

**CENTRAL BANK OF BOSNIA AND HERZEGOVINA**

**CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 JUNE 2021**

**(unaudited)**

**in accordance with the requirements of International Accounting Standard 34**

Sarajevo, 27 July 2021

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## **FINANCIAL REPORTING RESPONSIBILITY**

The Management of the Central Bank of Bosnia and Herzegovina is responsible for these condensed interim financial statements, which are prepared in accordance with the Law on the Central Bank of Bosnia and Herzegovina and International Accounting Standard 34: "Interim Financial Reporting".

The Management is responsible for the consistent application of selected accounting policies, making judgements and estimates that are reasonable and prudent and for maintaining proper accounting records to enable the preparation of financial statements at any time. The Management has a general responsibility for taking such steps as are reasonably available and for implementation of such internal controls to safeguard the assets of the Central Bank of Bosnia and Herzegovina and to prevent and detect fraud and other irregularities.

The Governing Board is responsible for overseeing the Central Bank of Bosnia and Herzegovina financial reporting process whose implementation is also performed through the Audit Committee, formed as a body of the Governing Board. After reviewing the condensed interim financial statements by the Audit Committee, the same are approved by the Governing Board and submitted to the Presidency of Bosnia and Herzegovina.

These unaudited condensed interim financial statements present fairly, in all material respects, the financial position, financial performance and cash flows of the Central Bank of Bosnia and Herzegovina, as at the date of and for the periods presented in these condensed interim financial statements.

The accompanying condensed interim financial statements set out on pages 2 to 42 are approved by the Governing Board on 27 July 2021.

  
**Senad Softić, Ph.D.**

**Chairman of the Governing Board  
Governor**





**Edis Kovačević, M.Sc.**

**Head of Accounting and Finance Department**

## STATEMENT OF PROFIT OR LOSS (UNAUDITED)

In thousands of KM	Note	01/04 - 30/06	01/04 - 30/06	01/01 - 30/06	For the period
		2021	2020	2021	01/01 - 30/06 2020
Interest income		13,340	12,790	25,865	26,240
Interest expense		(10,156)	(7,607)	(19,619)	(14,671)
<b>NET INTEREST INCOME</b>	<b>6</b>	<b>3,184</b>	<b>5,183</b>	<b>6,246</b>	<b>11,569</b>
Fee and commission income		5,080	4,042	9,760	8,930
Fee and commission expense		(197)	(174)	(383)	(341)
<b>NET FEE AND COMMISSION INCOME</b>	<b>7</b>	<b>4,883</b>	<b>3,868</b>	<b>9,377</b>	<b>8,589</b>
Net realised gains from sale of debt instruments at fair value through other comprehensive income	8	-	-	2,023	1,578
Net foreign exchange gains / (losses)	9	291	(181)	580	(56)
Other income	10	1,328	121	1,324	136
<b>OPERATING INCOME</b>		<b>9,686</b>	<b>8,991</b>	<b>19,550</b>	<b>21,816</b>
Personnel expenses	11	(5,113)	(4,968)	(9,454)	(9,217)
Administrative and other operating expenses	12	(2,635)	(2,297)	(4,830)	(4,210)
Depreciation and amortisation charge	20	(625)	(638)	(1,244)	(1,273)
<b>OPERATING EXPENSES</b>		<b>(8,373)</b>	<b>(7,903)</b>	<b>(15,528)</b>	<b>(14,700)</b>
<b>FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES</b>		<b>1,313</b>	<b>1,088</b>	<b>4,022</b>	<b>7,116</b>
Provisions for expected credit losses, net release / (increase)	13	114	(213)	30	(267)
<b>NET PROFIT FOR THE PERIOD</b>	<b>14</b>	<b>1,427</b>	<b>875</b>	<b>4,052</b>	<b>6,849</b>

The selected notes on pages 9 to 42 are an integral part of these condensed interim financial statements.

## STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

In thousands of KM	Note	01/04 - 30/06 2021	01/04 - 30/06 2020	01/01 - 30/06 2021	For the period 01/01 - 30/06 2020
NET PROFIT FOR THE PERIOD		1,427	875	4,052	6,849
Other comprehensive (loss) / income					
<i>Items that are or may be reclassified subsequently to profit or loss:</i>					
<b>Debt instruments at fair value through other comprehensive income</b>					
Net change in fair value during the period	17	(26,322)	46,149	(93,003)	55,755
Net change in provisions for expected credit losses recognized in profit or loss during the period	5.1.1.	33	180	138	241
Reclassification to profit or loss from sale of debt instruments	8	-	-	(2,023)	(1,578)
		(26,289)	46,329	(94,888)	54,418
<b>Monetary gold</b>					
Net change in fair value during the period	18	7,017	30,233	(11,260)	43,603
		7,017	30,233	(11,260)	43,603
Total other comprehensive (loss) / income		(19,272)	76,562	(106,148)	98,021
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE PERIOD		(17,845)	77,437	(102,096)	104,870

The selected notes on pages 9 to 42 are an integral part of these condensed interim financial statements.

## STATEMENT OF FINANCIAL POSITION (UNAUDITED)

In thousands of KM	Note	30 June 2021	As at 31 December 2020
<b>ASSETS</b>			
Cash in foreign currencies	15	436,429	142,202
Deposits with foreign banks	16	2,923,898	3,832,072
Debt instruments	17	10,534,450	9,601,315
Monetary gold	18	280,301	291,561
Special Drawing Rights with the IMF	31	4,175	879
Dividend receivables		1,297	-
Other assets	19	18,857	12,671
Property and equipment	20	47,673	48,560
Intangible assets	20	1,093	1,234
Other investments		27,813	27,813
<b>TOTAL ASSETS</b>		<b>14,275,986</b>	<b>13,958,307</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Banknotes and coins in circulation	21	6,441,286	6,172,457
Deposits from banks	22	5,941,736	5,901,142
Deposits from the Government and other public institutions	23	1,007,461	897,044
Provisions	24	1,361	1,414
Other liabilities	26	3,907	3,919
<b>Total liabilities</b>		<b>13,395,751</b>	<b>12,975,976</b>
<b>EQUITY</b>			
Initial capital		25,000	25,000
Reserves		851,183	957,331
Net profit for the period		4,052	-
<b>Total equity</b>	27	<b>880,235</b>	<b>982,331</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>14,275,986</b>	<b>13,958,307</b>

The selected notes on pages 9 to 42 are an integral part of these condensed interim financial statements

## STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

In thousands of KM

	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves for debt and equity instruments at fair value through other comprehensive income	Provisions for expected credit losses	Fair value reserves for monetary gold	Total reserves	Net profit for the period	Total equity
Balance at 1 January 2021	25,000	545,203	31,300	291,527	1,598	87,703	957,331	-	982,331
Total comprehensive loss for the period	-	-	-	(95,001)	113	(11,260)	(106,148)	4,052	(102,096)
Net profit for the period	-	-	-	-	-	-	-	4,052	4,052
Other comprehensive loss	-	-	-	(95,001)	113	(11,260)	(106,148)	-	(106,148)
Net unrealised negative changes in fair value for debt instruments	-	-	-	(93,003)	-	-	(93,003)	-	(93,003)
Net realised positive changes in fair value for debt instruments transferred to profit or loss	-	-	-	(1,998)	-	-	(1,998)	-	(1,998)
Net increase in provisions for expected credit losses for debt instruments recognised in profit or loss	-	-	-	-	138	-	138	-	138
Net release of provisions for expected credit losses transferred to profit or loss for debt instruments sold	-	-	-	-	(25)	-	(25)	-	(25)
Net unrealised negative changes in fair value for monetary gold	-	-	-	-	-	(11,260)	(11,260)	-	(11,260)
Balance at 30 June 2021	25,000	545,203	31,300	196,526	1,711	76,443	851,183	4,052	880,235

The selected notes on pages 9 to 42 are an integral part of these condensed interim financial statements.

## STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (CONTINUED)

In thousands of KM

	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves for debt and equity instruments at fair value through other comprehensive income	Provisions for expected credit losses	Fair value reserves for monetary gold	Total reserves	Net profit for the period	Total equity
Balance at 1 January 2020	25,000	537,295	31,300	211,373	1,343	50,230	831,541	-	856,541
Total comprehensive income for the period	-	-	-	54,236	182	43,603	98,021	6,849	104,870
Net profit for the period	-	-	-	-	-	-	-	6,849	6,849
Other comprehensive income	-	-	-	54,236	182	43,603	98,021	-	98,021
<i>Net unrealised positive changes in fair value for debt instruments</i>	-	-	-	55,755	-	-	55,755	-	55,755
<i>Net realised positive changes in fair value for debt instruments transferred to profit or loss</i>	-	-	-	(1,519)	-	-	(1,519)	-	(1,519)
<i>Net increase in provisions for expected credit losses for debt instruments recognised in profit or loss</i>	-	-	-	-	241	-	241	-	241
<i>Net release of provisions for expected credit losses transferred to profit or loss for debt instruments sold</i>	-	-	-	-	(59)	-	(59)	-	(59)
<i>Net unrealised positive changes in fair value for monetary gold</i>	-	-	-	-	-	43,603	43,603	-	43,603
Balance at 30 June 2020	25,000	537,295	31,300	265,609	1,525	93,833	929,562	6,849	961,411

The selected notes on pages 9 to 42 are an integral part of these condensed interim financial statements.

## STATEMENT OF CASH FLOWS (UNAUDITED)

		For the period	
		01/01 - 30/06	01/01 - 30/06
	Note	2021	2020
In thousands of KM			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net profit for the period</b>		<b>4,052</b>	<b>6,849</b>
Adjusted for:			
Interest income	6	(25,865)	(26,240)
Interest expense	6	19,619	14,671
Provisions for expected credit losses, net (release) / increase	13	(30)	267
Net realised (gains) from sale of debt instruments at fair value through other comprehensive income	8	(2,023)	(1,578)
Net foreign exchange (gains) / losses	9	(580)	56
Income from grants	10	(2)	(34)
Provisions, net increase		4	3
Dividend income recognised in profit or loss		(1,297)	-
Depreciation and amortisation charge		1,244	1,273
<b>Net cash flows used in operating activities before changes in operating assets and liabilities</b>		<b>(4,878)</b>	<b>(4,733)</b>
<b>Changes in operating assets and liabilities</b>			
Decrease in term deposits with foreign banks		528,366	135,182
(Increase) in debt instruments		(1,026,138)	(342,919)
(Increase) in other assets	21	(5,739)	(2,324)
Increase in banknotes and coins in circulation		268,829	634,847
Increase / (decrease) in deposits from banks		42,635	(515,688)
Increase in deposits from the Government and other public institutions		110,417	205,456
(Decrease) / increase in other liabilities		(32)	11
Payments from provisions		(57)	(59)
Interest received		23,824	25,158
Interest paid		(19,014)	(13,694)
<b>Net cash from operating activities</b>		<b>(81,787)</b>	<b>121,237</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property, equipment and intangible assets		(216)	(1,451)
<b>Net cash used in investing activities</b>		<b>(216)</b>	<b>(1,451)</b>

The selected notes on pages 9 to 42 are an integral part of these condensed interim financial statements.

## STATEMENT OF CASH FLOWS (UNAUDITED) (CONTINUED)

In thousands of KM		For the period	
	Note	01/01 - 30/06 2021	01/01 - 30/06 2020
Effects from changes in impairment for expected credit losses on cash and cash equivalents		95	(36)
Effects of exchange rate fluctuations on cash and cash equivalents held		613	(66)
Net (decrease) / increase in cash and cash equivalents		(81,295)	119,684
Cash and cash equivalents at the beginning of the period		2,909,688	2,498,972
Cash and cash equivalents at the end of the period	28	2,828,393	2,618,656

The selected notes on pages 9 to 42 are an integral part of these condensed interim financial statements.

**SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2021 (UNAUDITED)****1. GENERAL INFORMATION**

The Central Bank of Bosnia and Herzegovina (the “Central Bank”) is the supreme monetary authority of Bosnia and Herzegovina state (“BH”). Its status has been defined by the Law on the Central Bank of Bosnia and Herzegovina (the “Law on the Central Bank”), adopted by the Parliamentary Assembly of Bosnia and Herzegovina on 20 June 1997, according to the General Framework Peace Agreement in Bosnia and Herzegovina.

The Central Bank started its operations on 11 August 1997.

Head Office of the Central Bank is located in Sarajevo, Maršala Tita Street, No. 25.

The main objective of the Central Bank is to achieve and maintain the stability of the domestic currency by issuing it to the rule known as a Currency Board. The Currency Board rule, defined by the Law on the Central Bank, implies that the domestic currency may be issued only with full coverage in convertible foreign currency reserves. Nevertheless, the Central Bank has an obligation to purchase and sell Convertible Mark (KM) for Euro (EUR) on demand, without any restrictions, at the official exchange rate of KM to EUR as  $KM\ 1.95583 = EUR\ 1$ , prescribed by the Law on the Central Bank.

Guaranteed convertibility of domestic currency and full coverage of domestic currency with convertible foreign currency reserves according to the Currency Board rule are the primary objectives of the Central Bank. Ensuring the achievement of these objectives means that the Central Bank is not a profit institution by its function.

Therefore, the Central Bank’s profit for a certain period is not used as a measure of the Central Bank’s performance. All activities and operations of the Central Bank are undertaken in order to achieve the legally set goals and objectives with reference to preserve the stability of domestic currency in accordance with the Currency Board rule. The performance of achieving the objectives above is expressed through the amount of net foreign assets as an indicator of the domestic currency stability.

Within the limits of its authority prescribed by the Law on the Central Bank, the Central Bank is entirely independent from the entities, public agencies and any other authority in the pursuit of its objectives and tasks.

Key management of the Central Bank consists of two bodies: The Governing Board and the Management.

The members of the key management of the Central Bank are:

**Governing Board**

Senad Softić Ph.D.	Chairman
Radomir Božić Ph.D.	Member
Šerif Isović M.Sc.	Member
Dragan Kulina Ph.D.	Member
Danijela Martinović Ph.D.	Member

**1. GENERAL INFORMATION (CONTINUED)****Management**

Senad Softić Ph.D.	Governor
Ernadina Bajrović M.Sc.	Vice Governor
Milica Lakić Ph.D.	Vice Governor
Želimira Raspudić	Vice Governor (until 30 June 2021)

The members of the Audit Committee of the Central Bank are:

**Audit Committee**

Mila Gadžić Ph.D.	Chairman
Elvir Čizmić Ph.D.	Member
Radomir Repija	Member

**2. BASIS OF PREPARATION****2.1. Statement of compliance**

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34"): "Interim Financial Reporting" as issued by the International Accounting Standards Board ("IASB"). The condensed interim financial statements do not include all the information required for the complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the latest audited financial statements of the Central Bank for the year ended 31 December 2020 ("annual financial statements").

The selected notes of these condensed interim financial statements clarify events and transactions that are significant to an understanding of the changes in the financial position and performance of the Central Bank in relation to the latest annual financial statements.

These condensed interim financial statements have been prepared using the going concern assumption. Extending of difficult circumstances in the Central Banks' operations, caused by the global pandemic of COVID-19, did not affect the adequacy of the assumption. More information on the circumstances under which the Central Bank operations were performed in the reporting period is disclosed in Note 2.7.

The results of the Central Bank's business and operations for the reporting period and as at the reporting date presented in these condensed interim financial statements are not necessarily indicative of results of business and operations of the Central Bank expected for the year 2021.

**2. BASIS OF PREPARATION (CONTINUED)****2.2. Basis of measurement**

These condensed interim financial statements have been prepared under the accrual base of accounting and using the historical cost as a measurement base, except for the following material items:

<b>Item</b>	<b>Basis of measurement</b>
Financial assets at fair value through other comprehensive income	Fair value
Monetary gold	Fair value

**2.3. Functional and presentation currency**

The condensed interim financial statements of the Central Bank are stated in the BH national currency which is the KM. All financial information has been rounded to the nearest thousand (unless otherwise stated).

**2.4. Changes to IFRS**

At the date of approval of these condensed interim financial statements, certain changes and interpretations of the existing standards are effective from 1 January 2021. Their implementation has no significant impact on condensed interim financial statements of the Central Bank.

**2.5. Accounting policies**

The Central Bank's condensed interim financial statements have been prepared in accordance with the same accounting policies used in preparation of the latest annual financial statements.

**2.6. Significant accounting judgements and estimates**

The preparation of financial statements in conformity with IFRS requires Management to make judgments, estimates and assumptions that affect the implementation of accounting policies and reported amounts of assets, liabilities, income, expenses and other disclosed information in these condensed interim financial statements. Actual amounts may differ from these estimates.

The estimates and related assumptions used by the Management in the preparation of these condensed interim financial statements are based on the latest available and reliable information and are reviewed on an ongoing basis.

These condensed interim financial statements have been prepared based upon conditions existing at 30 June 2021. Future conditions may be different from those that resulted in the financial information disclosed in these condensed interim financial statements.

