of total expenditure.
- Project Expenditure: such as development/infrastructure projects also represents the third highest percentage (11%) of total expenditure.
- Contingency expenditure and Repayment of arrears and advances represented only 1% each of the total expenditure of the period from January to December of 2018.

EXTERNAL SECTOR

4 External Sector

4.1 Balance of Payment

Somalia's 2018 Balance of Payment (BOP), representing all economic transactions between Somalia and the rest of the world, has recorded a deficit. Although Somalia made improvements in the exports side during this period, its balance of payment remained deficit due to the countries heavily reliant on imports of food, fuel, construction materials, and manufactured products.

There has been an internal challenge played a significant role on the increased demand for foreign consumer goods such as destruction of key infrastructure, security, roadblocks, and closed trade routes.
Somalia's main exported goods in the period were livestock, animal skin, Sesame, and dry fish.

4.1.1 Current Account

There has been a significant change in the goods and services accounts where does the goods account's deficit balance improved from US$3,006 million (42.2 percent of GDP) in 2017 to US$2,806 million (37.5 percent of GDP) in 2018. This was due to the export increase by 61 percent from US$418 (5.9 percent of GDP) to US$675 which is 9 percent of GDP. The major categories of export were camel, cattle, shoats, animal hides and skins dry Fish, and Sesame.

At the same time imports increased by only 2 percent in 2018 compared to a corresponding period of 2017. 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.

On the services side, deficit increased by 8 percent from US$932 to US$1,007 million as the services payments exceeded its corresponding receipts. This was the result of the lowering exports of services and, to a greater extent, to higher imports of services, including foreign workers operating in various service sectors in the country.

The changes in the goods and services account have led to overall trade balance deficit improvement from US$3,938 (55.3 percent of GDP) in 2017 to US$3,813 (50.9 percent of GDP) in 2018. The income deficit further deteriorated from US$31 million in 2017 to US$33 million in 2018.

All the above balances added up to make the current account deficit increased by US$21 million up from US$400 million (5.6 percent of GDP) in 2018. The current account deficit was mainly covered by Foreign aid, Remittances, and also foreign direct investment (FDI).

4.1.2 Capital and Financial Account

During the period under review, the FDI achieved a net inflow of US$408 million (5.5 percent of GDP) compared with a US$369 million (5.2 percent of GDP) in the corresponding period of 2017. This came after the increase in the net inflow of foreign direct investment (FDI) in Somalia.

Table 9 (a) Balance of Payment, 2017-2018

(Millions of US. dollars)	2017	2018
Current account balance	-400	-421
Overall trade balance	-3,938	-3,813
Goods balance	-3,006	-2,806
Exports of goods, f.o.b.	418	675
Imports of goods, f.o.b.	-3,424	-3,481
Services, net	-932	-1,007
Service credits	532	530
Service debit	-1,464	-1,538
Income (net)	-31	-33
Receipts	40	42
Payments	-72	-75
Current transfers (net)	3,569	3,425
Private (net), including remittances	1,523	1,432
Official	2,046	1,993
Capital account and financial account	426	421
of which:		
Foreign direct investment	369	408
Overall balance and error and omissions	25	0
Change in central bank reserves (- = increase)	-25	0
Memorandum items:		
Nominal GDP	7,128	7,484
External public debt	4,671	…..

Source: UN comtrade, IMF estimates and CBS estimates, 2018

Table 9 (b) Balance of Payment, 2017-2018		
(Percent of GDP, unless otherwise indicated)		
	2017	**2018**
Current account balance	-5.6	-5.6
Overall trade balance	-55.3	-50.9
Goods balance	-42.2	-37.5
Exports of goods, f.o.b.	5.9	9
Imports of goods, f.o.b.	-48	-46.5
Services, net	-13.1	-13.5
Service credits	7.5	7.1
Service debit	-20.5	-20.5
Income (net)	-0.4	-0.4
Receipts	0.6	0.6
Payments	-1	-1
Current transfers (net)	50.1	45.8
Private (net), including remittances	21.4	19.1
Official	28.7	26.6
Capital account and financial account	5.6	5.6
of which:		
Foreign direct investment	5.2	5.5
Overall balance and error and omissions	0.4	0.0
Change in central bank reserves (- = increase)	-0.4	0.0
Memorandum items:		
Nominal GDP (Millions of U.S. dollars)	7,128	7,484
External public debt	65.5	………..

Source: UN comtrade, IMF estimates and CBS estimates, 2018

4.2 External Public Debt

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.

Based on up-to-date information from more than two-thirds of creditors Somalia owes an estimated over US$5 billion of total outstanding public debt, equivalent to 69.9 percent of GDP (figure 9). It also owes (US$1.5 billion (20.3 percent of GDP) to multilateral creditors, mainly, the International Monetary fund (IMF), the World Bank (WB), and the Arab Monetary Fund (AMF).

Somalia also owes US$3 billion (40.4 percent of GDP) to Paris club creditors, mainly the United States, the United Kingdom, the Russian federation, France, Italy, Spain, Netherlands, and Japan, and $0.69 billion (9.2 percent of GDP) to non-Paris club countries including the United Arab Emirates, Saudi Arabia, Kuwait Fund & Central Bank, Iraq, Algeria.

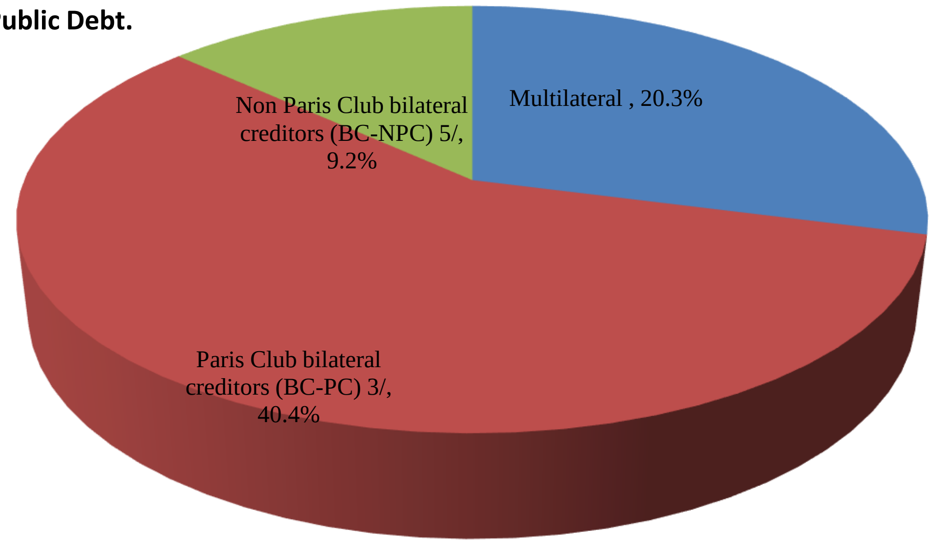
Relations with the international community was normalized and track record of reform implementation, developing adequate policy instruments was established to tackle Somalia's low institutional capacity and fragile security situation to help the country to achieve arrears clearance and debt relief.

Table 10: External Public Debt (2013-2017) In Millions of US Dollars

Creditors	Prel. 2013	Prel. 2014	Prel. 2015	Prel 2016	Prel 2017	Prel 2018	Percent of GDP 2018
Total Stock outstanding	**4,394**	**4,394**	**4,414**	**4,377**	**4,585**	**5,235**	**69.9%**
Multilateral	1,556	1,507	1,468	1,442	1,504	1,520	20.3%
Bilateral creditors	3,566	2,887	2,946	2,935	3,081	3,714	49.6%
Paris Club bilateral creditors (BC-PC)	2,244	2,249	2,332	2,320	2,464	3,022	40.4%
Non-Paris Club bilateral creditors (BC-NPC)	1,322	638	614	615	617	692	9.2%

Source: IMF, MoF, 2018

Figure 9 Public Debt.



Source: IMF, MoF, 2018

FINANCIAL SECTOR DEVELOPMENT

5 FINANCIAL SECTOR DEVELOPMENT

The Central Bank of Somalia has made tremendous efforts to strength the financial sector industry and its prudential policies aimed in achieving sound, stable financial sector with great level of financial access, financial sector development and financial inclusion. The main aim of the Bank is to create an enabling, favourable and more conducive environment in terms of policies and regulations to ensure provision of financial services that are more accessible equally in order to foster financial inclusion and to promote economic growth.

As of the end of Dec 2018, the financial sector composed of seven (7) banks and twelve (12) Mobile Money Transfer Businesses (MTBs). The Bank continued strengthen legal, regulatory, and supervisory framework to safeguard financial stability and protect consumers. As a result, the Bank Developed Regulation on Asset Classification and Provisioning (2018) to improve financial reporting requirement for the commercial banks. In addition to that, the cabinet has approved the draft of the Financial Sanction Regulation Bill and forwarded to the Parliament for approval. As of Dec 2018, the Bank has issued Nine (9) prudential regulations and Seven (7) manuals in banking sector, while the MTBs have five (5) effective prudential regulations.

