



CENTRAL BANK OF SOMALIA

**REPORTS AND
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
31 DECEMBER 2021**

CENTRAL BANK OF SOMALIA

REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

CONTENTS	PAGES
Corporate information	1
Statement from the Governor	2
Report of the directors	3 - 8
Statement on corporate governance	9 - 11
Financial statement highlights	12 - 13
Statement of management's responsibilities	14
Independent auditors' report	15 - 17
Financial statements:	
Statement of profit or loss and other comprehensive income	18
Statement of financial position	19
Statement of changes in reserves	20
Statement of cash flows	21
Notes to the financial statements	22 - 50

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	
	Dr. 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 LLP
	Certified Public Accountants (Kenya)
	Deloitte Place
	Waiyaki Way, Muthangari
	P O Box 40092 - 00100 GPO
	Nairobi, Kenya

CENTRAL BANK OF SOMALIA

STATEMENT FROM THE GOVERNOR

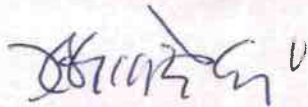
It is a pleasure for me to introduce the 2021 audited financial statements of the Central Bank of Somalia. The statements have been **determined** to be a true and fair view of the financial position of the bank in accordance with International Financial Reporting Standards.

I am pleased that we have sustained clean audit opinion, which is a testament to our commitment to transparency and good governance.

At the start of my tenure as the Governor of CBS, I made institutional reform as a key priority to upgrade the bank's capabilities to discharge its mandates in a transparent and efficient manner. Despite various challenges, we strengthened our internal controls and implemented the IMF safeguard assessment recommendations. We developed and implemented several critical policies and procedures that include financial management, procurement, human resource, foreign exchange accounts, information technology, fraud and anti-corruption measures. We have also established internal control procedures to address **operational** and compliance risk. I am also pleased to report that our transition into a function-based organisational structure is now almost complete.

The significant milestones we have achieved imbues me with the confidence that the reform process we started in 2019 is bearing fruit. In the short to medium term, our priority is to tighten our overall risk and compliance management functions further. To this end, we will strengthen our second-line defence mechanisms to ensure our internal controls remain robust by expanding our risk **management** and legal units. These initiatives will further safeguard the integrity of our institution.

At this critical juncture, it is important that we continue investing in our dedicated staff. They have been the main reason that enabled us to deliver this remarkable progress and I want to express my appreciation for their hard work. I also want to thank our senior management team and our board of directors for their support. I am confident CBS will continue to soar with our continued dedication and focus on achieving strategic goals of the organization.



Abdirahman M. Abdullahi
CBS Governor

8th September 2022

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 2021, 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.

CENTRAL BANK OF SOMALIA

REPORT OF THE DIRECTORS (Continued)

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

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

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

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

Maintaining price stability:

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

Promoting integrity and stability of the financial system

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

Strengthening corporate governance

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

CENTRAL BANK OF SOMALIA

REPORT OF THE DIRECTORS (Continued)

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 STAKEHOLDERS

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

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

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

7. MANAGEMENT

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

The law further provides that the Governor to be assisted by the Deputy Governor. The Deputy Governor, 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.

CENTRAL BANK OF SOMALIA

REPORT OF THE DIRECTORS (Continued)

9. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

Key risks and uncertainties

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

CENTRAL BANK OF SOMALIA

REPORT OF THE DIRECTORS (Continued)

9. RISK MANAGEMENT AND INTERNAL CONTROL

Key risks and uncertainties (continued)

(b) Strategic Risk

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

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

CENTRAL BANK OF SOMALIA

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. CORPORATE SOCIAL RESPONSIBILITY

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

13. COMPLIANCE WITH LAWS AND REGULATIONS

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

14. STATEMENT OF COMPLIANCE

The Directors' Report has been prepared in full compliance with requirements of the Central Bank of **Somalia** Act, 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. RESULTS FOR THE YEAR

	2021 USD	2020 USD
Profit for the year	<u>483,625</u>	<u>3,093,010</u>

18. DIRECTORS

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

19. AUDITORS

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

BY ORDER OF THE BOARD



Director Hussein Warsame

Mogadishu

8th September 2022

CENTRAL BANK OF SOMALIA

STATEMENT ON CORPORATE GOVERNANCE

Directors and Management upholds and practices and 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.
- Three Committees are currently assisting the Bank's Board of Directors in the discharge of its functions. These are the Audit Committee, Licensing and supervision committee and Human resource 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 10 meetings during the year ended 31 December 2021. 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 should meet once every two months with additional meetings convened as and when necessary. During the year, the Board and its committees met to discuss and decide on various business activities. The Board Committees recommend key business decisions to the Board for approval. Major issues raised at the board meetings during the year ended 31 December 2021 included

CENTRAL BANK OF SOMALIA

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board Meetings (Continued)

- National Payment System
- Regulations of the Financial Institutions
- Bank's Human Resource Plan including key HR reforms
- Reviewing the Supervision Department Regulations
- Bank, MTB and Mobile Money Licensing, Budget and Financial Management, Internal and external Audit

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

Date of meeting	Feb 07	March 14	March 28	April 11	June 6	July 4	Aug ust 22	Oct 03	Nov 7	Dec 23
Abdirahman M. Abdillahi	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Maryam A. Yusuf	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Prof. Hussein Ahmed Warsame	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Aues Abo Scek	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Abdisamad Nur Loyan	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Dr. Sakhawadin Mustafa Moham	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Osman Salad Gabeyre	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Board Committees

Three Committees are currently assisting the Bank's Board of Directors in the discharge of its functions. This is the Audit Committee, the Licensing and Supervision committee and Human Resource 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.

About 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.