**2. BASIS OF PREPARATION (CONTINUED)****2.7. The impact of the coronavirus COVID- 19 global pandemic on the financial position and performance of the Central Bank**

Extremely unfavorable conditions to which the Central Bank's operations were exposed in 2020 due to the global pandemic of coronavirus COVID-19 continued to complicate the performing of business operations that consequently affected the reported amounts of assets, liabilities, income and expenses of the Central Bank at the reporting date and during the reporting period respectively.

The conditions on the Eurozone international financial market, where the Central Bank invests foreign currency reserves, are still under the dominant impact of the European Central Bank expansive monetary policy. The European Central Bank's key interest rates remained unchanged in the reporting period with expectations to remain at the same or even lower levels in the future. On the other hand, although the Eurozone economy has gradually begun to open up due to improved pandemic situation and substantial progress in the vaccination process, the continuation of the pandemic, the spread of new variants of virus and its consequences on economic and financial conditions still remain a source of risk, uncertainty and high volatility in the surrounding environment.

These circumstances have influenced further deterioration in the negative interest rates environment and in the yields of Eurozone countries' debt instruments, as well as in fluctuations in their prices in the reporting period. The same has impacted the amounts of generated interest expenses of invested foreign currency reserves and on the fair value of the Central Bank's financial assets. For more information, see Notes 6, 14 and 17.

The trend of high levels of excess liquidity in banking system of Bosnia and Herzegovina has continued in the reporting period as well as during 2020. The Central Bank has continued with implementation of a project regarding required reserve policy framework innovation as the only monetary policy instrument available under the Law on the Central Bank. During the reporting period, a negative required reserve remuneration was introduced regarding the foreign currency base and domestic currency with currency clause base. This measure aims to encourage the holding of deposits in domestic currency in commercial banks, i.e. to discourage the holding of deposits in EUR currency. This measure is aimed at strengthening the domestic currency, thereby strengthening its stability. For more information, see Notes 6 and 22.

Other significant changes presented in these condensed interim financial statements, compared to the latest annual financial statements, are disclosed in appropriate notes where necessary.

The Management takes into account the current uncertainty regarding the impact of global pandemic of COVID-19 in respect of potential material impact on Central Bank's overall financial position and performance.

**3. CURRENCY BOARD ARRANGEMENT**

The Law on the Central Bank defines the operational rule “Currency Board” to be used for issuing KM, according to which KM is issued only with a full coverage in net foreign currency reserves.

Article 31 of the Law on the Central Bank requires that the aggregate amount of its monetary liabilities shall at no time exceed its net foreign currency reserves.

Details of compliance with this rule are as follows:

In thousands of KM	30 June 2021	31 December 2020
<b>Gross foreign currency reserves</b>	<b>14,180,550</b>	<b>13,868,029</b>
Cash in foreign currencies	436,429	142,202
Deposits with foreign banks	2,923,898	3,832,072
Debt instruments	10,534,450	9,601,315
Monetary gold	280,301	291,561
Special drawing rights with the IMF	4,175	879
Dividend receivables	1,297	-
<b>Liabilities to non-residents</b>	<b>1,895</b>	<b>1,688</b>
<b>Net foreign currency reserves</b> (Gross foreign currency reserves less liabilities to non-residents)	<b>14,178,655</b>	<b>13,866,341</b>
<b>Monetary liabilities</b>	<b>13,390,483</b>	<b>12,970,643</b>
Banknotes and coins in circulation	6,441,286	6,172,457
Deposits from banks	5,941,736	5,901,142
Deposits from the Government and other public institutions	1,007,461	897,044
<b>NET FOREIGN ASSETS</b> (Net foreign currency reserves less monetary liabilities)	<b>788,172</b>	<b>895,698</b>

**3. CURRENCY BOARD ARRANGEMENT (CONTINUED)**

Net foreign assets are the Central Bank's main financial indicator of achieving and maintaining the stability of domestic currency in BH and its main financial performance measure. Being the part of gross foreign currency reserves, the amount of net foreign assets cannot be assumed as the amount available for fiscal purposes, but the amount that guarantees the stability of domestic currency and absorbs the potential financial risks arising from gross foreign currency reserves management. As at 30 June 2021, net foreign currency reserves exceed monetary liabilities by KM 788,172 thousand providing complete stability of domestic currency (31 December 2020: KM 895,698 thousand).

Fluctuations in market prices of debt instruments and monetary gold dominantly affect the amount of net foreign assets. More information about changes in debt instruments and monetary gold is disclosed in Notes 17 and 18.

**4. CLASSIFICATION AND FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or liability, the Central Bank takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date.

The estimated fair values of the Central Bank's financial assets and financial liabilities have been determined using available market information, where it exists, and appropriate valuation methodologies.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Central Bank can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

**4.1. Financial assets measured at fair value**

In thousands of KM

	30 June 2021			
	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
<i>Financial assets measured at fair value through other comprehensive income</i>				
Debt instruments	10,534,450	-	-	10,534,450
Monetary gold	280,301	-	-	280,301
<b>TOTAL</b>	<b>10,814,751</b>	<b>-</b>	<b>-</b>	<b>10,814,751</b>

#### 4. CLASSIFICATION AND FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

##### 4.1. Financial assets measured at fair value (continued)

In thousands of KM

31 December 2020

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
<i>Financial assets measured at fair value through other comprehensive income</i>				
Debt instruments	9,601,315	-	-	9,601,315
Monetary gold	291,561	-	-	291,561
<b>TOTAL</b>	<b>9,892,876</b>	<b>-</b>	<b>-</b>	<b>9,892,876</b>

##### 4.2. Financial assets and financial liabilities not measured at fair value

In thousands of KM

30 June 2021

	Carrying amount	Fair value
<b>Financial assets</b>		
<i>Financial assets measured at amortised cost:</i>		
Cash in foreign currencies	436,429	436,429
Deposits with foreign banks	2,923,898	2,916,683
Special drawing rights with the IMF	4,175	4,175
Dividend receivables	1,297	1,297
Other financial assets	3,282	3,282
	<b>3,369,081</b>	<b>3,361,866</b>
<i>Financial assets measured at fair value through other comprehensive income:</i>		
Other investments	27,813	27,813
	<b>27,813</b>	<b>27,813</b>
<b>Total</b>	<b>3,396,894</b>	<b>3,389,679</b>
<b>Financial liabilities</b>		
<i>Financial liabilities measured at amortised cost:</i>		
Banknotes and coins in circulation	6,441,286	6,441,286
Deposits from banks	5,941,736	5,927,538
Deposits from the Government and other public institutions	1,007,461	1,005,054
Other financial liabilities	3,776	3,776
<b>Total</b>	<b>13,394,259</b>	<b>13,377,654</b>

## 4. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

## 4.2. Financial assets and financial liabilities not measured at fair value (continued)

In thousands of KM

31 December 2021

	Carrying amount	Fair value
<b>Financial assets</b>		
<i>Financial assets measured at amortised cost:</i>		
Cash in foreign currencies	142,202	142,202
Deposits with foreign banks	3,832,072	3,823,212
Special drawing rights with the IMF	879	879
Other financial assets	2,496	2,496
	<u>3,977,649</u>	<u>3,968,789</u>
<i>Financial assets measured at fair value through other comprehensive income:</i>		
Other investments	27,813	27,813
	<u>27,813</u>	<u>27,813</u>
<b>Total</b>	<b>4,005,462</b>	<b>3,996,602</b>
<b>Financial liabilities</b>		
<i>Financial liabilities measured at amortised cost:</i>		
Banknotes and coins in circulation	6,172,457	6,172,457
Deposits from banks	5,901,142	5,887,547
Deposits from the Government and other public institutions	897,044	894,977
Other financial liabilities	3,759	3,759
<b>Total</b>	<b>12,974,402</b>	<b>12,958,740</b>

## **5. FINANCIAL RISK MANAGEMENT**

The main financial risks to which the Central Bank is exposed in its daily operations are:

- Credit risk,
- Market risk (interest rate risk, gold price risk and foreign exchange risk) and
- Liquidity risk.

### **5.1. Credit risk**

Credit risk is the risk of default on the contractual obligations of other counterparty or the issuer of fixed income debt securities, where the counterparty is an entity where, in accordance with the Central Bank's regulations, foreign currency reserves are held or invested.

For the funds recorded in off-balance sheet records, the Central Bank is not exposed to credit risk, as all the risk, which may result from the investments of these funds, is to be borne contractually by the owners of these funds (see Notes 30 and 31).