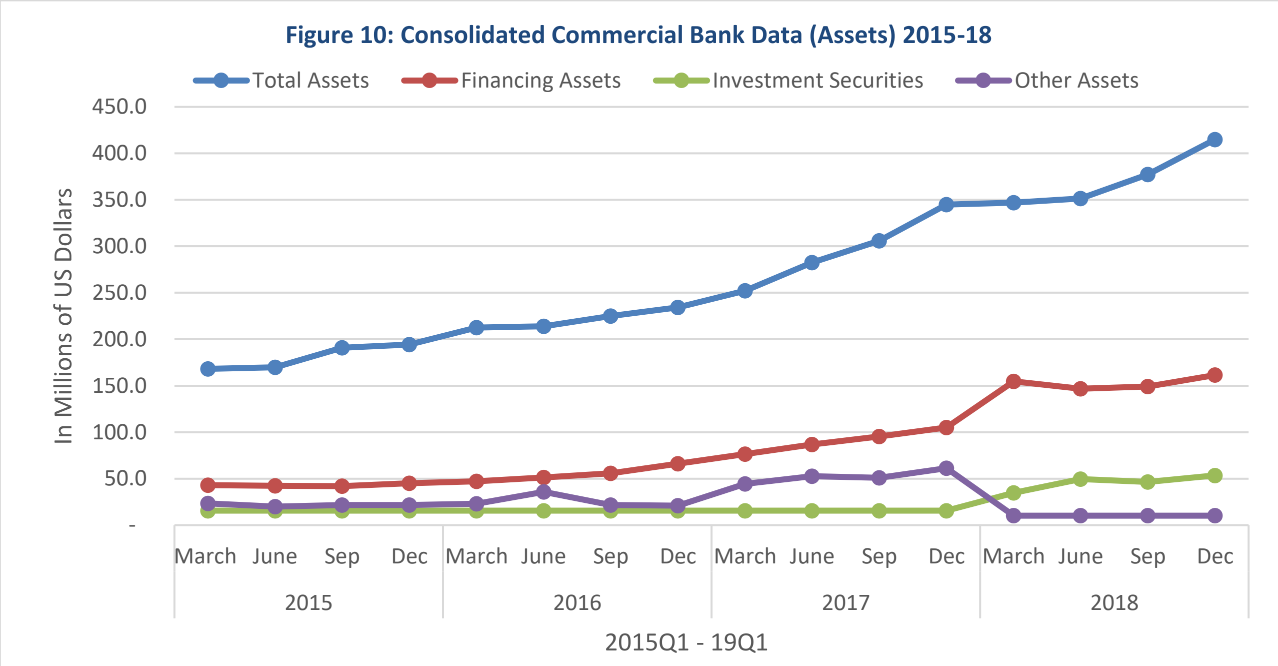
The banking industry remained adequately capitalized with total capital and core capital ratios exceeding the minimum prudential requirements. The total Assets of the of the financial sector have expanded by 113 percent since Dec 2015 to record US$414.9 million in Dec 2018. Despite the ongoing challenges of correspondent banking relationship, the Bank will continue to adopt sound and stable financial sector in Somalia given the global economic fluctuations.

5.1 Banking Sector

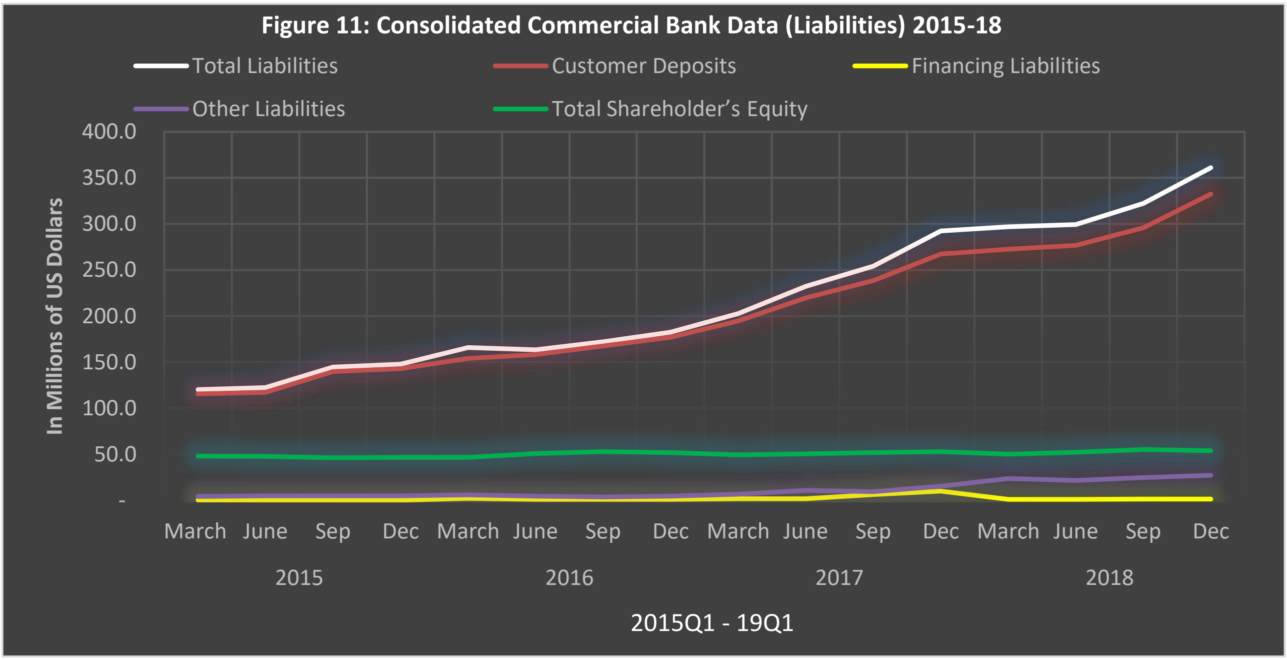
The banking sector has made a growth momentum since the first quarter of 2015. As of Dec 2018, total assets have increased by 20 percent to reach US$414 million, up from US$345 million in 2017. Financing assets continue to increase due to the increased customer deposits. The total financing assets as of Dec 2018 have increased by 53 percent to US$161.4 million, up from 105.2 in 2017. Financing assets is channelled mainly on Trade Financing (39.6 percent), Real Estates (22.2 percent), and Construction (9 percent). Customer Deposits have increased to US$332.4 million, up from US$267.2 recording 20 percent increase over 2017. It's very important to note that the number of clients have doubled in 2017 to 112,069 clients, up from 49,104 clients showing an increase of 128 percent over 2016.

The banking system remains liquid and well capitalized, and the Bank continues to supervise commercial banks with regular off-site and on-site analysis of quarterly and the annual financial reports. The newly issued regulation on Asset Classification and Provisioning will help financial reporting requirement of commercial banks as well strength the prudential capacity of the Bank.

As the end of Dec 2018, the capital adequacy ratio (CAR) stood at 13 percent, down from 15.3 percent in Dec 2017. The change is mainly attributable to an increase in the number of loans in the reporting period which is mainly concentrated on trade financing and loans on real estates. However, commercial banks have maintained minimum regulatory prudential requirement of 12%. Maintenance of the minimum requirement is due to prudent measure on loan classification by banks and enhanced supervision to ensure compliance with prudential standards.



Source: CBS, 2018



5.2 Money Transfer Businesses

In 2018, the total diaspora remittance is estimated around US$1,302 million US Dollars. Though, the total transfer increased in 2018, it has been evidenced a decline in the trend inflows since 2016 especially on remittances. The decline in the inflow is mainly attributed to the restrictions imposed on the Somali MTBs in Europe and America. Somali remittance companies were increasingly finding difficult to retain direct access to banking services for long period.

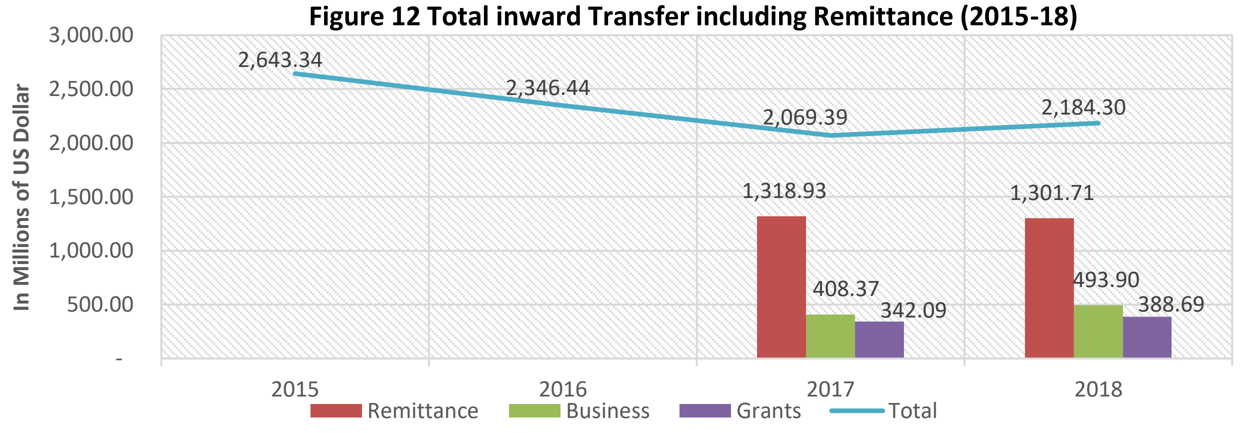
All correspondent banking accounts were closed and currently there are limited alternatives for channelling funds to Somalia, these caused the inflow to decline.