CENTRAL BANK OF SOMALIA

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board Committees (Continued)

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

Directors' remuneration

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

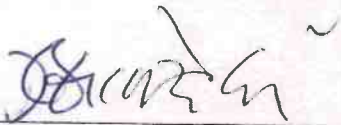
Conflicts of interest

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

Independence

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

Approved by the Board of Directors on 8th September 2022, and signed on its behalf by:



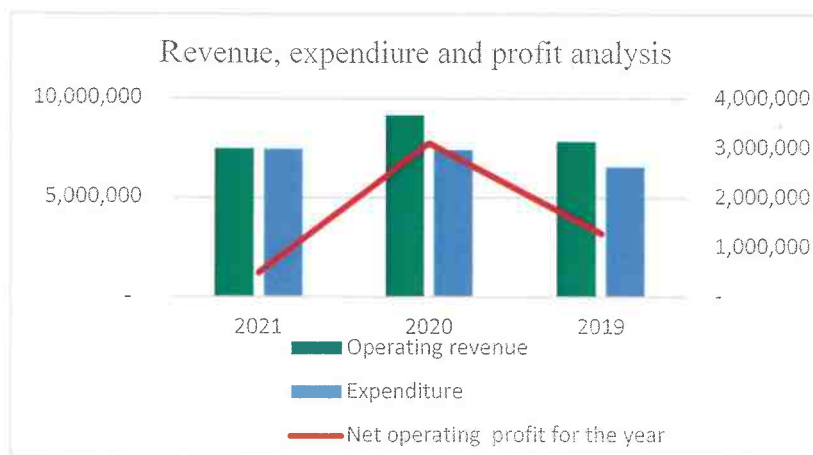
Abdirahman M. Abdullahi
The Governor and Chairman of the Board

8th September 2022

CENTRAL BANK OF SOMALIA

FINANCIAL STATEMENT HIGHLIGHTS

A. Revenue, expenditure, and net profit analysis.

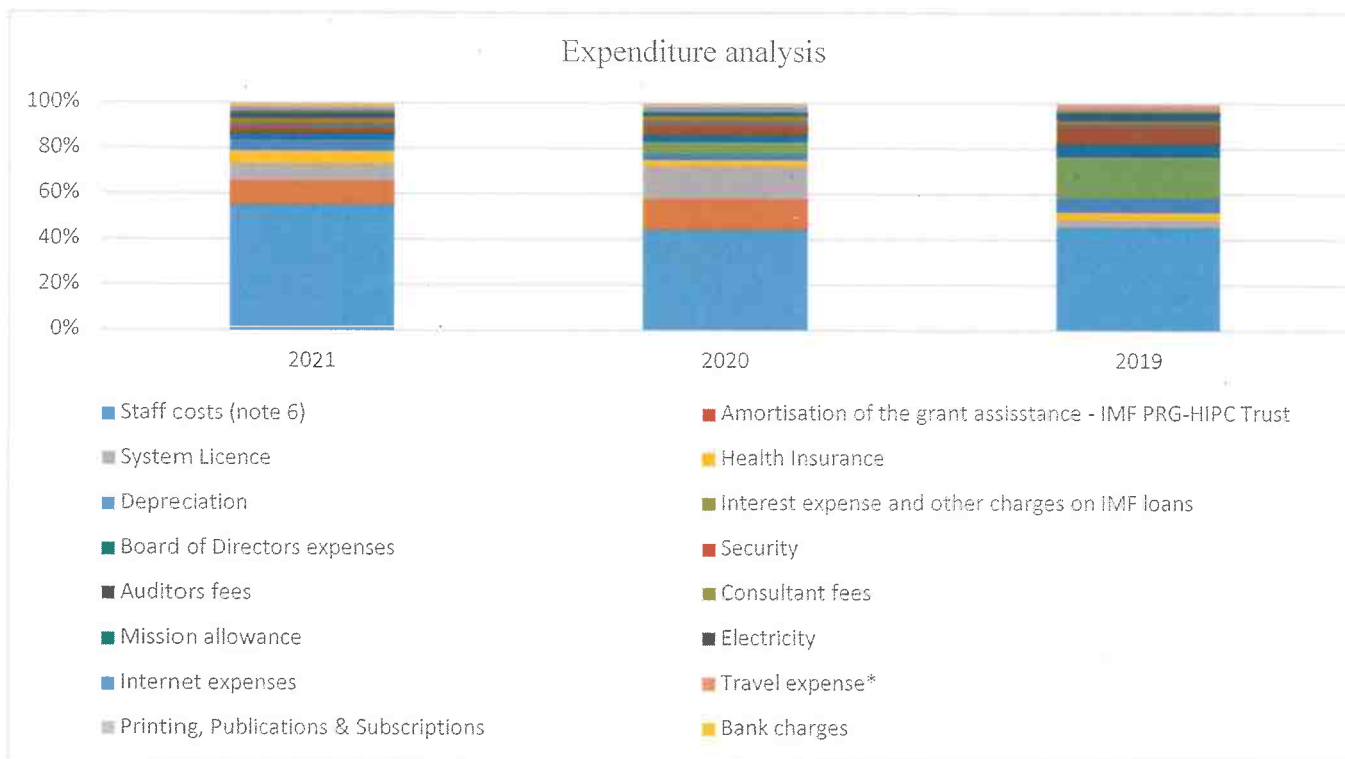


CBS experienced revenue growth in 2020 but a steep decline in 2021. However, the operating expenses have grown year on year.

The reduction of the income is due to reduced bank commission that was occasioned by reduction of the Government's income.

The reduction in income and increased expenditure lead to a dip in the net profit. In 2020, the bank has had an asset recovery income of USD 1.2M that boost its profit to USD 3Million.

B. Expenditure analysis

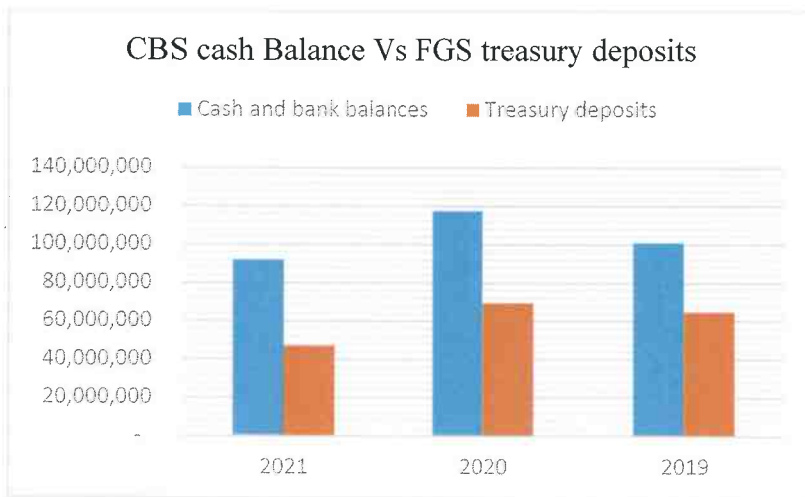


The analysis above captures 94% of CBS expenditure. The largest expense is Salary accounting for almost 55% of the above expenses in 2021. GRA expenses, System License expenses and Health insurance are the other top expenditures jointly accounting for 24% of the banks' expenses.