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 5.1. Credit risk (continued)

#### 5.1.1. Credit risk exposure

The following table presents the reconciliation between opening and closing balance of the loss allowance for financial assets in the reporting periods:

In thousands of KM

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>1. Debt instruments</b>								
<b>As at 1 January</b>	<b>1,598</b>	-	-	<b>1,598</b>	<b>1,343</b>	-	-	<b>1,343</b>
Increases in expected credit losses	336	-	-	336	420	-	-	420
Releases of expected credit losses	(42)	-	-	(42)	(41)	-	-	(41)
Releases due to debt instruments matured	(156)	-	-	(156)	(138)	-	-	(138)
<i>Net increase during the period</i>	<i>138</i>	-	-	<i>138</i>	<i>241</i>	-	-	<i>241</i>
Releases due to debt instruments sold	(25)	-	-	(25)	(59)	-	-	(59)
<b>As at 30 June</b>	<b>1,711</b>	-	-	<b>1,711</b>	<b>1,525</b>	-	-	<b>1,525</b>
<b>2. Deposits with foreign banks</b>								
<b>As at 1 January</b>	<b>807</b>	-	-	<b>807</b>	<b>724</b>	-	-	<b>724</b>
Increases in expected credit losses	1,877	-	-	1,877	1,963	-	-	1,963
Releases of expected credit losses	(73)	-	-	(73)	(160)	-	-	(160)
Releases due to derecognition of term deposits	(1,960)	-	-	(1,960)	(1,776)	-	-	(1,776)
<b>As at 30 June</b>	<b>651</b>	-	-	<b>651</b>	<b>751</b>	-	-	<b>751</b>

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.1. Credit risk exposure (continued)

	2021				2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>3. Special drawing rights with the IMF</b>								
<b>As at 1 January</b>	-	-	-	-	-	-	-	-
Increases in expected credit losses	-	-	-	-	-	-	-	-
Releases of expected credit losses	-	-	-	-	-	-	-	-
<b>As at 30 June</b>	-	-	-	-	-	-	-	-
<b>4. Other financial assets</b>								
<b>As at 1 January</b>	5	-	613	618	5	-	600	605
Increases in expected credit losses	4	-	1	5	4	-	-	4
Releases of expected credit losses	(17)	-	-	(17)	(5)	-	-	(5)
<b>As at 30 June</b>	<b>(8)</b>	-	<b>614</b>	<b>606</b>	<b>4</b>	-	<b>600</b>	<b>604</b>
<b>Total opening balance at 1 January</b>	<b>2,410</b>	-	<b>613</b>	<b>3,023</b>	<b>2,072</b>	-	<b>600</b>	<b>2,672</b>
Total net (release) / increase in expected credit losses	(56)	-	1	(55)	208	-	-	208
<b>Total closing balance at 30 June</b>	<b>2,354</b>	-	<b>614</b>	<b>2,968</b>	<b>2,280</b>	-	<b>600</b>	<b>2,880</b>

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

## 5.1. Credit risk (continued)

## 5.1.2. Credit risk concentration

## a) Maximum exposure to credit risk – Financial assets subject to impairment

The following table shows the maximum exposure to credit risk for the Central Bank's financial assets, analysed by the classes of financial instruments for which the expected credit losses are calculated and recognized:

In thousands of KM

Classes of financial instruments	30 June 2021				31 December 2020			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Cash in foreign currencies</b>								
Gross carrying amount	436,429	-	-	436,429	142,202	-	-	142,202
Loss allowance	-	-	-	-	-	-	-	-
<b>Carrying amount</b>	<b>436,429</b>	<b>-</b>	<b>-</b>	<b>436,429</b>	<b>142,202</b>	<b>-</b>	<b>-</b>	<b>142,202</b>
<b>Deposits with foreign banks</b>								
Gross carrying amount	2,924,549	-	-	2,924,549	3,832,879	-	-	3,832,879
Loss allowance	(651)	-	-	(651)	(807)	-	-	(807)
<b>Carrying amount</b>	<b>2,923,898</b>	<b>-</b>	<b>-</b>	<b>2,923,898</b>	<b>3,832,072</b>	<b>-</b>	<b>-</b>	<b>3,832,072</b>
<b>Debt instruments</b>								
Gross carrying amount	10,534,450	-	-	10,534,450	9,601,315	-	-	9,601,315
Provisions for expected credit losses (recognized in other comprehensive income)	(1,711)	-	-	(1,711)	(1,598)	-	-	(1,598)
<b>Carrying amount</b>	<b>10,534,450</b>	<b>-</b>	<b>-</b>	<b>10,534,450</b>	<b>9,601,315</b>	<b>-</b>	<b>-</b>	<b>9,601,315</b>
<b>Special drawing rights with the IMF</b>								
Gross carrying amount	4,175	-	-	4,175	879	-	-	879
Loss allowance	-	-	-	-	-	-	-	-
<b>Carrying amount</b>	<b>4,175</b>	<b>-</b>	<b>-</b>	<b>4,175</b>	<b>879</b>	<b>-</b>	<b>-</b>	<b>879</b>
<b>Other financial assets</b>								
Gross carrying amount	3,287	-	601	3,888	2,501	-	613	3,114
Loss allowance	(5)	-	(601)	(606)	(5)	-	(613)	(618)
<b>Carrying amount</b>	<b>3,282</b>	<b>-</b>	<b>-</b>	<b>3,282</b>	<b>2,496</b>	<b>-</b>	<b>-</b>	<b>2,496</b>

**5. FINANCIAL RISK MANAGEMENT (CONTINUED)****5.1. Credit risk (continued)****5.1.2. Credit risk concentration (continued)****b) Maximum exposure to credit risk – Financial assets not subject to impairment**

In thousands of KM	30 June 2021	31 December 2020
<b>Carrying amount</b>		
Monetary gold	280,301	291,561
Other investments	27,813	27,813
<b>TOTAL</b>	<b>308,114</b>	<b>319,374</b>

**Concentration per credit rating**

Tables below present an analysis of the Central Bank's concentration per credit rating for deposits with foreign banks and debt instruments of the Central Bank as at reporting dates:

Deposits with foreign banks		In thousands of KM
Credit rating	30 June 2021	31 December 2020
AAA	1,525,288	1,743,280
AA+	-	-
AA	136,694	722,841
AA-	-	-
A+	160,316	391,013
A	991,049	875,542
A-	1,231	-
II <sup>1</sup>	9,477	410
BBB+	99,843	98,986
<b>TOTAL</b>	<b>2,923,898</b>	<b>3,832,072</b>

<sup>1</sup> International institutions

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 5.1. Credit risk (continued)

#### 5.1.2. Credit risk concentration (continued)

Credit rating	Debt instruments	
	30 June 2021	In thousands of KM 31 December 2020
AAA	2,327,665	2,164,263
AA+	1,434,177	1,283,772
AA	3,523,584	3,170,119
AA-	1,322,039	1,269,603
A+	71,444	-
A	-	-
A-	1,247,299	1,095,368
BBB+	-	-
BBB	-	-
BBB-	608,242	618,190
<b>TOTAL</b>	<b>10,534,450</b>	<b>9,601,315</b>

### 5.2. Market risk

Market risk is the risk of change in the market value of financial assets and instruments due to the changes in the financial markets conditions.

For the purpose of quantifying the market risks effects on the currency reserves value, the Central Bank applies the Value at Risk (VaR) concept. VaR value for market risk is calculated by analytical (parametric) method, based on the mean value of gain/loss or yield rate of observed portfolio and standard deviation of observed data. The Central Bank, when calculating VaR, applies a level of confidence of 99% and a 10-day horizon.

As at 30 June 2021, the exposure of the Central Bank's foreign currency reserves, including fluctuations of the prices of financial instruments and foreign exchange rates against the KM, equals to KM 63,208 thousand (31 December 2020: KM 61,117 thousand), which represents 0.44% of the total financial assets (31 December 2020: 0.44% of the total financial assets).

VaR values as at the reporting dates are shown in the following table:

In thousands of KM	30 June 2021	31 December 2020
Interest rate risk	49,461	44,722
Risk of change in EUR price of monetary gold	13,413	16,097
Foreign exchange risk	334	298
<b>Total VaR</b>	<b>63,208</b>	<b>61,117</b>

**5. FINANCIAL RISK MANAGEMENT (CONTINUED)****5.2. Market risk (continued)****5.2.1. Foreign exchange risk**

Foreign exchange risk is the risk of changes in foreign exchange assets and liabilities due to the changes in foreign exchange rates. The Central Bank is exposed to foreign exchange risk through transactions in foreign currencies. Foreign exchange risk is primarily managed through reconciling currency structure of assets and liabilities of the Central Bank, as well as through setting the quantitative limits for exposure to foreign exchange risk.

The control and management of the foreign exchange risk is based on the strict adherence to the provisions of the Law on the Central Bank and the Central Bank's internal regulations.