Remittance is the lifeline of Somalia economy, representing more than 20 percent of the nation's Gross Domestic Product. Remittance provides livelihood support about 40 percent of the Somalia population, provides financial access to remote and rural areas as there is MTBs branch all over the country.

Somalia's current account deficit (more than 39 percent of GDP) is financed through remittance which accounts more than 40 percent of total import payments.

It is worth to note that the MTBs in Somalia are shifting to banking systems that could also be a justifiable explanation to changes in the remittance trend.

Figure 12 Total inward Transfer including Remittance (2015-18)



Source: CBS, 2018

MONETARY POLICY

6 MONETARY POLICY

The Central Bank of Somalia did not issue any currency during the civil war in 1991. Since then, hundreds of counterfeit banknotes have been mass-produced overseas, and in the recent years, printing machines have been set up in Somalia to produce low-quality paper to the market.

Approximately 98 per cent, or more, of the Somali shilling currency in circulation is considered counterfeit. As a result, the bank faces the enormous challenge of discharging its mandate in a highly dollar-based economy, which has no monetary instruments to control the country's money supply, prevent counterfeiting, and support payment systems.

One of the basic functions of the Central bank is to protect the value of the Somali shilling and thus combat inflation.

Under the current circumstances, the central bank is unable to implement any concrete monetary policy as the economy relies heavily on the dollar; it is estimated that US dollar banknotes account for more than 90 per cent of the currency in circulation.

The exchange rate regime in Somalia is classified as a de facto floating exchange rate dominated by the market. As a result, the shilling has lost the significant functions of money, from medium of exchange and unit accounts to store of value

All licensed commercial banks, money transfer businesses (MTBs) and mobile transactions are handled in US dollars. Ongoing efforts regards to reintroduction of new Somali shillings will aid the country to develop policies such as monetary policy, exchange rate policy and reserve management policy

6.1 Currency Reform

Currency reform is one of the main pillars of the financial management program of the Central Bank of Somalia and the Federal Government of Somalia (FGS). Since its restoring in 2007, and in line with the government's efforts to rebuild key national institutions, the Bank has developed capacity enhancement, initiated dynamic regulatory reform, and supported modernization and development initiatives that are critical to delivering services and restoring public confidence in the institution.

Recent years, the CBS held extensive discussions on the entire currency reform planning framework. In recent currency reform advisory missions, IMF staff recommended a detailed road map for currency reform. Currency Core Group (Ministry of Finance and Central Bank of Somalia).

CBS have come up with a detailed roadmap and completed seven (7) benchmarks with (23) activities in collaboration with the Fund. The Bank addressed all the requirements and the evidencing supporting the criteria were satisfied.

The CBS undertook these reforms to combat widespread counterfeiting, which included the development of an anti-counterfeiting strategy, hiring qualified staff and providing them with the needed training. The CBS also established its own Currency Core Group (CCG) which is management role for the currency reform and prepared detailed plans for the conversion of the current long-lasting banknotes in circulation.

The CBS has recently finalized the following benchmarks.

- The criteria for the design and security features of the new banknotes and will subsequently start procurement process for the currency printer
- The cost of the entire reform project; and
- Estimating the volume of banknotes to print

Central Bank of Somalia planned to launch Phase I of currency reform as soon as preparations are completed. Following the endorsement letter received from the IMF in early March 2018, CBS have stepped up efforts to reach out to donors to raise the needed funds (US$$41 million) for this project. FGS have also reached out the World Bank for assistance on the project fund's administration. With IMF's assistance good progress is being made on key preparatory documents which include:

- Communication strategy framework between the CBS and key stakeholders;
- Currency reform project timeline; and
- The tender document.

The accountability framework committee associated with Phase I was endorsed by the CBS Board of Directors, and the committee members were identified in June 2018 to support the final preparatory work for the launch of the new currency. As soon as the administrative framework for the project fund is set up and the project funding is fully covered, CBS is expecting the IMF to assist with a currency project for experts thus to provide direct technical support to the CBS staff especially the currency reform project management.

CORPORATE GOVERNMENT

7 CORPORATE GOVERNANCE

7.1 Board of Directors

Under the Central Bank of Somalia Act Law no. 130 of 22 April 2012, the Board of Directors is composed of The Governor, who is the Chairman and The Deputy Governor, who will be the deputy chair of the Board when the Governor is absent and five other non-executive directors.

The Governor serves as Chairman of the Board and is the Chief Executive Officer for the Bank. The Governor reports to and is a member of the Board of Directors. The Governor is supported by the Deputy and also takes the role of Chief Operations Officer for the Bank.

Over the reporting period, the Board of Directors of CBS held eleven ordinary meetings and one extra-ordinary meeting. Through Board committees and full Board meeting, the Directors exercised their guidance role by reviewing policies and regulations, addressing organizational issues and enhancing corporate governance principles.

During the 2018 Board of Directors approved new regulations and also they reviewed some of the existing regulations. The key regulations approved are: regulation and guideline on Asset Classification and Provision, Corporate Governance guidelines for Banks and Internal Audit Department Charter.

Table 11: BOARD MEMBERS AND BOARD COMMITTEES

MEMBER	DATE OF APPOINTMENT	BOARD (9 MEETINGS)
Bashir Isse Ali	24th April,2014	9/9
Maryama Abdullahi Yusuf	24th April,2014	9/9
Abdurashid M. Siraj	February 2016	9/9
Maye Mohamed Sheekhuna	24th April,2014	9/9
Dr. Omar Ibrahim Hussein	24th April,2014	7/9
Hodan Isse	24th April,2014	8/9
Yusuf Mohamed Ali	February 2016	9/9

Source: CBS, 2018

7.2 Board Committee

Human Resource and Management Committee
Members:

1. Abdurashid M. Siraj
2. Hodan Isse
3. Yusuf Mohamed Ali

Main Functions

- ✓ Continuous reviewing the structure, size and (including skills, knowledge and experience) required by the Bank and recommendations to the boars about any changes
- ✓ Full consideration of staff planning, skills and expertise required in the future, and also taking into account the challenges and opportunities of the Bank.
- ✓ Regular review of salaries and benefits of senior staff and other employees.
- ✓ Reviewing the Bank's HR Policies and advising the Board for approval

Audit and risk Management Committee

Members:

1. Abdurashid M. Siraj
2. Maye Mohamed Sheekhuna
3. Hodan Isse
4. Yusuf Mohamed Ali

Main Function

- ✓ Review the annual financial statements
- ✓ Review the implementation of key accounting policies and financial reporting
- ✓ Review the adequacy of the internal audit function, including qualification of staff. resources, and quality of reports.

Financial and Fixed Asset Committee
Members:

1. Abdurashid M. Siraj
2. Yusuf Mohamed Ali

Table 12 Regulations

S. No.	Description
1	Internal Audit Department Charter
2	Regulation and guideline on Asset Classification and Provision
3	Corporate Governance guidelines for Banks
4	Anti-money laundering/Counter Terrorism Regulation of Somali MTBs submitted CBS/NBS/REG/05.

Source: CBS, 2018

Table 13 Directives

S. No.	Description
1	Increasing license renewal fee for Hawalas from, US$1,000 (One thousand dollars) to US$5,000 (Five thousand dollars)
2	Allowing foreign banks to submit their applications and CBS to assess and consider them as they follow existing Bank rules and regulations and that of CBS Financial Intuitional Law.
3	Agreement on the Three Executive Directors for the functional division in the Bank
4	Committees of Board to be expanded in response to growing need of the Bank departments and tasks required to be done.

Source: CBS, 2018

7.3 Governance and Reform Roadmap

Central Bank of Somalia has undertaken institutional reforms to enhance its regulatory capacity. CBS re-organization has been addressed as key foundation for a successful reform momentum. On Nov 2018, The Board of Directors of CBS approved a new functional based organizational structure to improve the governance of the CBS to fast-track the reform roadmap.

The Bank has developed a detailed financial sector roadmap to build a credible and integrated financial sector which is key for economic development. Anti-Money Laundering and Combating the Financing of Terrorist (AML/CFT) Roadmap have been developed as well to address regulatory and capacity gaps in the AML/CFT framework.

With the support of the World Bank, CBS has taken critical steps to modernize the financial system. Under this initiative, CBS has launched a new payment system for the licensed financial institutions to create the first Somali inter-bank payment system that facilitates payments and settlements.