CENTRAL BANK OF SOMALIA

FINANCIAL STATEMENT HIGHLIGHTS (Continued)

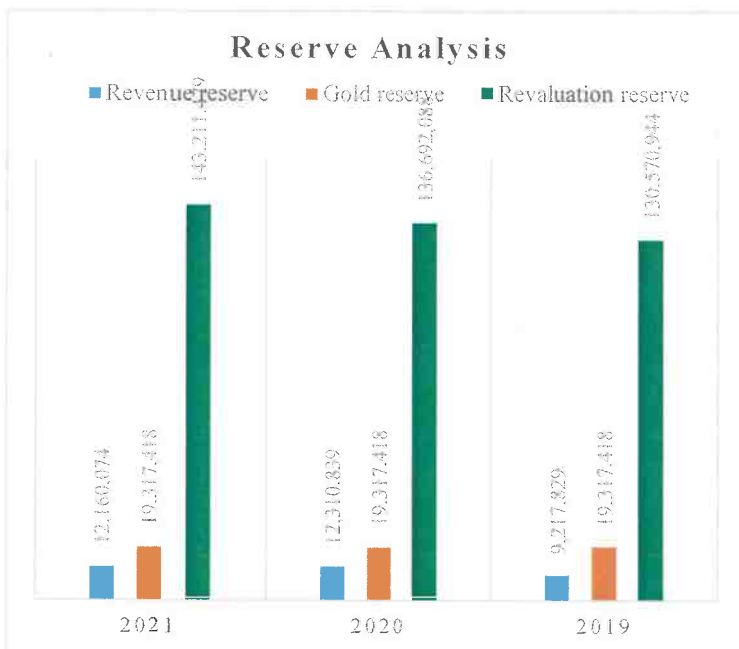
C. Cash holding analysis



The CBS cash and bank balances have reduced in 2021. This is line with reduction of the treasury deposits in the same year.

The cash flow analysis in the financial statements shows that the Government has made an overall withdrawal of USD 20M in the current year.

D. Reserve analysis



Revenue reserve has reduced in 2021 because of the payment of Dividend of USD 635,528 to the Government.

The revaluation reserve has increased by 6.5M mainly due to appreciation of the land held by CBS that appreciated by over 7M during the year. However, the gold reserve valuation for the year reduced by 1.3M.

CENTRAL BANK OF SOMALIA

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Central **Bank** of Somalia Act, 2012 requires management to prepare financial statements for each financial year which give a true **and** fair view of the state of affairs of the bank as at the end of the financial year and of its operating results for that year. It also requires 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 have delegated responsibility 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 are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

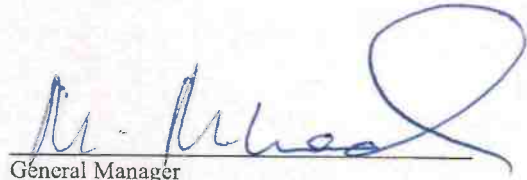
The Board of Directors is responsible for ensuring that management fulfills its responsibilities for **financial** reporting and internal controls and exercises this responsibility through the Audit Committee of the Board. The Committee is **composed** of members who are neither officers nor employees of the Bank and who are financially literate. The Committee is **therefore** qualified to review the Bank's annual financial **statements** and to recommend their approval by the Board of Directors.

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 is 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 concern for at least the next twelve months from the date of this statement.



Governor



General Manager

Date:

8/Sept / 2022

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

We have audited the accompanying financial statements of Central Bank of Somalia (the "Bank"), set out on pages 18 to 50, which comprise the statement of financial position as at 31 December 2021, 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, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the Central Bank of Somalia Act, 2012.

Basis for Opinion

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), together with the ethical requirements that are relevant to our audit of the financial statements in the Federal Republic of Somalia and we have fulfilled our other ethical responsibilities in accordance with these requirements and IESBA.

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the statement from the Governor, report of directors and the statement of corporate governance, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

Report on the Audit of the Financial Statements (Continued)

Responsibilities of management for the financial statements

Management have delegated responsibility 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 management 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. The directors 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 management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

The engagement partner responsible for the audit resulting in this **independent** auditor's report is **D.C. Nchimbi**.

Deloitte & Touche
Certified Public Accountants (Tanzania)



Signed by: D.C. Nchimbi
NBAA Registration No.: ACPA 1709
Dar es Salaam

10 September 2022

CENTRAL BANK OF SOMALIA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 USD	2020 USD
REVENUE	6	7,430,609	9,142,126
OPERATING EXPENDITURE	7	(7,425,033)	(7,387,371)
OPERATING INCOME		5,576	1,754,755
FINANCE INCOME	9(a)	378,226	6,804
OTHER INCOME	9(b)	37,279	1,276,346
FOREIGN EXCHANGE INCOME		62,544	55,105
PROFIT FOR THE YEAR		483,625	3,093,010
OTHER COMPREHENSIVE INCOME			
Revaluation Surplus		7,822,749	-
Revaluation (loss) / gain on Gold bullions		(1,112,772)	6,121,144
TOTAL OTHER COMPREHENSIVE INCOME		6,709,977	6,121,144
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,193,602	9,214,154