The largest part of gross foreign currency reserves is held in EUR, and the maximum amount that can be held in convertible currencies other than EUR, must not exceed the equivalent of 50% of the total amount of the unimpaired capital and reserves of the Central Bank.

**5.2.2. Interest rate risk**

Interest rate risk is the risk of changes in market value of the financial assets due to the unfavourable movements of interest rates. Interest rate risk is managed by determining the acceptable term duration and maturity of financial instruments in which Central Bank invests. Maximum term for investing deposits with foreign banks is one year, while maximum term of investing debt instruments with fixed income is ten years.

**5.3. Liquidity risk**

Liquidity risk refers to the possible difficulties in liquidating a portion of assets quickly, what is possible when market conditions are unfavorable and also when there is an unfavorable price movement.

Considering the need of guaranteeing the KM convertibility, the daily liquidity should be provided by the maturity adjustment of the Central Bank foreign currency reserves.

**5. FINANCIAL RISK MANAGEMENT (CONTINUED)****5.3. Liquidity risk (continued)**

Tables below present the maturity of the financial liabilities of the Central Bank based on the remaining period from the reporting date to the contractual maturity date:

**30 June 2021**

<b>In thousands of KM</b>	<b>Up to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 3 years</b>	<b>Over 3 years</b>	<b>Without specified maturity</b>	<b>Total</b>
Banknotes and coins in circulation	6,441,286	-	-	-	-	6,441,286
Deposits from banks	5,941,736	-	-	-	-	5,941,736
Deposits from the Government and other public institutions	1,007,461	-	-	-	-	1,007,461
Other financial liabilities	3,776	-	-	-	-	3,776
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>13,394,259</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,394,259</b>

**31 December 2020**

<b>In thousands of KM</b>	<b>Up to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 3 years</b>	<b>Over 3 years</b>	<b>Without specified maturity</b>	<b>Total</b>
Banknotes and coins in circulation	6,172,457	-	-	-	-	6,172,457
Deposits from banks	5,901,142	-	-	-	-	5,901,142
Deposits from the Government and other public institutions	897,044	-	-	-	-	897,044
Other financial liabilities	3,759	-	-	-	-	3,759
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>12,974,402</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,974,402</b>

## 6. NET INTEREST INCOME

In thousands of KM	01/04 - 30/06 2021	01/04 - 30/06 2020	01/01 - 30/06 2021	For the period 01/01 - 30/06 2020
Interest income arising from:				
Debt instruments (Note 17)	8,546	9,683	17,180	19,508
Effects of negative deposit interest rates on deposits from domestic commercial banks	4,794	3,105	8,685	6,723
Financial assets at amortised cost	-	2	-	9
<b>Total</b>	<b>13,340</b>	<b>12,790</b>	<b>25,865</b>	<b>26,240</b>
Interest expense arising from:				
Effects of negative interest rates from debt instruments (Note 17)	(5,747)	(3,490)	(10,561)	(6,746)
Effects of negative interest rates from deposits with foreign banks	(4,409)	(4,117)	(9,058)	(7,925)
<b>Total</b>	<b>(10,156)</b>	<b>(7,607)</b>	<b>(19,619)</b>	<b>(14,671)</b>
<b>Net interest income</b>	<b>3,184</b>	<b>5,183</b>	<b>6,246</b>	<b>11,569</b>

The calculation base of interest on deposits from commercial banks is generated from the total deposits of domestic commercial banks on reserve accounts during the ten day calculation period, which consists of required reserve amounts and amounts exceeding the required reserves.

The reserve requirement ratio applied by the Central Bank on the required reserve base is equally for all domestic commercial banks and amounts to 10 percentage points.

From 1 June 2021, as a part of the project of introducing a new reserve requirement framework, the Central Bank started to calculate the remuneration on the amount of required reserve funds generated from the foreign currency base and the domestic currency with currency clause base. The remuneration is also calculated on the amounts exceeding the required reserve funds. The Central Bank does not calculate a remuneration on the amounts of required reserve funds generated from domestic currency base.

The remuneration rate applied by the Central Bank on the required reserves amounts and the amounts exceeding the required reserves is linked to the European Central Bank deposit facility rate, additionally decreased by 10 basis points when applying remuneration rate on the required reserve amounts.

The effects of negative interest rates on domestic commercial banks deposits are the result of the negative interest rate on the required reserves amounts generated from foreign currency base, domestic currency with currency clause base and the amounts exceeding the required reserves. The European Central Bank deposit facility rate amounted to (0.50) % in the reporting periods. During the reporting periods, the Central Bank remuneration rates amounted to:

## 6. NET INTEREST INCOME (CONTINUED)

The base for calculation of remuneration	Period	The Central Bank remuneration rate
<b>2021</b>		
<b>Required reserve amounts</b>		
<i>Domestic currency base</i>	01/01 - 30/06	0.00%
<i>Foreign currency base</i>	01/01 - 31/05	0.00%
<i>Domestic currency with currency clause base</i>	01/01 - 31/05	0.00%
<i>Foreign currency base</i>	01/06 - 30/06	(0.60)%
<i>Domestic currency with currency clause base</i>	01/06 - 30/06	(0.60)%
<b>Amounts exceeding the required reserves</b>	01/01 - 30/06	(0.50)%
<b>2020</b>		
<b>Required reserve amounts</b>		
<i>Domestic currency base</i>	01/01 - 30/06	0.00%
<i>Foreign currency base</i>	01/01 - 30/06	0.00%
<i>Domestic currency with currency clause base</i>	01/01 - 30/06	0.00%
<b>Amounts exceeding the required reserves</b>	01/01 - 30/06	(0.50)%

The remuneration rates applied by the Central Bank arising from the reserve requirement instrument are determined solely to cover its opportunity costs arising from the holding of deposits of domestic commercial banks and for the purpose of strengthening the domestic currency.

Effects of negative interest rates from interest-bearing financial assets are the result of the negative interest rates and yields calculated on deposits with foreign banks and debt instruments that could not be avoided according to current market circumstances and allowed legal requirements for investing the Central Bank's foreign currency reserves.

Effects of negative interest rates from deposits with foreign banks include the amount of KM 7,040 thousand on term deposits and the amount of KM 2,018 thousand on demand deposits in the period 01/01 – 30/06/2021 (in the period 01/01 – 30/06/2020 included the amount of KM 5,898 thousand on term deposits and the amount of KM 2,027 thousand on demand deposits).

The average effective yield on debt instruments amounts to 0.17% in the period 01/01 – 30/06/2021 (in the period 01/01 – 30/06/2020 amounted to 0.32%).

The average negative effective interest rate on deposits with foreign banks amounts to 0.54 % in the period 01/01 – 30/06/2021 (in the period 01/01 – 30/06/2020 amounted to 0.48%).

**7. NET FEE AND COMMISSION INCOME**

In thousands KM	01/04 - 30/06 2021	01/04 - 30/06 2020	01/01 - 30/06 2021	For the period 01/01 - 30/06 2020
Fee and commission income arising from:				
Services for domestic banks	4,639	3,735	8,939	8,308
Services for the Government and other non-banking clients	441	307	821	622
<b>Total</b>	<b>5,080</b>	<b>4,042</b>	<b>9,760</b>	<b>8,930</b>
Fee and commission expenses arising from:				
Custody and other expenses for debt instruments	(188)	(163)	(364)	(320)
Transactions with foreign banks	(8)	(9)	(16)	(17)
Other fee and commission expenses	(1)	(2)	(3)	(4)
<b>Total</b>	<b>(197)</b>	<b>(174)</b>	<b>(383)</b>	<b>(341)</b>
<b>Net fee and commission income</b>	<b>4,883</b>	<b>3,868</b>	<b>9,377</b>	<b>8,589</b>

During the reporting period, the Central Bank revised and determined new fee tariffs for the services providing to domestic banks, depositors and other non-banking clients. The application of the new fee tariffs for these services started from 1 May 2021.

**8. NET REALISED GAINS FROM SALE OF DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

In thousands of KM	01/04 - 30/06 2021	01/04 - 30/06 2020	01/01 - 30/06 2021	For the period 01/01 - 30/06 2020
Realised gains	-	-	2,023	1,578
Realised losses	-	-	-	-
<b>Net realized gains from sale of debt instruments at fair value through other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>2,023</b>	<b>1,578</b>

The corresponding amounts of realised gains from released provisions for expected credit losses for debt instruments sold are presented in Note 5.1.1.