On the SMP reform Program, FGS has accomplished prior actions before starting the program and successfully completed two SMPs for two-year period. Since the approval of the current 12-month (May 2018 - April 2019) Staff-Monitored Program (SMP III), the program implementation has been satisfactory in June 2018. All end-June and end-September 2018 indicative targets (ITs) and all structural benchmarks (SBs) were met.

This SMP Program has been designed to help guide the Federal Government of Somali to rebuild key economic institutions and undertake critical policy reforms to re-establish macroeconomic stability and establish a track record on sound policy and reform implementation.

IMF encourages the Federal Government of Somali to sustain their reform momentum. The successful completion of the first two 12-month SMPs (from May 2016 to April 2018), as well as satisfactory performance under the current SMP III, reflects the strength of the FGS' policy and reform commitment.

This continued commitment will help pave the way towards securing the necessary support, including from donors, for eventual debt relief and arrears clearance under the HIPC Initiative. IMF urges the Federal Government of Somali to begin the process of securing the necessary financial assurances to cover the costs of both HIPC debt relief and clearing arrears to the international financial institutions.

On the table below, the CBS has met the satisfactory criteria for the successful completion of structural benchmarks. CBS completed two critical benchmarks in SMP I (May 2016–April 2017), three critical benchmarks in SMP II (May 2017–April 2018) and two critical benchmarks in the current SMP III (May 2018–April 2019).

Table 14 List of Structural Benchmarks that CBS achieved in the SMP Program 2016 -2018

SMP	Benchmark	Program Period	Due Date	Status
	Approve a roadmap for currency reform by the Board of Directors of the Central Bank of Somalia (CBS)	Prior Actions		Met
I	Require approval by the Board of Directors of the CBS to issue commercial bank and MTB licenses	May 2016–April 2017	End-Dec-2016	Met
	Finalize the anti-counterfeit strategy		End-Mar-2017	Met
II	Establish a National Anti- Counterfeit Center	May 2017–April 2018	End-Sep-2017	Met
	Adoption by the CBS of regulations on 1) denominations of the SOS notes to be issued; 2) design and security features; and 3) volume of banknotes		End-Dec-2017	Met
	Develop a roadmap for financial sector development		End-Dec-2017	Met
	Develop a plan to improve the renewal of MTBs' licenses and enhance compliance with existing regulations		End-Mar-2018	Met
III	Submit to Parliament the draft Targeted Financial Sanctions Act	May 2018–April 2019	End-Sep-2018	Met
	CBS to issue regulation on credit classification and provision, and review reporting requirement for banks.		End-March 2019	Met

Source: CBS, 2018

8. FINANCIAL PERFORMANCE

Deloitte.

CENTRAL BANK OF SOMALIA

REPORTS AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

CENTRAL BANK OF SOMALIA

REPORTS AND FINANCIAL
STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2018

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CENTRAL BANK OF SOMALIA

CORPORATE INFORMATION

BOARD OF DIRECTORS	Abdirahman M. Abdullahi	- (Governor)
	Maryama Abdullahi Yusuf	- (Deputy Governor)
	Dr. Aues Abo Scek	
	Dr. Abdisamad Nur Loyan	
	Sakhawadin Mustafa	
	Mohamed Osman Salad Gabeyre	
	Prof. Hussein A. Warsame	
REGISTERED OFFICE	Central Bank of Somalia P O Box 11 55 Corso Somalia Mogadishu, Somalia	
LAWYERS	State Attorney General Villa Somalia, Mogadishu, Somalia	
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place Waiyaki Way, Muthangari P O Box 40092 - 00100 GPO Nairobi, Kenya	

CENTRAL BANK OF SOMALIA

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their report together with the audited financial statements of Central Bank of Somalia (the "bank") for the year ended 31 December 2018, 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, 2012.

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 2012, and will enjoy all the prerogatives of a central bank.

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

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

3. RESOURCES AND STRENGTH

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

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

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

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

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

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

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

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

Promoting integrity and stability of the financial system

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

Strengthening corporate governance

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

Staffing, Capacity Building and Work Environment

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

Enhance Compliance with Legislation, Regulations, Policies and Standards

During the year, the Bank continued to put emphasis on compliance with the Central Bank of Somalia Act, 2012; and other legislations, regulations and policies in executing its mandate. Further, the Bank continued to adhere to Anti-Money Laundering (AML) and the Combating Financing of Terrorism Units (CFT) by continuing coordination of Anti-Money Laundering (AML)/Combating Financing of Terrorism (CFT) activities as an effort to ensure that the Bank adhered to legislation, regulations and policies. The Bank spearheaded coordination of AML/CFT initiatives within the Bank and among stakeholders in the country.

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

The Central Bank's Engagement with External Stakeholders

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

5. CAPITAL STRUCTURES

Article 9 of the Central Bank of Somalia Act, 2012 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 STAKEHOLDERSN

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

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

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

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

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

7. MANAGEMENT

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

The law further provides that the Governor to be assisted by the Deputy Governor. The Deputy Governor, in the order determined by the governor, shall act for the governor, shall exercise all the powers, and shall perform all the functions conferred on the governor under this act whenever the governor is temporarily absent or incapacitated, and shall perform such other functions as the governor may from time to time assign to him/her.

8. FUTURE DEVELOPMENT PLANS

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

On strengthening corporate governance, the Bank will take deliberate measures to create broad awareness and capacity building among staff to strengthen internal controls and formulate frameworks in adherence with International standards. In addition, the Bank will focus on enhancing application of modern technologies; improve its work processes and compliance with laws and regulation in order to improve operational efficiency in all its undertakings. Further, the Bank will focus on service excellence in attending to CBS internal and external stakeholders. Like any other central bank, the Bank is dedicated to continue advising the governments on economic policy related matters and serving the general public as our ultimate customers.

9. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

Key risks and uncertainties

The key risks that may significantly affect the Bank's strategies and development are mainly financial, operational and strategic. Below we provide a description of the operational and strategic risks facing the Bank. The risks related to financial instruments have been disclosed under Note 3 of the financial statements:

(a) Operational Risk

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

- Human Resource Risk

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

- Business Disruption and Security risks

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

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

- Legal Risk

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

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

9. RISK MANAGEMENT AND INTERNAL CONTROL

Key risks and uncertainties (continued)

(b) Strategic Risk

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

The Bank has an obligation to ensure that it performs its functions and maintains its reputation as a Central Bank in line with requirements of the Central Bank of Somalia Act, 2012.

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, house allowance, employee training and development and leave travel assistance as well as any other allowances stipulated within the staff by-laws.

(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.

REPORT OF THE DIRECTORS (Continued)

11. EMPLOYEES WELFARE (Continued)

(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. CORPO RATE SOC IAL RESPONSIBILIT Y

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, 2012 (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. RESU LTS FOR THE YEAR

	2018
	USD
Surplus for the year	1,270,872
	========

18. DIRECTORS

The present members of the board of directors are shown on page 2.

19. APPOINTME NT OF NEW GOVERNOR

The bank appointed new governor (Abdirahman Mohamed Abdullahi) in April 2019.

20. AUDITORS

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

BY ORDER OF THE BOARD

Director

Mogadishu

11/10/ 2020

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, 2012, 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, 2012, 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 chairman 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 12 meetings during the year ended 31 December 2018. 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.

The Board and its committee's meet once every month with additional meetings convened as and when necessary. During the year, the Board and its committees met to discuss and decide on various business activities. The Board Committees recommend key business decisions to the Board for approval. Major issues raised at the board meetings during the year ended 31st December 2018 included;

Board Meetings (Continued)

- 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	Feb 15	Mar 15	Mar 27	April 15	May 26	Jun 25	Jul 25	Sep 05	Sep 25	Oct 24	Nov 25	Dec 25
Bashir Isse Ali	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Maryam A. Yusuf	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Abdulrashid M. Siraj	✓	✓	✓	✓	✓	✓	✓	✓	X	✓	✓	X
Dr. Omar I. Hussein	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓
Maye Mohamed Sheekhuna	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	X	✓
Yusuf Mohamed Ali	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Hodan Said Isse	✓	✓	X	✓	✓	✓	X	✓	✓	✓	✓	✓

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 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.

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.

Board Committees (Continued)

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. 11th October. ..2020, and signed on its behalf by:

Abdirahman M. Abdullahi
The Governor and Chairman of the Board

Director

Director

CENTRAL BANK OF SOMALIA

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Central Bank of Somalia Act, 2012 requires management to prepare financial statement s for each financial year whic h 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 management 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.

Management 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, 2012 and for such internal controls as management determine arc necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The management 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. Management 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 management 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 management to indicate that the bank will not remain a going conce rn for at least the next twelve months from the date of this statement.

Director

11/10/2020

Director

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF CENTRAL BANK OF SOMALIA

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of Central Bank of Somalia (the "Bank"), set out on pages 16 to 48, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section below, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

Opening balances

We were appointed as auditors of the bank in the financial year ended 31 December 2014 but were unable to obtain sufficient appropriate audit evidence on the opening balances. The bank did not undertake an audit of the financial year ended 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 2017 and 2018 and to the statements of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2018.