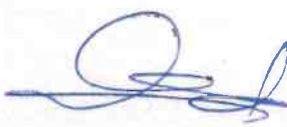
CENTRAL BANK OF SOMALIA
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021 USD	2020 USD
ASSETS			
Cash balances	11	58,637,216	74,156,438
Deposits and balances due from banking institutions	12	33,122,360	43,185,701
Receivables	13	112,077	134,241
Loans and advances	14	2,910,000	2,910,000
Gold bullion	15	29,717,683	30,830,455
Property and equipment	16	137,691,775	129,666,526
Intangible assets	17	142,733	108,200
Due from the Government of Somalia	18	381,346,234	392,420,520
IMF PRG-HIPC Trust	19	961,044	614,341
Due from International Monetary Fund (IMF)	20	428,273,098	286,719,946
TOTAL ASSETS		1,072,914,220	960,746,368
LIABILITIES			
Due to International Monetary Fund (IMF)	20	749,310,964	679,140,466
Balance on government SDR allocation	21	59,938,321	-
Treasury deposits	22	46,917,155	69,438,559
Deposits from banks	23	12,439,501	18,234,625
Security deposits	24	20,220,000	20,220,000
Microfinance grant	25	3,000,000	3,000,000
Other payables	26	6,209,860	2,392,373
TOTAL LIABILITIES		898,035,801	792,426,023
RESERVES			
Revenue reserve		12,158,936	12,310,839
Revaluation reserve		143,402,065	136,692,088
Gold reserve		19,317,418	19,317,418
TOTAL RESERVES		174,878,419	168,320,345
TOTAL LIABILITIES AND RESERVES		1,072,914,220	960,746,368

The financial statements in pages 18 to 50 were approved and authorized for issue by the Board of Directors on 2022 and were signed on its behalf by:



Governor



Director Hussein Wajid

5th September 2022

CENTRAL BANK OF SOMALIA

STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2021

	Revenue Reserve USD	Revaluation Reserve USD	Gold Reserve USD	Total USD
At 1 January 2020	9,217,829	130,570,944	19,317,418	159,106,191
Total comprehensive income for the year	3,093,010	6,121,144	-	9,214,154
At 31 December 2020	<u>12,310,839</u>	<u>136,692,088</u>	<u>19,317,418</u>	<u>168,320,345</u>
At 1 January 2021	12,310,839	136,692,088	19,317,418	168,320,345
Total comprehensive income for the year	483,625	6,709,977	-	7,193,602
Dividend paid	(635,528)	-	-	(635,528)
At 31 December 2021	<u>12,158,936</u>	<u>143,402,065</u>	<u>19,317,418</u>	<u>174,878,419</u>

CENTRAL BANK OF SOMALIA

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 USD	2020 USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used) / generated from operations	28 (a)	(24,329,991)	17,819,945
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	16	(530,336)	(1,329,156)
Purchase of intangible assets	17	(86,708)	(23,000)
Net cash used in investing activities		(617,044)	(1,352,156)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend Paid		(635,528)	-
Net cash used in financing activities		(635,528)	-
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(25,582,563)	16,467,789
CASH AND CASH EQUIVALENTS AT 1 JANUARY		117,342,139	100,874,350
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	28 (b)	<u>91,759,576</u>	<u>117,342,139</u>

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1 GENERAL INFORMATION

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's principal activities are outlined under the report of directors.

The address of the registered office of the Company which is domiciled in Federal Republic of Somalia is:

Central Bank Headquarters
Shanganil
P.O. Box 11
55 Corso Somalia
Mogadishu, Somalia

The financial statements are presented in United States Dollar (USD) which is the Bank's functional and presentation currency.

2 ADOPTION OF NEW AND REVISED STANDARDS

i) *New and amended IFRS standards that are effective*

Impact of the initial application of COVID-19-Related Rent Concessions beyond 30 June 2021—Amendment to IFRS 16

In the prior year, the Bank adopted *Covid-19-Related Rent Concessions (Amendment to IFRS 16)* that provided practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. This practical expedient was available to rent concessions for which any reduction in lease payments affected payments originally due on or before 30 June 2021.

In March 2021, the Board issued *Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)* that extends the practical expedient to apply to reduction in lease payments originally due on or before 30 June 2022.

The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying IFRS 16 as if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change
- Any reduction in lease payments affects only payments originally due on or before 30 June 2022 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2022 and increased lease payments that extend beyond 30 June 2022)
- There is no substantive change to other terms and conditions of the lease
- Impact on accounting for changes in lease payments applying the exemption

The amendment did not have a material impact on the financial statements of the Bank.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

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

i) *New and amended IFRS standards that are effective (Continued)*

Amendments to IFRS 9 ‘Financial Instruments’, IAS 39 ‘Financial Instruments: Recognition and Measurement’, IFRS 7 ‘Financial Instruments: Disclosures’, IFRS 4 ‘Insurance Contracts’ and IFRS 16 ‘Leases’ – interest rate benchmark (IBOR) reform

These amendments become effective for Annual periods beginning on or after 1 January 2021.

Phase 1 The International Accounting Standards Board (IASB) issued amendments to the following standards as part of the Interest Rate (Interbank Offered Rates or IBOR) Benchmark Reform that has a direct impact on the bank’s hedging relationships. These impacts are

➤ The highly probable requirement under IFRS 9 and IAS 39 – when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. When determining whether a forecast transaction is highly probable, a company shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

➤ Prospective assessments – when performing prospective assessments for effectiveness, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument is based is not altered as a result of the interest rate benchmark reform.

➤ Separately identifiable risk components – IFRS 9 and IAS 39 require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. The amendment allows for hedges of a noncontractually specified benchmark component of interest rate risk. A company shall apply the separately identifiable requirement only at the inception of such hedging relationships. These reliefs are essential to mitigate the hedge accounting issues that could arise during the period of uncertainty before IBOR contracts are amended to new alternative risk-free rates (ARRs)

Phase 2 The amendments provide temporary reliefs which address the financial reporting effects when an IBOR is replaced with an alternative nearly risk-free interest rate (RFR). These include:

➤ Practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest. Fundamental to allowing the use of this practical expedient is the requirement that the transition from an IBOR benchmark rate to an RFR takes place on an economically equivalent basis with no value transfer having occurred. Any other changes made at the same time, such as a change in the credit spread or maturity date, are assessed separately. If the other changes result in substantial modification, the instrument is derecognised. If derecognition is not achieved, the updated effective interest rate (EIR) is used to recalculate the carrying amount of the financial instrument, with any modification gain or loss recognised in profit or loss.

➤ The amendments permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Permitted changes include redefining the hedged risk to reference an RFR and redefining the description of the hedging instruments and/or the hedged items to reflect the RFR. Entities are allowed until the end of the reporting period, during which a modification required by IBOR reform is made, to complete the changes.

The amendments provide entities temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. The relief allows entities upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months.