## 9. NET FOREIGN EXCHANGE GAINS (LOSSES)

	01/04 - 30/06	01/04 - 30/06	01/01 - 30/06	For the period
In thousands of KM	2021	2020	2021	01/01 - 30/06
Net unrealised foreign exchange gains / (losses)	223	(188)	413	(78)
Net realised foreign exchange gains	68	7	168	22
<b>Net foreign exchange gains / (losses)</b>	<b>291</b>	<b>(181)</b>	<b>580</b>	<b>(56)</b>

## 10. OTHER INCOME

	01/04 - 30/06	01/04 - 30/06	01/01 - 30/06	For the period
In thousands of KM	2021	2020	2021	01/01 - 30/06
Dividend income	1,297	-	1,297	-
Other income	-	4	33	36
Income from grants	1	16	2	34
Net effects of numismatic collections	30	101	(8)	66
<b>TOTAL</b>	<b>1,328</b>	<b>121</b>	<b>1,324</b>	<b>136</b>

During the reporting period, the Central Bank acquired the right to a dividend based on share ownership with BIS. The amount of the determined dividend consists of a normal dividend and a supplement to the dividend per share.

## 11. PERSONNEL EXPENSES

	01/04 - 30/06	01/04 - 30/06	01/01 - 30/06	For the period
In thousands of KM	2021	2020	2021	01/01 - 30/06
Salaries	2,451	2,378	4,894	4,758
Contributions and other fees on salaries	1,397	1,352	2,788	2,705
Other employee benefits	920	900	1,318	1,299
Contributions and other fees on other employees benefits	342	338	450	452
Provisions for severance payments, net increase	3	-	4	3
<b>TOTAL</b>	<b>5,113</b>	<b>4,968</b>	<b>9,454</b>	<b>9,217</b>

Personnel expenses include KM 1,805 thousand of defined pension contributions paid to the public pension funds in BH (01/01 – 30/06/2020: KM 1,766 thousand).

The average number of employees in the reporting period amounts to 371 (01/01 – 30/06/2020: 367 employees).

**12. ADMINISTRATIVE AND OTHER OPERATING EXPENSES**

	01/04 - 30/06 2021	01/04 - 30/06 2020	01/01 - 30/06 2021	For the period 01/01 - 30/06 2020
<b>In thousands of KM</b>				
Expenses for production and design of banknotes and coins	1,000	686	1,796	1,294
Payment systems maintenance expenses	415	421	830	768
IT infrastructure expenses	214	197	407	371
Maintenance expenses	140	266	195	341
Other administrative and operating expenses	866	727	1,602	1,436
<b>TOTAL</b>	<b>2,635</b>	<b>2,297</b>	<b>4,830</b>	<b>4,210</b>

**13. PROVISIONS FOR EXPECTED CREDIT LOSSES, NET RELEASE / (INCREASE)**

	01/04 - 30/06 2021	01/04 - 30/06 2020	01/01 - 30/06 2021	For the period 01/01 - 30/06 2020
<b>In thousands of KM</b>				
Gains from release of provisions for expected credit losses:				
Deposits with foreign banks	862	1,118	2,033	1,936
Debt instruments	131	112	198	179
Other financial assets	15	3	17	5
Special drawing rights with IMF	-	-	-	-
	<b>1,008</b>	<b>1,233</b>	<b>2,248</b>	<b>2,120</b>
Losses from increase in provisions for expected credit losses:				
Deposits with foreign banks	(728)	(1,153)	(1,877)	(1,963)
Debt instruments	(164)	(292)	(336)	(420)
Other financial assets	(2)	(1)	(5)	(4)
Special drawing rights with IMF	-	-	-	-
	<b>(894)</b>	<b>(1,446)</b>	<b>(2,218)</b>	<b>(2,387)</b>
<b>Provisions for expected credit losses, net release / (increase)</b>	<b>114</b>	<b>(213)</b>	<b>30</b>	<b>(267)</b>

**14. NET PROFIT FOR THE PERIOD**

In thousands of KM	01/04 - 30/06 2021	01/04 - 30/06 2020	01/01 - 30/06 2021	For the period 01/01 - 30/06 2020
Operating income	9,686	8,991	19,550	21,816
Operating expenses	(8,373)	(7,903)	(15,528)	(14,700)
<b>FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES</b>	<b>1,313</b>	<b>1,088</b>	<b>4,022</b>	<b>7,116</b>
Provisions for expected credit losses, net release / (increase)	114	(213)	30	(267)
<b>NET PROFIT FOR THE PERIOD</b>	<b>1,427</b>	<b>875</b>	<b>4,052</b>	<b>6,849</b>

As disclosed in Note 2.7, investing of foreign currency reserves continues in extremely unfavorable and deteriorating conditions of negative interest rates and yields on the Eurozone financial markets. The European Central Bank deposit facility rate has been negative for many years, being the key determinant of the level of market interest rates and yields on the Eurozone financial markets.

The composition of invested foreign currency reserves, on the other hand, must ensure guaranteed convertibility of domestic currency and the implementation of monetary operations of the Central Bank at any time. In doing so, the Central Bank must strictly take into account the legal requirements regarding the high liquidity of foreign currency reserves and adequate investment safety, i.e. exposure to financial risks.

These unfavorable circumstances together with the allowed legal framework for investing foreign currency reserves affect the generated interest income and expenses of the Central Bank and are the main reason for the decline of operating income in the reporting period regarding the comparable one.

This note is presented for the purpose of understanding the decline of presented amounts for financial disclosure purposes, and not for the purpose of measuring the financial performance of the Central Bank for a particular period. The Central Bank is not a profit-oriented institution but the supreme monetary authority in BH. The financial measure of the successful performance of the Central Bank is the compliance with the Currency Board arrangement (Note 3).

**15. CASH IN FOREIGN CURRENCIES**

Cash in foreign currencies is held in Central Bank's vaults. Cash in foreign currencies, analysed by type of currency, is as follows:

In thousands of KM	30 June 2021	31 December 2020
Cash in foreign currencies		
- EUR	436,354	142,128
- CHF	39	39
- USD	19	18
- GBP	17	17
<b>TOTAL</b>	<b>436,429</b>	<b>142,202</b>

During the reporting period, the Central Bank purchased EUR cash from foreign bank in the amount of KM 293,375 thousand.

**16. DEPOSITS WITH FOREIGN BANKS**

Deposits with foreign banks are invested foreign currency reserves held by the Central Bank on the accounts of foreign central and commercial banks.

Term and demand deposits with foreign banks, analysed by the type of currency, are as follows:

In thousands of KM	30 June 2021	31 December 2020
Term deposits:		
- EUR	2,255,707	2,391,656
Less impairment for expected credit losses	(532)	(628)
	<b>2,255,175</b>	<b>2,391,028</b>
Demand deposits:		
- EUR	656,587	1,430,953
- CHF	8,092	7,089
- GBP	2,157	2,080
- USD	2,006	1,101
	<b>668,842</b>	<b>1,441,223</b>
Less impairment for expected credit losses	(119)	(179)
	<b>668,723</b>	<b>1,441,044</b>
<b>TOTAL</b>	<b>2,923,898</b>	<b>3,832,072</b>

**16. DEPOSITS WITH FOREIGN BANKS (CONTINUED)**

Deposits with foreign banks include negative accrued interest in the amount of KM 1,448 thousand as at 30 June 2021 (31 December 2020: included negative accrued interest in the amount of KM 1,939 thousand).

Term deposits with foreign banks, analyzed by remaining contractual maturity, are as follows:

In thousands of KM	30 June 2021	31 December 2020
Up to one month	508,786	1,032,703
From one to two months	468,227	253,800
From two to three months	895,783	525,637
From three to four months	95,880	96,154
From four to twelve months	287,031	483,362
<b>Total</b>	<b>2,255,707</b>	<b>2,391,656</b>
Less impairment for expected credit losses	(532)	(628)
<b>TOTAL</b>	<b>2,255,175</b>	<b>2,391,028</b>

In thousands of KM	30 June 2021	31 December 2020
Foreign central banks	1,689,257	2,375,955
Foreign commercial banks	1,235,292	1,456,924
Less impairment for expected credit losses (Note 5.1.1)	(651)	(807)
<b>TOTAL</b>	<b>2,923,898</b>	<b>3,832,072</b>

More information about the composite credit rating range and credit risk concentration for deposits with foreign banks as at reporting dates is disclosed in Note 5.1.2.

**17. DEBT INSTRUMENTS**

Debt instruments are classified at fair value through other comprehensive income, representing the foreign currency reserve funds invested in liquid sovereign government bonds of Eurozone countries. The portfolio includes short-term and long-term government bonds with a fixed interest rate. Debt instruments at fair value through other comprehensive income are denominated in EUR.