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

Emphasis of matter

Without further modifying our opinion, we draw your attention to note 17 which describes a historical liability relating to sovereign loans owed by the government of Somalia to the International Monetary Fund (IMF). The Central Bank of Somalia has assumed and recognised this liability on its books in 2018 on the basis that it's the government's fiscal agent and depository with the IMF. These liability relates to loans which government of Somalia had received from IMF (International Monetary Fund) before the collapse of the Somali government in 1992. In 2018, the bank agreed with the Ministry of Finance to reflect the amounts due to IMF on the bank's statement of financial position and, in compensation, the Central Bank of Somalia obtained a promissory note (see Note 16) in consideration of the bank assuming the debt owed to IMF.

Other Information

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

Report on the Audit of the Financial Statements (Continued)

Other information (Continued)

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the. financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard

Responsibilities of the Directors for the financial statements

The directors are responsible for the preparation and fair presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Central Bank of Somalia Act, 2012 and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

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

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

Report on Other Legal Requirements

Except for the matter described in the Basis for Qualified Opinion section of our report, as required by the Central Bank of Somalia Act, 2012, we report to you, based on our audit, that:

i) we have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the bank, so far as appears from our examination of those books; and

iii) the bank's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi **22 October 2020**

CPA F Okwiri - P/No 1699
Signing partner responsible for the independent audit

CENTRAL BANK OF SOMALIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 USD	2017 USD
REVENUE	4	5,488,735	4,641,403
OPERATING EXPENDITURE	5	(4,400,680)	(4,288,268)
OTHER INCOME	7	78,327	19,405
NET FOREIGN EXCHANGE GAINS		104,490	88
SURPLUS BEFORE TAXATION		1,270,872	372,628
TAXATION	8	-	-
SURPLUS FOR THE YEAR		1,270,872	372,628
OTHER COMPREHENSIVE INCOME:			
CHANGES ARISING ON VALUATION OF RECOVERED PROPERTY		22,668,550	34,624,543
REVALUATION (LOSS) / GAIN ON GOLD BULLION		(352,864)	2,479,802
		22,315,686	37,104,345
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		23,586,558	37,476,973
	=	========	========

CENTRAL BANK OF SOMALIA

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 USD	2017 USD
ASSETS			
Cash balances	9	46,788,763	18,569,175
Deposits and balances due from banking institutions	10	26,1 J 6,833	29,759,743
Receivables	11	30,951	25,000
Loans and advances	12	1,500,000	1,200,000
Gold bullion	13	20,786,436	21,139,300
Property and equipment	14	128,110 ,490	104,367 ,094
Intangible assets	15	13 8,299	347
Due from the Government of Somalia	16	375,415, 708	
Due from Intemational Monetary Fund (IMF)	17	24,939,713	
TOTAL ASSETS		623,827,193	175,060,659
LIABILITIES			
Due to International Monetary Fund (IMF)	17	400,355,421	
Treasury deposits	18	37,839,502	32,992,445
Deposits from banks	19	13,586,235	6,037,790
Security deposits	20	11,220,000	840,000
Microfinance grant	21	3,000,000	3,000,000
Other payables	22	3,913,775	1,763,028
TOT AL LIABILITIES		469,914,933	44,633,263
RESERVES			
Revenue reserve	23(a)	7,946,773	6,777,595
Revaluation reserve	23(b)	126,648,069	104,332,383
Gold reserve	23(c)	19,317 ,418	19,317,418
TOT AL RESERVES		153,912,260	130,427,396
TOTAL LIABILITIES AND RESERVES		623,827,193	175,060,659

The financial statements on pages 16 to 48 were approved and authorised for issue by the board of directors on 11 October 2020 and were signed on its behalf by:

Di rector

Director

CENTRAL BANK OF SOMALIA

STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2018

	Revenue Reserve USD	Revaluation Reserve USD	Gold Reserve USD	Total USD
At 1 January 2017	6,404,967	67,228,038	19,317,418	92,950,423
Total comprehensive income for the year	372,628	37,104,345	-	37,476,973
At 31 December 2017	6,777,595	104,332,383	19,317,418	130,427,396
At 1 January 2018 - as previously reported	6,777,595	104,332,383	19,317,418	130,427,396
Day one adjustment on first time adoption of IFRS 9 (Note 10)	(101,694)	-	-	(101,694)
At 1 January 2018 – Restated	6,675,901	104,332,383	19,317,418	130,325,702
Total comprehensive income for the year	1,270,872	22,315,686	-	23,586,558
At 31 December 2018	7,946,773	126,648,069	19,317,418	153,912,260

CENTRAL BANK OF SOMALIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 USD	2017 USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	24 (a)	26,103,817	33,160,276
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	14	(1,388,840)	(661,529)
Purchase of intangible assets	15	(138,299)	-
Net cash used in investing activities		(1,527,139)	(661,529)
NET INCREASE IN CASH AND CASH EQUIVALENTS		24,576,678	32,498,747
CASH AND CASH EQUIVALENTS AT 1 JANUARY		48,328,918	15,830,171
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24 (b)	72,905,596	48,328,918

1 ACCOUNTING POLICIES

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) *Relevant standards and amendments to published standards effective for the year ended 31 December 2018 and adopted during the year*

The following new and revised IFRSs were effective in the current year and the Company has adopted them with the initial application being 1 January 2018.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments

The finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement**: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. The carrying amount of an asset does not limit the estimation of probable future taxable profits.

- **Impairment**: The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a Credit loss is recognized.

- **Hedge accounting**: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

The application of these amendments has had an impact on the bank’s financial statements. The impact is assessed as follows:

1 ACCOUNTING POLICIES (Continued)

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

i) Relevant standards and amendments to published standards effective for the year ended 31 December 2018 and adopted during the year (continued)

IFRS 9 Financial Instruments (Continued)

Classification and measurement of financial assets and financial liabilities

The date of the initial application is 1 January 2018.

Initial recognition of financial assets

Under IFRS 9, on initial recognition, a financial asset is classified as measured at:

- Amortised cost;
- Fair value through other comprehensive income (FVOCI) which may include debt or equity instruments; or
- Fair value through profit and loss (FVTPL).

IFRS 9 eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The classification of financial assets under IFRS 9 is based on whether the financial assets are equity instruments, debt instruments held or derivative assets. Equity instruments and derivative assets are mandatorily categorised as financial assets at FVTPL. The classification and measurement of debt instruments is dependent on the business model in which the financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not accounted for separately. Instead, the hybrid financial instrument as a whole is assessed for classification.

A debt instrument is classified as a financial asset at amortised cost if it meets both of the following conditions (and is not designated as at FVTPL):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI if it meets both of the following conditions (and is not designated as at FVTPL):

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity instrument that is not held for trading, the instrument may be irrevocably designated at FVOCI. In such an instance changes in the equity instrument's fair value are recorded in other comprehensive income (OCI). This election is made on an investment-by-investment basis

All debt instrument financial assets that were not classified as measured at amortised cost or FVOCI are measured at FVTPL. On initial recognition, the bank may irrevocably designate a debt instrument financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Transaction costs that are directly attributable to the acquisition of financial assets are expensed in profit or loss for financial assets initially classified at FVTPL. For financial assets not classified at FVTPL, transaction costs are added to or deducted from the fair value at initial recognition

1 ACCOUNTING POLICIES (Continued)

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

i) Relevant standards and amendments to published standards effective for the year ended 31 December 2018 and adopted during the year (continued)

IFRS 9 Financial Instruments (Continued)

Subsequent measurement of financial assets

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Initial recognition of financial liabilities

IFRS 9 largely retains the requirements in IAS 39 for the classification and measurement of financial liabilities. On initial recognition financial liabilities are measured at fair value plus or minus, in the case of financial liabilities not classified at FVTPL, transaction costs that are incremental and directly attributable to the issue of the financial liability. Transaction costs of financial liabilities carried at FVTPL are expensed in profit or loss.

Subsequent measurement of financial liabilities

IFRS 9 largely retains the requirements in IAS 39 for the measurement of financial liabilities with one exception. Fair value movements attributable to changes in the credit risk of a financial liability designated at FVTPL is recorded in other comprehensive income and not recycled to profit or loss. The balance of the fair value movement is recorded in profit or loss

IFRS 9 transition impact assessment

The directors of the bank reviewed and assessed the bank's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that with the initial application of IFRS 9 the financial assets classified as loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. The adoption of IFRS 9 has not resulted in any change in classification of financial assets of the bank as illustrated in the table below.