The amendment did not have a material impact on the financial statements of the Bank.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii) New and revised IFRS standards in issue but not effective

At the date of authorisation 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

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 17 – insurance contracts	Annual periods beginning on or after 1 January 2023
Amendments to IAS 10 and IAS 28 <i>Sale or Contribution of Assets between an investor and its Associate or Joint Venture</i>	Yet to be set, however earlier application permitted
Amendments to IAS 1- <i>Classification of Liabilities as Current or Non-current</i>	1 January 2023
Amendments to IFRS 3 - <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to IAS16 <i>Property, Plant and Equipment— Proceeds before Intended Use</i>	1 January 2022
Amendments to IAS 37 - <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to IFRS Standards 2018-2020 Cycle - Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture	1 January 2022
Amendments to IAS 1 and IFRS Practice Statement 2 - <i>Disclosure of Accounting Policies</i>	1 January 2023
Amendments to IAS 8 - <i>Definition of Accounting Estimates</i>	1 January 2023
Amendments to IAS 12 - <i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	1 January 2023

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted below:

IFRS 17 Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

In June 2020, the IASB issued Amendments to IFRS 17 to address concerns and implementation challenges that were identified after IFRS 17 was published. The amendments defer the date of initial application of IFRS 17 (incorporating the amendments) to annual reporting periods beginning on or after 1 January 2023. At the same time, the IASB issued Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4) that extends the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 to annual reporting periods beginning on or after 1 January 2023.

2 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii) **New and revised IFRS standards in issue but not effective (continued)**

IFRS 17 Insurance Contracts (Continued)

IFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application

Amendments to IFRS 10 and IAS 28 – 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 Board; however, earlier application of the amendments is permitted. The directors of the Bank anticipate that the application of these amendments may not have an impact on the Bank's financial statements in future periods should such transactions arise.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

Amendments to IFRS 3 – Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

2 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii) **New and revised IFRS standards in issue but not effective (continued)**

Amendments to IFRS 3 – Reference to the Conceptual Framework (Continued)

Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

Amendments to IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.

The amendments also clarify the meaning of ‘testing whether an asset is functioning properly’. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity’s ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii) New and revised IFRS standards in issue but not effective (continued)

Annual Improvements to IFRS Standards 2018–2021

The annual improvements include amendments to the following standards relevant to the Bank:

IFRS 9 Financial Instruments

The amendment clarifies that in applying the ‘10 per cent’ test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

IFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

IAS 41 Agriculture

The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term ‘significant accounting policies’ with ‘material accounting policy information’. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The Board has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ADOPTION OF NEW AND REVISED STANDARDS (Continued)

ii) **New and revised IFRS standards in issue but not effective (continued)**

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to IAS 8—Definition of Accounting Estimates

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.

The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error
- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Amendments to IAS 12 - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

iii) *Early adoption of standards*

The Bank did not early-adopt any new or amended standards in 2021.

3 SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Central Bank of Somalia Act, 2012.

The Bank prepares its financial statements under the historical cost convention, modified to include the revaluation of certain assets which are measured at revalued amounts at the end of each reporting period.

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

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SIGNIFICANT 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:

Freehold land	0%
Buildings	2.5%
Furniture and fixtures	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.

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.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SIGNIFICANT 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 recognized 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 recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized 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 Bank as part of its foreign reserves. Gold is initially recorded at cost at initial recognition, including transaction costs. Subsequent to initial measurement, it is accounted for under the revaluation model.

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. The bank accounts for Gold Bullions using 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 States 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 does not carry the currency risk and it therefore not required 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.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

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

Taxation

Article 8 of the Central Bank of Somalia Act, 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 Bank'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 amount outstanding.

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 balance deposits and balances due from financial institutions, loans and advances and balances due from the Government and International Monetary Fund IMF are held are classified at amortised cost.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial Assets (Continued)

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.

Impairment of financial assets

The Bank measures loss allowances at an amount equal to lifetime expected credit loss (ECL), 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.

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.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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. 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 as other income.

Financial liabilities

After initial recognition, the bank measures all financial liabilities including due to IMF, balance on government SDR allocation, Treasury deposits, deposits from banks, security deposits, microfinance grant at amortised cost other than liabilities held for trading. 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 for purposes of statement of cashflows include notes on hand and deposits held at call with banks. 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 amortized cost in the statement of financial position.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Micro finance grant

Grants are recognized as revenue only when the conditions have been met.

For the Bank, this grant is to provide micro-finance funding to small business in Mogadishu in order to support the growth of the Somali private sector. This is effected via disbursements to local banks in terms of loans which are expected to repaid back to CBS. The local Banks disburse loans using these funds to the public to spur economic growth.

The grant operates as a revolving fund and hence maintained under liabilities in the statement of financial position at the reporting date.

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 under note 29 of this financial statements.

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

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

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

Measurement of the expected credit loss

The measurement of the expected credit loss allowance for financial assets measured at amortized cost 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 and intangible assets

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.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 RISK MANAGEMENT POLICIES AND OBJECTIVES

A. OVERVIEW OF RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

Risk Management Framework

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

(a) **Credit risk**

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

Credit risk on financial assets other than loans

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

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

Maximum exposure to credit risk before collateral held

Assets 2021	External credit rating	12-month or lifetime ECL	Gross carrying amount USD	Loss allowance USD	Net carrying amount USD
Deposits and balances					
from bank institutions	B- to A+	12	36,816,323	(3,693,963)	33,122,360
Loans and advances	None	12	2,910,000	-	2,910,000
Receivables	None	12	112,077	-	112,077
Due from the Government of Somalia	None	12	381,346,234	-	381,346,234
Due from International Monetary Fund (IMF)	None	12	428,273,098	-	428,273,098
IMF PRG-HIPC Trust	None	12	961,044	-	961,044
Total			850,418,776	(3,693,963)	846,724,813

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

A OVERVIEW OF RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

Assets	External credit rating	12-month or lifetime ECL	Gross carrying amount USD	Loss allowance USD	Net carrying amount USD
2020					
Deposits and balances from bank institutions	B- to A+	12	46,879,664	(3,693,963)	43,185,701
Loans and advances	None	12	2,999,940	(89,940)	2,910,000
Receivables	None	12	134,241	-	134,241
Due from the Government of Somalia	None	12	392,420,520	-	392,420,520
Due from International Monetary Fund (IMF)	None	12	286,719,946	-	286,719,946
IMF PRG-HIPC Trust	None	12	614,341	-	614,341
Total			729,768,652	(3,783,903)	725,984,749