Analytical structure of debt instruments at fair value through other comprehensive income is as follows:

In thousands of KM	30 June 2021	31 December 2020
Coupon debt instruments	8,590,990	8,589,935
Discount debt instruments	1,943,460	1,011,380
<b>TOTAL</b>	<b>10,534,450</b>	<b>9,601,315</b>

As at 30 June 2021, provisions for expected credit losses for debt instruments, recognized in other comprehensive income amount to KM 1,711 thousand (31 December 2020: KM 1,598 thousand).

Movements in debt instruments at fair value through other comprehensive income in the reporting periods is provided in the following table:

In thousands of KM	01/04 - 30/06 2021	01/04 - 30/06 2020	01/01 - 30/06 2021	For the period 01/01 - 30/06 2020
<b>As at 1 January</b>	<b>10,058,883</b>	<b>8,689,475</b>	<b>9,601,315</b>	<b>8,917,413</b>
Purchases during the period	1,297,069	1,152,461	2,549,691	1,659,651
Sales during the period	-	-	(284,941)	(316,129)
Interest income recognized during the period (Note 6)	8,546	9,683	17,180	19,508
Effects of negative interest rates recognized during the period (Note 6)	(5,747)	(3,490)	(10,561)	(6,746)
Maturities of debt instruments	(766,906)	(541,813)	(1,189,150)	(955,511)
Maturities of coupons	(31,073)	(36,378)	(56,081)	(57,854)
Net unrealised change in fair value during the period	(26,322)	46,149	(93,003)	55,755
<b>As at 30 June</b>	<b>10,534,450</b>	<b>9,316,087</b>	<b>10,534,450</b>	<b>9,316,087</b>

**17. DEBT INSTRUMENTS (CONTINUED)**

Price fluctuations of debt instruments in the reporting period in relation to the comparable one resulted in a temporary decline in their fair value. This decline was absorbed by the existence of an adequate level of fair value reserves for debt instruments in the Central Bank's equity. The effects of fair value temporary oscillations, as a result of market conditions that the Central Bank cannot affect, do not withdraw any realized losses for the Central Bank but represent a quantification of market conditions in the international financial environment for a certain period of time.

More information about the composite credit rating range and credit risk concentration for debt instruments at the reporting dates is disclosed in the Note 5.1.2.

Debt instruments, analysed by their remaining contractual maturity, are as follows:

In thousands of KM	30 June 2021	31 December 2020
Up to 3 months	1,318,600	422,511
From 3 to 12 months	2,271,119	2,382,176
From 1 to 3 years	2,107,467	1,750,147
Over 3 years	4,837,264	5,046,481
<b>TOTAL</b>	<b>10,534,450</b>	<b>9,601,315</b>

**18. MONETARY GOLD**

As at 30 June 2021, fair value of monetary gold amounts to KM 280,301 thousand, representing 96,000 ounces of gold at KM 2,920 per ounce (31 December 2020: KM 291,561 thousand, representing 96,000 ounces of gold at KM 3,037 per ounce; 30 June 2020: KM 297,691 thousand, representing 96,000 ounces of gold at KM 3,101 ounce). Monetary gold is denominated in EUR.

Effects of fair value changes in monetary gold in the reporting periods are provided in the following table:

In thousands of KM	01/04 - 30/06 2021	01/04 - 30/06 2020	01/01 - 30/06 2021	For the period 01/01 - 30/06 2020
Opening balance	273,284	267,458	291,561	254,088
Net unrealized change in fair value during the period	7,017	30,233	(11,260)	43,603
Closing balance	280,301	297,691	280,301	297,691

**19. OTHER ASSETS**

	30 June 2021	31 December 2020
<b>In thousands of KM</b>		
Receivables from domestic banks	2,055	1,756
Giro accounts	846	411
Receivables from employee based on cash deficit	600	600
Other miscellaneous financial assets	387	347
<b>Total</b>	<b>3,888</b>	<b>3,114</b>
Less impairment for expected credit losses	(606)	(618)
<b>Total other financial assets</b>	<b>3,282</b>	<b>2,496</b>
Prepaid expenses	14,347	8,933
Numismatic collections	975	986
Other miscellaneous nonfinancial assets	253	256
<b>Total other nonfinancial assets</b>	<b>15,575</b>	<b>10,175</b>
<b>TOTAL</b>	<b>18,857</b>	<b>12,671</b>

As at 30 June 2021, prepaid expenses include expenditures of KM 13,461 thousand incurred on the production of banknotes and coins (31 December 2020: KM 7,860 thousand incurred on the production of banknotes and coins).

**20. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS**

In thousands of KM	Property and equipment	Intangible assets
<b>Cost</b>		
As at 1 January 2021	78,380	15,979
Additions	155	61
Write offs and disposals	(209)	-
As at 30 June 2021	78,326	16,040
<b>Accumulated amortization</b>		
As at 1 January 2021	29,820	14,745
Charge for the period	1,042	202
Write offs and disposals	(209)	-
As at 30 June 2021	30,653	14,947
<b>Net book value</b>		
As at 1 January 2021	48,560	1,234
As at 30 June 2021	47,673	1,093

As at reporting dates, the Central Bank has no encumbrances over its property, equipment and intangible assets.

Land is presented within property and equipment in the amount of KM 5,270 thousand, acquired for the purpose of new office building construction for Main Unit Sarajevo of the Central Bank. The Central Bank is the legal owner of the land and there are no outstanding contractual liabilities to the land seller. Construction of the Central Bank's office building has been temporarily suspended due to delays in the delivery of the required permit by the land seller.

**21. BANKNOTES AND COINS IN CIRCULATION**

In thousands of KM	01/04 - 30/06 2021	01/04 - 30/06 2020	01/01 - 30/06 2021	01/01 - 30/06 2020
Banknotes and coins in circulation at 1 January	6,222,255	5,683,972	6,172,457	5,199,916
Net increase during the period	219,031	150,791	268,829	634,847
Banknotes and coins in circulation	6,441,286	5,834,763	6,441,286	5,834,763

**22. DEPOSITS FROM BANKS**

The structure of deposits from banks is provided in the following table:

In thousands of KM	30 June 2021	31 December 2020
Deposits of domestic commercial banks	5,940,857	5,900,698
Reserve accounts of organizational units of the Central Bank	846	411
Special deposits of domestic commercial banks - blocked funds	33	33
<b>TOTAL</b>	<b>5,941,736</b>	<b>5,901,142</b>

Deposits from domestic commercial banks include negative accrued interest in the amount of KM 2,041 thousand as at 30 June 2021 (31 December 2020: KM 1,302 thousand).

The following table presents the average balance of the reserve account of domestic commercial banks, calculated for the last ten-day period at the reporting dates:

In thousands of KM	30 June 2021	31 December 2020
Required reserve	2,864,980	2,727,364
Amounts exceeding the required reserve	3,211,414	3,038,133
<b>TOTAL</b>	<b>6,076,394</b>	<b>5,765,497</b>

**23. DEPOSITS FROM THE GOVERNMENT AND OTHER PUBLIC INSTITUTIONS**

The structure of deposits from the Government and other public institutions is provided in the following table:

In thousands of KM	30 June 2021	31 December 2020
Budgetary deposits of BH institutions	653,236	579,869
Other deposits of public institutions and agencies in BH	261,307	231,805
Other deposits of domestic governments and government institutions	89,682	85,047
Deposit account under the IMF transactions	3,236	323
<b>TOTAL</b>	<b>1,007,461</b>	<b>897,044</b>

**24. PROVISIONS**

Provisions relate to provisions for employees' severance payments and provisions for potential liabilities on litigations.

As at 30 June 2021 total provisions of KM 1,361 thousand relate to provisions for employees' severance payments (31 December 2020 : KM 1,414 thousand).

**25. COMMITMENTS AND CONTINGENCIES***Litigations*

As at reporting dates the Central Bank is a defendant in few legal proceedings arising from its operations. The Central Bank contests this claims and considers that no material liabilities will be incurred at the current stage of the proceedings.

*Commitments*

As at reporting dates the Central Bank has no unrecognised contractual commitments.