1 ACCOUNTING POLICIES (Continued)

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

i) Relevant standards and amendments to published standards effective for the year ended 31 December 2018 and adopted during the year (continued)

IFRS 9 Financial Instruments (Continued)

Classification and measurement of financial assets and financial liabilities (continued)

IFRS 9 transition impact assessment (Continued)

Financial statement line item	**Classification in terms of IAS 39**	**Measurement in terms of IAS 39**	**Classification and measurement in terms of IFRS 9**	**As at 31 December 2017 - IAS 39 USD**	**As at 1 January 2018 - IFRS 9 USD**
Deposits and balances due from banking institutions	Cash and Bank deposits	Amortised cost	Amortised cost	29,759,743	29,658,049
Receivables*	Receivables	Amortised cost	Amortised cost	25,000	25,000
Loans and advances*	Loans and advances	Amortised cost	Amortised cost	1,200,000	1,200,000

*There was no change in the credit risk of receivables and loan and advances on adaption of IFRS hence why there is no change on the movement.

a) Impairment of financial instruments

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the bank to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Specifically, IFRS 9 requires the bank to recognise a loss allowance for expected credit losses on:

Deposits and balances due from banking institutions;
Receivables; and
Loans and advances.

Given the bank has elected not to restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognised on the date of initial application of IFRS 9 (i.e. 1 January 2018), the directors have compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at 1 January 2018.

The additional credit loss allowance of USD 101,694 as at 1 January 2018 has been recognised against retained earnings. The additional loss allowance is charged against the respective asset as detailed in the referenced notes.

The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the bank's exposure to credit risk in the financial statements

The application of IFRS 9 had no impact on the cash flows of the bank. Additionally, since there were no restatements

1 ACCOUNTING POLICIES (Continued)

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

i) Relevant standards and amendments to published standards effective for the year ended 31 December 2018 and adopted during the year (continued)

IFRS 9 Financial Instruments (Continued)

a) Impairment of financial instruments

(Continued) The result of the assessment is as follows:

Items existing as at 1 January 2018 that are subject to the impairment provisions of IFRS 9	**Credit risk attributes at 1 January 2019**	**Cumulative additional loss allowance recognised on 1 January 2018 (USD)**
Cash balances	Assessed as low credit risk since all cash is held with selected banks and financial institutions.	-
Deposits with financial institutions		101,694
Receivables	Assessed as low credit risk since the only receivable outstanding was advance given to staff which was fully recoverable from the staff's payroll	-
Loan and advances	Assessed as low credit risk since the loans were fully secured.	-
Total		101,694

Impact of initial application of IFRS 15 Revenue from Contracts with Customers

In the current year, the bank has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

The bank has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15:C5(c) but using the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

The application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Bank.

1 ACCOUNTING POLICIES (*Continued*)

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

ii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2018

At the date of authorization of these financial statements, the bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 16-*Leases*	1 January 2019, with earlier application permitted
Amendments to IAS 19 Employee Benefits *Plan Amendment, Curtailment or Settlement*	1 January 2019, with earlier application permitted
IFRIC 23 *Uncertainty over Income Tax Treatments*	Effective for annual periods beginning on or after 1 January 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle- *Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements IAS 12 Income Taxes and IAS 23 Borrowing Costs*	1 January 2019, with earlier application permitted
IFRS 10 Consolidated Financial Statements and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint*	1 January 2019, with earlier application permitted

IFRS 16 Leases

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

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

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognised in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended.

1 ACCOUNTING POLICIES (*Continued*)

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

ii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2018

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement (Continued)

An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 With the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The directors of the bank do not anticipate that the application of the amendments in the future will have an impact on the bank's financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

1) determine whether uncertain tax positions are assessed separately or as a company; and
2) assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:

- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the bank do not anticipate that the application of the amendments in the future will have an impact on the bank's financial statements.

Annual improvements to IFRS Standards 2015 – 2017 Cycle

The Annual Improvements to IFRS Standards 2015-2018 cycle makes amendments to the following standards:

- IAS 12 Income Taxes - The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.
- IAS 23 Borrowing Costs - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

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

ii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2018 (Continued)

Annual improvements to IFRS Standards 2015 – 2017 Cycle (continued)

- IFRS 11 Joint Arrangements - The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation. All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The directors of the bank do not anticipate that the application of the amendments in the future will have an impact on the consolidated and company financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.
The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.

The directors of the Bank do not anticipate that the application of the amendments in the future will have an impact on the entity.

(iii) Early adoption of standards

The Bank did not early-adopt any new or amended standards in 2018.

Significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been applied consistently.

Basis of preparation

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

1 ACCOUNTING POLICIES (Continued)

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 commissions are generally recognised in profit or loss on an accrual basis when the service has been provided.

Other fees relate mainly to transaction and service fees, which are recognized as the services are rendered.

Property and equipment

Land and buildings are stated at cost or as professionally revalued less accumulated depreciation and accumulated impairment losses where applicable. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of the reporting period. Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income

Other categories of property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. 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:

Leasehold Land	Over the lease year.
Freehold Land	0%
Buildings	2.5%
Furniture, Fixtures and fittings	12.5%
Motor vehicles	20%
Computers and equipment	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.

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.

1 ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets (continued)

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.

Funds held at / due to International Monetary Fund (IMF)

Somalia is a member of the International Monetary Funds (IMF). Central Bank of Somalia is the designated depository for the IMF holdings of the Federal Government of Somalia's currency. IMF currency are held in the No. 1 and No. 2 Accounts, which are deposit account of the IMF with the Bank.

Borrowings from and repayment to the IMF are denominated in Special Drawings Rights (SDRs). The SDR balances in IMF accounts are translated into United Stated Dollars at the prevailing exchange rates and any unrealized gains or losses are accounted for in accordance with accounting policy or foreign currencies.

On custodial basis, the Bank holds a non-interest bearing and cashable on demand security issued by the Treasury of IMF in its capacity as the IMF's depository. The security issued is in part payment of Somali's quota of IMF shares

Currency in circulation

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

Foreign currencies

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

1 ACCOUNTING POLICIES (continued)

Taxation

Article 8 of the Central Bank of Somalia Act, 2012 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

The Bank applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

Recognition

The Bank recognises financial assets and liabilities when it becomes a party to the terms of the contract. Trade date or settlement date accounting is applied depending on the classification of the financial asset.

Financial Assets

Classification

The bank classifies its financial assets as subsequently measured at either amortised cost or fair value on the basis of both the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

A financial asset is measured at amortised cost if both of the following conditions are met (and is not designated as at FVTPL):

(i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
(ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amountoutstanding.

A financial asset is measured at FVOCI if both of the following conditions are met (and is not designated as at FVTPL):

i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The bank's receivables, cash at bank, deposits with financial institutions, Loans and advances and balances due from the Government and International Monetary Fund IMF are held are classified at amortised cost.

Recognition and de-recognition of financial instruments

Financial assets are recognised when the bank becomes a party to the contractual provisions of the asset. Initial recognition of financial asset is at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

1 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Financial assets where credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

i) Significant increase in credit risk

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the bank considers quantitative and qualitative information, based on the bank's historical experience, credit assessment and including forward-looking information. The bank's assessment of a significant increase in credit risk from initial recognition consists of a primary and secondary risk drivers as follows:

- The primary risk driver aligns to the quantitative credit risk assessments performed, such as the credit score, credit rating, probability of default or arrears aging of a financial instrument; and
- The secondary risk assessment considers a broad range of qualitative risk factors based on a forward looking view such as economic and sector outlooks.

These primary and secondary risk drivers are included by the bank as part of the ongoing credit.

When making a quantitative assessment, the bank uses the change in the probability of default occurring over the expected life of the financial instrument. This requires a measurement of the probability of default at initial recognition and at the reporting date.

A rebuttable assumption is that the credit risk since initial recognition has increased significantly if a financial instrument is 30 days past due on any payments or is one payment in arrears. It is not anticipated that this assumption will be rebutted.

The maximum period considered when estimating ECLs is the maximum contractual period over which the bank is exposed to credit risk. The ECL calculation of a financial instrument takes into account both the contractual and available behavioural repayment patterns over the relevant estimation period.

The bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

ii) Write-off policy

The bank writes off a financial asset when there is information indicating that there is no reasonable expectation of recovery of the financial instrument, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. A write off does not constitute a derecogntion per IFRS 9.Financial assets written off may still be subject to enforcement activities under the bank's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

1 ACCOUNTING POLICIES (Continued)

Financial liabilities

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

Derecognition of financial liabilities

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

Offsetting financial instruments

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

Leasing

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

The bank as a lessee

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

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

Cash and cash equivalents

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

Fiduciary activities

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

Contingent liabilities

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

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

In the process of applying the bank's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgemnts 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

Measurement of the expected credit loss

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring expected credit losses (ECL), such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

The impairment loss on loans and advances is disclosed in note 12

(ii) Key sources of estimation uncertainty

Property and equipment

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

3 RISK MANAGEMENT POLICIES AND OBJECTIVES

A. OVERVIEW OF RISK MANAGEMENT

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

- Credit risk
- Liquidity risk

Risk Management Framework

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

(a) Credit risk

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

3 RISK MANAGEMENT POLICIES AND OBJECTIVES

A. OVERVIEW OF RISK MANAGEMENT

(a) Credit risk (Continued)

Credit risk on financial assets other than loans

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

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

Maximum exposure to credit risk before collateral held

Assets	External credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
2018			**USD**	**USD**	**USD**
Deposits and balances from bank institutions	B- to A+	12	29,810,796	(3,683,963)	26,116,833
Loans and Advances	None	12	1,589,940	(89,940)	1,500,000
Receivables	None	12	30,971	-	30,971
Due from the government of Somalia	None	12	375,415,708	-	375,415,708
Due from International Monetary Fund (IMF)	None	12	24,939,713	-	24,939,713
Total			**431,787,128**	**(3,773,903)**	**428,003,225**
			=========	=========	========

Assets	External credit rating	12-month or lifetime ECL	Gross carrying amount	Loss allowance	Net carrying amount
2017			**USD**	**USD**	**USD**
Deposits and balances from bank institutions	B- to A+	12	33,363,663	(3603,920)	29,759,743
Loans and Advances	None	12	1,200,000	-	1,200,000
Total			**34,563,663**	**(3,603,920)**	**30,959,743**
			=========	=========	========

(b) Liquidity risk

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

3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

A. OVERVIEW OF RISK MANAGEMENT (Continued)

(b) Liquidity risk

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.