(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:

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.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

B OVERVIEW OF RISK MANAGEMENT (Continued)

(b) Liquidity risk (continued)

	On demand USD	1 – 3 months USD	3-12 months USD	1 - 5 years USD	Over 5 years USD	Total USD
At 31 December 2021						
Due to International Monetary Fund (IMF)	-	-	-	-	749,310,964	749,310,964
Balance on government SDR allocation	59,938,321	-	-	-	-	59,938,321
Treasury deposits	46,917,155	-	-	-	-	46,917,155
Deposits from banks	12,439,501	-	-	-	-	12,439,501
Security Deposits	20,220,000	-	-	-	-	20,220,000
Micro finance grant	3,000,000	-	-	-	-	3,000,000
Other payables	6,209,860	-	-	-	-	6,209,860
Total financial liabilities	148,724,837	-	-	-	749,310,964	898,035,801
	On demand USD	1 – 3 months USD	3-12 months USD	1 - 5 years USD	Over 5 years USD	Total USD
At 31 December 2020						
Due to International Monetary Fund (IMF)	-	-	-	-	679,140,466	679,140,466
Treasury deposits	69,438,559	-	-	-	-	69,438,559
Deposits from banks	18,234,625	-	-	-	-	18,234,625
Security Deposits	20,220,000	-	-	-	-	20,220,000
Micro finance grant	3,000,000	-	-	-	-	3,000,000
Other payables	2,392,373	-	-	-	-	2,392,373
Total financial liabilities	113,285,557	-	-	-	679,140,466	792,426,023

(c) Market risk

Interest rate risk

As at 31 December 2021, the Bank had no interest charging borrowings with any of its bankers other than obligations from IMF which are held on behalf of the Government.

Foreign exchange risk

The risk that the fair value or future statement of cash flows of a financial instrument will fluctuate due to the changes in the foreign exchange rates. The Bank did not have any financial instruments bearing this risk as at 31 December 2021.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

B. CAPITAL MANAGEMENT (Continued)

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

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

	2021 USD	2020 USD
Retained earnings	12,158,936	12,310,839
Revaluation reserve	143,402,065	136,692,088
Gold reserve	19,317,418	19,317,418
	<u>174,878,419</u>	<u>168,320,345</u>

(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 are as follows:

	Level 1 USD	Level 2 USD	Level 3 USD	Total USD
2021				
Gold Bullion	29,717,683	-	-	29,717,683
Land and buildings	-	137,135,116	-	137,135,116
	<u>29,717,683</u>	<u>137,135,116</u>	<u>-</u>	<u>166,852,799</u>
2020				
Gold Bullion	30,830,455	-	-	30,830,455
Property and equipment	-	129,126,362	-	129,126,362
	<u>30,830,455</u>	<u>129,126,362</u>	<u>-</u>	<u>159,956,817</u>

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 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.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 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.

6 REVENUE

	2021	2020
	USD	USD
Cash handling fees and commissions	5,951,176	6,906,442
Interest on Government of Somalia Promissory Note (Note 18)	125,103	355,126
Utilisation of the grant assistance - IMF PRG-HIPC Trust (Note 19)	600,071	943,469
Investment income from grant assistance - IMF PRG-HIPC Trust (Note 19)	579	399
License fees	421,500	657,000
Rental income	290,600	241,600
Registration fee	40,000	36,000
Sundry revenue	1,580	2,090
	<hr/>	<hr/>
	7,430,609	9,142,126
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CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7	OPERATING EXPENDITURE	2021 USD	2020 USD
	Staff costs (note 8)	3,847,442	3,066,954
	Travel expense*	71,227	28,160
	Security	166,079	281,452
	Asset recovery expenses	-	45,090
	Repair and maintenance	45,870	30,774
	Auditors' fees	141,760	140,147
	Hospitality	-	74,106
	Depreciation	327,836	201,959
	Amortisation	52,175	30,566
	Fuel	14,751	7,734
	Miscellaneous office expenses	48,978	9,282
	Hotel	55,173	55,281
	Medical expenses	-	16,985
	Internet expenses	77,691	130,512
	Rent	29,700	30,500
	Board of directors expenses	226,600	226,192
	Printing, Publications & Subscriptions	68,262	74,908
	Tuition fees (kaalmo waxbarasho)	45,876	5,892
	Miscellaneous vehicle expenses	27,155	14,178
	Electricity	98,020	68,240
	Tel, fax, and telegraph	3,269	19,894
	Office supplies stationaries	48,753	50,116
	Water	10,017	1,868
	Legal expense	-	6,450
	Cleaning	17,396	6,518
	Bank charges	64,644	53,567
	Oil expenses	-	1,359
	Donations	-	26,399
	Consultant fees	139,487	152,395
	Mission allowance	123,180	57,490
	Professional subscriptions	4,397	9,442
	Cash impairment	-	2,193
	Health Insurance	391,008	182,324
	System License	506,658	979,450
	Petty cash expenses	45,876	-
	Interest expense and other charges on IMF loans	125,103	355,126
	Amortisation of the grant assistance - IMF PRG-HIPC Trust	600,071	943,469
	Investment income from Grant assistance - IMF PRG-HIPC Trust	579	399
		<hr/>	<hr/>
		7,425,033	7,387,371
		=====	=====

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

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2021 USD	2020 USD
8 STAFF COSTS		
Salaries and wages	2,580,872	1,857,132
Staff allowances	1,174,125	1,038,230
Contract experts	79,625	142,931
Pension	12,820	28,661
	<u>3,847,442</u>	<u>3,066,954</u>
9(a) FINANCE INCOME		
Interest income from deposits held in Federal Reserve Bank of New York	8,179	6,804
Interest income from short term government lending	370,047	-
	<u>378,226</u>	<u>6,804</u>
9(b) OTHER INCOME		
Other Income	37,279	25,012
Asset recovery income	-	1,251,334
	<u>37,279</u>	<u>1,276,346</u>
10 TAXATION		
<p>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.</p>		
11 CASH BALANCES		
	2021 USD	2020 USD
Somali Shillings	154,273	57,749
United States Dollars	58,482,943	74,098,689
	<u>58,637,216</u>	<u>74,156,438</u>
12 BALANCES DUE FROM BANKING INSTITUTIONS		
Balances due from banking institutions	36,816,323	46,879,664
Provision for impairment of unconfirmed bank balances	(3,693,963)	(3,693,963)
	<u>33,122,360</u>	<u>43,185,701</u>

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 BALANCES DUE FROM BANKING INSTITUTIONS (Continued)

	2021 USD	2020 USD
Movement in provision for impairment is as follows.		
At 1 January	(3,693,963)	(3,693,963)
Impairment write back during the year	-	-
	<u> </u>	<u> </u>
At end of the year	<u><u>(3,693,963)</u></u>	<u><u>(3,693,963)</u></u>

The weighted average effective interest rate on balances and deposits due from banking institutions at 31 December 2021 was Nil (2020 - Nil).