**26. OTHER LIABILITIES**

In thousands of KM	30 June 2021	31 December 2020
IMF Accounts No. 1 and 2 (Note 31)	1,608	1,587
Suppliers	1,424	1,932
Accrued liabilities for current period costs	454	135
World Bank deposits	287	101
Other financial liabilities	3	4
<b>Total other financial liabilities</b>	<b>3,776</b>	<b>3,759</b>
Non-financial liabilities on various bases	92	106
Collected and deferred income	39	54
<b>Total other nonfinancial liabilities</b>	<b>131</b>	<b>160</b>
<b>TOTAL</b>	<b>3,907</b>	<b>3,919</b>

**27. EQUITY**

The structure of equity is presented in the following table:

In thousands of KM	30 June 2021	31 December 2020
Initial capital	25,000	25,000
Reserves	851,183	957,331
<i>General reserves (Retained earnings)</i>	<i>545,203</i>	<i>545,203</i>
<i>Other reserves</i>	<i>31,300</i>	<i>31,300</i>
<i>Fair value reserves for debt and equity instruments at fair value through other comprehensive income</i>	<i>196,526</i>	<i>291,527</i>
<i>Provisions for expected credit losses</i>	<i>1,711</i>	<i>1,598</i>
<i>Fair value reserves for monetary gold</i>	<i>76,443</i>	<i>87,703</i>
Net profit for the period	4,052	-
<b>TOTAL</b>	<b>880,235</b>	<b>982,331</b>

**28. CASH AND CASH EQUIVALENTS**

For the purposes of cash flow statement, cash and cash equivalents comprise of:

In thousands of KM	30 June 2021	30 June 2020
Foreign currency deposits with maturity up to three months or less from the date of acquisition	1,718,680	1,697,773
Foreign currency demand deposits	668,842	782,133
Cash in foreign currencies	436,429	135,594
Special drawing rights with the IMF	4,175	3,074
Giro accounts	846	747
<b>Total</b>	<b>2,828,972</b>	<b>2,619,321</b>
Less impairment for expected credit losses	(579)	(665)
<b>TOTAL</b>	<b>2,828,393</b>	<b>2,618,656</b>

**29. RELATED PARTIES TRANSACTIONS**

In the normal course of its operations, the Central Bank enters into transactions with related parties. Having in mind that the Central Bank has been established by a Legal Act passed by the Parliamentary Assembly of Bosnia and Herzegovina and that the initial capital has been paid up by the Council of Ministers of Bosnia and Herzegovina, transactions performed as part of regular operations of the Central Bank with the state and state institutions represent related parties transactions. In accordance with the Law on the Central Bank, the Central Bank acts as an agent for the BH state and for other state institutions. The Central Bank receives deposits from BH state and other state institutions and acts strictly on depositor's behalf and order.

Transactions with the state and state institutions are presented in the following tables:

**In thousands of KM**

30 June 2021	BH Ministry of Finance and Treasury	BH Deposit Insurance Agency	BH Indirect Taxation Authority	Total
<b>ASSETS</b>				
Other assets	6	12	25	43
<b>TOTAL</b>	<b>6</b>	<b>12</b>	<b>25</b>	<b>43</b>
<b>LIABILITIES</b>				
Deposits from depositors	570,127	242,172	140,811	953,110
<b>TOTAL</b>	<b>570,127</b>	<b>242,172</b>	<b>140,811</b>	<b>953,110</b>
<b>INCOME</b>				
Fee and commission income	17	27	27	71
<b>TOTAL</b>	<b>17</b>	<b>27</b>	<b>27</b>	<b>71</b>

**29. RELATED PARTIES TRANSACTIONS (CONTINUED)**

In thousands of KM

	BH Ministry of Finance and Treasury	BH Deposit Insurance Agency	BH Indirect Taxation Authority	Total
<b>31 December 2020</b>				
<b>ASSETS</b>				
Other assets	25	1	1	27
<b>TOTAL</b>	<b>25</b>	<b>1</b>	<b>1</b>	<b>27</b>
<b>LIABILITIES</b>				
Deposits from depositors	527,159	214,696	122,622	864,477
<b>TOTAL</b>	<b>527,159</b>	<b>214,696</b>	<b>122,622</b>	<b>864,477</b>
<b>INCOME</b>				
Fee and commission income	35	12	4	51
<b>TOTAL</b>	<b>35</b>	<b>12</b>	<b>4</b>	<b>51</b>

In executing its functions of the banker, the depository and the fiscal agent prescribed by the Law on the Central Bank, the Central Bank also maintains certain bookkeeping and executes transactions for the State and state institutions that are recorded off-balance. More information about these off-balance records is disclosed in Notes 30 and 31.

The Central Bank considers that it has an immediate related party relationship with its key management personnel, close family members of the key management personnel and entities controlled, jointly controlled or significantly influenced by the key management personnel and their close family members.

**Remuneration of the key management members**

The total remuneration of the key management members, in the period 01/01 – 30/06/2021, amounts to KM 483 thousand, out of which KM 302 thousand is related to salaries and other remuneration and KM 181 thousand is related to taxes and contributions (In the period 01/01 – 30/06/2020, out of the total amount of KM 430 thousand, the amount of KM 270 thousand was related to salaries and other remunerations and KM 160 thousand was related to taxes and contributions).

**30. OFF-BALANCE SHEET ITEMS**

The Central Bank maintains certain accounts in foreign currencies related to agreements concluded between the governments in BH and foreign governments and financial organizations. As these accounts do not represent either assets or liabilities of the Central Bank, they have not been included within the Central Bank's statement of financial position.

Off-balance sheet items also include foreign currency accounts of the state institutions and agencies, as well as at commercial banks, for which the Central Bank acts as an agent.

**30. OFF-BALANCE SHEET ITEMS (CONTINUED)**

Analitical structure of the off-balance sheet items is presented in the following table:

In thousands of KM	30 June 2021	31 December 2020
Deposits of USAID	2,496	2,497
<b>Deposits of non-residents</b>	<b>2,496</b>	<b>2,497</b>
Deposits of the Council of Ministers of BH:	8,509	8,556
<i>Deposits of the Council of Ministers of BH on the basis of succession</i>	42	41
<i>Deposits of the Council of Ministers of BH regarding the servicing of external debt</i>	6,721	6,738
<i>Deposits of the Council of Ministers of BH regarding the Budget of BH institutions</i>	1,488	1,528
<i>Other deposits of the Council of Ministers of BH</i>	258	250
Deposits of other residents:	14,632	13,459
<i>Deposits - Retirement allowances from Germany</i>	222	-
<i>Deposit accounts of banks</i>	14,410	13,459
<b>Deposits of residents</b>	<b>23,141</b>	<b>22,015</b>
Cash account – Deposit Insurance Agency of BH	40,488	73,684
<b>Total – State institutions</b>	<b>40,488</b>	<b>73,684</b>
<b>TOTAL</b>	<b>66,125</b>	<b>98,196</b>

BH Ministry of Finance and Treasury is the institution that acts on behalf of Council of Ministers of BH and state in deposit management and coordination. As at 30 June 2021 the total of these funds amount to KM 11,005 thousand (31 December 2020: KM 11,053 thousand).

**31. BOSNIA AND HERZEGOVINA MEMBERSHIP WITH THE INTERNATIONAL MONETARY FUND**

According to arrangements concluded between BH and the IMF the Central Bank is designated as a fiscal agent and depository for BH membership with the IMF. The Central Bank's role as a fiscal agent is specific due to "Currency Board" arrangement. The Central Bank acts on behalf of the BH in dealing with the IMF but does not have any responsibility for assets and liabilities related to the membership.

The Central Bank maintains special drawing rights with the IMF account, IMF account No.1 and IMF account No.2 in the statement of financial position. The Central Bank also provides a custody service for the BH Promissory notes issued to support IMF membership and repurchase obligations that are recorded off-balance.

**31. BOSNIA AND HERZEGOVINA MEMBERSHIP WITH THE INTERNATIONAL MONETARY FUND (CONTINUED)**

The Central Bank uses net method in presentation of BH financial position with the IMF which is provided below:

In thousands of KM

	30 June 2021	31 December 2020
Quota	622,159	614,046
Special drawing rights with the IMF	4,175	879
<b>TOTAL ASSETS</b>	<b>626,334</b>	<b>614,925</b>
IMF account No.1	1,555	1,535
IMF account No.2	53	52
Securities	1,527,694	1,520,009
SDR allocation	377,439	372,517
Accrued interest on SDR allocation	32	65
Accounts of payable charges	1,591	1,670
<b>TOTAL LIABILITIES</b>	<b>1,908,364</b>	<b>1,895,848</b>
<b>BH NET POSITION WITH THE IMF</b>	<b>1,282,030</b>	<b>1,280,923</b>

Securities, IMF account No.1 and IMF account No. 2 are subject of valuation adjustments whenever the currency is used in financial transactions between the IMF and BH. At least once each year, at the end of the IMF's financial year (30 April), all IMF currency holdings are revalued based on the prevailing SDR exchange rate. These valuation adjustments are included in account balances stated.

**32. EVENTS AFTER THE REPORTING PERIOD**

There were no events in the period between 30 June 2021 and the date of approval of these condensed interim financial statements that would require adjustment or are material but do not require adjustment.