Source of funding

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

The table below analyses the Bank's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	On demand USD	1 – 3 months USD	3-12 months USD	1 - 5 years USD	Over 5 years USD	Total USD
At 31 December 2018						
Due to International Monetary Fund (IMF)	-	-	-	-	400,355,421	400,355,421
Treasury deposits	37,839,502	-	-	-	-	37,839,502
Deposits from banks	13,586,235	-	-	-	-	13,586,235
Security Deposits	11,220,000	-	-	-	-	11,220,000
Other payables	3,913,775	-	-	-	-	3,913,775
Total financial liabilities	66,559,512	-	-	-	400,355,421	466,914,933
	========	======	======	========	=========	========
At 31 December 2017						
Treasury deposits	32,992,445	-	-	-	-	37,839,502
Deposits from banks	6,037,790	-	-	-	-	13,586,235
Security Deposits	840,000	-	-	-	-	11,220,000
Other payables	1,763,028	-	-	-	-	3,913,775
Total financial liabilities	41,633,263	-	-	-	-	41,633,263
	========	======	======	========	========	========

3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

B. CAPITAL MANAGEMENT

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

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

Reserves

	2018 USD	2017 USD
Retained earnings	7,946,773	6,777,595
Revaluation reserve	126,648,069	104,332,383
Gold reserve	19,317,418	19,317,418
	153,912,260	130,427,396

(i) FAIR VALUE HIERARCHY

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Details of the fair value hierarchy for the Bank's property plant and equipment carried at fair value as at 31 December 2018 are as follows:

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
31 December 2018				
Gold Bullion	20,786,436	-	-	20,786,436
	20,786,436	-	-	20,786,436
31 December 2017				
Gold Bullion	21,139,300	-	-	21,139,300
	21,139,300	-	-	21,139,300

3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

C) OTHER RISK DISCLOSURES

STRATEGIC RISK

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

Who manages strategic risk

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

How we manage strategic risk

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

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

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

OPERATIONAL RISK

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

Who manages operational risk?

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

How we manage operational risk?

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

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.

3 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

C) OTHER RISK DISCLOSURES (Continued)

REPUTATIONAL RISK

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

Who manages reputational risk?

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

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

How we manage reputational risk?

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

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

COMPLIANCE RISK

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

Who manages compliance risk

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

How we manage compliance risk

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

4 REVENUE	2018 USD	2017 USD
Cash handling fees and commissions	4,680,245	4,198,093
License fees	372,000	232,000
Rental income	429,500	202,400
Registration fee	3,000	1,500
Sundry revenue	3,990	7,410
	5,488,735	4,641,403

5 OPERATING EXPENDITURE

	2018 USD	2017 USD
Staff costs (note 6)	2,091,612	2,078,859
Travel expense*	98,291	92,756
Security	258,268	314,601
Asset recovery expenses	104,950	119,060
Repair and maintenance	68,975	14,652
Auditors fees	90,000	90,000
Hospitality	82,938	88,393
Depreciation	313,994	272,803
Amortisation	347	1,173
Fuel	6,344	5,716
Miscellaneous office expenses	50,030	25,443
Hotel	74,487	44,476
Medical expenses	24,663	25,259
Internet expenses	47,723	20,424
Rent	61,928	60,000
Board of Directors expenses	367,338	207,649
Printing, Publications & Subscriptions	37,431	6,839
Tuition fees (kaalmo waxbarasho)	21,591	24,060
Miscellaneous vehicle expenses	7,549	5,482
Electricity	67,320	73,005
Tel, Fax, and Telegraph	17,771	2,230
Office supplies stationaries	29,114	27,566
Water	2,628	2,312
Legal expense	-	25,500
Cleaning	21,289	18,063
Bank charges	28,325	94,320
Oil expenses	-	993
Postage	-	67
Donations	41,440	50,200
Consultant fees	61,230	60,229
Mission allowance	176,500	183,110
Drought contribution expenses	-	236,695
Professional subscriptions	58,765	10,911
Irrecoverable debt	-	5,422
Cash impairment	9,550	-
Impairment write back on deposits with financial institutions (Note 10)	(11,651)	-
Impairment charge on loans and advances (Note 12)	89,940	-
	4,400,680	4,288,268

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

	2018 USD	2017 USD

6 STAFF COSTS

Salaries and wages	1,628,837	1,486,565
Staff allowances	253,223	226,535
Contract experts	186,600	117,600
Pension	22,952	248,159
	2,091,612	2,078,859

7 OTHER INCOME

Interest on deposit account held in Federal Reserve Bank of New York	40,734	19,405
Other income	37,593	-
	78,327	19,405

8 TAXATION

Article 8 of the Central Bank of Somalia Act Law no. 130 of 22 April 2012 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.

9 CASH BALANCES

	2018 USD	2017 USD
Somali Shillings	33,515	157,017
United States Dollars	46,755,248	18,412,158
	46,788,763	18,569,175

10 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2018 USD	2017 USD
Balances due from banking institutions	29,810,796	33,363,663
Provision for impairment of unconfirmed bank balances	(3,693,963)	(3,603,920)
	26,116,833	29,759,743

10 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

(Continued) Movement in provision for impairment is as follows;

	2018 USD	2017 USD
At 1 January	(3,603,920)	(3,603,920)
Day one adjustment on IFRS 9 adoption	(101,694)	-
Impairment write back during the year	11,651	-
At end of the year	(3,693,963)	(3,603,920)

The weighted average effective interest rate on balances and deposits due from banking institutions at 31 December 2018 was Nil (2017 - Nil).

11 RECEIVABLES

	2018 USD	2017 USD
Sundry debtors	30,951	25,000

12 LOANS AND ADVANCES

	2018 USD	2017 USD
As at 1 January	1,200,000	-
Loans advanced	500,000	1,200,000
Repayments	(110,060)	-
ECL Impairment provision	(89,940)	-
As at 31 December	1,500,000	1,200,000

The micro finance loans are loans which the Bank issued to 6 commercial banks from the funds received from Kuwait Fund for Arab Development (Note 21). The commercial banks are supposed to utilize the loans for provision of micro finance loans to small business traders.

These loans are interest free and the banks are not required to make periodic payments. However, the banks are required to repay the loan fully after 18 months.

13 GOLD BULLION

	2018 USD	2017 USD
At 1 January	21,139,300	18,659,498
Valuation (loss)/gain through other comprehensive income	(352,864)	2,479,802
At 31 December	20,786,436	21,139,300

13 GOLD BULLION (Continued)

Gold bullion consists of 16, 261 fine troy ounces of gold at the market price of United States Dollar (USD) 1,278.30 per ounce (2017: 16,261 fine troy ounces at USD 1,300 per ounce).

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

14 PROPERTY AND EQUIPMENT

COST	Freehold Land USD	Buildings USD	Furniture and fixtures USD	Vehicles USD	Equipment USD	Other equipment USD	Total USD
At 1 January 2017	63,694,764	5,968,394	102,207	237,750	271,288	9,628	70,284,031
Additions	438,500	97,800	4,489	-	120,740	-	661,529
Recovered assets	35,216,286	(1,322,389)	-	-	-	-	33,893,897
At 31 December 2017	99,349,550	4,743,805	106,696	237,750	392,028	9,628	104,839,457
At 1 January 2018	99,349,550	4,743,805	106,696	237,750	392,028	9,628	104,839,457
Additions	330,000	879,709	100,591	-	78,540	-	1,388,840
*Recovered assets	22,514,850	153,700	-	-	-	-	22,668,550
At 31 December 2018	122,194,400	5,777,214	207,287	237,750	470,568	9,628	128,896,847
DEPRECIATION							
At 1 January 2017	-	580,526	37,602	162,690	142,207	7,181	930,206
Charge for the year	-	150,120	11,737	41,429	68,554	963	272,803
Eliminated on revaluation	-	(730,646)	-	-	-	-	(730,646)
At 31 December 2017	-	-	49,339	204,119	210,761	8,144	472,363

14 PROPERTY AND EQUIPMENT (Continued)

	Freehold Land USD	Buildings USD	Furniture and fixtures USD	Vehicles USD	Equipment USD	Other equipment USD	Total USD
At 1 January 2018	-	-	49,339	204,119	210,761	8,144	472,363
Charge for the year	-	158,854	25,911	33,631	94,114	1,484	313,994
At 31 December 2018	-	158,854	75,250	237,750	304,875	9,628	786,357
NET BOOK VALUE							
At 31 December 2018	122,194,400	5,618,360	132,037	-	165,693	-	128,110,490
At 31 December 2017	99,349,550	4,743,805	57,357	33,631	181,267	1,484	104,367,094

* The bank has land and buildings which it had owned from its inception since 1962. However, due to insecurity issues and the war that took place, the bank lost control of some of its properties. Since 2014, the bank has been undertaking an exercise to recover these assets. In the current period, the bank recovered land and building with a market price USD 22,514,850 and USD 153,700 respectively. The valuation of land and buildings was carried out by GIMCO Limited, registered valuers, on a Market Value basis as at 31st December 2018. The resulting revaluation surplus of USD 22,668,550 has been credited to other comprehensive income.