13 RECEIVABLES	2021 USD	2020 USD
Prepayments	19,120	42,694
Sundry debtors	83,957	91,547
Rent receivable	9,000	-
	<u> </u>	<u> </u>
	<u><u>112,077</u></u>	<u><u>134,241</u></u>

14 LOANS AND ADVANCES

As at 1 January	2,910,000	1,500,000
Loans advanced	-	1,410,000
	<u> </u>	<u> </u>
As at 31 December	<u><u>2,910,000</u></u>	<u><u>2,910,000</u></u>

The micro finance loans are loans which the Bank issued to 5 commercial banks from the funds received from Kuwait Fund for Arab Development (Note 25). 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. These loans have been subsequently been repaid fully.

	2021 USD	2020 USD
15 GOLD BULLION		
At 1 January	30,830,455	24,709,311
Valuation (loss)/gain through other comprehensive income	(1,112,772)	6,121,144
	<u> </u>	<u> </u>
At 31 December	<u><u>29,717,683</u></u>	<u><u>30,830,455</u></u>

Gold bullion consists of 16,261 fine troy ounces of gold at the market price of United States Dollar (USD) 1,827.49 per ounce (2020: 16,261 fine troy ounces at USD 1,895.92 per ounce).

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

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

16 PROPERTY AND EQUIPMENT

	Freehold land	Buildings	Furniture and fixtures	Motor Vehicles	Equipment	Other equipment	Total
COST	USD	USD	USD	USD	USD	USD	USD
At 1 January 2020	122,194,400	6,450,954	252,407	272,750	498,382	27,637	129,696,530
Additions	-	980,679	800	280,300	32,720	34,657	1,329,156
At 31 December 2020	122,194,400	7,431,633	253,207	553,050	531,102	62,294	131,025,686
At 1 January 2021	122,194,400	7,431,633	253,207	553,050	531,102	62,294	131,025,686
Additions	-	186,005	26,273	85,000	233,058	-	530,336
Revaluation	9,301,250	(1,978,172)	-	-	-	-	7,323,078
At 31 December 2021	131,495,650	5,639,466	279,480	638,050	764,160	62,294	138,879,100
DEPRECIATION							
At 1 January 2020	-	338,393	106,801	239,938	456,914	15,155	1,157,201
Charge for the year	-	161,278	27,322	27,608	59,179	10,533	285,920
Reversal of prior period overprovision	-	-	-	-	(83,961)	-	(83,961)
At 31 December 2020	-	499,671	134,123	267,546	432,132	25,688	1,359,160
At 1 January 2021	-	499,671	134,123	267,546	432,132	25,688	1,359,160
Charge for the year	-	-	34,935	127,610	152,832	12,459	327,836
reverse on revaluation	-	(499,671)	-	-	-	-	(499,671)
At 31 December 2021	-	-	169,058	395,156	584,964	38,147	1,187,325
NET BOOK VALUE							
At 31 December 2021	131,495,650	5,639,466	110,422	242,894	179,196	24,147	137,691,775
At 31 December 2020	122,194,400	6,931,962	119,084	285,504	98,970	36,606	129,666,526

The valuation of land and buildings was carried out by GIMCO Limited, registered valuers, on an open Market Value basis as at 31 December 2021.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2021 USD	2020 USD
COST		
At 1 January	174,165	151,165
Additions	86,708	23,000
At 31 December	<u>260,873</u>	<u>174,165</u>
AMORTISATION		
At 1 January	65,965	35,399
Charge for the year	52,175	30,566
At 31 December	<u>118,140</u>	<u>65,965</u>
NET BOOK VALUE		
At 31 December	<u>142,733</u>	<u>108,200</u>

18 Due from the Government of Somalia

	2021 SDR	2021 USD	2020 SDR	2020 USD
Ministry of Finance Promissory Note to settle debt owed to International Monetary Fund	272,469,962	381,346,234	272,463,163	392,420,520
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

Movement in the government promissory note is as follows:

	2021 USD	2020 USD
At 1 January	392,420,520	376,429,273
Accrued interest on short term government borrowing	370,047	-
Interest charged on short term lending to Ministry of Finance	125,103	355,126
Exchange (loss) / gain	(11,569,436)	15,636,121
At end of the year	<u>381,346,234</u>	<u>392,420,520</u>

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 as disclosed in note 17 of these financial statements. The promissory note was effective from 31 December 2018 and the maturity date is on 18 March 2024.

The promissory note accrues interest on the unpaid principal balance of the Promissory Note at the applicable rate as determined by the International Monetary Fund (IMF). The accrued interest and the principal are payable only on the Maturity Date. This Promissory Note, is governed by the Federal Government Somalia Constitution and construed and enforced in accordance and with the Somali Public Finance and Management Act

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

19 IMF Grant Assistance PRG-HIPC Trust

	2021 SDR	2021 USD	2020 SDR	2020 USD
At 1 January	426,546	614,341	-	-
Additional Grant	680,000	963,703	1,111,000	1,502,783
investment income	406	579	284	399
Amount amortised	(420,291)	(600,071)	(684,738)	(943,469)
Exchange rate (loss) / gain	-	(17,508)	-	54,628
At 31 December	<u>686,661</u>	<u>961,044</u>	<u>426,546</u>	<u>614,341</u>

In March 24, 2021, The IMF Executive Board determined that Somalia is eligible and qualifies for Grant Assistance under the Enhanced HIPC Initiative as defined in the PRG-HIPC trust instruments. Somalia received an additional Grant assistance in 2021 of SDR 680,000 (2020: SDR 1,111,000). During the year, Somalia amortized SDR 420,291 (2020: SDR 684,738) and applied it to the debt service payments on its existing debt to the IMF.