15 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2018 USD	2017 USD
COST		
At 1 January	5,866	5,866
Additions	138,299	-
At 31 December	144,165	5,866
AMORTISATION		
At 1 January	5,519	4,346
Charge for the year	347	1,173
At 31 December	5,519	5,519
NET BOOK VALUE		
At 31 December	138,299	347

16 DUE FROM THE MINISTRY OF FINANCE

	2018 SDR	2018 USD	2017 SDR	2017 USD
Ministry of Finance Promissory Note to settle debt owed to International Monetary Fund	269,929,830	375,415,708	-	-

This Promissory Note has been issued by the Ministry of Finance (MOF) pursuant to the Somali Public Finance and Management Act, in consideration to the Central Bank of Somalia (CBS) assuming the debt owed to the IMF. The note is effective from 31 December 2018 and the maturity date is on 18 March 2024.

The Note shall accrue interest on the unpaid principal balance of the Promissory Note at the applicable rate as determined by the International Monetary Fund (IMF) in effect on 1 January 2019, which is set at two percent (2%) per annum, compounded annually. The accrued interest and the principal shall be payable only on the Maturity Date.

This Promissory Note, shall be governed by the Federal Government Somali Constitution and construed and enforced in accordance and with the Somali Public Finance and Management Act

17 FUNDS HELD AT/ DUE TO INTERNATIONAL MONETARY FUND (IMF)

	2018 SDR	2018 USD	2017 SDR	2017 USD
(a) Assets				
IMF balances (SDR asset account)	17,899,938	24,895,055	-	-
Accrued Interest on SDR Holdings	32,110	44,658	-	-
Total SDR holdings	17,932,048	24,939,713	-	-
(b) Liabilities				
International Monetary Fund Account No. 2	6,345	8,825	-	-
International Monetary Fund – Borrowings	111,549,222	155,141,542	-	-
Accrued interest and charges	129,760,067	180,469,004	-	-
SDR Allocations	46,546,244	64,736,051	-	-
Total liabilities due to IMF	287,861,878	400,355,421	-	-

In 2018 the bank recognized Somalia government's IMF (International Monetary Fund) position on its statement of financial position. The Central Bank of Somalia currently acts as Somalia's "Fiscal Agent" and "Depository" with the IMF. Therefore, the bank agreed with the Ministry of Finance to reflect the amounts due to IMF on the bank's statement of financial position. In compensation, the Central Bank of Somalia obtained a promissory note (see Note 16) in consideration of the bank assuming the debt owed to IMF.

IMF currency are held in the No. 1 and No. 2 Accounts, which are deposit account of the IMF with the Bank.

Borrowings from and repayment to the IMF are denominated in Special Drawings Rights (SDRs). The SDR balances in IMF accounts are translated into United Stated Dollars at the prevailing exchange rates and any unrealized gains or losses are accounted for in accordance with accounting policy or foreign currencies.

On custodial basis, the Bank holds a non-interest bearing and cashable on demand security issued by the Treasury of IMF in its capacity as the IMF's depository. The security issued is in part payment of Somali's quota of IMF shares.

	2018 USD	2017 USD
18 TREASURY DEPOSITS		
Denominated in Somali Shillings	42,641	118,606
Denominated in United States Dollars	37,796,861	32,873,839
	37,839,502	32,992,445

The bank holds accounts for and on behalf of the Government in accordance with the Central Bank of Somalia Act, 2012. Government includes the Federal Government of Somalia, selected regional authorities and salary payment accounts for current and former employees and parliamentarians.

19 DEPOSITS FROM BANKS

	2018 USD	2017 USD
Demand deposits	13,586,235	6,037,790
	========	========

Commercial banks hold demand deposit accounts with the Bank to facilitate settlement of inter-bank transactions

20 SECURITY DEPOSITS

	2018 USD	2017 USD
Performance security to undertake banking and forex business in Somalia	11,220,000	840,000
	=======	=======

All money transfers bureaus that are licensed to carry on money remittance business are required to maintain with the Central Bank, a security deposit in the sum of United States Dollars 60,000 or its equivalent in Somali currency

As of 31 March 2018 the bank also requested all commercial banks that have been licensed by the bank to carry banking activities to maintain with the Central Bank, security deposit in the sum of United States Dollars 1,500,000. In 2018 there were a total of 7 licensed commercial banks and 14 money transfers bureaus who maintained security deposits with the bank.

These deposits are non-interest bearing and repayable on demand

21 MICROFINANCE GRANT

	2018 USD	2017 USD
Microfinance Grant	3,000,000	3,000,000
	========	========

In September 2014, the Federal government of Somalia received a USD 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. Part of the grant was disbursed to Commercial banks as loans (Note 12).

22 OTHER PAYABLES

	2018 USD	2017 USD
Sundry creditors	2,618,464	251,781
Audit fees	90,000	208,619
Deferred rent income	48,000	40,000
Uncredited cash recovered	1,157,311	1,086,288
Pension payables	-	176,340
Other payables and accruals	3,913,775	1,763,028
	=======	========

23 CAPITAL REQUIREMENTS AND RESERVES

The authorized capital of the Bank is determined in accordance with Law no. 130 of the Central Bank of Somalia Act of 22 April 2012 that prescribes that 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 had not been implemented hence the prescribed capital for the bank had not been set.

Reserves

As at the end of the year, the bank had the following reserves which represent its net assets.

(a) Revenue reserve

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

(b) Revaluation Reserves

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

(c) Gold reserve

Gold reserve represents the value of bullions that the bank recovered through its asset recovery exercise. The reserve balance has been maintained at the value of initial recognition as at 31 December 2014 with all subsequent gains/losses going through the revaluation reserve.

24 NOTES TO THE CASH FLOW STATEMENT

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

	2018 USD	2017 USD
Surplus before taxation	1,270,872	372,628
Adjustments for:		
Depreciation (note 14)	313,994	272,803
Amortisation (note 15)	347	1,173
Working capital changes:		
Increase in receivables	(400,361,372)	(19,132)
Increase in loan advances	(300,000)	(1,200,000)
Increase in deposits from banks and treasury	22,775,502	32,258,279
Increase in other payables	402,506,168	1,474,525
IFRS 9 Day 1 Impairment adjustment	(101,694)	-
Cash generated from operations	26,103,817	33,160,276

24 NOTES TO THE CASH FLOW STATEMENT

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

	2018 USD	2017 USD
Cash balances (Note 9)	46,788,763	18,569,175
Deposits and balances due from banking institutions (Note 10)	26,116,833	29,759,743
	72,905,596	48,328,918
	========	========

25 CONTINGENCIES AND COMMITMENTS

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. The bank still has some land and buildings which it owns but has not been able to regain control after the collapse of the bank in 1992.Also the bank has not been able to reliably measure the value of these land and buildings. However, the directors have ensured that all assets which the bank controls and all known liabilities have been included in these financial statements.

26 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 2018, nor are there known significant assets or liabilities with related parties as at 31 December 2018 (2017 – Nil).

27 INCORPORATION

The Bank is incorporated under the Central Bank of Somalia Act, 2012 (the Act).

28 CURRENCY

These financial statements are prepared in United States Dollars.

29 EVENTS AFTER THE REPORTING DATE

The outbreak of COVID-19 virus which is ongoing pandemic has been major destabilising threat to the global economy. The COVID-19 pandemic was confirmed to have reached Somalia on 16 March 2020 and the following impacts are likely to be experienced in the economy in year 2020.

- A rapid reduction in remittances transferred into the country from abroad
- Falling commodity prices and restricted export markets

There has been no significant impact on the operations of the bank arising from the conditions and events associated with measures to contain the virus.

The directors are unable to quantify/estimate the effects of COVID 19 on the amounts reported in the financial statements ad at 31 December 2018. However, the events giving rise to any changes are considered to be post balance sheet events and therefore do not affect the figures as reported in these financial statements.