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

	2021 SDR	2021 USD	2020 SDR	2020 USD
(a) Assets				
IMF balances (SDR asset account)	142,585,928	199,561,839	35,667,946	51,371,473
Accrued Interest on SDR Holdings	13,042	18,253	5,801	8,355
Quota	163,400,000	228,693,006	163,400,000	235,340,118
Total SDR holdings	<u>305,998,970</u>	<u>428,273,098</u>	<u>199,073,747</u>	<u>286,719,946</u>
(b) Liabilities				
International Monetary Fund Holding	202,974,125	284,080,556	202,974,125	292,337,543
International Monetary Fund – Borrowings	217,862,000	304,917,477	217,862,000	313,780,103
Accrued interest and charges	88,705	124,151	81,577	117,493
SDR Allocations	114,454,076	160,188,780	50,619,208	72,905,327
Total liabilities due to IMF	<u>535,378,906</u>	<u>749,310,964</u>	<u>471,536,910</u>	<u>679,140,466</u>

In 2020 the bank assumed and recognized Somalia government's IMF (International Monetary Fund) position on its statement of financial position. This is because the Central Bank of Somalia acts as Somalia's "Fiscal Agent" and "Depository" with the IMF. Therefore, the bank agreed with the Ministry of Finance to recognize and reflect the amounts due by the Government of Somalia to IMF on the bank's statement of financial position. These debts related to historical sovereign loans owed by the Government, and which were obtained from IMF before the collapse of the Somalia government in 1992. 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.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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 States Dollars at the prevailing exchange rates and any unrealized gains or losses are accounted for in accordance with accounting policy.

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.

The difference between SDR allocation as reported in the IMF confirmation and the in the Central Bank financial statement is SDR 92,776,683 (SDR 207,230,759 - SDR 114,454,076). This relates to the SDR loan due to the Ministry of Finance arising from the new SDR allocation of SDR 156,611,551 provided by the IMF in 23 August 2021.

The new allocation is shared between the Ministry of Finance of Somalia and the Central Bank of Somalia where Ministry of Finance received SDR 92,776,683 and the Central Bank of Somalia received SDR 63,834,868. The Ministry of Finance is responsible for paying the charges relating to the SDR loan.

21 BALANCE OF GOVERNMENT SDR ALLOCATION

	2021 SDR	2021 USD	2020 SDR	2020 USD
At 1 January	-	-	-	-
Total new SDR allocated	92,776,683	132,138,119	-	-
SDR received from burden sharing refund	2,306,128	3,227,634	-	-
Total SDR amount utilised	(52,257,183)	(74,384,472)	-	-
Exchange rate	-	(1,042,960)	-	-
At 31 December	42,825,628	59,938,321	-	-

In August 2021 Somalia Government received an SDR allocation of SDR 92,776,683. It also received an additional SDR allocation of SDR 2,306,128 for the burden sharing arrangement. During the year, Government utilised SDR 52,257,183. At the end of the year it has a balance of SDR 42,825,628 held in the IMF account.

22 TREASURY DEPOSITS

	2021 USD	2020 USD
Denominated in Somali Shillings	31,305	58,277
Denominated in United States Dollars	46,885,850	69,380,282
	46,917,155	69,438,559

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.

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 DEPOSITS FROM BANKS

	2021 USD	2020 USD
Demand deposits	12,439,501	18,234,625
	<u>=====</u>	<u>=====</u>

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

24 SECURITY DEPOSITS

	2021 USD	2020 USD
Performance security to undertake banking and forex business in Somalia	20,220,000	20,220,000
	<u>=====</u>	<u>=====</u>

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 USD 60,000 or its equivalent in Somali currency. Security deposit in the sum of USD 1,500,000 is required by the Central Bank. In 2021, there were a total of 13 licensed commercial banks and 12 money transfers bureaus who maintained security deposits with the bank.

These deposits are non-interest bearing and repayable on demand.

25 MICROFINANCE GRANT

	2021 USD	2020 USD
Microfinance Grant – Kuwait Fund for the Arab Economics Development	3,000,000	3,000,000
	<u>=====</u>	<u>=====</u>

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 14). The grant operates as a revolving fund.

26 OTHER PAYABLES

	2021 USD	2020 USD
Sundry creditors	1,525,962	1,385,110
Audit fees	225,000	180,000
Deferred rent income	212,500	213,000
Uncredited cash recovered	3,285,354	(78)
SDR deferred income	961,044	614,341
	<u>-----</u>	<u>-----</u>
	6,209,860	2,392,373
	<u>=====</u>	<u>=====</u>

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 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

28 NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit for the year to cash (used in)/generated from operations

	2021	2020
	USD	USD
Profit for the year	483,625	3,093,010
<i>Adjustments for:</i>		
Depreciation (note 16)	327,836	285,920
Prior year over provision of depreciation charge	-	(83,961)
Amortisation (note 17)	52,175	30,566
<i>Working capital changes:</i>		
Increase in receivables	(130,803,405)	(217,781,518)
Increase in loan advances	-	(1,410,000)
Increase in balance of government SDR allocation	59,938,321	-
(Decrease) / increase in deposits from banks and treasury	(28,316,528)	17,181,752
Increase in other payables	73,987,985	216,504,176
Cash (used in) / generated from operations	<u>(24,329,991)</u>	<u>17,819,945</u>

CENTRAL BANK OF SOMALIA

NOTES TO THE FINANCIAL STATEMENTS (Continued)

28 NOTES TO THE CASH FLOW STATEMENT (Continued)

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

	2021 USD	2020 USD
Cash balances (Note 11)	58,637,216	74,156,438
Deposits and balances due from banking institutions (Note 12)	33,122,360	43,185,701
	<u>91,759,576</u>	<u>117,342,139</u>

29 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.

30 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 2021, nor are there known significant assets or liabilities with related parties as at 31 December 2021 (2020 – Nil).

31 EVENTS SUBSEQUENT TO THE REPORTING PERIOD

There are no significant adjusting or non-adjusting disclosure events after reporting period which have been reported in these financial statements.

32 INCORPORATION

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

33 CURRENCY

The financial statements have been prepared in the United States Dollars (USD), which has been determined to be the functional currency.